HEARINGS AND ARGUMENTS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES

ON SENATE BILL No. 3023

AN ACT TO AMEND THE NATIONAL BANKING LAWS
(SO-CALLED THE ALDRICH BILL)

SIXTIETH CONGRESS

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SIXTIETH CONGRESS.

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COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, April 8, 1908.

The committee met at 11 o'clock a. m., Hon. Charles N. Fowler (chairman) presiding.

The CHAIRMAN. Mr. Parker, this meeting was called for a hearing of any gentlemen who may wish to be heard in regard to the Aldrich bill. The committee will be glad to hear what you have to say.

STATEMENT OF MR. E. SOUTHARD PARKER, PRESIDENT OF THE METROPOLITAN NATIONAL BANK, OF WASHINGTON, D. C.

The CHAIRMAN. What is your occupation?

Mr. PARKER. Banking. Mr. Chairman and gentlemen, I must confess to considerable embarrassment in attempting to speak before this honorable body, and I would consider myself fortunate indeed if I felt that I could say anything that would be helpful or interesting; but I claim no such intention or purpose. I am sure I could throw no light upon this question, which has been before the people for so many months and has been discussed at the fireside, on the street corners, and in the electric cars. Everywhere we go we hear of the Aldrich bill or some other bill that would meet the necessities of the case. So I am not here to give any help, as was stated, but simply to express my personal disapproval of the Aldrich bill. I consider it undesirable and impracticable. The Aldrich bill suggests financial disaster; it suggests panics and emergencies. That is proper, but it does not provide the relief and the remedy. This is called a people's bill, and if it should become the law the people must suffer. Business conditions now are such that it would not be safe to withdraw the loanable funds from their usual sources. To attempt to take from the funds of the banks $500,000,000 and invest in securities, which in the event of a currency famine could be used to supply the long-felt want, would simply be an impossibility. The national banks, as the report of the Comptroller will show, have $138,000,000 in bonds borrowed, $40,000,000 of bills payable, and $10,000,000 of bills discounted. That is a debt which is confronting the financial institutions, and add to that $500,000,000 more of indebtedness which would go into undesirable, unsought-for, and unselected bonds on the part of the banks and you place a burden on the banks that would be grievous to bear.

In addition, if the Aldrich bill should become a law there would be the change in the reserves in the banks. This bill would require, where they keep 6 per cent in cash now, an increase to 12 per cent, and it has been estimated that that of itself would take $200,000,000 of loanable funds out of the banks and tie them up in the vaults of the banks away from business and away from the channels of trade, making in all $900,000,000 of debt which must be met, and which confronts the banking interests of this country, if the Aldrich bill should

pass. Were it known that the customers of the banks were to be denied their usual supply of funds, after the stress of the last four months, when they are beginning to regain their feet and to feel that the skies are brightening; if the bankers should have to say to these customers, "We would like to accommodate you; we have been accustomed to accommodate you;" and if we should be compelled to say to our merchants and our business men, "We would like to take your paper and pass it to your credit as we have done heretofore, but in the interest of the institution, although not in your interest nor in the interests which you represent, we must buy bonds," the result of such conversation between the executive officers of the banks and their customers would be that it would go through this uncommercial city with the rapidity of wildfire and would precipitate a panic. The Aldrich bill is a menace to the business of our country, to trade, and especially to the mercantile interests. To propose to tie up, as I have stated—and I do not believe that it can be gainsaid—one-fourth of the deposits of all the national banks is to make the most reckless suggestion that could be injected into any bill. The money could not be obtained. It is not available. The Aldrich bill, I have said, is a menace, and if the people of this country realize that the source of their supply is cut off, after having passed through such a panic as was predicted a year ago—if such a thing was to confront them now when they are beginning to take courage and hope for better things, it would be a most unfortunate state of affairs.

This Aldrich bill is not a people's bill; it is not, as we all know, a bankers' bill. One year or more ago it was predicted that unless there should be some legislation there would be trouble in the finances of the country; and no prophet in Israel, as to date and as to destructiveness, ever prophesied with more accuracy when it was said "Unless we get legislation, unless something is done by Congress, we will have such a panic as the world has never seen." At the bankers' convention in St. Louis in 1906 such a bill as this was repudiated. At the bankers' convention at Atlantic City, at which I had the honor to represent the bankers of Washington, it was declared in unmistakable terms that the only relief in the opinion of the bankers would be a currency based on something tangible, based on something that the bankers could lay their hands upon when the emergency should arise. And what, pray, could be better than the assets of the bank? The capital of the national banks in this country is $900,000,000. The surplus and undivided profits are about $700,000,000, and the statutory liability is about $900,000,000, making $2,500,000,000 of assets to secure an emergency currency of from $300,000,000 to $500,000,000. Such a security is never offered to a bank or to any institution that handles money; five times in value, eight times in value, if the limit was $300,000,000 of circulation. It is practically impossible to secure any more circulation under the present banking law. The banks now own 70 per cent of the debt of the Government, counting $600,000,000, or thereabouts, security for circulating notes and $150,000,000 security for Government deposits. I am not prepared to state how much of the debt is held abroad, but there is visible, in sight, over $700,000,000 of the $1,000,000,000 of debt which the Government owes to the banks. And, strange to say, the credit of this Government is so good that the holders and owners of these bonds have placed them in the hands of the Treasurer of the

United States; and it is not to be wondered at that Uncle Sam steps high, when he carries his own promise to pay in his pocket. An unusual state of affairs.

Generally speaking, the creditor keeps the note of the debtor in his pocket. In this case we have turned over to Uncle Sam everything he owes us as the result of the national banking law, which first saw the light of day in probably the darkest hour of the Republic. Banks had suspended specie payment, the Government had suspended specie payment, and the credit of the Government was low. It was borrowing money at 7.3 per cent, at 6 per cent, at 5 per cent, and, as the years rolled on, 4 per cent, and to-day it is borrowing at 2 per cent, and United States bonds bearing 2 per cent are selling at a premium, while British consols bearing 3 per cent interest are selling at a discount; and the reason is because the Government is the beneficiary from the continued purchase of bonds from that dark day in 1863 up until this good hour. The bonds of the United States have sold, by reason of this constant demand for these securities, at lower and lower rates of interest, and the Government has saved enough in interest alone by reason of the reduction of the rate of interest to pay the national debt as it stands upon the books of the Treasury to-day. The national banking law was passed for the purpose of giving strength and support to the Treasury of the United States. It was an agreement—a sort of a copartnership between the banks and the Government. The banks were to furnish the money; the Government was to furnish the privileges, the charters; and the money of the country, the circulation of the country, was based on Government bonds, and it was profitable to the banks, when the national banking law was enacted. After these years of profit between these two contracting parties, the conditions have become more and more favorable to the Government, until to-day the banks of the country are not earning over 1 per cent on their circulation, and it requires a careful calculator to demonstrate that there is a profit equal to 1 per cent.

Now, if the Aldrich bill becomes a law, we are expected to buy bonds which we do not want. The fact that those bonds will be accepted by the Treasury Department as security for circulation adds nothing to their value. It adds considerably to their price in the market, and the result is a fictitious value. These bonds are selected not by the banks; they are selected by the Government. They are discriminating, in this day of discriminations; a dangerous thing. They are discriminating against certain towns, against certain counties and certain States, because they have set their securities aside, because they do not measure up to the standard of security which has been accorded to those more favorably situated. Then, if the bonds be purchased, they must be purchased at once. Delays were never more dangerous. If we were to put off the purchase of these securities until the storm comes it would be disastrous. We must have our lamps trimmed and burning and be ready when the exigency arrives. Then, as I said, this involves the expenditure and the investment of money which the banks are not now in possession of. And assuming that we are willing to take our chances, assuming that we are waiting until the storms comes, until the floods begin, to build our ark, then to seek refuge would be hopeless and vain indeed. No bank could afford to take $100,000 out of its reserve box and buy the bonds which would be acceptable to the Treasury

Department and deposit them there and get back therefor $90,000, increasing in every transaction of $100,000 its inability to relieve the situation, losing $10,000 on every investment of $100,000 that it makes, which of itself would be almost the reserve that is now required for banks in the nonreserve cities. Would it be practicable? Can anybody imagine why a bank should take out $100,000 in cash and invest it in bonds and put them with the Treasurer of the United States and get back $90,000? There can not be anything in this bill that will help the situation. It is a dangerous bill. I fear its effect, not upon us but upon the country.

I heard a Senator say, and my friend here heard the same remark, that in his town, in one of the great States of this Union, he, during the panic, had occasion to go into his bank and get therefrom some money. The bankers stated that their money was in New York, and they could not get it out, and, therefore, they had to put their depositors on a limited amount, and they paid on the checks, regardless of their credit balances, $10, $20, $50; and he said in the presence of a Washington audience that when he went back to his own State he was going to say to his banker brethren there, "What you ought to do is to keep your money in Washington." This is simply an example of what is going on throughout the country. Depositors were put on a sort of a financial diet, Washington excepted, and could get a limited amount only of their deposits. No man could get the amount of currency he wanted, although he could use his check, have it certified, have an argument with the cashier as to how much money he should pay, and then consider the transaction closed. Now, those conditions ought not to be repeated. This warning which is given in the Aldrich bill, this suggestion of danger, ought not to be overlooked. And, gentlemen, there is no position in life and there is no condition in life that is relieved from responsibilities, and the Members of Congress who have this bill in charge have their share and it renders their positions serious indeed. If they fail in their wisdom, in their good judgment, and in their resourcefulness to give a bill to the country that will meet conditions that will arise—and no man can tell the day nor the hour; it may be in the evening, at midnight, or at cock crowing. Consider, for a moment, along the pathway of life, of the wrecks and the ruins that have been caused by the failure of legislation a year ago to measure up to the responsibilities of the occasion and give to the country what it so urgently needed. The Aldrich bill will not give it. I thank you, gentlemen.

Mr. BURTON. You mention as security for bank notes the capital stock of national banks amounting to $900,000,000; surplus and undivided profits, $700,000,000; secondary liability on stock, $900,000,000, aggregating in all $2,500,000,000. Do we understand you to advocate the making all these security for the bank notes of each bank issuing notes?

Mr. PARKER. No, not all; no. I have no special theory.

Mr. BURTON. Then in what sense are all these assets security for bank notes?

Mr. PARKER. In this sense: I was speaking of the ability of the banks to take care of an emergency currency which in all probability would not last more than three or four or five months, and if they have back of their bills receivable such a general asset as $2,500,000,000

it would simply be impossible for the Government to have to pay one note, one $5 note, that it had guaranteed, provided that in addition to this general security you take from the banks what they have in abundance. Take their bills receivable, scrutinized by the directors, by the executive officers, by the representatives of the Comptroller's office; take $100,000 for $50,000, take $200,000 of their bills receivable for $50,000 immediate and emergency circulation, and you do more to relieve the country than by the purchase of any bonds which it would be possible to get in the market.

Mr. BURTON. It would, however, be possible that there should be a failure in the case of a national bank?

Mr. PARKER. Well, that might be. But there is a 5 per cent redemption fund, and there would necessarily be a tax on this circulation which is a guaranty for the redemption of any failed banks, and also you have on the $100,000 of clean, clear assets a margin of $50,000. And in addition to that you have the statutory liability of the stockholders, which in all the history of this financial system the loss has been so small that as compared with their resources it is but as a foothill to the rockies.

Mr. BURTON. Of course the question of the sufficiency of the guarantee fund, and its commanding the confidence of the people, is a question for discussion. In your opinion it would be amply sufficient?

Mr. PARKER. I am sure of it.

Mr. BURTON. Is not, however, your statement of the assets of the banks an argument for a central institution, or the issuance of bank notes by an aggregation of banks?

Mr. PARKER. Well, that is a question that I am hardly prepared to discuss just now, but there is practically a centralization of banking power in the Treasury which we have always had since the banking law was established, and always to the profit of the Government.

Mr. BURTON. You would favor giving each bank the right to issue notes?

Mr. PARKER. Yes, sir; that is my idea, and it is the only relief, the only prompt and immediate relief. You have got to have the home remedies in a case of extreme panic, in case of a currency famine. Why, when the Sherman compulsory purchasing law in 1893 threatened to and did drive out of circulation everything except the silver certificates, people were apprehensive that our money was going to deteriorate and depreciate, and after Congress had been called at the earnest appeal of boards of trade and chambers of commerce and of business men over the country to repeal the Sherman compulsory purchasing law, which was done, and the law repealed, confidence was restored and the famine ceased. And another thing; the money that circulates to-day, singularly enough, is silver certificates. All our reserves are practically gold, and a good deal of them silver. They have the gold certificates. No bank wants the $10 gold piece as long as it can put that gold piece in the Treasury and get a gold certificate for it, and the reserves to-day in the banks of the country are made up of gold and silver. There is a mistaken idea about our currency. We have but little credit currency, national bank notes and greenbacks; about $1,000,000,000 in gold are locked up in the Treasury of the United States, and half as much silver, so that constitutes practically the circulating medium of this country. Our money goes everywhere. People of all colors and of all countries

accept it and hold it as being the best secured currency on the face of the earth—$3,000,000,000, and all practically secured by specie.

Last fall the correspondents of the banks throughout the country that had a representative here were writing for silver. Silver was scarce and could not be secured without the certificates from the Treasury. It is a fixed quantity. We had to write to those correspondents and tell them "If you will send us silver certificates we will get the silver." Silver certificates were commanding a premium. Now there is no difference between the silver certificates, that were such a bugaboo in 1893, and any other form of money, and there is not one of you who knows or cares whether you have got a silver certificate, a national bank note, or a gold certificate in your pocket.

Mr. BURTON. You speak of the disadvantage of compelling the banks to invest a part of their capital in State and municipal bonds as a basis for circulation. That same disadvantage, of course, exists under the present system, does it not?

Mr. PARKER. The disadvantage exists now because we can not get circulation at all except through Government bonds.

Mr. BURTON. Except through the purchase of Government bonds?

Mr. PARKER. Yes, and $22 a hundred is the premium on 4 per cent bonds. No bank would think in time of an emergency to pay $100 and only get $78. Then take the 2 per cent bonds; they are selling to-day at $4 premium a hundred. It is simply prohibitory. Every bank must have a certain per cent of its capital in Government bonds, not necessarily its whole capital.

Mr. BURTON. Of course it would be a little different from what you have stated; it would not be $78 for $100. It would be the proportion of $100 that $22 is of whole. It would be about the same thing.

Mr. PARKER. You pay $122 for your bond, and you get $100.

Mr. BURTON. Clearly your idea is that the whole system of note issue ought to be changed?

Mr. PARKER. I do not know as to the present system. I do not believe that would change now, because the Government is getting too much profit out of it; and nobody objects to that, particularly the banks. But they do object to extending a system which compels the banks to buy securities they do not want, and which they will never see redeemed. Children's children will not see the maturity of bonds which this bill might require us to buy. That is most unreasonable. When it comes to buying Government bonds, we are not compelled to buy them. A certain per cent we must have. We need not buy the difference between the per cent required and the capital unless we care to do it.

Mr. GILLESPIE. You stated that the banks were not asking for a change of the basis of the note issue, that is especially from United States bonds. You also stated that there is no profit in that circulation. Now, is not the main reason that the banks are opposed to a change in the basis, that they will lose in their investments in United States bonds? Suppose they were assured that there would be no loss to them by the change, what then would be your own opinion as to the virtue of the change, the necessity for changing the whole basis?

Mr. PARKER. Then it is wrong, radically wrong, because there is no possible way to guarantee you against loss if the investment is in

any other form than United States bonds. In the second place, after you get your bonds and put them in operation and apply them, practically you pay 6 per cent——

Mr. GILLESPIE. You did not get my question. You stated that the banks were not asking——

Mr. PARKER. Excuse me; I am only speaking for myself. I am not speaking for the banks.

Mr. GILLESPIE. I understand you do not object to the present United States bond basis for notes?

Mr. PARKER. That is all right; there is no use objecting to that.

Mr. GILLESPIE. And you say there is no profit to the banks?

Mr. PARKER. Very little.

Mr. GILLESPIE. The banks do not favor that system because of the profit there is in it?

Mr. PARKER. No; we do that from patriotism, from love of country. We want to help the Government.

The CHAIRMAN. You have to love your country?

Mr. PARKER. We have to, yes; we like to do it.

Mr. GILLESPIE. You think, then, the other privileges that come with the national banks would outweigh any loss you would sustain in resorting to this bond-secured currency? You are not in it for patriotism, but you are in it for profit.

Mr. PARKER. No; we must be in it, and the banks are enterprising enough to apply it. Why, during the panic the banks increased their circulation over $100,000,000 by reason of the fact that the Secretary of the Treasury encouraged the banks to withdraw Government bonds which were deposited as security for Government deposits, and put therein acceptable municipal bonds, if the party withdrawing the bonds would take out circulation, and by that reason the circulation reached, as it is to-day, high-water mark. It went up from about $500,000,000 to a little over $600,000,000 by this exchange of securities.

Mr. GILLESPIE. You do not put the conduct of the banks, though, in engaging with the Secretary of the Treasury in that undertaking, purely on the ground of patriotism? There is no loss in it to the banks?

Mr. PARKER. No; I am speaking of the readiness of the banks to do anything they could. They could not buy the bonds, and they knew of no other bonds as security for deposits, and by taking the other bonds as security for deposits they released United States bonds as the basis for a circulation issue.

Mr. GILLESPIE. Is there such a financial interest in the present United States bond secured notes as to justify banks to continue that system, the national banking system?

Mr. PARKER. They are satisfied to do it, but there is no profit in it. When the arrangement was first made the bonds were bearing 7.3 per cent interest, and then they bore 6 per cent and then 5 per cent, and to-day they are scarcely bearing 1.7 per cent.

Mr. GILLESPIE. I have never been able to figure out the profit in it to the banks; and why they want to continue the system is a puzzle to me.

Mr. PARKER. The reason you can not figure out the profit is because you have not made a careful calculation.

Mr. GILLESPIE. You say 1 per cent; that is a very small per cent.

Mr. PARKER. The interest is 1.7 on the bonds, and then in addition to that you keep 5 per cent of the circulation for redemption, and pay one-half per cent tax, and the loss of interest on the money which is in course of redemption.

Mr. WEEKS. In the views you have expressed this morning do you represent the Washington banks?

Mr. PARKER. No, sir; I represent nobody but myself.

Mr. WEEKS. You came here of your own volition?

Mr. PARKER. Yes, sir. I stated that distinctly, that I did not represent anybody but myself.

Mr. WEEKS. Is there a clearing house in Washington?

Mr. PARKER. Yes, sir.

Mr. WEEKS. You are familiar with the matter of issuing clearing-house certificates, I supose?

Mr. PARKER. I am. I am chairman of the clearing house.

Mr. WEEKS. Did you use clearing-house certificates in the panic here this last fall?

Mr. PARKER. The clearing house of Washington did not issue clearing-house certificates nor any other form of indebtedness for the adjustment of balances between banks, or anybody else. They paid every check in money or in New York draft, as the person offering it at the counter desired.

Mr. WEEKS. I suppose that is due very largely to the fact that you have not very large pay rolls in Washington?

Mr. PARKER. How is that?

Mr. WEEKS. I suppose that is largely due to the fact that you do not have such large pay rolls in Washington?

Mr. PARKER. Well, I could not just tell you why. I do not think that is the reason.

Mr. WEEKS. Have you considered the desirability of substituting in place of the bonds in the Aldrich bill, commercial paper similar to paper that would be hypothecated if the clearing-house certificates were used?

Mr. PARKER. That would be perfectly satisfactory. Clearing-house certificates never require 50 per cent.

Mr. WEEKS. Do you think that would be desirable to-day?

Mr. PARKER. Anything would be desirable to prevent the disaster and the destruction which come from a panic, and we are not now, as I understand it, figuring upon a permanent system. The question is whether the one bill which is now introduced, which has passed the Senate and has been introduced in the House, shall become a law. There are other systems which I think would be very much better, but I mention another because that was practically the McKinley bill, and in some of the features is the Fowler bill, although I did not dwell upon either, and had no special reference to them except as to the principle. The former is radically, fundamentally wrong. The other is along practical lines, and would relieve the situation if it were the law, and it is only in that sense that I use it as a remedy for an emergency which may come at any time.

Mr. WEEKS. You never heard of any loss on account of the issuing of clearing-house certificates anywhere?

Mr. PARKER. We never used any.

Mr. WEEKS. I mean anywhere, at any time?

Mr. PARKER. No.

Mr. WEEKS. Then you would in fact infer that the method of hypothecating commercial paper or other securities would be a sound basis, would you not?

Mr. PARKER. I do not naturally conclude, because I do not know anything about hypothecating commercial paper for clearing-house certificates——

Mr. WEEKS. You know in other places?

Mr. PARKER. But I naturally conclude from my experience with commercial paper and the bills discounted that commercial paper is worth about 99½ per cent.

The CHAIRMAN. Your experience, as you say, is that commercial paper is worth about 99½ per cent?

Mr. PARKER. Possibly that is a little high. But I do not believe banks as a rule lose 1 per cent on their discounted paper, and they are losing less and less every year.

The CHAIRMAN. That would form a good basis for credit currency, then?

Mr. PARKER. Yes, sir; for temporary use.

Mr. BURTON. Would the banks be willing to assent and all stand behind that kind of currency?

Mr. PARKER. I could not tell whether they would or not. I think so far as there has been any expression, officially, yes; because both at the bankers' convention in St. Louis in 1906, and in Atlantic City last fall, 1907, they practically agreed to and assented to a currency that was based upon the assets of the bank. That is a promise to pay, which to me, as I intimated, by reason of their great wealth and their great financial power added to that, which would be my plan—however, eliminate that—would guarantee beyond the possibility of loss against anything but an earthquake every dollar issued.

Mr. BURTON. How; by the capital of the aggregated banks?

Mr. PARKER. No; we would not want the capital. We would not want $900,000,000. That never was contemplated. All the banks, with their four billions and more of discounted paper, could take out one-eighth of that amount and hypothecate it with the Secretary of the Treasury, with a committee appointed to pass upon it in each town. That would be just as safe and as secure as if that particular issue were secured by a $1,000 bond or $1,000 of currency.

Mr. BURTON. It would be hardly consistent, would it, to say that that kind of security is absolutely safe, and then for an association of banks to refuse to stand behind it?

Mr. PARKER. They probably would. I could not speak for that. They stand behind each other, although I do not know how it is. I never had any experience with clearing house certificates, and I have been doing business here for twenty years.

The CHAIRMAN. Is it not a fact that in your experience your commercial paper has averaged you more than 99 per cent; and is it not also a fact that municipal bonds which a year or two ago, like the New York City threes, sold for 111, were as low as 65 last fall? Which would you rather have your bank capital in—in that bank paper, or in these New York City bonds?

Mr. PARKER. All banks prefer short time paper. Fifty-year paper is not a desirable asset in any bank, and they do not as a rule take it. If I had the privilege of passing upon $100,000 of paper submitted

to me, made here in Washington, such as is handled here, I would take that in preference to any security that you could offer that runs twenty years, forty years, or fifty years.

Mr. BURTON. There was no such depreciation as that, from 111 to 65, in New York City bonds?

The CHAIRMAN. Yes, in New York threes, precisely.

Mr. PARKER. The best bonds depreciated ten points.

The CHAIRMAN. Is it not true that last fall New York City was walking the streets of New York with its hat in its hand asking for money to pay teachers with, and that they issued checks that were not payable within twenty days, and that finally the city of New York made a loan of $40,000,000 at 6 per cent?

Mr. PARKER. It is true as to making the loan; they did not have the money, and when they did borrow the money at 6 per cent, the bonds for the money which had been borrowed at 3 per cent naturally depreciated; and the fact that they borrowed for one year only, showed the severe money stringency.

The CHAIRMAN. What are those New York threes worth now?

Mr. PARKER. I think they are worth 85.

The CHAIRMAN. They were at one time worth 111, were they not?

Mr. PARKER. I do not know whether they were. I never paid much attention to them. I know our bank got $100,000 of them to deposit with the Treasury as security for a deposit. As long as they are there, it does not make much difference whether they are 3 per cent, 4 per cent, or 5 per cent. New York State is selling to-day a 4 per cent bond at 109, and those who are doing it state that this bond will be receivable and acceptable by the Secretary of the Treasury as security for Government deposits if the Aldrich bill should pass. So there is a sample of what this business means. It is a scheme that will promote bond selling, and a splendid scheme. But to help the people it is worse than nugatory.

Mr. BURTON. Any system under which bonds were taken as security would necessarily include very careful provisions for the validity of the bonds, for their value, would it not? Savings banks and all other institutions which buy bonds have, many of them, regulations under State law, have they not?

Mr. PARKER. Yes, sir.

Mr. BURTON. Would the Government be justified in omitting these State regulations?

Mr. PARKER. I can not tell you about that. I suppose the Government is justified in the law it passes, and that is the important thing for the Government, inasmuch as this is the great central bank which some people advocate. On that I am not prepared to make any statement. But it would be so much better for the relief. In just what shape that law should be placed or framed I could not tell, but I am simply speaking of a principle. I am speaking of a system. When we talk about something that is going to happen, that is threatening and may prove dangerous, we want, if possible, to avert and to remedy and mitigate, and the way to do that, considering the experience that we have had in the last six months, is, it seems to me, that there ought to be something even extraordinary in character, such as prompted the enactment of the present national banking law in 1863, when the Government was in a state of suspension and the banks were in a

state of suspension. Let us not have those things. This country is too big. We find every time we pick up the newspaper that we believe in expansion. Let us provide the means to expand. We believe in the open door, equal privileges to all men, equal opportunities to all nations; and standing, as we are now, at the very threshold of the twentieth century, what a prospect opens up before us, and what may we not expect in material progress and in material advancement if we should have laws that will help us on to meet the emergencies that may arise?

I had no idea of prolonging my remarks to such an extent. I am very much obliged to you for giving me free range.

Mr. CRAWFORD. It is estimated, I believe, that there are about $227,000,000 of these municipal and State bonds that would be available under this Aldrich bill. Do you know about what percentage the national banks now own of that amount—of that class of bonds?

Mr. PARKER. No; I do not.

Mr. CRAWFORD. I understood you to state that under this bill the banks would have to buy the bonds. They would not, would they?

Mr. PARKER. No; they need not. They could borrow them.

Mr. CRAWFORD. I mean if the banks do not want to take the bonds.

Mr. PARKER. Now, as to borrowing bonds, that is practically impossible. Last November there was not a bank in the country, and particularly among the southern banks—I need not say southern banks, but I had several interviews with the officials of the banks—and they were just raking this country over as with a fine-tooth comb to get bonds, and they could not get them. And, as I said before, if the bank does not go ahead now, and if it does not buy its bonds so that it has them in its hand and in its grip, it had better not depend upon borrowing bonds when the flood gates are opened.

The CHAIRMAN. Is not that a very unsound thing, anyhow, for the banks to borrow bonds from banks? They could not do it. I do not believe they could.

Mr. PARKER. The banks did everything they could, but it was a sort of self-preservation that they did that. They wanted to save the country and save themselves. One bank swept away meant the downfall of all its neighbors. And so it was; that is what saved the banks in New York City. They all went into the clearing house; they all took out clearing-house certificates, and they stood by each other, so that any bank that was worthy of their support received it.

Mr. CRAWFORD. The question I asked was this: A bank does not have to have these bonds unless it wants to provide for the emergency currency, does it?

Mr. PARKER. No.

Mr. CRAWFORD. And therefore it would not be affected by the bill unless it was indirectly. Now, how would that bank be affected if it did not buy the bonds and have the currency?

Mr. PARKER. Then there is no necessity for the bill, if it is not going to be put in operation. If a bill is simply on the statute books, and nobody cares to use it, and nobody does use it, it might as well not be there. Let us have something that is helpful.

Mr. CRAWFORD. The banks now would not buy the bonds?

Mr. PARKER. Nobody can tell. Banks, as a rule, do not hold municipal bonds or county or State bonds. They hold bonds that are

listed in New York, probably, and bonds that are readily converted into cash. But what kind of a bond the Secretary of the Treasury might accept as suitable and safe for a deposit against an emergency circulation, I do not know. But I will guarantee that there is not in New York City, where there are many bonds held by banks, any considerable number of those bonds held. We own a million and a quarter, in my own institution, and they are local securities, all of them. We do not own a bond except some we have put up as security for deposits, and we do not own a single bond that is payable outside of Washington. Every man is interested in his own town, and ought to be. Every bank that is not interested in the town where it is located ought to be notified to get out of business. That is the way the banks here help the town. They help the town and help our local enterprises, our railways, our gas companies, as you all have heard of, and everything of that kind. These are such securities as we think are safe for loans, however they may be criticized, on a reasonable margin. But there are no securities here that would be considered satisfactory—railway, telephone, or gas—if it were suggested that they should be accepted as security for a circulation that was to pass all over the country.

Mr. WEEMS. I move a vote of thanks to Mr. Parker for his presence here and his remarks.

(The motion was unanimously carried.)

Mr. PARKER. Thank you, gentlemen. I ask your pardon for such a long talk.

At 12 o'clock m. the committee adjourned.

Friday, April 10, 1908.

The committee met at 10.30 o'clock a. m., Hon. Charles N. Fowler (chairman) presiding.

STATEMENT OF MR. EMORY W. CLARK, OF DETROIT.

Mr. CLARK. Mr. Chairman and gentlemen, I have the honor to present to you a resolution passed on April 6, 1908, by the Detroit Clearing-House Association, which, as you know, is made up of national banks as well as State banks, they all clearing there. This resolution is as follows:

DETROIT CLEARING-HOUSE ASSOCIATION,
April 6, 1908.

At a meeting of the Detroit Clearing-House Association, held this day, it was unanimously resolved:

1. That the members of this association are opposed to the passage of Senate bill No. 3023, commonly known as the "Aldrich bill," and the amendments thereto.

2. That it is the sense of this association that the whole question of currency legislation should be placed, for the purpose of consideration and report at the next session of the Congress, in the hands of a commission, to consist of such members of the two Houses of Congress as those bodies may designate and of the members of the present currency committee of the American Bankers' Association.

E. L. BOWMAN, *Secretary.*

DETROIT CLEARING-HOUSE ASSOCIATION,
April 8, 1908.

We hereby certify that at a meeting of the Detroit Clearing-House Association, held April 6, 1908, Mr. Emory W. Clark, vice-president of the First National Bank of Detroit, was elected delegate to represent the association before the Committee on Banking and Currency of the House of Representatives at its sessions, to be held from April 8 to 15, for hearing on the subject of the "Aldrich bill," as per the circular issued by the chairman of said committee under date of April 4, 1908.

M. W. O'BRIEN, *Chairman.*
E. L. BOWMAN, *Secretary.*

Mr. PRINCE. How many members are there in your clearing-house association who participated in this resolution?

Mr. CLARK. They were all there. There are either 14 or 16 clearing-house banks. The other banks clear through some of those banks.

Mr. PRINCE. How many banks do they represent?

Mr. CLARK. They represent that number of banks, either 14 or 16, I am not sure what number there are now.

Mr. PRINCE. How many banks clear through your clearing-house association?

Mr. CLARK. About two more than that, possibly.

Mr. PRINCE. Are these banks the financial correspondents of the banks in your State and vicinity?

Mr. CLARK. Yes, sir.

Mr. PRINCE. In Detroit?

Mr. CLARK. Yes, sir.

Mr. PRINCE. How many national banks and State banks do you think are correspondents of these 14 or 16 banks that you represent?

Mr. CLARK. The First National Bank of Detroit has between 100 and 110 State correspondents. I can not speak definitely beyond that. I would say that that was an average for two more of them.

Mr. PRINCE. My question is, you represent that section of the country generally?

Mr. CLARK. Yes, sir.

Mr. PRINCE. Have you any knowledge as to the feeling of the banks, other than the clearing-house banks that you represent upon this question?

Mr. CLARK. No, sir.

Mr. PRINCE. Excuse me. Now you may go on.

Mr. CLARK. Mr. Chairman, we feel that this bill, the Aldrich bill, as an emergency measure is not worthy of your serious consideration. In the first place, the bill reads in this way: "That any national banking association which has circulating notes outstanding, secured by the deposit of United States bonds to an amount of not less than 50 per cent of its capital stock," etc., is eligible to avail itself of this further circulation. In ordinary times the national banks as a whole do not carry 50 per cent of circulation, and I doubt whether they would if this bill were passed, because it is a bill that they would take advantage of only in unusual times, which occur so seldom that they would not feel, as it is not particularly profitable, like carrying the 50 per cent which would be necessary to make themselves eligible to the 50 per cent further circulation provided for. Then the banks further would not carry the additional circulation, which would be acquired by depositing certain municipal and State bonds, in ordinary times. They would feel that they could watch the situation more or less, and when the time came they would be obliged to buy the bonds with which to qualify at an inflated valuation. I understand Mr. Aldrich's argument is that there are $2,000,000,000 of State and municipal bonds issued and that this provision is for $500,000,000. But I do not think that these figures are accurate for our consideration, for this reason, that the high-grade securities which are called for in this bill are owned and held largely as assets—trust funds—of corporations, who would not sell them. They would not be placed on the market at any price. I think it is fair to say that you would not get 10 per cent of those bonds available for purchase within sixty days at least, and I doubt if you would get 50 per cent of them at any reasonable price. For that reason we do not feel that this bill is a desirable emergency bill.

Section 8 of the bill reads:

SEC. 8. That after January first, nineteen hundred and nine, national banking associations located outside of reserve or central reserve cities, which are now required by law to keep a reserve equal to fifteen per centum of their deposit liabilities, shall hereafter hold in their own vaults four-fifths of such reserves, either in lawful money as now required by law or in the securities enumerated in section two of this act.

Regardless of what the ultimate benefit might be which might accrue to the country from obliging the 15 per cent banks to strengthen their position, this would be, we believe, a hardship to the country, in obliging the banks to curtail their loans and provide for $200,000,000, or thereabouts, which would go out of the central reserve cities to be locked up in the vaults of the smaller towns. That would have to take place during this fall, and we believe that every merchant and manufacturer is interested in seeing that the loans of the banks are not obliged to be curtailed this fall to that extent. Section 11 reads:

SEC. 11. That no national banking association shall invest any part of its funds or deposits in the stocks or other securities of any corporation or association any of the officers or directors of which are officers or directors of such banking association.

While there is no objection, so far as we see it in Detroit, to the directors of the banks being prohibited from borrowing funds of their own banks, we understand that the courts have repeatedly held that "securities" would cover the commercial paper of the institutions in which these directors were interested. That would be a very serious drawback, in our judgment, to the stability of the national banks, for the reason that all the banks, more or less, have the men of prominence in manufacturing and industries on their boards. They want them not alone for the business that they bring with them, but they want them for the benefit of their knowledge and experience and judgment in conducting the affairs of the banks, and we feel that it would seriously interfere with the stability of the banks if those men were obliged to take their business elsewhere or the banks were obliged to look elsewhere for their directors.

Of the bill as a whole, we believe that if this bill is passed in any form whatever it will seriously interfere with or retard more effective legislation which might be brought about later on, and for that reason, as indicated in the resolution, the Detroit banks are opposed to the passage of this bill in any form, preferring to leave it to another session of Congress, when it can have the consideration of both branches of Congress as well as the committee of the American Bankers' Association.

Mr. PRINCE. I move that the committee extend a vote of thanks to the gentleman for his brief, succinct, and clear statement of the views of the Detroit Clearing-House Association.

(The motion was unanimously carried.)

STATEMENT OF MR. FRANK D. LA LANNE, OF PHILADELPHIA.

Mr. PRINCE. How many merchants are there connected with your board of trade?

Mr. LA LANNE. Over 1,000 Philadelphia merchants.

Mr. PRINCE. That includes wholesale and retail merchants?

Mr. LA LANNE. Yes, sir; both wholesale and retail; and bankers and railroad men are also in our number. The leading men of Philadelphia make up the old Philadelphia Board of Trade, which I represent.

Mr. PRINCE. It is made up of business and commercial men?

Mr. LA LANNE. Exclusively; yes, sir.

Mr. PRINCE. That is all. Proceed.

Mr. LA LANNE. Mr. Chairman, I would like to read a report which has been presented to the House, and I think referred to this committee, which was preliminary to a supplementary report which I will present. This is an extract from the minutes of a quarterly meeting of the Philadelphia Board of Trade held March 16, 1908. It reads as follows:

[The Philadelphia Board of Trade. Organized 1833. Incorporated 1838. Bourse Building.]

Extract from the minutes of the quarterly meeting of the Philadelphia Board of Trade, held March 16, 1908.

The following report was presented and on motion adopted:

To the President and Members of the Philadelphia Board of Trade.

GENTLEMEN: Your committee on currency and banking has given careful consideration to the various financial measures proposed in Congress, and particularly to the Aldrich bill pending in the Senate, and the Fowler bill pending in the House. As all prospective financial legislation is still in the formative process in Congress, and both these bills are likely to be radically amended as their consideration progresses, the committee at present makes this partial report and asks that the subject be continued in its charge.

The committee believes that enough actual coin and currency now exist in the country for the practical purposes of business, and the acute stringency caused by the hoarding having passed, that no merely emergency measure is now necessary.

The committee does not approve the Aldrich bill, as that is only a temporary relief measure, so described by its author, and does not go to the root of the evil.

What is necessary in new legislation is a measure that will give continued confidence in the currency and maintain this confidence in times of stress as well as in times of general prosperity. All currency should be based on gold, and a complete redemption system provided, so as to maintain this currency at par.

The Fowler bill provides for the gradual change of all existing currency issued into one character of note, with the accumulation of a gold fund, which is to be the ultimate basis of the entire issue of paper, and is therefore in this respect commendable.

The committee does not think it advisable to enact legislation that will make all the banks of the country contributory to a fund for guaranteeing the general deposits of all the banks. This seems a dangerous proposal and is an unfair tax on sound banking institutions, which hold popular confidence, built up by long careers of safe and honest banking. It also thinks such a guarantee would prove an incentive to unsafe banking. Neither does the committee approve of governmental regulation of the interest rates to be paid on deposits in the banks.

The committee is of opinion that the country banks should keep more of their reserves at home, and that the present methods which encourage the sending of so much of the reserve money to New York by the interior banks are unwise, and tend to aid stock speculation by piling up excessive funds in the New York banks at times when not needed for general business.

The system of the Fowler bill which provides elasticity by enabling banks under proper regulations to take out additional currency in various localities or "zones" may be calculated to aid business in the different parts of the country as currency may be needed, but being experimental it should be carefully considered before being adopted.

For the foregoing reasons your committee is not prepared to approve the Fowler bill in its present form, and further, it can not support a radical change from the present established system to any experimental conditions until careful consideration and experienced advice have fully approved the new financial methods.

Your committee would therefore at this time be inclined to favor the reference of the whole subject to a mixed commission, to be composed of members of Congress, bankers, and others of experience.

(True copy.)

JOEL COOK,
President Philadelphia Board of Trade.

Attest:
W. R. TUCKER, *Secretary.*

The CHAIRMAN. What is the date of it?

Mr. LA LANNE. It is dated March 16, 1908. That has been previously, I think, referred to this committee. Since then a supplementary report has been made by the committee on banking and currency, which I will take pleasure in reading. This is dated Tuesday of this week, April 7, two weeks later than the first report. This reads as follows:

Your committee has carefully examined "An act to amend the national banking laws" (S. 3023), known as the "Aldrich bill," which, with amendments, passed the Senate March 27, 1908.

Your committee finds nothing in the provisions of the bill as amended making it more acceptable as a measure of temporary relief nor to cause the committee to withdraw its objections to it becoming law as set forth in the report presented at the meeting of the board of trade held March 16, 1908, and unanimously adopted.

The amendment (section 11) preventing national banks from investing in the securities (promissory notes undoubtedly being included in this prohibition) of corporations and associations, having among their officers and directors, the officers and directors of such banking associations, is one which must tend to seriously cripple the banking and commercial business. Its far-reaching effect upon all business conditions and relations can hardly be estimated.

While the purpose of this amendment may be intended to protect the stockholders and depositors of national banks against imprudent and unsafe investments made in the interest of individuals controlling the banks, yet business experience suggests that it is safer to depend upon the honesty of the average bank management than to attempt to control by such drasic legislation.

Your committee can not recommend the approval of the provision of the act which allows any portion of the legal reserve of banks to be invested in securities of any character whatsoever, believing that such reserves should always be kept in lawful money. The committee approves of increasing the percentage of the actual reserve to be kept in the vaults of the banks as provided in the bill.

The committee reiterates its opinion, which, since its report, has been more than confirmed, that "no merely emergency currency is now necessary" and, further, that the basis of all currency shall be gold, no matter under what detailed plan issued.

Without being thoroughly committed to the plan, your committee suggests tentatively the wisdom of seriously considering the advisability of legalizing the use of clearing-house certificates for the purposes for which they have been used in the past. These have played an important part, although without legal authority for their issuance, in tiding over the several financial crises through which the country has passed since concert of action has prevailed among the national banks of our money centers.

There is nothing your committee has to add as to the Fowler bill; there are a number of features in it entitled to careful consideration. It has one preeminent recommendation, that it aims to place the banking system of the country upon a more scientific basis.

The more your committee considers the question, the more justification it finds in recommending the advocacy by the board of the reference of the whole banking system to a mixed commission composed of Congressmen, bankers, and business men, who, from their vocation, have knowledge and necessary equipment to deal with this subject.

FRANK D. LA LANNE,
Chairman Committee on Banking and Currency of Board of Trade, Philadelphia, Pa.

Dated Philadelphia, April 7, 1908.

Mr. BURTON. Mr. La Lanne, I take it your association would not object to a provision forbidding banks to buy the stocks or bonds of corporations having directors in common? What you object to is the lending of money on promissory notes?

Mr. LA LANNE. I think, sir, we would also object to that, because in our board are most of the leading men of Pennsylvania, and all of them or most of them are moneyed men. Many of them are directors in many organizations, because of the strength of their ability and the advice that they can give to those organizations, and it would be very hard to provide so without striking, hit or miss, some of those gentlemen; and it seems to us by that provision we would weaken the boards of the national banks.

Mr. BURTON. Is it customary for the banks to buy bonds or stocks of corporations to any considerable extent?

Mr. LA LANNE. The banks buy bonds very often when the corporation is good; they rarely buy stocks. They get possession of them sometimes when they make a collateral loan.

Mr. BURTON. Yes; we understand that. That ought to be corrected in this provision.

Mr. GILLESPIE. Would you object to this kind of a provision, where the officers of the bank own a controlling share of the stock of the bank and also a controlling share of the stock of the corporation?

Mr. LA LANNE. No, sir; I would not object to that, because I think it would be very dangerous, and it has been done by some officers of banks.

Mr. GILLESPIE. Yes.

Mr. LA LANNE. Who have let the bank finance entirely some corporation that they were interested in. There is a danger point, Mr. Chairman.

Mr. GILLESPIE. It strikes me that this Aldrich bill goes too far in this regard, but it certainly ought to go far enough to prevent these one-man banks from using all the credit and capital of that bank to boost some corporation, and that man who controls it also controlling the corporation.

Mr. LA LANNE. Yes, that is a very dangerous thing; and that ought to be guarded against, to my mind.

The CHAIRMAN. Are there any further questions?

Mr. LA LANNE. Before I leave, Mr. Chairman, I would say that it was at my suggestion with the committee that that clause in regard to clearing-house certificates was put in. It seems to me from my experience in banking that this country could hardly have carried on and got through these very serious panics we have had of late years without the bankers taking matters into their own hands, we might say illegally, and issuing these clearing-house certificates, which released that much of their reserves and, I think, saved the country.

The CHAIRMAN. They can do it again, I suppose.

Mr. LA LANNE. They always will, sir; but if it was made a legal transaction, it would save us satisfactorily against further discussion on the subject.

The CHAIRMAN. Might it not, if you did that, prevent all right discussion of the subject; just as you suggested there, prevent any serious consideration of the subject?

Mr. LA LANNE. I think it is a subject that should be seriously considered, and in the right way. They must not be used, though, in any

other way than in the way they have been used. If we went any further and allowed them to become a circulating medium, it would be a very serious thing. They should not be allowed to be used further them just as they are?

The CHAIRMAN. Then would it not be wiser, on the whole, to leave them just as they are.

Mr. LA LANNE. I leave that to your consideration. I do not think so. I think there ought to be some legality placed upon them, and our committee is unanimous on that, in the whole resolution. It is a unanimous report. I thank you, Mr. Chairman.

Mr. PRINCE. I move that the committee extend its thanks to Mr. La Lanne for the very clear expression of his views.

(The motion was unanimously carried.)

STATEMENT OF MR. VICTOR MORAWETZ, OF NEW YORK CITY.

The CHAIRMAN. Just state the facts, so that you will be identified on the record. You are chairman of the executive board of the Atchison, Topeka and Santa Fe Railroad, are you not?

Mr. MORAWETZ. Yes.

Mr. Chairman, not one of the advocates of this bill—the Aldrich bill—with whom I have discussed its provisions has claimed seriously that the bill would correct the defects of our present system of banking and currency, or that it would give us a sound and a safe system, or that it would prevent the recurrence of financial troubles and panics. I have discussed the bill with a number of the leading bankers in New York. Most of them were opposed to the bill, and those who were for it only looked upon it as a temporary makeshift, and urged that as it would not be practicable to obtain definitive legislation at this session of Congress placing our currency and banking system on a sound basis, and as a serious stringency in the money market may result next autumn in consequence of our unsettled political conditions, it would be desirable to pass this bill as a temporary measure of relief.

Now, if that be so, gentlemen, two amendments of the bill are indicated at the outset as desirable. One is the addition of a section providing for the appointment of a currency commission to study the subject, to obtain the best advice of the leading financial minds of the whole world, and to report a sound and safe plan at the commencement of the next session of Congress. The other amendment which seems to be suggested is a provision that the bill shall cease to be operative at the end of one year or, at the most, two years, and that it shall become a permanent addition to our banking laws. I take it, however, that as this bill is drawn as a permanent measure, I shall have to discuss its provisions on the assumption that it is to become permanently a part of our banking laws.

Before taking up the principal objection which I have to this Aldrich bill, which goes to the heart of the bill, I should like to say a few words upon certain minor points. The last section, which has already been referred to by some of the gentlemen who have spoken before me, is objectionable for practical reasons. The idea which induced the framing of that section undoubtedly is good. It is to make honest banking. But the section goes too far. If this section is not taken out of the bill entirely it should be amended so as to

prohibit merely the making of loans to companies in which the president or vice-president or cashier of the bank is interested and not to prohibit the purchase of a note of a company of which some one director of the bank happens to be a director. Usually, the best directors a bank can have are men who by reason of their knowledge, ability, and capital have also made directors of other companies, and the effect of this prohibition in many cases would be to deprive the banks of either of their best customers or of their ablest and most useful directors. However, it is, I think, important that the managing officers, the president and vice-president and cashier of a national bank, who are really the men who run the bank and who make its loans, should not be interested in any way in institutions to which the credit of the bank is advanced.

Section 8 of the bill should be stricken out entirely. That, as you know, is the provision relating to bank reserves. The last sentence provides that no reserves need be kept against deposits of public moneys by the United States. No sound reason can be assigned for that provision. Those deposits of the Government are made in large blocks, and are withdrawn in large blocks, and are not intended to be permanent. The reserve against Government deposits ought to be larger, if anything, than the reserve against ordinary commercial deposits, which are kept at a more or less constant amount by new deposits taking the place of the old ones as these are paid off. You may remember that Secretary Shaw some years ago made an arbitrary ruling that he would not require the banks to keep reserves against Government deposits; but the New York banks decided that they would not take advantage of that ruling, and that sound banking required the usual reserves to be kept against Government deposits.

Then again there is a provision here that part of the reserve of the country banks and of the reserve city banks may be kept in these municipal bonds which are specified in the bill. I think that your chairman will bear me out that bonds are not a proper reserve under any circumstances, and that money is the only thing with which the bank can pay its debts. Not many months ago a great many banks failed although they were loaded up with bonds and commercial paper and property of all kinds. They failed because they had not adequate cash reserves for the payment of their deposit liabilities.

I may say in passing that in this other bill, the bill reported by your committee here, there is a section, No. 21, which apparently also permits bonds to be counted as reserves, and I hope that this section will be revised before the bill is passed. I refer to section 21, reading:

> SEC. 21. That every national bank may count as a part of its required reserve the amount it shall have deposited with the United States Treasurer in accordance with sections eleven and fourteen of this act, and shall be entitled to receive interest thereon at the rate of one per centum per annum.

Now, under other provisions of the bill the sums required to be deposited with the United States Treasurer are to be invested in Government bonds. I think it would be much clearer and much better if, instead of this section, it were provided squarely that the reserves of the country banks shall be 10 per cent instead of 15 per cent, and that the reserves of the reserve city and central reserve city banks shall be 20 per cent and not 25 per cent, as they are now, because that would be the real effect of this provision.

The CHAIRMAN. Just allow me.

Mr. MORAWETZ. Yes, sir.

The CHAIRMAN. I quite agree with you that nothing is a reserve that is not a cash reserve; but the board has a right to invest as much of that money in these bonds as they deem wise. Not all of it; it never was contemplated. And that investment results from our unfortunate legislation already passed. And when that is paid off the intention is that that shall be a great gold fund to protect the credits of the United States. So that the legislation there referred to grows out of a condition, only a part of the 5 per cent being now invested in these bonds, and ultimately the intention is that no part of it should be invested in bonds; but it was to relieve an unfortunate situation in our country, which I think is vastly more important that we do, and incur this criticism, than allow this situation to stand as it is to-day.

Mr. MORAWETZ. But it is, I believe, contemplated that most of the 5 per cent shall be invested in Government bonds, in which case the money would come right back into circulation. The 5 per cent, amounting to so many hundred millions, about $250,000,000 on the present deposits, would be paid into the Treasury, but only $25,000,000 would stay there.

The CHAIRMAN. Oh, I beg your pardon. You do not comprehend the measure.

Mr. MORAWETZ. That is only by the way. I do not criticise the effect of the bill, but am merely pointing out the effect of this provision.

The next point, the next minor point, and the last of the minor points of which I wish to speak, is the provision in the bill for the security of the notes in the form of State and municipal bonds.

The CHAIRMAN. If you will excuse me, I think we had better stop here until after recess. The House will meet in a few minutes. The committee will be in recess until 1 o'clock.

(At 11.28 o'clock a. m. the committee took a recess until 1 o'clock p. m.)

AFTERNOON SESSION.

The committee reassembled at 1 o'clock p. m., pursuant to the taking of the recess, Hon. Charles N. Fowler (chairman) presiding.

STATEMENT OF MR. VICTOR MORAWETZ—Continued.

Mr. MORAWETZ. My next objection to the bill, before coming to the principal objection, is the provision for securing these bank notes by the deposit of State and municipal bonds. A great deal has been said to establish the point that it is unsound banking to issue bank notes with security, special security, or collateral in any form. Some of these objections, I think, are ill founded while some are entirely sound.

I have often heard it charged that the reason why the present issue of bond-secured national bank notes is inelastic, or as the chairman has very graphically described it—a sodden mass—is that these notes are secured by the pledge of Government bonds. I do not think that the pledge of Government bonds as security has anything to do with this. The bond-secured notes are an inelastic issue, are a sodden mass,

but that is not because they are secured by bonds. They would be just as inelastic and just as much a sodden mass if there were no security whatever, if they were merely credit notes, issued by the banks upon the general security of their assets. One reason why the issue of these notes is inelastic is that there is not adequate provision for their redemption without expense, because they are only redeemable at the offices of the banks scattered throughout the country and in Washington; and another reason is that there are about 7,000 of these banks, all working to put out and keep out as many of these notes as they possibly can, while there is no power to force a contraction of the issue when a contraction is desirable.

I think also that the argument is unsound that the issue of bond-secured notes is prejudicial to the commercial interests of the country because it requires the banks to sink their capital in the purchase of bonds as an investment instead of keeping this capital free for commercial uses. Let me illustrate how this works: If a bank, for instance, starts with a capital of $1,000,000, it can either lend out the $1,000,000 or, if it is a central-reserve bank, it can use the $1,000,000 as the required reserve for the creation of $4,000,000 of deposit liabilities. It can make loans to the extent of $4,000,000 based on this $1,000,000 of reserves. If, instead of doing that, the bank should take its $1,000,000 and buy $1,000,000 of Government bonds, it would have power then to issue $1,000,000, in round figures—I know it is not quite that—of its own notes, and it could lend this $1,000,000 of its own notes to borrowers for commercial purposes. The million dollars paid for the bonds would also remain in circulation. The aggregate currency of the country would be increased $1,000,000, and this million dollars would be deposited in the banks. The $1,000,000 of notes which the banks would issue against the bonds it bought would not be a reserve for the creation of $4,000,000 of deposit liabilities, as would be the case if the bank had kept its original capital of $1,000,000 in lawful money. The bank, however, could exchange its notes for lawful money in circulation and thus could get back into its treasury $1,000,000 of lawful money, and in that event it would have just as much power to accommodate merchants and others by the creation of deposit liabilities and making loans based on this lawful money as it would have had if it never had bought the Government bonds and issued the notes. This process of exchanging bank notes for lawful money in circulation is one which is going on all the time. Every bank holds on to all the lawful money it receives and pays out notes if it has any to issue, except when required to pay out lawful money to the clearing-house or to other banks that present notes for redemption. The banks all put out their notes whenever they get a chance and keep all the lawful money they can, so that there is a gradual process of changing bank notes for lawful money in circulation, the lawful money which was in circulation going into the bank reserves and the notes taking the place of the lawful money as a circulating medium for the people.

Another objection which has been made to the provision of this bill for bond security for the notes is that it would create an artificial market for State and municipal bonds, just as the existing national-bank laws have created an artificial market for the United States Government bonds. This objection is a very sound one. Although

the United States 2 per cents would not be worth more than about 80 cents on the dollar to-day, regarded merely as investments, they are selling in the market at 103 or 104 because they are available to the banks as a basis for circulation out of which they can make money. Although I think there is no warrant for it in the law, there has grown up in this country a general belief that the Government of the United States has bound itself in some way at all times to allow the banks to issue their notes against these Government bonds, and that there is a vested right in the banks to-day to issue bank notes against these Government bonds up to the date of the maturity of the bonds. I am informed that when a bank buys Government bonds for the purpose of issuing national-bank notes against them it figures out just what the bank would make if the bank should keep outstanding against these bonds its notes to the full amount allowed by law up to the date of maturity of the bonds, and that if the banks were stopped from issuing notes against United States bonds up to the maturity of the bonds they would lose a lot of money. For this reason it was deemed necessary in the bill which was reported by this committee to make a provision for the purchase of these Government bonds at an enormous price, at a price far in excess of the value of the bonds on their merit as investments. In other words, the committee in its bill has found it necessary to buy off this supposed right of the national banks to issue their notes and keep them outstanding until the Government bonds mature. Now, that same sort of thing would grow up under this Aldrich bill. Once start under this bill—once let the banks buy State bonds and municipal bonds—and in a very short time they would claim, and I think there would be a disposition to concede their claim, that they had a vested right to issue their notes and keep them out against these bonds which they purchase for that purpose, and that they could never be deprived of this right until they had been bought off in some way.

Now, I will take up my principal objection to this bill, which is in substance that it is a measure of inflation. I think it is a self-evident proposition that it is impossible to frame any wise legislation for correcting the faults of our system of banking and currency without ascertaining first what is wrong with the present system. Periodical money stringencies and panics are merely symptoms of an underlying disease, and the first question is, What is the disease? To my mind, the only answer is that the cause of troubles is the periodical overexpansion of the demand liabilities of the banks, either absolutely or in relation to the reserves kept by the banks for the purpose of meeting these liabilities. The demand liabilities of the national banks amount to about $5,000,000,000, against which they have about $650,000,000 of money of all kinds. In other words, they owe about seven times or eight times as much, payable on demand, as the money they hold. If you take all the banks and trust companies throughout the United States, the situation is even more extended. The aggregate demand liabilities of all the banks and trust companies amount to about $12,000,000,000 or $13,000,000,000, and they have about $1,000,000,000 of money of all kinds to pay off these liabilities. In other words, their demand liabilities amount to about four times all the currency there is in the United States.

The CHAIRMAN. How much?

Mr. MORAWETZ. About four times the entire currency of the country and about twelve times the amount of money they hold to pay off their liabilities. If you throw out the silver, which is not ultimate money, and the national-bank notes and the greenbacks, they owe about $25 for every $1 of real money they have got. Now, that may or may not be a safe condition. Of course it is of the essence of the banking business to assume liabilities or grant credit in excess of the amount of the cash the bank holds in its vaults. If it were always required to have a dollar of money for every dollar of credit it gives, there would be no banking business; but the real question is whether the banks in the United States habitually expand their liabilities beyond the limit of safety. Of course you all know how the deposit liabilities of the banks are created. About 90 per cent of them do not represent the deposit of a dollar, and never did represent the deposit of a dollar. They are created merely by a process of swapping credits. A man goes to a bank and says, "I want to borrow $100,000," and the bank says, "Give us your note bearing interest at 6 per cent," and upon receipt of the note they simply write in his deposit book "$100,000." The bank has not received a dollar; the man who made the loan has not received a dollar of money; it is simply a swapping of credit. But as the bank has assumed an obligation to pay that $100,000 on demand, certain cash reserves are necessary to meet this liability. The whole currency question is really a question of bank deposit liabilities and bank reserves. The amount of currency in actual circulation among the people would not be affected in the least by any currency plan which you can make. People will carry about in their pockets just as much money as they want for their own convenience, and if you should double the amount of currency in the country they would not carry any more. If you authorize the issue of more bank notes, either the notes would not actually be issued by the banks or, if they are issued, they would simply take the place of so much lawful money used by the people as a circulating medium, and this lawful money then would be deposited in the banks and would become available as bank reserves.

What is the office, then, of bank notes? We know that at times the amount of the currency used as an actual circulating medium among the people expands, and that at times it falls off again. We know by experience that in the autumn $200,000,000 or perhaps $250,000,000 of additional money is used in the West and South for the purpose of moving the crops. This money comes back afterwards, when the crop-moving season is over, and goes back to the banks. Now, the office of the bank note is to meet this demand for extra currency, and then to go out of existence when the demand for the extra currency has ceased. But a bank note can be issued when there is no demand for an extra amount of currency if it can be substituted for lawful money used in circulation. For example, assuming that $1,000,000,000 of lawful money is in actual use as a circulating medium outside of the bank reserves, if you could issue $500,000,000 of bank notes and get the people to use those $500,000,000 of bank notes instead of using an equal amount of lawful money, the result would be that $500,000,000 of lawful money would be taken out of circulation and deposited in the banks. The actual circulation among the people would remain at $1,000,000,000 only, but instead of having

$1,000,000,000 of lawful money in circulation there would be $500,000,000 of lawful money and $500,000,000 of bank notes. Now, the effect of putting out these bank notes in substitution for lawful money is very far-reaching, because the addition of the lawful money to the bank reserves would mean an increase of the power of the banks to grant credits and manufacture deposit liabilities in the manner I have explained. If you take the national banks alone, the increase of the power to create deposit liabilities would be seven times $500,000,000, or $3,500,000,000, and if you take the average of the banks and trust companies throughout the United States the increase would be twelve times $500,000,000, or $6,000,000,000.

Mr. WALDO. That would be on the assumption, would it not, that the deposits or the reserve in the State banks must be lawful reserve? That is not the fact now, is it? That is, the national bank reserve is a reserve in the State banks as much as lawful money; so that it would not affect the State institutions but only the United States banks?

Mr. MORAWETZ. I think it would have that effect, and even more as to the State institutions.

Mr. WALDO. Why?

Mr. MORAWETZ. Because they would not have to go through the process of working out the notes among the people in exchange for lawful money. They could take the notes direct from the bank and put it in their vaults.

Mr. WALDO. Perhaps you do not get my idea. The national bank notes now serve with the State institutions as a reserve. Then changing the national bank notes for reserve money would not have any effect so far as the State institutions were concerned. How would that have any effect?

Mr. MORAWETZ. No. But the increase of the currency, to the extent of the $500,000,000 by the issue of the notes, would have the full effect as to the State banks without going through the process of exchanging them for lawful money.

Mr. WALDO. I do not see how it would affect the State banks at all.

Mr. MORAWETZ. There would be $500,000,000 of additional bank notes which, as you say, the State banks might use as a reserve.

Mr. WALDO. That is, it would increase the amount of money that they could keep on hand, in other words.

Mr. MORAWETZ. Yes.

Mr. WALDO. They would have to keep more on hand than they do now. It would not be a question of transfer of national bank notes into reserves or of reserves into national bank notes. It would be merely a question of their keeping on hand that much more reserve; that is what you mean?

Mr. MORAWETZ. Yes; that is what I mean.

Mr. WALDO. That may be so.

Mr. MORAWETZ. There would be more available.

Mr. WALDO. That may be so.

Mr. MORAWETZ. It has often been claimed—I think it was claimed in a report of the Chamber of Commerce of New York, and I think in a paper issued by the National Association of Bankers—that there is no difference between the issue of a bank note and the creation of a deposit liability or the issue of the cashier's check; that in each case there is simply a liability to pay so much money on

demand. That may be true if you consider only the liability of the bank which issues these obligations, but the effect upon the general banking situation throughout the country would be very different in the two cases, for the reasons I have just pointed out.

The CHAIRMAN. Assume that it would be impossible—just omit the remedy, but assume it would be impossible—for a bank to hold notes in any form as a reserve upon which to base credit, what difference would it make?

Mr. MORAWETZ. It would make this difference, Mr. Chairman: A deposit liability or a cashier's check is not available as a substitute for lawful money, as a circulating medium, among the people of the United States.

The CHAIRMAN. Do you mean to say that all of the checks and drafts we use do not dispose of a tremendous amount of currency?

Mr. MORAWETZ. Certainly, I agree to that.

The CHAIRMAN. That is the whole case.

Mr. MORAWETZ. No, no; I did not make myself clear. The people of the United States need as a circulating medium approximately $1,700,000,000 in the form of currency. About $600,000,000 of that consists of national bank notes, and the rest of it, or $1,100,000,000, consists of lawful money in some form.

The CHAIRMAN. Do you mean to say that the people are carrying around $600,000,000 of bank notes?

Mr. MORAWETZ. Approximately.

The CHAIRMAN. I beg your pardon; it can be demonstrated that the banks have got between $200,000,000 and $300,000,000.

Mr. MORAWETZ. That has really no bearing upon the point I am trying to make. Call it, then, $1,500,000,000 of lawful money and $200,000,000 of national bank notes, if you please. That is not material. Now, if a bank creates a deposit liability in favor of A, B, or C, or makes its cashier's check in favor of A, B, or C, the creation of this deposit liability, or the issue of the cashier's check, would not diminish this present demand for that much currency.

The CHAIRMAN. Do you mean to say that as an economic truth and fact?

Mr. MORAWETZ. As a practical fact.

The CHAIRMAN. I would like to have you tell the committee this: How does it happen that in Great Britain, which is the most highly organized check-using country in the world, they get along with one-quarter or one-third of the money we use here as pocket money? Is it due to the fact that they are using checks more largely? And then in contrast with England take France, where they do not have any checks at all.

Mr. MORAWETZ. Of course, Mr. Chairman, I appreciate that the use of checks saves the use of a great deal of currency. There is no question about that.

The CHAIRMAN. Might it not practically displace it entirely, if they used checks instead?

Mr. MORAWETZ. Practically, no; theoretically, yes. Practically we know that the people of the United States need about $1,700,000,000 of what we call currency—that is, gold, or silver, or bank notes, or greenbacks, or some form of money.

Mr. WALDO. Pocket money?

Mr. MORAWETZ. Pocket money and other kinds of money.

Mr. WALDO. You mean pocket money that they carry around in their pockets; that is what you mean?

Mr. MORAWETZ. Yes, sir. We know that it is not practicable to use checks for all kinds of transactions that have to be settled in cash. Practically it is not possible; theoretically it is possible. Now, if you issue bank notes you provide a currency which is available for these purposes. If you issue cashiers' checks, or create deposit liabilities—that is, give a right to draw checks—you do not, for practical purposes, dispense with the need of this $1,700,000,000 of currency, which under existing conditions is required by the people.

If the banks throughout the country should issue 500,000,000 of their notes, and get them into circulation in substitution for $500,000,000 of the lawful money which is now a part of this $1,700,000,000 of currency in circulation, they would increase their reserves to the extent of the $500,000,000 of lawful money received from the people in exchange for bank notes. The issue of cashiers' checks or the creation of deposit liabilities would have no such effect.

Now, the use of bank notes instead of gold as a circulating medium is economical, and it has many practical advantages, because you can get out the notes quickly to meet a sudden demand for more currency, whereas you can not import it quickly. But this use of bank notes should be indulged in sparingly and cautiously, because of the effect it may have of increasing the bank reserves and inflating the power of the banks to grant credits and foster speculation. We have to-day in the United States three times the amount of uncovered bank note currency that any country in the world has, and twice as much uncovered bank note currency as any country in the world.

Mr. WALDO. What do you mean by "uncovered circulation?"

Mr. MORAWETZ. I mean bank-note currency against which there is no reserve of gold. The Comptroller of the Currency reports the figures as follows: United States, $582,000,000; Germany, $213,000,000; France, $118,000,000; United Kingdom, $116,000,000. The per capita is as follows: United States, $6.93; Germany, $3.53; France, $3.02.

Mr. BURTON. May I ask what page you are reading from?

Mr. MORAWETZ. Page 60.

Mr. WALDO. Let me ask you, is not that on its face a false statement, because the banks, for every dollar that they have put out of bank notes have paid into the United States Treasury a dollar in gold reserve or its equivalent, although it is merely represented to-day by United States bonds? Is not that a fact, that the banks have parted with a dollar in gold for every dollar in bank notes that is out?

Mr. MORAWETZ. Yes; but they have parted with it. You can not have your cake and eat it.

The CHAIRMAN. I am very glad you said that you can not have the cake and eat it, because in the first part of your remarks you said that if the bank bought these bonds and issued its currency and got back money from the merchants and farmers in exchange for these bank notes, they were just where they were before.

Mr. MORAWETZ. Getting gold?

The CHAIRMAN. Getting gold, yes; and what became of the capital that they got for the bonds? It is gone, is it not? Is is invested,

is it not? It is fixed, is it not? If they did not have the bonds, they would have the capital would they not?

Mr. MORAWETZ. Yes; but the balance sheet would be this way: First, $1,000,000 in bonds bought for $1,000,000 in money. After the issue of the notes in exchange for lawful money the balance sheet would be: Assets, $1,000,000 in bonds and $1,000,000 in lawful money; liabilities, $1,000,000 of notes outstanding. If the bank notes represent the bonds, the bank would have its million dollars of lawful money which it got through the exchange. Do you follow me?

The CHAIRMAN. I think I do.

Mr. WALDO. That would be a matter, though, of long business transactions to ever get back $1,000,000 of lawful money on their notes, would it not?

Mr. MORAWETZ. I do not think so. I think this process of exchanging bank notes for lawful money goes on all the time, because every bank holds onto its lawful money and puts out its notes on every occasion. You will bear in mind that the money paid for the bonds would continue in circulation.

This statement of the Comptroller shows that the uncovered paper currency of this country to-day is three times as big as in any other country in the world.

The CHAIRMAN. How is that?

Mr. MORAWETZ. I say that the uncovered paper currency, bank-note currency, to-day is three times as large as the uncovered paper currency of any other country in the world, and twice as large per capita as in any other country in the world; and that is without counting our greenbacks and our silver, which for ultimate purposes are no better than uncovered paper currency, because, when it comes to maintaining the gold standard, the greenbacks and the silver are no better than that amount of bank notes.

The CHAIRMAN. In other words, it lays just as much burden on the Government?

Mr. MORAWETZ. Absolutely. The silver per capita of this country is $8.18. In the United Kingdom it is $2.56. In France it is a little larger, $10.51, and in Germany it is $3.46. As I said a moment ago, you must add to these figures $200,000,000 of greenbacks which are uncovered, and about $600,000,000 of silver.

Now, the effect of increasing this volume of uncovered paper currency, as I pointed out a moment ago, would not be to increase the amount of money in circulation among the people. The only effect would be that it would not go out at all, or it would be put out as a substitute for lawful money in circulation, and this lawful money would go into bank reserves, and the banks would have larger reserves than they have to-day. What would the banks do? We have in this country 7,000, in round figures, of national banks, and nearly 20,000 State banks and trust companies, and every one of these institutions does business for its own profit alone, practically without any regard to the situation as a whole, subject to no central control in any form whatsoever. Every one of these institutions at all times lends its credit and creates deposit liabilities to the utmost extent that it finds profitable and safe, and that is permitted by law. The result is that the deposit liabilities, the demand liabilities of the banks, are generally extended pretty nearly to the legal limit. The country banks, that is the banks in the smaller cities, if they have any surplus which

they can not put out profitably at home, deposit this surplus in the larger banks at 2 per cent interest, and the big banks in the reserve cities and central reserve cities lend on call as much as they do not think they can with safety lend out on time or in the usual commercial transactions. Now, each bank when it makes a call loan counts that it can protect itself when it requires more reserves by calling in its loan, loans, but the banks do not bear in mind that when a call loan is called the borrower has to borrow money elsewhere, even though he has to pay a high rate of interest, and that for all practical purposes call loans, I mean so far as it concerns the situation as a whole, are exactly as bad as an equal amount of time loans, and that the fact that loans are at call does not help the general bank situation at all when a pinch comes. The effect of this practice of the banks to lend out at all times all the money and credit that they can, so long as there is a little profit in it, results in very low rates of interest, call-loan rates frequently being 1 per cent per annum. That results in one of two things, or in both of them, namely, it causes speculation in Wall Street and elsewhere and it causes exports of gold, because more money can be made out of the gold abroad than by keeping it here. The consequences of exciting speculation by abnormally low rates of interest are touched upon by Mr. James B. Forgan, of Chicago, in a letter which he wrote a year ago to the Texas Bankers' Association, from which I should like to read a few words. Mr. Forgan said:

> In the long run, commerce suffers more from the periods of overbundance of money than from those of scarcity. The origin of each recurring period of tight money can be traced to preceding periods of easy money. Whenever money becomes so overabundant that bankers in order to keep it earning something have to force it out at abnormally low rates of interest, the foundations are laid for a period of stringency in the not far distant future; for then speculation is encouraged, prices are inflated, and all sorts of securities are floated until the market is glutted with them.

Now, how would this Aldrich bill affect the situation? It would certainly not prevent this excessive expansion of bank loans which causes speculative excesses. The only object and effect of this Aldrich bill would be to give more currency and allow more expansion. It would operate in effect as a notification to the banks in the summer, when money rates are abnormally low, that they need not exercise any caution. It would be saying to them, "You can lend out everything you have got, because later on when a stringency comes you can issue more of these notes under this bill." The only safe course, the only sound course, is to keep some slack in the rope of credit when money is easy, in order to be prepared to let it out during periods of stringency—periods when there is greater demand for money or for credits. You never can get a sound system without holding back something in reserve, and you never can get the banks to keep some of their reserves unused unless you put them under some kind of control. One of the great merits, to my mind, of the bill which has been reported by this committee here—I mean Mr. Fowler's bill—is that it does provide for some intelligent supervision of the banks and the exercise of some control over the expansion of their credits. In all the great commercial countries in the world except ours they have provided this central control over the banks by means of a large central bank, which is considered charged in a way with the general supervision of the banking conditions of the country, which has a monopoly

of the note-issuing power, and which regulates the reserve and the expansion of credits by increasing or lowering the rate at which it rediscounts the paper held by the other banks.

Now, I do not believe that you ever can have a central bank in the United States; I do not think that the people want it, and I am one of the people in that regard. I do not want it. I should consider it a very great menace to establish in this country a central bank, because of its effect upon political conditions and because it would be utterly out of harmony with our institutions and our business methods. I think if such a bank were established it would be the source of endless trouble and controversy. You never could convince the people that it would be wise to establish such a bank, and if you did establish such a bank you would never convince the people of this country that the bank was exercising its enormous powers for the best interests of all sections of the country impartially.

However, some means must be devised of exercising the necessary control over all the banking institutions of this country before you can ever have a sound and a safe system. The first step, I think, would be to put all the banks and the trust companies on the same footing. I do not believe you can ever prevent trouble and panics as long as you have the State banks and the State trust companies under a different state of laws from the national banks. The trust companies, as you know, were the principal causes of our recent panic. They did not keep proper reserves and they engage in a very risky kind of business, a business much more risky than that of the national banks, although they kept smaller reserves. Another merit, to my mind, of the bill reported by this committee is that it is designed to unify the banking system throughout the country by inducing the State banks and the trust companies to become national banks.

Mr. GILLESPIE. Do you think it will accomplish that?

Mr. MORAWETZ. I do not know. I think that if it does not the bill should be amended so that it does. And not only the ordinary State banks and the trust companies, but also the many of the so-called "savings banks" throughout the country ought to be put on a sounder basis.

The CHAIRMAN. Just explain to the committee why you think the savings banks ought to.

Mr. MORAWETZ. I will tell you why; because outside of New York I know that a good many of the so-called savings banks are merely ordinary banks, no more secure than ordinary banks labeled savings banks, and that they obtain the deposits of money of the poor people throughout the country because they call themselves savings banks, although they do an ordinary banking business, and often have inadequate reserves.

Mr. WALDO. You mean by an ordinary banking business, a commercial business for profit?

Mr. MORAWETZ. Yes.

Mr. WALDO. And not for the mutual benefit of the owners of the bank?

Mr. MORAWETZ. Yes.

The CHAIRMAN. In other words, the savings accounts go into the commercial funds?

Mr. MORAWETZ. Yes; the savings accounts go into the commercial funds, and the bank from time to time says, "We will pay you for

the next three months interest at so much per annum on your deposits."

Mr. WALDO. In those cases a savings bank, instead of being like the New York savings banks are, a purely mutual concern, is a stock concern for the benefit of the stockholders?

Mr. MORAWETZ. Yes.

The CHAIRMAN. Therefore, it is your opinion that they ought to be included in the system?

Mr. MORAWETZ. Exactly; all stock companies should be.

Mr. GILLESPIE. Do you think it is wise to conglomerate them; that is, to put the savings bank or the trust company, the investment feature of that institution, as I understand it, and a commercial institution right under the same management, and to blend those two? Are there not two separate fields there for financial operations, which, so far as the safety and advancement of the finances and conserving the finances of the country are concerned, ought not to be blended?

Mr. MORAWETZ. I agree to that; but all banks and all concerns that are engaged in the same kind of business should be subject to the same rules and regulations, whatever they call themselves. Whether they call themselves savings banks or trust companies has nothing to do with it. The question is, what business they are doing.

The CHAIRMAN. You would have no objection to their being under the same management in the same institution where all these things are done, if they were segregated and each one of the accounts—that is, the savings accounts and the commercial accounts—were kept entirely separate, because the management would be able in both cases?

Mr. MORAWETZ. Yes.

The CHAIRMAN. The point is, there must be a special regard had for the several banking interests?

Mr. MORAWETZ. Yes, sir.

Mr. WALDO. Before you go on, if I understood your thought, it was that the stock companies that were engaged in commercial banking business ought to be under Government control. Did you mean necessarily that those who are interested in investments or purely a trust business ought also to be under United States Government control?

Mr. MORAWETZ. No.

Mr. WALDO. That is the way I understood you.

Mr. MORAWETZ. I think it would be desirable if all trust companies, all companies engaged in purely trust company business, were governed by the same laws; but I do not think that Congress could regulate those institutions.

The CHAIRMAN. Is there any trust company in the United States that is not doing a banking business?

Mr. MORAWETZ. I do not know any, Mr. Fowler; I think they are all doing a banking business.

The CHAIRMAN. Very well. Then how are you going to say that they can not regulate a trust business, when you must regulate the banking business?

Mr. MORAWETZ. A trust company can give up the business of receiving deposits and making discounts.

The CHAIRMAN. But how is that going to be accomplished with 50 States?

Mr. MORAWETZ. In which case, if the company does not receive deposits and does not make discounts, I do not think it should be regulated as a bank. They could segregate their business.

The CHAIRMAN. But will they do it?

Mr. MORAWETZ. I do not believe they will.

The CHAIRMAN. Then what is the lesser of the two evils?

Mr. MORAWETZ. Regulate them as banks.

The CHAIRMAN. Yes.

Mr. WALDO. What is the reason they could not be reached in the same way that the circulation of notes is now reached, by placing so high a tax on that kind of business that they would all come under the national law, if they were all doing a commercial business? Would not that cover it?

Mr. MORAWETZ. I do not think that Congress would have any power to regulate the trust company business, per se.

Mr. WALDO. That is true.

Mr. GILLESPIE. Do they not do that in the oleomargarine business here?

Mr. MORAWETZ. It is possible, although I think it would be an abuse of legislation, to tax the trust company business out of sight; but you can not regulate it. It is not the business of Congress.

Mr. WALDO. How are we going to regulate it if it does not come under the Constitution?

Mr. MORAWETZ. You can regulate all institutions which do a banking business, and as all trust companies do a banking business, as Mr. Fowler has stated, you can regulate them as banks.

Mr. WALDO. That is getting at the same thing in another way?

Mr. MORAWETZ. The same thing. As long as they do both kinds of business, they have to submit to regulation.

Mr. BURTON. Do I understand you to say that they can be regulated as banks by Federal legislation if they do a banking business?

Mr. MORAWETZ. If they issue notes.

Mr. BURTON. But suppose they do not issue notes.

Mr. MORAWETZ. I have not considered that constitutional question, although I have been under the impression that the power of Congress to regulate banks rests upon the note-issuing provisions under the national banking act. Is not that right, Mr. Fowler?

The CHAIRMAN. I think that is the last judgment in the case. There is a very fine question, I think, upon this proposition.

Mr. MORAWETZ. I wish that Congress had the power.

The CHAIRMAN. Do the banks, through bills of exchange, do an interstate business?

I do not think that proposition has ever been squarely tested in the courts, and if it were decided that banks having accounts in various States other than that in which they were doing a banking business were thereby doing an interstate business, they would come under the law.

Mr. BURTON. That would be a little more than an interstate business; it would be interstate commerce.

The CHAIRMAN. I say interstate; not intrastate, but interstate. They would be doing a business that would subject them to that clause in the Constitution. But that is an unsettled question up to date. I looked that up a little last fall, and up to date the power of Federal control, I think, is only through the note issue.

Mr. MORAWETZ. Well, Mr. Fowler, at the rate at which——

The CHAIRMAN. Federal interpretation is growing.

Mr. MORAWETZ (continuing). The Federal power is growing. There will be no doubt that in ten years the Federal Government will have the power. [Laughter.]

The CHAIRMAN. That was the hopeful view I took of it. I did not know that they had progressed far enough to take advantage of it.

Mr. MORAWETZ. I say this laughing, but I seriously mean it; I seriously believe that the Federal power acknowledged by the courts is constantly growing, and that all you have to do is to wait long enough to get pretty nearly anything that you think is needed.

The CHAIRMAN. That the public welfare requires?

Mr. MORAWETZ. Only, do not press the point on the Supreme Court too soon, because if the Supreme Court ever decides against you, it may arrest the growth.

Well, I will conclude by saying that to my mind this Aldrich bill will operate very much like giving more whisky to a man who is already suffering from overstimulation. The source of our panics is overexpansion of the demand liabilities of the banks. This Aldrich bill would merely say to the banks: "Go on and expand; when you get into trouble you can expand some more." It is like dosing a man who has the delirium tremens occasionally with more whisky whenever he has an attack. I believe that when a man has delirium tremens the doctors do sometimes give him another drink of whisky in order to prevent complete collapse of the patient, but it would be very poor policy to provide the patient in advance with the means of obtaining a good big supply of additional whisky whenever he wants it, and that is precisely what this bill would do. I do not believe that, under this bill, the banks would wait until they have the financial delirium tremens before taking out the new notes. I think that the new notes, if they come out at all, would be just as likely to come out whenever there is a fervid period of speculation on Wall street—when sometimes interest rates run up to 25 or even 50 per cent per annum. I have known them to be higher than that when there was nothing like a panic on; it was simply speculation. These notes would be just as likely to come out under those conditions as they would be to come out when there is a great demand for currency for circulating purposes caused by a run on a bank.

Mr. GILLESPIE. The Comptroller of the Currency and the Secretary both have to pass upon the condition, do they not, and give their consent?

Mr. MORAWETZ. Yes; but what position would they be in to refuse if the interest rate were 25 per cent on call loans, and if merchants have to pay 8 per cent per annum and can not get money at that? Of course they would always have to say yes. I have nothing more to say unless you have some questions to ask me.

Mr. BURTON. As regards the substitution of bank notes in circulation among the people for lawful money, thereby increasing the amount available for reserves of the banks, would not the objection you make on that ground apply to any system of bank note issues?

Mr. MORAWETZ. It would apply to any system of bank-note issues which is not controlled intelligently; yes, sir. I do not believe you can have any sound automatic system. You can not have a sound automatic system—a system which is governed by rules of merely

mechanical operation and application. You need intelligent control to keep the banks safe and sound.

The CHAIRMAN. How would you explain the conditions during forty years under the Suffolk system?

Mr. MORAWETZ. In the first place New England is a very small place, and in the second place the Suffolk Bank was a central bank, in great measure, which exercised control over the other banks.

The CHAIRMAN. But the western part of our country was not in as active operation as it is now; but New England banks were a law unto themselves, and they had their own system, which was only local; and yet there were banks there with all the way from $25,000 to $500,000 capital, one I believe with $600,000 capital, and yet their failures were reduced to a minimum; their redemptions were carried on with perfect precision; there was a perfect interplay between their deposits and note issues, always changing and always corresponding to the varying demands of trade. I would like to have you explain it.

Mr. MORAWETZ. I should explain it by the facts, first, that in those days there were few banks, very much fewer banks——

The CHAIRMAN. In New England than there are now?

Mr. MORAWETZ. Than there are in the country to-day.

The CHAIRMAN. There were just the same number of banks in the New England system as there are now of national banks, within three or four.

Mr. MORAWETZ. I mean that it was a small system to handle.

The CHAIRMAN. Do you not think that an economic law that would work there, or in Canada as it does to-day from the Atlantic to the Pacific, would apply to the whole United States if there were no more barriers in the United States than there were in New England or than there are in Canada to-day?

Mr. MORAWETZ. No, sir; I think not.

The CHAIRMAN. Will you explain why not?

Mr. MORAWETZ. I think a great deal depends on the business practices and customs of the people. In Scotland there are 11 banks, each having a great number of branches, and they have outstanding, I believe, never more than $40,000,000 to $45,000,000 of notes. In Canada they have 35 banks, or rather 34 banks; I think one failed not long ago. Those banks also have a great many branches throughout the country. The aggregate note issues of the Canadian banks rarely, if ever, exceed $75,000,000.

The CHAIRMAN. The Canadian bank issues vary all the way from $55,000,000 up to $87,000,000, and they have been up to $90,000,000. They vary from $60,000,000 up to $70,000,000, and I believe it went recently up to $90,000,000.

Mr. MORAWETZ. I did not understand the fluctuation to be so large. I thought it was only about 10 to 12 per cent.

The CHAIRMAN. It is $3.25 per capita; $18,000,000 on an average of $70,000,000. The banks have out about $90,000,000. Of course that has been constantly rising.

Mr. MORAWETZ. The last time I looked at it it was under $75,000,000.

The CHAIRMAN. They have in Canada a variation of $3.25 per capita, and there are about $6,000,000,000 in Canada, so there will be a variation of about $20,000,000. If we had the same variation in this country we would have over $300,000,000.

Mr. MORAWETZ. We have close to that.

The CHAIRMAN. We do not have any. We have the variation when we do not have the demand.

Mr. MORAWETZ. Yes; that is the trouble.

The CHAIRMAN. But you have taken two illustrations; now, follow it right up. For one hundred and forty years they did not have a deposit in Scotland at all; they did not know such a thing; they did not make a check. This thing worked just as well for that one hundred and forty years as it worked afterwards. Then they had eleven banks; and the Scotch people, like the English people, are distinctly a checking people. They have deposits of $500,000,000, and the note issues run from $35,000,000 to $43,000,000.

In Canada they have a note issue of $68,000,000 or $70,000,000; it is up now to about $90,000,000; the level is constantly rising on account of increased business.

In New England they had about 500 banks which had on an average $40,000,000 of deposits and $40,000,000 of notes, but in 1887 the deposits were $250,000,000 and the note issue ran up to $55,000,000. Now, there is a wide field of observation. Eleven banks in Scotland, where there were no note issues for one hundred and forty years, and 500 branches in Scotland; there are 34 banks in Canada, with 1,600 branches; in New England they have 500 banks, with no branches; and in every instance the principle working with the certainty of a musket groove. Now, why would it not work in the United States?

Mr. MORAWETZ. There are two reasons why I think that it would not work. One is that we have the precedent of all other great commercial nations in the world.

The CHAIRMAN. To prove what?

Mr. MORAWETZ. To prove that the system of a great number of independent banks issuing their notes does not work.

The CHAIRMAN. I challenge you to name a case anywhere in the history of the world where there has ever been a right of note issue requiring gold reserves and current redemption, where it failed.

Mr. MORAWETZ. There has never been a country in the world where this note issue by a large number of independent banks has ever worked successfully.

The CHAIRMAN. I give you the conditions, and I challenge you to name a country where they have required gold reserves and current gold redemption, where it has failed. I challenge you to name a single instance. You have got the history for two hundred years past to prove it, and I have given you cases where it did work; and I will take every bank in the United States, where it was a required rule of action, and I will name 20 of them; and I will take Louisiana, where they had a regular system for a large number of banks of gold redemption, where it worked successfully, and New England, where there were a large number of banks; and I challenge you to produce a case, whether of 1 bank or 500 banks, with gold coin reserve and current redemption, where it failed.

Mr. MORAWETZ. It failed in the United States of America.

The CHAIRMAN. Where?

Mr. MORAWETZ. To-day we have our national-bank notes. They are redeemable over the counters of the banks.

The CHAIRMAN. In what?

Mr. MORAWETZ. In gold.

The CHAIRMAN. In gold?

Mr. MORAWETZ. Lawful money.

The CHAIRMAN. And what is it?

Mr. MORAWETZ. You get gold whenever you want it.

The CHAIRMAN. But what system have you in Washington. A man is out his money a week going and a week coming, and the expenses besides. Do you call that redemption? You would not mention the United States as in any respect in line with the principles of the Suffolk system of New England or the bill reported by this committee, would you? If it were, we would not be reporting the bill we have just reported. That is our excuse for it.

Mr. MORAWETZ. My point is that there are four great commercial nations in the world, England, France, Germany, and the United States. In England, France, and Germany the individual banks have not the power of issuing their notes. They found that the only way was to have a central bank. In the United States we have given the individual banks the power to issue their notes, and we have found it does not work. Now, your point is that the reason why it does not work in the United States is that there is not adequate provision for the redemption of these notes; that it is not sufficient in a big country like ours to make the notes redeemable in Washington and at the banking houses of the various banks. Am I not right?

The CHAIRMAN. Partially. There are a whole lot of other collateral questions involved in the situation to-day.

Mr. MORAWETZ. Now, I say that the precedents of Scotland and Canada and the old Suffolk banking system are by no means sufficient to prove that this system would work satisfactorily in the United States without central supervision in some form; I mean the automatic system. I am satisfied from my observation that it would not work in the United States unless some central control, some such control as is provided in your bill, were provided in the United States, because we would have 25,000 different banks, every one of them putting out——

The CHAIRMAN. They should all work together and coordinate. I agree with you in that respect.

Mr. MORAWETZ. You will never have a sound system with 25,000 issuing banks unless you have some intelligent board of control to limit the note issues or to increase the reserves when required.

Mr. BURTON. What would you say of the division into 20 different independent districts? Would central control be possible under such a system as that?

Mr. MORAWETZ. That, it seems to me, is largely a matter of detail, if the principle be accepted. I do not know whether this precise system embodied in the bill of this committee is the best system. My impression has been that while you should have these subdivisions—and perhaps twenty is the best number—you should have a central board of control with absolute power of control over these various subdivisions, and I doubt very much whether it would work to let each one of the subdivisions act independently in authorizing the banks to issue in excess of the amount of their capital stock.

Mr. WALDO. Assuming that this is not the best system, and I am free to assume that, and I think every one of us is.

Mr. MORAWETZ. But the principle is right.

Mr. WALDO. The principle is right; you agree to that?

Mr. MORAWETZ. Yes.

Mr. WALDO. Would it work better than the present system, and be of benefit to the country? That is the only question for us.

Mr. MORAWETZ. You mean this identical bill?

Mr. WALDO. This identical bill; the Fowler bill.

Mr. MORAWETZ. It is certainly not necessary to pass that identical bill without crossing a t or dotting an i.

Mr. WALDO. Certainly not; but if we can not get anything better. I am ready to accept anything that looks to the betterment of the measure and adopting some such principle. Assuming that that is the best we can get out of it at the present time, would it be a benefit to the country?

Mr. MORAWETZ. You mean, assuming that you can not make the slightest change in this measure, would I vote for or against it?

Mr. WALDO. Yes; that is it.

Mr. MORAWETZ. Well, perhaps I would pass it in the House and then make the amendments in the Senate or in conference committee. I think that is the best course.

Mr. WALDO. Have you formulated in your mind any amendments that you think would improve it? If so, I would like to know them.

Mr. MORAWETZ. I repeat, I would pass it now and make the amendments later on.

Mr. GILLESPIE. I would like to make this suggestion, that if Mr. Morawetz has some amendments that he would like to see go into the Fowler bill he should embody those amendments in his statement and let them go in here.

Mr. MORAWETZ. I have not got any here; and, anyhow, before suggesting any amendments I should want to talk them over with Mr. Fowler and get him to approve of them.

Mr. PRINCE. You have gone over very carefully, before you came here and since you came here, the Aldrich bill. From your point of view and your knowledge, do you think it is a wise measure for this committee to report favorably?

Mr. MORAWETZ. I do not.

Mr. PRINCE. Do you believe it would work for the general good of the country if it was passed in the form in which it now is?

Mr. MORAWETZ. I think it would do a great deal of harm.

Mr. PRINCE. What suggestions have you, if any, to make to this committee as to its mode of procedure? Here stands the Fowler bill on the one side and here is the Aldrich bill on the other. You know the country and its conditions from your business relations. Have you any suggestions as to what we should or should not do?

Mr. MORAWETZ. I have.

Mr. PRINCE. Will you be kind enough to give the committee the benefit of your suggestions?

Mr. MORAWETZ. I have a very decided opinion as to what Congress should do. I say it very respectfully, that I do not think Congress—the House or the Senate—taking it as a whole, is prepared at the present time to deal with the currency question. It is an exceedingly difficult question, exceedingly complicated, needing a great deal of thoughtful study, and I do not think that at this end of the session the great majority of the Senators and Representatives are prepared to deal with the question intelligently. If they did pass a bill they would have to pass it largely relying on the judgment of eminent

experts like your chairman here, and not because they understood the question themselves. Furthermore, I do not think the people throughout the country are sufficiently educated upon this subject, and the people want to be heard on the subject. The people have their views, whether they understand the subject or not. Now, it seems to me under the circumstances the obvious course would be to appoint a commission to investigate thoroughly our system and the systems in use in other countries, and to make a report at the commencement of the next session of Congress furnishing all the information which will enable Congress to deal with the question conveniently at the beginning of the next session, and also furnishing the draft of a bill based on sound economic theories like the bill reported by this committee.

Mr. PRINCE. Do you believe if such a course should be pursued, and this matter should be postponed until the reconvening of the last session of this Congress, that the public good would be harmed thereby?

Mr. MORAWETZ. I do not.

Mr. PRINCE. Would more harm come to the public good by passing through the House and having enacted into law the Aldrich bill?

Mr. MORAWETZ. Yes, sir; I think much more harm would result, because I do not think that the Aldrich bill could possibly be of any material use or advantage. The most that could be claimed for the bill would be that it would tide us over a possible money stringency this autumn (which, however, is not going to happen, I think), and that it would be a comfort to some bankers to have it on the statute books. The danger is, that once you pass this bill you will never get it off the statute books, and you will postpone intelligent legislation indefinitely.

Mr. PRINCE. For the reasons that you have given in your discussion?

Mr. MORAWETZ. Yes. People will say, "Well, this thing is no longer urgent; they have passed this bill." And, furthermore, it is likely that the principle of this bill may be extended. After a great struggle they struck out the provision for the issuance of notes against deposit of railroad bonds. If the bill is passed in this form and the principle is sound, why not put back railroad bonds, and why not put in commercial paper; why not allow them to have real estate security, if you please, for their notes; why not increase the issue to a thousand millions? I think it would be very dangerous to pass this bill.

Mr. PRINCE. I have no further questions.

Mr. WALDO. Mr. Weeks, of Massachusetts, left three or four questions here that he said he would like to have asked. I would like to have it noted in the record that they are Mr. Weeks's questions and not mine.

Do you know any reason why bonds would prove a better basis for circulation than commercial paper, if the latter was hypothecated, as is done in issuing clearing-house certificates?

Mr. MORAWETZ. No. Good commercial paper is quite as good as any kind of security that could be furnished, only it would be impracticable, in my opinion—quite impracticable—to have a Government official pass on commercial paper; and the Government, if it received commercial paper as security for note issues, would have to do a banking business. It would have to collect the paper, it would have to notify the indorsers if the principal obligor on the paper

should make default, and it would have to provide all the facilities of a banking house.

Mr. GILLESPIE. But his question is, supposing you proceed with the commercial paper as the clearing-house associations do now, let it be accepted by each clearing-house association, and then issue notes based upon that security, the question is would not that be as good as notes based upon bonds?

Mr. MORAWETZ. I would say yes, if you have the adequate facilities for managing that class of business; but I do not think it would be practicable under the Aldrich bill to provide for the deposit of commercial paper as security in lieu of bonds.

Mr. BURTON. Mr. Weeks's plan does not contemplate that.

Mr. MORAWETZ. It does not?

Mr. GILLESPIE. No; it contemplates a clearing-house plan all over the country. The principal objection you find to the Aldrich bill would not apply to Mr. Weeks's plan, because the paper is presented to each clearing house.

Mr. MORAWETZ. Quite right. Then I agree.

Mr. WALDO. Mr. Weeks's second question is: Have you ever known any loss incurred on acount of any clearing-house certificates issued in this country?

Mr MORAWETZ. I have not.

Mr. WALDO. His next question is: Would it not be more desirable to have such circulation in case of an emergency than the emergency currency, such as is proposed in the Aldrich bill?

Mr. MORAWETZ. Most decidedly. It is fair to say, however, that the clearing-house certificates would not furnish a currency such as is provided for by the Aldrich bill. Clearing-house certificates are not used as currency to circulate among the people generally, but these certificates are merely used to make settlements among the banks. Really they represent bank loans—loans by one bank to another bank.

Mr. WALDO. Mr. Weeks's last question is: What objection can you see to an emergency currency in the way above suggested? I think you have partially, if not wholly, answered that.

Mr. MORAWETZ. The plan of using clearing-houses or clearing-house associations for the purpose of iss ....g emergency circulation, I think, is impracticable, for the reason that these clearing-houses are merely voluntary associations of the banks and have no definite legal status; and before authorizing the issue of bank notes to circulate as money you would have to incorporate these associations or put them upon some definite legal basis and make such provisions as would be necessary in order to fix definitely and clearly the rights of the holders of the notes. That is the only difficulty.

Mr. WALDO. You do not mean by that to indorse that kind of emergency currency in any way, I suppose?

Mr. MORAWETZ. No.

The CHAIRMAN. Just one question. Is it your opinion—or rather, to make it colorless, what is your view as to the necessity of having any legislation to meet any emergency this fall?

Mr. MORAWETZ. My judgment is that we shall have an easier time this fall than we have had for many years past. That is, money will be easier, and we will have no troubles this autumn; and we have never needed legislation as little as just this year. I think we will

get over this year all right, but we ought to have legislation at the next session of Congress, anyhow.

Mr. WALDO. In other words, if we do not have legislation now, immediately after this late trouble, we are not likely to have it until we find the next trouble?

Mr. MORAWETZ. No; I do not think that applies.

Mr. WALDO. Is not that your view?

Mr. MORAWETZ. No, sir; what I meant to express is that I do not think we are likely to have a money panic or stringency this autumn, and therefore it is not necessary that we should do anything in a hurry. But I do think that the matter should not be allowed to slide. I think it would be wrong; I think it would be wicked. If Congress does nothing at this session, does not appoint a commission, I think the people of the United States would be somewhat disappointed with Congress.

Mr. WALDO. The other point is this: We have now been running under the present system something over forty years, and so far as I can ascertain, most of the real scientists upon the financial question, those who are real students, have considered it to be a bad system during all those years.

Mr. MORAWETZ. Yes; and we have had many panics.

Mr. WALDO. Owing, now, to the great trouble with the panic we had last year, the country is demanding that something should be done. Unless something is done pretty soon, will not that demand go to sleep again?

Mr. MORAWETZ. I do not think so, if the subject is kept before the country by a commission, for example, and by the efforts of Mr. Fowler and others. We know that it took two or three years after a panic to get the gold standard established. I think that the discussion which has taken place within the last six months has done a great deal of good. I think the people have learned a great deal. We are further advanced than we were six months ago.

The CHAIRMAN. Are there any other questions?

Mr. PRINCE. I move that the committee extend a vote of thanks to Mr. Morawetz for his very clear and very convincing expression of his views.

(The motion was unanimously carried.)

(At 4 o'clock p. m. the committee adjourned.)

HEARING ON S. 3023.

STATEMENT OF MR. HORACE WHITE.

Mr. PRINCE. You now reside in New York, Mr. White?

Mr. WHITE. Yes, sir; in New York City. I am a retired ex-editor of the New York Evening Post, and earlier than that of the Chicago Tribune.

Mr. PRINCE. Are you the author of any works on the money question?

Mr. WHITE. Yes; I am the author of a work called "Money and Banking," published by Ginn & Co., and they have just sent me word that there is a great demand for the work and they want a new edition.

When proposals were made for currency reform some twenty years ago, one of the reasons advanced for it was that with the extinction of the national debt the bond security of the notes would be withdrawn and that the existing system would necesasrily come to an end.

At that time nobody had conceived the idea of extending a public debt already matured if the Government had the money with which to pay it and stop the interest. Nobody would have dared to propose it, for at that time the national finances were the leading issue in politics and the Democrats were keen to take advantage of every blunder committed by their adversaries. But new political issues arose. The Spanish war came, and following it we had Cuba, the Philippines, Porto Rico, and still later Panama and other things to engross our attention. The public mind was no longer centered on finance. So the men in authority, who ought to have foreseen the coming crisis and made plans for bank circulation on some other basis, extended a large part of the maturing public debt for thirty years, although they had the money in hand or in sight to pay it off and stop the interest.

In preparation for this step Congress passed an act March 14, 1900, authorizing the Secretary of the Treasury to refund the outstanding debt maturing in 1904, 1907, and 1908 into new bonds to run thirty years, bearing interest at 2 per cent per annum. From time immemorial prior to the passage of this act it had been the policy of the Government to pay its interest-bearing debts as soon as possible, in order to avoid unnecessary burdens upon the taxpayers. To this end bonds redeemable at pleasure of the Government after some short period were generally preferred. Thus the 5-20 bonds issued during the war were made redeemable at any time after five years but payable at the end of twenty years. Under this system the Treasury could use its surplus revenues to pay off bonds at par instead of buying them in the market at a premium, and the money

would be restored to the channels of business as promptly as though it were deposited in banks. But in the former case the Government would save the interest, and in the latter the banks would reap the benefit.

How this change of policy was carried into effect was shown in the Treasury report for 1904, in the following tabular statement:

	2 percents.	4 percents.	5 percents.	Total.
Amount refunded into 2 per cent consols of 1930	$119,200,000	$351,578,000	$72,671,300	$542,909,960
Interest saved on old bonds to maturity	27,283,692	89,844,710	13,050,355	130,183,727
Interest to be paid on new bonds to maturity of old bonds	18,189,108	44,926,355	5,220,142	68,335,605
Premium paid for old bonds	6,239,833	36,432,220	6,978,573	49,641,056
Premium received for new bonds	407,000	1,313,778		1,720,351
Net profit	3,362,327	10,025,883	967,641	14,245,851

In this way the time-honored policy of the Government was reversed, and nearly $550,000,000 of the public debt was put beyond the chance of extinction for nearly a quarter of a century, except by purchase in the open market. For the privilege of making this swap the Government paid a bonus of nearly $50,000,000 on the old bonds, of which it recovered less than two millions as premium on the new ones.

The foregoing tabular statement purports to show a net profit on the refunding operation by ignoring the interest (amounting to $257,837,642) on the new bonds after the maturity of the old ones. After deducting the apparent profit shown above ($14,245,851) the loss on the whole transaction is something tremendous, but we can not reduce it to exact figures, because we do not know how much of the extended debt we might have paid off if it had not been thus extended. We do know that a surplus of $210,000,000 was on hand at the beginning of this panic, and that the interest on that amount might have been extinguished some time earlier. We know also that the premium on the maturing bonds would have extinguished itself. In 1881, when Secretary Windom was confronted with maturing debts that had been running at 5 and 6 per cent, and for which Congress had made no provision, he issued a circular to the bondholders offering to pay them or to continue their bonds at 3½ per cent during the pleasure of the Government by simply putting a stamp on them to that effect; and the latter alternative was generally accepted by the bondholders. In this way he and his successors in office were enabled to pay and cancel the debt whenever they had surplus funds and to get rid of their surplus in a rational manner.

The 4 per cent bonds of 1907 were not all included in the list embraced in the Treasury report quoted above. A portion were left to run to maturity (July 1, 1907) so that they might be paid if the Government should then have the money in hand. The Government did have the money, but instead of applying it to that purpose $50,000,000 of bonds were extended for twenty-three years at 2 per cent interest, and the money which might have been employed in debt paying was deposited in banks. The interest which the Government is thus obligated to pay, and which it might have wholly saved in this instance, was $23,000,000, literally cast away by a stroke of the pen.

The excuse for this odd kind of financiering was that if the Government's interest-bearing debt were paid there would be a shortage of bonds to be held as security for national-bank notes. If that is a good reason for keeping $240,000,000 of bonds alive when the Government has the money in hand to pay them off, then the same reasoning would justify the selling of new bonds when there is no use for the money which they bring in except to deposit it back in the banks. And that is exactly what the Secretary of the Treasury did last November, but not to so great an extent as he had at first intended. Bank notes originating in this way might properly be called foolscap currency. Leaving out of account the money paid for the bonds and redeposited in the banks (as equal quantities on the opposite sides of an equation cancel each other) it is a case where Uncle Sam gives to Mr. B. his note bearing semiannual interest and payable at the end of thirty years and not before, and takes in exchange for it B.'s note payable without interest at no particular time. What happens at the end of the thirty years? Simply extend the transaction for another thirty years, unless Uncle Sam has recovered his senses meanwhile. But even this device of extending a debt and continuing needlessly to pay interest on it will not suffice much longer, since population and trade are growing more rapidly than our ingenious financiers can add to the public debt. Hence the proposal to use other bonds than those of the Government as security for national-bank notes.

Our system of requiring such security has been in use so long that most people think there is no other way to make bank notes safe. The fact that the greater part of the world, including our neighbors in Canada, are employing a different method successfully is not generally understood. The truth is, however, that the requirement of a deposit of bonds as a prerequisite for the issue of bank notes is the fundamental defect which makes our system rigid, inelastic, and nonadjustable to the varying demands of commerce.

The object and aim of bank-note circulation is to substitute credit in place of metallic money for a portion of the exchanges which take place in a given country. Thus there is a saving in the purchase of metal and a further saving in carrying and handling it. The bank note is a product of evolution. It came into the world by successive steps, slowly and almost imperceptibly. It is a labor-saving implement of immense value to mankind. Many improvements have been introduced since its first advent, and it is still open to betterment. Whether the bond-deposit plan was an improvement upon the preexisting system may well be doubted. Other changes came in simultaneously with the bond deposit. The establishment of uniformity in place of heterogeneity—of one national-banking system in place of numerous State systems, of one governmental control in place of many—was the greatest boon of all. The bond-deposit system, since it set at rest all doubts as to the goodness of notes in circulation, received credit for all the benefits derived from the total change.

The prime defect of the present system is the requirement that the bank shall purchase its circulating notes by depositing an equal or greater value in the Treasury beforehand. In this way the element of credit is expunged, and the only benefit remaining is the greater convenience in carrying and handling paper instead of metal. After the notes are bought a loss can be avoided by the

banker only by keeping them in circulation. He gets only 1¼ per cent interest on his deposited bonds after paying the circulation tax. He could easily get 6 per cent from an equal amount of capital invested in other ways. Therefore his success depends upon lending his notes and keeping them in circulation. The moment they come back to him they begin to burn his pocket; the profit not merely stops, but it turns into a loss. The Canadian banker loses nothing by locking up his circulating notes after the demand slackens, since they did not cost him anything in the first instance.

For the foregoing reasons our banker will not take out more notes than he thinks he can keep in circulation all or nearly all the time. He will not provide himself with a surplus for harvest time or other emergencies. Such a currency can not be elastic. It will be just as rigid and inelastic when based upon State and municipal bonds as it is now.

I will now glance at the details of Senate bill No. 3023.

This measure is obnoxious to all the objections which lie against the existing system of bank-note issue: and all the changes which it makes in the existing system are for the worse. In place of United States bonds as security for notes, it allows any bonds or interest-bearing obligations of any State of the United States to be so received. No exception is made of the repudiated bonds of Mississippi, but, of course, no Secretary of the Treasury would accept those. I allude to them because what has happened three or four times within the recollection of men still living may happen again. State repudiation may take place without any conscious dishonesty on the part of the people concerned, but merely through their ignorance. A majority of the people of Minnesota were never able to see that they had been guilty of any moral delinquency when they refused to pay either principal or interest on their State debt. Their own supreme court lifted them out of the gutter of repudiation without their concurrence and in large part without their knowledge.

The bonds of any city, town, or county may be accepted in place of United States bonds if the said city, town, or county has not defaulted in the interest of its debt during the preceding ten years. If its existing debt is only one year old—that is, if the municipality is as much as ten years old, but never had an interest-bearing debt until one year ago—its bonds will be admissible. I suppose that we may rely upon the eagle eye of the Secretary of the Treasury to intercept this class of securities and to bring them within the spirit as well as the letter of the law; but it is well to remember that we are liable to have all kinds of Secretaries as well as all kinds of bonds, the variety of which is increased by the addition of those of Porto Rico, the Philippines, and the city of Manila. What would happen if these interesting colonial communities should be slow pay, like some of our own people, I will not inquire. But it is important to know where a market is to be found for any of these municipal securities in a crisis, and where the quotations of them are to be looked for. The bill says that the Secretary must find out.

Section 8 of the bill lessens by one-third the amount of cash now required to be kept by banks in the reserve cities; the other third may be kept in these State, municipal, and colonial bonds. This proviso dangerously weakens the whole banking system, and it implies that town and county bonds are quick assets. In fact, there is nothing

less marketable in a panic or of more uncertain value. To allow any kind of securities to be used as bank reserves is a contradiction of terms. The word "reserves" in banking parlance always means cash reserves.

The bill provides for two kinds of currency; one secured by United States bonds, the other by State, municipal, and colonial bonds. The latter is termed in popular phrase "emergency currency," and is to be subject to a tax at the rate of 6 per cent per annum for the first four months and at the rate of 9 per cent thereafter as long as they remain outstanding, but the tax may be stopped by the issuing bank depositing lawful money or national-bank notes in the Treasury. I see no advantage in opening a door for emergency circulation with one hand and shutting it with the other. The tax is intended to discourage the very thing that law provides for. Why? To prevent inflation, it is said. Who is to decide when an emergency exists and when inflation exists?

An emergency exists when there is a demand on the banks for more currency to circulate from hand to hand than was previously outstanding. Inflation exists when the currency outstanding returns to the banks for redemption. There is no other criterion. There is no need of a tax to bring bank notes home when the legitimate demand for them has ceased. Like the lambs in the nursery rhyme: "Let them alone, and they will come home, bringing their tails behind them."

Why, then, do the bankers themselves advocate this tax? Why do we find it in the bill of the National Bankers' Association? My belief is that they put it into their bill because it is a part of the German system. Why did the Germans put it into their system? They may have been influenced by the fact that the English Government once or twice, when suspending the bank act and authorizing an increase of note issues over and above the amount of gold in the bank's vaults, provided that a tax should be paid on the excess. Probably both England and Germany had an eye to the tax as a source of revenue, but I have never heard this advanced as a reason why we should impose a tax on the necessities of borrowers in an emergency. It is certain that the banks will not issue emergency circulation unless they can collect the tax and something more from their customers. We do not need revenue from that source, and I can hardly think of anything less likely to be welcomed in a panic than a tax of 6 or 9 per cent added to the prevailing rate of interest. Borrowers may be willing to pay it rather than fail, but such a tax will never be popular.

Another distinction between the ordinary notes and the proposed emergency notes is that only $9,000,000 of the former can be retired in any month, whereas the latter can be retired without limit. Another difference is that the money sent in for retiring the existing notes is turned into the Treasury like ordinary receipts and may be redeposited in the banks immediately, whereas the money deposited for retiring emergency notes must be locked up and kept as a special fund. All these differences lead to confusion in the public mind, and if they are accompanied by differences in the phraseology of the notes themselves may cause the public to prefer the old ones to the new ones. If the Government itself proclaims a difference be-

tween the two kinds of notes, then most likely the people will make a difference.

The last section of the bill prohibits any bank from lending money to any corporation any of whose officers or directors are officers or directors of the bank. Such a law, if it could be enforced, would cripple both the national banks and the national industry to an enormous extent. It is wholly irrational. The restrictions on bad loans in the existing law are sufficient if properly enforced. If they can not be enforced, it is idle to talk about enforcing the one proposed in section 11 of the bill.

Now, it is worth while inquiring, Why did we have a panic last fall and a general bank suspension lasting two months, accompanied by great suffering and loss among employers and employed, when no other country was thus afflicted and when even our neighbors in Canada went unscathed? It was not because they had an asset currency while we had a bond-secured currency. It was because they had a credit system which prevented the banks from depleting each others' reserves and prevented the public from depleting the reserves of all of them. In other words, they had a system in which confidence had been built up by experience, so that nobody was under an impluse to draw his money out of the bank, but was rather inclined to put all his spare funds into the bank for safe-keeping. The bankers themselves knew that they were safe and sound because their customers would not molest them unnecessarily. They were thus enabled to put their cash reserves in the places where a real need for them existed. They could meet the danger where the danger lay. But with us the danger was everywhere. It was each man for himself and devil take the hindmost. And I tell you we shall never be free from these disastrous and disgraceful bank suspensions until we get a system which stifles sudden and uncontrollable fear. You may have trade reaction without a panic. They have such a reaction in Canada now. They are laboring under a trade reaction in England and Germany and, in a less degree, in France, but all those countries have escaped the worst consequences of the reaction; that is, panic and bank suspension.

Now, gentlemen, I am in favor of an asset currency, because it is an elastic currency. I have been writing books and newspaper articles and public lectures on that subject more or less for seventeen years, and I do not think it needful to repeat the general argument for such a currency here and now. But I will say this:

The medicinal virtue of an elastic currency, whether it be much or little, works before panic comes. If there happens to be a money stringency at the harvest season, as was the case a few months ago, it enables the banks to substitute their own credit instruments for moving the crops instead of depleting their cash and thereby intensifying the stringency. Thus a fright among depositors may be averted by a withdrawal of the pressure on the bank reserves, as a boiler explosion may be prevented by the use of a safety valve. But it would be a mistake to suppose that freedom of note issue, such as exists in Canada, will prevent overspeculation, which is the primary breeder of commercial crises. Panics have a psychological origin. They can not be altogether abolished by mechanical means. The Dutch speculation in tulip bulbs in 1634–1638 would not have been prevented by an asset currency.

In conclusion I will say that whatever we may do now we shall have to adopt some plan for binding together the strength of the banks, if we are ever to shield ourselves from the frightful consequences of general bank suspension.

That is all I care to say, and I would be glad to answer any questions, if I can.

Mr. BURTON. What do you say, Mr. White, as to the increase of reserves due to the issuance of bank notes on assets, or any other cause, and its possible tendency to promote larger credits and inflation?

Mr. WHITE. I do not think there is anything in it. I have talked that over with Mr. Morawetz several times, and he and I do not agree.

Mr. BURTON. It would be a natural effect that the bank reserves might be built up, and would be built up, by the issuance of bank notes?

Mr. WHITE. No; I do not think so.

Mr. BURTON. Then you do not fear any injurious result from a liberal issuance of bank notes?

Mr. WHITE. No; I do not.

Mr. BURTON. Yes.

Mr. WHITE. They have got to be treated like deposits.

Mr. BURTON. Provided there is a demand for them?

Mr. WHITE. If there is a reserve kept against deposits, an equal reserve would be sufficient to protect them.

Mr. BURTON. Is not one of the defects of our system that it is so difficult to contract the currency? Has not that been one of the greatest difficulties for years past with it, to retire redundant currency?

Mr. WHITE. No; I do not think that is so.

Mr. BURTON. Under our present system?

Mr. WHITE. Under any system. A banker can not put his notes out. That is all nonsense. He can not do it. He can grant a credit to the depositor, and then the depositor can draw out the notes, if the banker has them and the depositor wants them; but when the notes are no longer wanted they will come back.

Mr. BURTON. You do believe in that idea of a redundant currency?

Mr. WHITE. No; I do not. That is all in the imagination, I think.

Mr. BURTON. It is true, though, is it not, that stock speculation increases whenever——

Mr. WHITE. Yes; but that does not increase on account of the increase of the currency. The currency circulates from hand to hand.

Mr. BURTON. You do not trace that to the currency?

Mr. WHITE. That is an inflation of deposit liabilities.

The CHAIRMAN. I did not get that question and answer.

Mr. BURTON. The idea was whether the speculation in stocks arose from redundancy of money or a large amount of bank credits.

Mr. WHITE. You said redundancy of currency. I said I did not think that speculation in stocks proceeds from that, but from an inflation of deposit liabilities; because if the currency is redundant it will come back for redemption. You can not prevent it.

The CHAIRMAN. Supposing they use the currency for reserves, as they are using these notes in the State banks and trust companies; that gives you the basis for your deposit inflation?

Mr. WHITE. That is an illegal act.

The CHAIRMAN. But in the State banks and trust companies it is not. The State of New York provides by the act that they passed this year—it was in the act that they showed me when I was in Albany—that they are authorized specifically to use bank notes for reserves, and that is the fact all over the country, that they are using them very largely for their reserves.

Mr. WHITE. That is bad banking, I should say.

The CHAIRMAN. Yes; but that would give you the basis for inflation, because it would be credit on credit, would it not?

Mr. WHITE. Now, I do not know whether it would or not. That is, you mean to say that the banks are granting credits to stock speculators?

The CHAIRMAN. Or to any customers using bank notes as reserves.

Mr. WHITE. Because they have bank notes as reserves?

The CHAIRMAN. Yes.

Mr. WHITE. These State banks did not get their bank notes which they use as reserves for nothing. They had to pay for them, dollar for dollar, did they not?

The CHAIRMAN. Yes.

Mr. WHITE. They could have gotten gold just as cheaply?

The CHAIRMAN. Yes; and they might put real estate, that cost them just as much, in the reserves—land.

Mr. WHITE. No; that is not any kind of money.

The CHAIRMAN. That is true, but the other is not any kind of redemption money. It is credit.

Mr. WHITE. Yes; I know.

Mr. WALDO. In the country banks there are on deposit as legal reserves in the neighborhood of a billion dollars of legal reserves.

Now, there is added to that, as near as I can ascertain, about $500,000,000 that become legal reserves also under the State laws, so that instead of having a legal reserve of only $1,000,000,000 against which they can issue four times the amount, or in the State banks ten times—our State banks only keep 10 per cent reserve—they have this 500 millions which in the State bank reserves is the basis for loans of $5,000,000,000 which they could not make if they could not obtain the reserves elsewhere.

Mr. WHITE. I said to Mr. Fowler that these bank notes cost the State banks dollar for dollar, and they could have taken gold for that purpose if they did not have those notes, or they could have taken greenbacks could they have gotten them any cheaper.

Mr. WALDO. I do not think they would have had to give reserve money for it, because they could not get it. In other words, as our currency is now arranged we have got about a billion dollars of gold reserve money in the banks. Now, if we add to that 500 millions of national-bank notes, does not that increase the amount of reserve money just by that amount, upon which loans can be based?

Mr. WHITE. That it increases that amount there is no doubt. There is no doubt of that. But what the ultimate effect would be I do not know that I am prepared to say. I should not jump at the conclusion that it meant inflation.

The CHAIRMAN. You do not approve of bank notes as reserves?

Mr. WHITE. Oh, not at all.

Mr. WALDO. Of course I can see, if the $500,000,000 that was paid by the banks originally to get those national-bank notes remained in the United States Treasury instead of being paid out for debt, or anything else, then of course your position would be correct, because that 500 million would not be in circulation as the basis for loans; but if the 500 million which is paid into the National Treasury is paid out again to meet all kinds of debts and liabilities, it does not mean that the actual amount of legal reserves remains still or is increased that amount, 500 millions. So it seems to me that when you get 500 millions of notes out, you have increased or inflated your currency.

Mr. WHITE. My opinion is and always has been that inflation is a general state of the public mind, the opinion that things are going to be higher and are going to sell for more to-morrow than they do to-day.

Mr. WALDO. That is an inflation of credit, is it not?

Mr. WHITE. No; it is an inflation of prices, and by and by the prices get up so high that something has got to break. Every debt that is liquidated has to be liquidated with gold dollars, and by and by they get up so high that they can not be liquidated that way, and then a crisis comes.

Mr. GILLESPIE. Suppose a State bank has gold in its reserves, say 5 millions. The national bank over here has $5,000,000 of national-bank notes. Now, the bank notes are not the basis of deposit liability, and are not reserve money, so that its reserve is held down. Now, suppose it takes the 5 millions over and exchanges it for 5 millions of reserve, and then the State bank brings that gold over here to the national bank; then, does not the ability of the national bank increase to inflate and extend its deposit liability?

Mr. WHITE. I should say that the legal ability did. But supposing there was no law in regard to legal reserves in this country any more than there is in England or in Canada. Take a case of that kind, and you can answer the question as well yourself as I can.

Mr. GILLESPIE. I understand that the law makes the difference, but as a matter of fact, with the law, the national-bank note, through the agency of the State banks, is used to increase the deposit liability of the national banks?

Mr. WHITE. Let us see how that would work out. If there was no requirement of any legal reserve, it would simply mean that bank A would give its notes to bank B for $500,000 and then take the gold back. Now, bank A owes bank B that $500,000. Does that inflate the currency?

The CHAIRMAN. No; but bank B then makes loans to the extent of four or six times the amount of the bank notes, and if they did not use the bank notes at all for reserves the loans would be that much less. Four times 500 millions is 2 billions, and six times 500 millions is 3 billions. Therefore, by using bank notes to the extent of 500 millions for the reserves in State banks you have increased the credit throughout the country $3,000,000,000.

Mr. WHITE. Then you mean this kind of a swap would promote bad banking?

The CHAIRMAN. Certainly; it would be inflation, building one credit on another; and, as you say, using bank notes for reserve is bad banking.

Mr. WHITE. Do you think this bank with the additional supply of reserves could always find good commercial paper in which to invest the money?

Mr. WALDO. That would be, practically, the great trouble.

Mr. BURTON. As I understand, Mr. Morawetz's point is this, that there is always a certain amount of money required for circulation which does not greatly vary, perhaps 200 or 250 millions. If you add the bank notes, $500,000,000, that supplies a part of that demand for a circulating medium among the people, and you get that $500,000,000 back into the banks in the form of lawful money which can be used for reserves, and you thereby broaden their base for credit. The result of that would be one of two things, either that gold would go abroad or that money would be lent in very much larger quantities at lower rates of interest, and that speculation would be thereby very much promoted. That is the idea, is it not?

Mr. MORAWETZ. Yes, sir; of course if there is the speculative spirit.

Mr. WHITE. As I said to Mr. Morawetz when we were talking together, together privately, the gold would not go abroad unless somebody bought and paid for it and gave value for it, and that would not damage us. We would not sell it unless we wanted something else besides that more than we wanted the gold. So I do not see any harm to come from sending gold abroad.

Mr. BURTON. Would it differ, however, from the ordinary rule with regard to the exclusion of a better form of money by a poorer one, the ordinary rule being that the better class of money goes abroad if there is a supply of a poorer money that is sufficient.

Mr. WHITE. Then you think there is a liability that our banks would part with their supply of gold on disastrous terms? You think they would not understand their business and would let their gold go when they ought to keep it?

Mr. BURTON. The query is, not expressing any opinion of my own, whether it would not under general rules go abroad and seek the place where it could be profitably employed; whether, in view of there being a sufficient medium of circulation in the form of paper currency, the gold would not go out of the country? That, of course, is the argument.

Mr. WHITE. I do not think it would go, to any dangerous extent, because I think the bankers would prevent it.

The CHAIRMAN. Supposing that you are a national banker in a town, and I am a State banker, and we agree that I shall take your circulation upon which you can make 1½ per cent and put it into my reserves and hold it. If I did not have your bank notes I must necessarily have gold.

Mr. WHITE. Yes; you mean you are going to borrow or buy these notes?

The CHAIRMAN. I can get the gold just as cheap as I can get your notes, except that there is no profit on the gold and there is a profit on the notes.

Mr. WHITE. I do not understand that.

The CHAIRMAN. If you get 1½ per cent profit on your note circulation, that would be just that much above what you would get on gold.

Mr. WHITE. Yes; I understand that.

The CHAIRMAN. If you came to me, and I had a State bank, and you said, "Mr. Fowler, if you will hold my notes I will divide this 1¼ per cent with you and I will take three-fourths of 1 per cent and you will take three-fourths, if you will hold the notes in your reserves," the result of that would be that instead of my buying gold and making nothing on it I would take your bank notes and make my three-fourths of 1 per cent; and that is being carried on to-day throughout the United States. Now, if it should turn out that half of all the reserves of the United States were bank notes, held by the State banks because it was profitable for them to hold them, they participating in the gross profit with the national banks, the result would be that half of all the required reserve in gold would be driven out of the country, it having been supplanted by bank credit upon which there was a profit of 1¼ per cent. Is not that true?

Mr. WHITE. I do not think so. You say "driven out of the country." I do not understand this driving gold out of the country. I do not understand it.

The CHAIRMAN. Well, I will stop short of driving it out. I will say driving it out of the reserves, and therefore it would be bought for other markets, would it not?

Mr. WHITE. Yes.

The CHAIRMAN. From 1793 to 1834 there was a differential of one-half to 1 per cent on silver, which drove all of the gold out of the country, and there was a recoinage of the silver. That driving out of gold would have the same effect on the reserves of any country that the differential had on silver.

Mr. WHITE. I do not see any parallel. I would want to study that. If you have that reduced to writing anywhere, I would be glad to study it and send you an answer; but my opinion, offhand, does not agree with yours.

Mr. PRINCE. Do you think it would be for the public good to enact into law the Aldrich bill?

Mr. WHITE. I do not. I think that the Aldrich bill is an attempt to perpetuate a bad system by adding to it a worse one.

Mr. PRINCE. Have you any suggestions as to what you think would be the wise course for this committee to pursue on the question of currency which is now uppermost in the minds of the people?

Mr. WHITE. I think that—taking the financial and political outlook together, which we have to consider—the best thing you can do is to propose a currency commission and have it thrashed out in the presence of the public by six Members of the House, six Senators, and six representative men, who preferably would be bankers and experts in whom the country has confidence. I think that is the wisest thing for you to do.

Mr. BURTON. You do not anticipate a serious money stringency next autumn?

Mr. WHITE. No; these panics do not come oftener than once in ten or twenty years. I think we will be free from that kind of trouble for a long time to come.

Mr. WALDO. Do you think that the Fowler bill in its present form would be a scheme for credit currency that would be an improvement on the present system?

Mr. WHITE. Yes, I do.

Mr. WALDO. Do you believe that the system of supervision by districts and boards of managers is sufficient to properly control the business of the banks and coordinate them, so that they will work more in harmony than at present?

Mr. WHITE. Yes, I do.

Mr. WALDO. If you were a Member of Congress would you vote for the Fowler bill in its present form to become a law at the present time?

Mr. WHITE. I should like to amend it in one or two particulars, but I think that it would work pretty well. I wrote to Mr. Fowler some time ago when the bill was first introduced that there were some things in it that I could not understand, and I said also that I could not predict, that I could not undertake to say, how it would work, and I thought it ought to be referred to a committee of about five of the best bankers in the country. That is about my opinion still; and yet by studying it a little more carefully I have reached a more favorable view of it. But I do think now that it ought to be examined by a committee of bankers, like Mr. Gage and Mr. Forgan and Mr. Hepburn, and men of that stamp, who could tell us authoritatively how it would work. I should be better satisfied with it in that case. Yet I agree with it on its general lines.

Mr. WALDO. What are your views in regard to the provision for the insurance of deposits—a guaranty fund?

Mr. WHITE. I was against that at first, but I have gradually come to the conclusion that it would be safe and wise to let the banks themselves do it. Now, I am not in favor of the Government guaranteeing deposits.

Mr. BURTON. Would you favor making it compulsory with all the banks, or merely allowing them to go in by voluntary association?

Mr. WHITE. The banks have to contribute a certain fund, which, it is presumed, will be sufficient to pay the deposits, and then they have the right to examine each other, and they are compelled for their protection to examine each other; and if a bank fails and its own assets are not sufficient to pay the depositors, the other banks may be taxed a certain amount; is not that the way it works?

The CHAIRMAN. No; it comes out of the 2 per cent on the notes, which is a fixed charge anyway.

Mr. WHITE. Does the bill provide that the banks shall guarantee each other's deposits in any event?

The CHAIRMAN. In all events: it is a coinsurance.

Mr. WHITE. That is open to the objection that the bad banker gets some advantage from it. He shares in the benefits of all the good banking in the community. Perhaps he ought not to. And yet the evils resulting from bank failures are so great that I would be, on the whole, inclined to favor your provision of coinsurance.

Mr. WALDO. Do you believe that any such system of coinsurance would lead to bad banking or to bad management of banks or to carelessness in the making of loans?

Mr. WHITE. I do not think it would lead to any more bad banking than we have now.

Mr. WALDO. Do you think it would give the bad banker any undue advantage over the good banker? That is the main objection that I have heard to it.

Mr. WHITE. No; I do not think it would give him an advantage over the good banker, but he would not be liable to all the disadvantages that he is now liable to.

Mr. WALDO. Yes; there is something in that.

The CHAIRMAN. Would not the provision prevent him from doing a great many things that he does now?

Mr. WHITE. Yes; I think it would.

The CHAIRMAN. Would it not prevent any bank getting into the position into which a bank gets to-day that brings disgrace upon the profession of banking?

Mr. WHITE. Yes; probably. I have been very much surprised to find how little the best men in the community in New York know about the character of the banks in which they deposit their money. Now, look at the Knickerbocker Trust Company, rotten all the way through; and yet it had the very cream of the deposits of the most intelligent classes of New York City.

The CHAIRMAN. Simply because of the inducements offered.

Mr. WHITE. Well, not only the inducements offered, but the character and reputation of the men who controlled it. The public did not know that Mr. Barney was the kind of man he turned out to be. They had a most respectable board of directors there. Some of my closest friends were depositors there. William Dean Howells, the novelist, was a depositor, and Mark Twain was a depositor there.

Mr. GILLESPIE. And Mr. Cleveland.

Mr. MORAWETZ. And it held the funds of many charitable institutions.

Mr. WHITE. Yes.

Mr. WALDO. And is it not true that the business of that institution was largely correct until Mr. Morse got his large string of institutions which he desired to float?

Mr. WHITE. Yes; I think he had a good deal to do with it.

Mr. WALDO. That is my understanding of it; and largely the directorate of that trust company was of the best men in New York City, and they lost very largely through it. Is not that correct? That is my understanding of it.

Mr. WHITE. Yes. The point is, you can not always tell who your bad bankers are until some explosion takes place.

The CHAIRMAN. It is practically conceded, I believe, that it was due to their paying to almost anybody, on accounts, 4 per cent interest.

Mr. WHITE. I did not know that.

The CHAIRMAN. They were getting this enormous sum of money, and they were paying 3 per cent, on almost any kind of an account, and even 4 per cent.

Mr. WALDO. I think that was only on the large accounts of institutions which had large and practically permanent deposits. Is it not your understanding, Mr. White, that the real trouble with the Knickerbocker Trust Company, and all the large trust companies of New York generally, was that they were doing a commercial business without any proper reserves?

Mr. WHITE. Yes.

Mr. WALDO. That was the real trouble.

The CHAIRMAN. Then it is your opinion that the banking interests of the United States should be unified in some way, is it not?

Mr. WHITE. I think they should, yes; if possible.

Mr. WALDO. Gentlemen, I move you that we tender a vote of thanks to Mr. White for his very able and interesting address.

(The motion was seconded and was unanimously carried.)

Mr. WHITE. Thank you, gentlemen. I feel very much honored by the call here.

Mr. WALDO. We are certainly very much obliged to you and to Mr. Morawetz.

(At 4 o'clock p. m. the committee adjourned.)

Monday, April 13, 1908.

The committee met at 10.30 o'clock a. m., Hon. Charles N. Fowler (chairman) presiding.

STATEMENT OF MR. CHARLES C. GLOVER, PRESIDENT OF RIGGS NATIONAL BANK, OF WASHINGTON, D. C.

Mr. GLOVER. Mr. Chairman, I am heartily in favor of an emergency currency bill, for the reason that I do not believe it is possible at this session of Congress to pass any other currency bill. In view of what we went through last October and November, and earlier in the year, in March, I think that it is absolutely essential that we should have some barrier between the people and banking interests of this country and a repetition in the coming October or November of precisely a similar situation—another panic. The Aldrich bill is not a currency reform measure. It does not interfere with any other form of measure to be considered, and it simply does for us what the Secretary of the Treasury tried so earnestly to do in October and November of last year. We found a situation that was embarrassing to all the banks in the United States, the almost entire disappearance of currency and no means of supplying it. The Aldrich bill or a bill of a similar character will simply give us an absolutely secure currency by the deposit of securities, a currency guaranteed by the Government of the United States, guaranteed by the national banking interests, and a form of currency that can not possibly be objected to, and one that simply costs the bankers of this country a small interest. It is intended only to meet great panics; it would only be issued for a very limited time. Six per cent, in my judgment, would be an extremely low rate of interest. I have thought that 8 per cent would be a reasonable sum to pay by the banks of the country taking out currency under this bill. It would enable every banker in the United States to secure currency on absolutely reasonable terms, and prevent the issuing of clearing-house certificates, the locking up of currency, and many other evils that followed the conditions of last November.

Mr. Chairman, I have an interview that I have prepared with some care, which was given to the New York Herald, that will entirely cover the views that I have on this subject, and if you will let me have this read and made a part of these remarks, it will cover much more completely what I should like to say.

The CHAIRMAN. Do you care to have it read, or will you simply submit it?

Mr. GLOVER. I think you had better read it. It is very brief.

The article referred to was read by the clerk of the committee as follows:

HERALD BUREAU,
Washington, D. C., Wednesday.

C. C. Glover, president of the Riggs National Bank, of this city, is the pioneer of the present movement to have Congress pass an emergency currency bill. His efforts in behalf of the measure were described in to-day's Herald, and to-day Mr. Glover was requested to give his views on what appeared to him the most important of the efforts to pass the Aldrich bill.

"How do you account for the opposition of certain bankers to the measure for an emergency currency based on bonds other than Government bonds?" Mr. Glover was asked.

"I think that most of them in their laudable desire to get a complete change in the currency system have lost sight of the extreme importance of their not sacrificing all chance of legislation at this time," replied Mr. Glover. "Now, I have had some experience with Congress. I know personally a great many of the leading members, who talk to me confidentially, and from my conversations with them and from what I know of the situation, I think I can say positively that there is no possible chance for the passage of any of the three measures to which financial experts, of one shade of reasoning or another, are committed. There is no possibility, even remote, of the passage of the Fowler bill of this session, to which is committed Representative Charles N. Fowler, chairman of the House Committee on Banking and Currency; there is no chance for the Fowler bill of last session for an asset currency, to which is committed the committee of the American Bankers' Association, and there is not the shadow of substance for the statement that the central-bank plan has a show.

"GET BACK TO MOORINGS.

"Well, what are we to do? Are we to divide our forces? While some of us who look ahead to next November and think we see the need of an emergency provision advocate the bill now before the Senate Finance Committee, shall others work for the passage o the Fowler bill of last year, still others for the Fowler bill of this year, and yet others for the creation of a central bank, or shall we all get back to our moorings and look at the hard facts of the situation?

"I for one have a very distinct recollection of the condition in which the country was last fall and can not lose sight of what we are daily passing through even now. It is not necessary for any banker who wants to reach a judgment in this matter to discuss the causes of the panic. The condition was that the entire country became frightened at the scarcity of money—not enough money could be reached to go around, the various cities of the country went on a clearing-house certificate basis, and it was only possible to look to the Treasury for relief. The Treasury did everything possible to put money in circulation and keep it in circulation, but it didn't remain in circulation long. Everybody knew that when the Treasury was exhausted and when the importations of gold proved inadequate there was no place whatever to look for relief. At one time during that period the working balance in the Treasury was actually down to $2,000,000, and if the vouchers which lay on the official desks had been signed and presented that balance would have disappeared.

"TROUBLE COMING AGAIN.

"Unless there is some means of supplying an emergency circulation we are going to run up against the same situation a few months hence, plus the inability of the Treasury to help. We will be going through the Presidential campaign, which this time is going to shake the country from one end to the other. What will the bankers do? If Congress should adjourn without providing the means for obtaining this emergency currency every banker in the country would immediately begin reaching out for all the currency he could get and locking it up. The scare that we had last October will be duplicated. The banks will cease to loan. Enterprises will stop and we will have a Presidential year with a crisis the extent of which I will leave to conjecture.

"On the other hand, if the bankers can only be made to see the vital importance of providing an emergency currency all danger of a financial stringency, in my opinion, will be passed. The very fact that there has been enacted into law a method of obtaining currency when it is needed will quiet all uneasiness and will cause an immediate relaxation of the money that is even now being hoarded. My criticism of the Aldrich emergency currency bill is that the amount of currency that could be issued in an emergency was only two hundred and fifty millions. I am told now

that they are going to raise it to five hundred millions, but my opinion is that one billion would be better. I do not think that any bank would ever ask for any issue under the act. The very fact that it was a law and that the country could get all the money it wanted would inspire confidence. This reminds me of the conversation reported in the Herald of Sunday between two Senators. One said that banks would not take out any currency under the bill and that it would be an utter failure. The other replied that if the bill were to be an utter failure in that respect it was therefore bound to be a complete success. Nothing could better illustrate the argument in favor of the Aldrich currency bill. I think the Finance Committee of the Senate is acting with wisdom in allowing plenty of time for the discussion of this question.

"SINK INDIVIDUAL VIEWS.

"Only time is required for the banking and business interests of the country to see the extreme danger of the failure of the currency bill in this Congress. I can quite sympathize with those bankers who for years have been educated up to the idea of establishing the monetary system of the country on an asset basis. It has been a long fight to bring the bankers themselves to see the advantages of it. But how much longer must be the fight to bring the country and Congress to see the workings of the system in practice as the bankers do in theory. But I am sure that when the whole financial and business situation is surveyed, when the not unreasonable reluctance of Congress to act in favor of a revolutionary currency system is considered, that our bankers will sink their individual views and agree with us in Washington that an emergency currency is what we need, and that if we do not get it we might as well prepare for the most serious trouble that has confronted us in a good many years."

"Do you look for the passage of the emergency measure by Congress?"

"I do. It is not a party measure, and is one for which Democrats and Republicans will vote. Neither side will take the view that partisan advantage can be made out of the matter, which is one of vital importance affecting the well-being of every section of the country. No party sought to make capital out of the panic, and all did their best to avert trouble. The Treasury did everything it could, and the banks of the South were taken care of as well as the banks of the North and West, and better than ever before. So I look for a heavy vote for the bill in both Houses when the situation comes to be considered in the light that if something is not done we will be seeking cover again as soon as Congress adjourns."

"WILL NOT HURT ASSET CAMPAIGN.

"One argument of the bankers who find fault with the Aldrich bill is that it will prevent the passage of the asset currency scheme?"

"I fail to see how that argument can stand. There is not a thing in the Aldrich bill which would make difficult the currency changes the bankers who disagree with us desire when the time comes to consider them. The only point is that the elaborate overturning they advocate can not be passed at this time. Many who favor the principles of that scheme would be pressing for it now but for the fact that they see the necessity for doing something and have reached the opinion that only the emergency plan is possible. It is a condition, not a theory, that confronts us. This bill ought to be passed immediately and then preparations can be made for taking up the other later."

"There is another argument that the rate of interest on the proposed emergency issue is too high?"

"I have noticed all the opposing arguments that have been made—that it means inflation, because they think the extra currency will not be driven back from circulation; that the interest is so high as to make it unprofitable; that the banks could not get the classes of security needed; that the currency could not be furnished quickly enough. I reply to all of them that these arguments will disappear immediately the banking interests realise the importance of having something to stand between them and the shrinkage of money which is bound to come unless we have some Congressional provision. Let the men who object to the rate of interest that may be fixed recall what the public was willing to give and had to give for currency during the panic, and inquire whether it is too high. But they will never have to give it, because if this bill is placed on the statute books it will be a sort of act of faith, a bulwark of confidence, and there will be no contraction in business so long as there is a means of getting enough money speedily to carry on the entire business of the country. For that reason the larger the sum provided for the better it will be."

The CHAIRMAN. Are there any questions?

Mr. PRINCE. What is the date of that interview?

Mr. GLOVER. It was some time, I think, in February.

Mr. PRINCE. The Aldrich bill passed the Senate March 27, 1908.

Mr. GLOVER. Yes; it does not refer to the amendments to that bill.

Mr. PRINCE. Do you approve of those amendments that have been made, to become a part of the permanent banking law of this country as they are in this bill?

Mr. GLOVER. Some of them, most emphatically, no.

Mr. PRINCE. Then would you advise the passage of this bill in its present shape?

Mr. GLOVER. I would eliminate some of the amendments.

Mr. PRINCE. What ones would you eliminate?

Mr. GLOVER. I think the eleventh section is one that I would eliminate.

Mr. PRINCE. Why?

Mr. GLOVER. I think it highly objectionable in many respects. But really, gentlemen, I did not care to go into the discussion other than to merely state my views with reference to the Aldrich bill. It is an emergency bill, pure and simple. I think you should strip that bill of all legislation other than the bare provision that bonds may be deposited in the Treasury of the United States and currency obtained upon them.

Mr. PRINCE. Then you would take from the bill every provision that looks toward currency legislation?

Mr. GLOVER. If necessary. If that is the effect of sections 8 and 11, yes.

Mr. PRINCE. What would you do about that provision requiring national depositories to pay interest?

Mr. GLOVER. I do not think the Government of the United States is in the banking business.

Mr. PRINCE. Then you would strike out that provision?

Mr. GLOVER. Yes; I would.

Mr. PRINCE. Would you leave the same bond provisions that are now in the bill?

Mr. GLOVER. Yes; only, I was heartily in favor of railroad bonds. I consider them as good as any other class of securities.

Mr. PRINCE. Then you are in favor of their being in the bill?

Mr. GLOVER. They were in the bill when I gave this interview to the New York Herald.

Mr. PRINCE. What I am getting at is this: We are now considering an entirely different bill from that which was before the Senate at the time you gave your interview, and we are here to discuss the bill as it is, and not as it was. Do you think it is wise to provide that the bank shall only issue currency upon the city and municipal bonds that were mentioned in the bill, or are now mentioned in the bill?

Mr. GLOVER. I think it would be far wiser to include railroad bonds. They are just as good as any other class of security in the United States, and it is absolutely in the hands of the Secretary of the Treasury to eliminate any railroad bonds that have any danger in them, and there can not be any loss. Any amount of bonds accepted under this act from any one bank would be proportionately very small, and you would have the assets of the bank behind them.

Mr. PRINCE. Take the municipal bonds on which circulation could be based; do you recall what New York City bonds were listed at prior to the panic?

Mr. GLOVER. No, I do not; but they declined very rapidly in value during the panic.

Mr. PRINCE. I will ask you if at one time they were not quoted at 111?

Mr. GLOVER. They were quoted very much above par.

Mr. PRINCE. Above par?

Mr. GLOVER. Yes.

Mr. PRINCE. I will ask you if they did not fall to 65 cents on the dollar?

Mr. GLOVER. I did not pay any particular attention to the New York City securities.

Mr. PRINCE. These were New York threes.

Mr. GLOVER. But I know they declined very materially.

Mr. PRINCE. Assuming that under the provisions of the bill those bonds would be proper bonds upon which to issue circulating notes, do you think it would be wise for the Government of the United States to pledge itself for the payment of bonds that can fall in value from 111 to 65?

Mr. GLOVER. I do, because the bill provides that bonds shall be accepted at not over 90 per cent of their market value, and the banks of the country are always in condition to make any margin good. If they should fall to 65 per cent, the bank would be required to margin down to 55 per cent.

Mr. PRINCE. Should the Government be compelled to lose that money, and to make this margin like a call loan, or anything of the kind?

Mr. GLOVER. I do not think it is possible for the banks to be in such a condition as you have stated.

Mr. PRINCE. The banks losing that amount, what do you think of the stockholders having their money put in securities that can decrease in value from 111 to 65?

Mr. GLOVER. I do not think that we ought to take a panicky condition as indicating the real value of securities. It is only a temporary fall of values.

Mr. PRINCE. I am only suggesting the things through which we actually passed; not conjectural conditions, but actual conditions that we passed through during the panic. That is all that I care to ask, Mr. Glover. I only wanted to show that you based that interview on a bill that is not before us, the provisions of which have been eliminated that you most largely favored.

Mr. GLOVER. I am in favor of an emergency currency bill, pure and simple, without any other legislation.

Mr. PRINCE. Let me ask you another question. Do you think it would be for the good of the public to pass the present Aldrich bill in the form that it is in?

Mr. GLOVER. No; I should dislike very much to see the measure passed without some amendments.

Mr. PRINCE. No; I mean as it passed the Senate; would you be in favor of the Members of the House concurring in that Senate bill?

Mr. GLOVER. No; I should not.

Mr. PRINCE. If that should not be done, what would you suggest to this committee?

Mr. GLOVER. It is in the hands of this committee to make the proper bill, and that should be along the line of a purely emergency

currency law, without any attempt to do anything that would interfere with the passage, possibly, of the Fowler bill, or a central bank bill. I think that is a question that ought to be taken up and dealt with separately. But I am not here to propose any of these plans; I am only here favoring the interposition of a barrier between the people of this country and a panic such as we had in last October and November, when there was an entire disappearance of currency.

Mr. PRINCE. But this committee is confronted with this condition, that a coordinate branch of the Congress, by an overwhelming vote, has passed this particular bill. This particular bill was the ripe judgment of one branch of the Congress, and they have presented it to us in the form that it is in, after four months' discussion. We are now in the closing days of this Congress. If one branch of Congress has given to us its ripest and best judgment and views, and every other banker that we have heard here condemns this ripe judgment, what are we to do?

Mr. GLOVER. I do not condemn it in its entirety. There are certain amendments I would like to see made.

Mr. PRINCE. Would you advise us to pass it in its present form?

Mr. GLOVER. No; I would not.

Mr. PRINCE. Then you condemn it.

Mr. GLOVER. I would change some of the amendments; I would make it what it ought to be—an emergency currency bill. I would not go into any other legislation than that.

Mr. WALDO. Do you not think it would be a very unfortunate thing if any such measure as this should become a permanent part of the laws of this country?

Mr. GLOVER. The Aldrich bill as sent over from the Senate?

Mr. WALDO. Yes.

Mr. GLOVER. I think it would be a mistake to pass the bill in its present form.

Mr. WALDO. As I understand, you are one of those who believe in a credit currency?

Mr. GLOVER. I do not care to go into any discussion of credit currency or central bank legislation.

Mr. WALDO. I am not going to get into that. I merely wanted to get, on the general principle, at whether you approved of a credit currency in some form, so that the bank may be able to do what you say it is the trouble now that they can not do—be able to turn their book credits into note credits.

Mr. GLOVER. I think it would be wise if some legislation of that character could be passed.

Mr. WALDO. Do you not fear that if we put onto the statute books something that will meet the immediate, strenuous demand of the bankers against their inability to change their book credits into note credits, if we put on the statute books something that will meet that desire, that it will postpone the changing of our credit currency to some proper form for many years?

Mr. GLOVER. I do not think so. I think you ought to report an emergency bill to the Congress.

Mr. WALDO. Is it not the fact that for ten years financiers and students of the subject have been endeavoring to change our system to a credit system of some kind.

Mr. GLOVER. And they have not succeeded in forty years.

Mr. WALDO. Can they ever succeed except at some such time as this, when we have been through a serious panic?

Mr. GLOVER. If you do not pass this bill you will probably not pass any other bill for two or three sessions of Congress, and we are likely to have a repetition of just what has occurred in the last few months.

The CHAIRMAN. Do you think we are likely to have two panics so close to one another?

Mr. GLOVER. We had one in March of last year and another in November.

The CHAIRMAN. When is another due?

Mr. GLOVER. The same conditions prevail at this time that prevailed last March and last November.

The CHAIRMAN. Do you think so?

Mr. GLOVER. I do, indeed. I do not think conditions are improving.

The CHAIRMAN. Who agrees with you on that?

Mr. GLOVER. A good many people agree with me.

The CHAIRMAN. Who? Just name some banker who agrees with you that the same conditions prevail now as prevailed a year ago.

Mr. GLOVER. I do not wish to do so. I am expressing my own views.

Mr. WALDO. You do not mean to say that we are having any such trouble as we had in last November?

Mr. GLOVER. No; but the conditions are the same as in March and November.

Mr. WALDO. Do you mean this March, last month, or March a year ago?

Mr. GLOVER. I mean a year ago. I am speaking of last March a year ago. We had two panics in a single year.

Mr. WALDO. We did not have a panic last March a year ago.

Mr. GLOVER. We did not have a currency panic. We had simply a gigantic shrinkage of stocks, that amounted to two thousand five hundred millions of dollars; but in November we had a currency panic, and that condition is likely to recur in the coming October and November. We will have the same crops to move and the same tight money conditions in financial institutions, and you will have every financial institution under fire from both political parties, and you will have the Treasury exhausted and unable to supply the needs of the banks, as was done last November. The conditions will be such that we probably will not be able to get gold as we did last year from Europe. Now we come down to pretty nearly the same conditions as we had last November. We are not improving in our financial conditions through the United States.

Mr. WALDO. No; but as a matter of fact are we not contracting our credits so that we have more currency than we know what to do with.

Mr. GLOVER. We always have plenty of currency at this time of year, but it can disappear just as rapidly as it did before.

Mr. WALDO. You do not think there is going to be any such panic between now and next fall as we have had? Do you see anything in the conditions to produce such a panic?

Mr. GLOVER. Conditions alone may not produce it. It is the fright of the people. You begin to frighten the people all over the country by the attacks on all kinds of institutions and interests, and

you will bring about the same conditions we had last November. There was no justification for the panic of last November.

Mr. WALDO. If that be the cause of the trouble, the proper measure would be to apply at the office of the Attorney-General and try to get him to stop the prosecution of corporations, would it not? [Laughter.]

Mr. GLOVER. Well, I think I have said all that is necessary.

The CHAIRMAN. Do you think, Mr. Glover, that it is a wise thing for this Government to guarantee 500 millions of bank notes with collateral security?

Mr. GLOVER. I do.

The CHAIRMAN. And you have just said that you would be in favor of guaranteeing a billion?

Mr. GLOVER. Yes.

The CHAIRMAN. And all to be guaranteed by the Government?

Mr. GLOVER. I would increase the amount under the Aldrich bill to a thousand million dollars.

The CHAIRMAN. And so you would have coming due at the Treasury, and redeemable by the Treasury in lawful money, 1,000 million dollars more than we now have due at the Treasury?

Mr. GLOVER. Yes.

The CHAIRMAN. You want the committee to understand that, do you?

Mr. GLOVER. Absolutely.

The CHAIRMAN. Very well. We now have 1,600 millions, and you would make it 2,600 millions coming due at the Treasury, redeemable by the Treasury, would you?

Mr. PRINCE. In gold.

The CHAIRMAN. Yes, in gold.

Mr. GLOVER. Mr. Fowler, you would never issue a dollar under this bill.

The CHAIRMAN. I did not ask you that. Keep right to this text. Do you want this committee to understand that you are in favor of imposing upon the Treasury of the United States the responsibility of redeeming in lawful money, which means gold, 2,600 millions of this kind of money?

Mr. GLOVER. If the country needs it, beyond the question of a doubt.

The CHAIRMAN. Where would you get the gold to redeem that 2,600 millions with?

Mr. GLOVER. Now we are reaching a part of the argument that I do not intend to discuss.

Mr. FOWLER. Oh, yes, but this is just what we want; we want to know whether you know what you are talking about.

Several MEMBERS. No!

The CHAIRMAN. Yes, we do. We want to find out——

Mr. GLOVER. Mr. Fowler, I am not going to get into any acrimonious discussion with you or anybody else. I have said all I intend to say on this subject and I do not intend to say anything more.

The CHAIRMAN. I want to know whether——

Mr. GLOVER. I am not going to answer questions of that kind for the chairman of this committee or anybody else. You will never issue a dollar of currency under the Aldrich bill. If the amount issu-

able is made a thousand million dollars it will prevent the possibility of any requirement of this currency. The very fact that you can supply the currency is enough to insure confidence among the people. In other words, the people of the country will never become frightened and will never take their money out of the banks if you will provide for such an amount in the Aldrich bill as will prevent general contraction of circulation.

Mr. PRINCE. I think you are right about that.

Mr. GLOVER. There is no question about it. I have been forty years a banker, and I have passed through all of the panics during that time. We went through a condition here in November that you gentlemen could hardly appreciate, unless you were in the banking business. I saw the suspension of the entire business of the United States. The greatest banks in the country could not make the deposit to their 5 per cent fund. The largest banks in Pittsburg and elsewhere, with millions of capital and surplus, had to apply to people here in Washington to make the most ordinary deposits for them. The banks in New York refused to remit in currency any sum deposited with them. When I wrote to banks there to make deposits on account of the 5 per cent fund for banks throughout the country it was positively refused.

Now, gentlemen, I do not want to see a condition of that kind again in November, and we are running into precisely the same state of affairs. I am not here to say one word against the Fowler bill, not one word against the central bank plan, but I am here to urge that this country shall not be placed in the condition and the position that it was in during October and November of last year. That is all I have to say.

The CHAIRMAN. The only point is this: I may have put that question a little more bluntly than I ought to, but the question that I desired to have brought before the committee is this: If you thought that ought to be done, I wanted to get your opinion as to how we are to do it, and I thought maybe you could tell us how it could be done.

Mr. GLOVER. I should prefer not to go into that.

The CHAIRMAN. That is all.

Mr. WALDO. I think the only question is, so far as Mr. Glover is concerned, whether or not he thinks the passage of an emergency measure such as this will not prevent for many years the passage of any such measure as Mr. Glover believes ought to be passed.

Mr. GLOVER. I do not see that at all.

Mr. WALDO. That is the main point.

The CHAIRMAN. Of course this is a simple banking proposition. The margin that you get varies from 75 to 90, but how does the bank get more to loan when it invests $100 to get back $75?

Mr. GLOVER. Mr. Fowler, the banks all over the United States, with any quantity of bank notes in circulation, do not own the bonds upon which the notes are issued. Take my own bank. Our statement shows every quarter that the one million of bonds that we hold for the security of our bank notes are borrowed bonds. The bonds under this bill would probably, three-fourths of them, be borrowed in various ways. There is not the slightest difficulty about that. There is not going to be any contraction such as I read of here the other day. The banks already hold about 705 millions of bonds, which will more than meet the requirements of the Aldrich

bill. If they are not precisely the character of bonds required, the banks could borrow the bonds required by law and substitute the present bonds as collateral. There is not the slightest trouble in the world in securing the bonds to make this bill effective.

The CHAIRMAN. Do you think that is good policy, for this country to go into the banking business, where the banks of the country are going to be compelled to go into the market and borrow bonds from other banks and institutions like savings banks and insurance companies, taking them out of their assets and counting them in two places?

Mr. GLOVER. I am speaking purely along the lines of an emergency currency. I am not going into the other plan you would probably adopt.

Mr. WALDO. Your view is that this currency would never be issued anyway?

Mr. GLOVER. No; it would not. I do not have anything to say as to other measures you may adopt. It may be the Fowler bill or the central bank bill. I have no views to express on either of those subjects.

Mr. JAMES. Do you think this panic we have had was a greater panic than that of 1893?

Mr. GLOVER. No; I do not. The panic of 1893 lasted for many months. It began in May and ended in September.

Mr. JAMES. This panic, you think, is over?

Mr. GLOVER. What is that?

Mr. JAMES. Has this panic been as violent, so long as it lasted, as the panic of 1893?

Mr. GLOVER. This was from a different cause. It was a complete disappearance of currency.

Mr. JAMES. I want to know what it costs these banks to borrow these bonds that Mr. Glover speaks of?

Mr. GLOVER. Very often nothing; never over 2 per cent.

Mr. JAMES. Never over 2 per cent?

Mr. GLOVER. No. Some banks may pay more than that, but not very often. Very often your corresponding bank may be in a position to accommodate you in many ways, and be glad to do it. The value of your accounts kept in New York and other places may enable you to get them without cost.

The CHAIRMAN. They average 1 per cent?

Mr. GLOVER. No, I do not think so. Not over 2 per cent.

Mr. HAYES. I understand Mr. Morgan paid 3 per cent for bonds for a limited time.

Mr. GLOVER. During the panic the banks paid 3 per cent for currency.

The CHAIRMAN. Do you think the banks would take out this currency until after the actual panic was on, and the destruction had been virtually accomplished?

Mr. GLOVER. The interest charge is only 6 per cent per annum, you must remember. The panic would last a very short time, and the amount of interest paid under this would be a very small amount, as compared with 10, 20, 30, 50, or 100 per cent, as prevailed during the panic, and from 3 to 4 per cent for currency to meet pay rolls. I do not think that the banks would hesitate a moment in taking

out currency under this act. I do not believe any currency would ever be taken out under it.

The CHAIRMAN. You say you do not believe it would be taken out?

Mr. GLOVER. No; I think it would absolutely prevent the necessity of taking out such currency.

The CHAIRMAN. But would not the banks of the country refuse to take out the currency at all until the destruction of the panic had swept over the city or the country?

Mr. GLOVER. No.

The CHAIRMAN. You do not think it would?

Mr. GLOVER. No.

The CHAIRMAN. Would not any bank be discredited in a large city if they paid 6 per cent for money?

Mr. GLOVER. Did it discredit the banks in New York when they stopped payment absolutely of all funds and issued clearing-house certificates?

The CHAIRMAN. I should say they were very badly discredited.

Mr. GLOVER. Under the Aldrich bill they would be doing a legal act, and they would take out this currency immediately if there was a necessity for it. They are not going to wait until disaster has happened, but at a moment's notice they would take it out, if necessary.

Mr. HAYES. Do you think they would be any more discredited by taking out those clearing-house certificates?

Mr. GLOVER. Clearing-house certificates are a local proposition.

Mr. HAYES. Do you think the banks would be any more discredited by taking out clearing-house certificates than by taking out this currency?

Mr. GLOVER. I do not think there would be any discredit at all.

Mr. JAMES. You think the Aldrich bill ought to be amended. In what respects should it be amended?

Mr. GLOVER. I think it ought to be a purely emergency measure. I do not think we should go into anything in regard to currency, except a purely emergency currency bill. Your currency bill that is to come hereafter will probably be Mr. Fowler's bill, or, if not, it may be a central bank bill. Either one or the other of these provisions should come hereafter. But this bill is simply to save the banks of the country from destruction and thousands of people from being thrown out of employment, as they were in November. It is a pretty serious matter to contemplate another situation such as we had in November and December of last year, and this bill will prevent it.

The CHAIRMAN. In the first place, do you think we are liable to have a panic this fall; and if so, upon what do you base your expectation of the occurrance of one panic right on top of another?

Mr. GLOVER. It is not merely a question of one panic following another. The conditions have not improved in this country at all. Railroads are losing in their gross and net earnings. Everything is going downward instead of upward. The Treasury will not be in condition again to come to the rescue of the banks as it did before; the Treasury will not be able to issue any more 2 or 3 per cent bonds after Congress has put its condemnation on what was done, although it was one of the bravest and best things that any Secretary of the Treasury ever did. He saved this country from ruin. With conditions no better, and with a heated political contest coming on, with

all of the institutions in this country under fire, and a great many of them justly so, I do not think there is any doubt on the face of this earth that we are going to have a repetition of what took place last November. I look for a very ugly situation when we begin to move the crops, with tight money and a general disposition to decry everything in the form of investments. You can unsettle very easily the class of people who have money in the banks and trust companies and if they begin to withdraw, even in the mildest form, it will be severely felt.

The CHAIRMAN. Do you think to-day money is being hoarded?

Mr. GLOVER. I think it will be.

The CHAIRMAN. Do you think it is being hoarded now?

Mr. GLOVER. Not at the present moment. But the moment this Congress adjourns without passing any bill, you will find it will be.

Mr. JAMES. When you say money is not being hoarded, you speak of the conditions surrounding Washington, because you are a banker here; but what would you say about the condition of affairs like that in my country, where men went and battered at the doors of banks, and could not get 10 per cent of their deposits?

Mr. GLOVER. The terror of those people is not over, and at the very first opportunity they will do the same thing over again. There is no question about that.

The CHAIRMAN. Would you help them by tying up 200 million dollars more of liquid capital in the form of municipal bonds that have no market anywhere?

Mr. GLOVER. I do not agree with you that you are going to tie up any such sum.

The CHAIRMAN. Do you think that the banks that were going to prepare for conditions of emergency would prepare in advance? There was a banker here last Friday who said that if the banks are going to do this thing, they can not wait until the last hour.

Mr. GLOVER. As Mr. Aldrich has stated, the banks already hold enough bonds at present.

Mr. HAYES. The banks in my country do not hold any.

Mr. GLOVER. I was here and in the Treasury every day of the panic in October and November, and bonds came in from every section of the country, bonds borrowed and exchanged, and so on.

Mr. GILLESPIE. I understand it is your opinion that the banks would exchange these bonds gratuitously to accommodate their customers without charging any high price for them?

Mr. GLOVER. I have answered that question. In some cases there is a slight charge, and sometimes there is not any charge at all, because your corresponding bank is glad to oblige you in many ways.

The CHAIRMAN. This bill contemplates the use of two billions of bonds and the making of a purchase of 500 millions. In other words, it makes a purchase of 500 millions of eligible bonds. What effect will that have on the price of those bonds?

Mr. GLOVER. It would increase the value of them to a certain extent.

The CHAIRMAN. Do you think it is fair for us to legislate in a way that will appreciate the holdings of two billions of property in this country and depreciate correspondingly all the securities that are not included in this?

Mr. GLOVER. I do not think the banks are going to buy 500 millions of bonds. I do not think you are ever going to issue any currency under this bill, but the banks will find it fast enough if it is a necessity.

The CHAIRMAN. Is it not the fact that bond houses are to-day selling bonds, on the ground that they are included in the Aldrich bill?

Mr. GLOVER. There are very few bonds being sold to-day.

The CHAIRMAN. Is it not a fact that bonds are being sold on that ground?

Mr. GLOVER. I am not saying that the people are not advertising bonds along that line, but very few are being sold.

The CHAIRMAN. Is it not true that city stocks, and stocks in enterprises, and mining bonds, are all being advertised on the ground of this bill becoming a law?

Mr. GLOVER. The only bonds affected would be State, municipal, and county bonds.

The CHAIRMAN. And Philippine bonds?

Mr. GLOVER. And Philippine bonds.

The CHAIRMAN. Yes.

Mr. GLOVER. Yes; and I think it is a great mistake not to include railroad bonds.

Mr. WEEKS. You are one of the few men who have appeared before this committee who has favored the Aldrich bill. You will admit that nine months in the year we have circulation enough in this country?

Mr. GLOVER. I do.

Mr. WEEKS. But that during perhaps two or three months of the year we need a little more?

Mr. GLOVER. Yes.

Mr. WEEKS. And that is the basis of that desire for an emergency circulation. Now, without touching upon the credit circulation, without intending to, because I do not want to get into that, do you think it is wise for a national bank to own such securities as the bonds which are called for in the Aldrich bill—for a commercial national bank to own them?

Mr. GLOVER. Not too large an amount of them.

Mr. WEEKS. Do you think it is wise for the bank to own any of them?

Mr. GLOVER. They are a quick asset.

Mr. WEEKS. Is it not necessary for a national bank to have its assets liquid, and maturing at short times?

Mr. GLOVER. Yes, and a great number of the national banks hold large amounts of railroad, state, and municipal bonds.

Mr. WEEKS. Are there not a number of banks that do that very largely, and perhaps wisely; but do you think, for instance, the average banks scattered throughout the country can wisely invest money in bonds?

Mr. HAYES. At a low rate of interest?

Mr. GLOVER. I do not think so.

Mr. WEEKS. Do you think, with all your regard for the country banker, that he ought to be doing that? Is it not true with regard to ordinary paper that he submits it to his correspondent, and when he buys commercial paper that is not made by a customer he submits it before accepting it?

Mr. GLOVER. We have so little to do with commercial paper, I have so little knowledge of what country banks are required to do, or the character of their paper, that I can not answer your question.

Mr. WEEKS. In your judgment does not the average bank own a better basis for this circulation than bonds which it would buy such as are provided for in this bill, namely commercial paper itself?

Mr. GLOVER. What is that?

Mr. WEEKS. Is not commercial paper a better basis for currency, for circulation, than these bonds?

Mr. GLOVER. It would be utterly impossible to pass a bill covering that point. It might be infinitely better.

Mr. WEEKS. Why would it be impossible? Take the clearing houses of the country; do not they issue clearing-house certificates based on commercial paper, or very largely so?

Mr. GLOVER. They do.

Mr. WEEKS. Suppose we had a system that took in the whole country and legalized it and let the banks issue circulation on what they actually own and ought to own, could not that be done?

Mr. GLOVER. Now we are getting into something else besides emergency currency.

Mr. WEEKS. No; that is emergency currency.

Mr. GLOVER. I am not going to say that that is not a good basis for this bill, but we are getting out of the line of the argument before this committee.

Mr. WEEKS. What you want to say is that you are in favor of an emergency measure or emergency currency?

Mr. GLOVER. That is precisely what I am in favor of.

Mr. WEEKS. And it is your judgment that it would not impede the passage of an ordinary currency measure?

Mr. GLOVER. No; I do not think it would.

Mr. HAYES. I think it is pretty difficult, and I think you will agree with us on that, to get any sort of currency legislation through Congress, emergency or otherwise.

Mr. GLOVER. Yes; I will agree with you on that.

Mr. HAYES. Then the harder you make it the more certain it will be that we will not have any currency reform.

Mr. GLOVER. But do not leave us without some barrier between us and disaster next October and November.

Mr. PRINCE. I move a vote of thanks by the committee to Mr. Glover for his statement and for keeping his temper so well under so much cross-examination.

(The motion being seconded, it was unanimously carried.)

Monday, April 13, 1908.

STATEMENT OF MR. S. A. HARRIS, OF MINNEAPOLIS, MINN.

The CHAIRMAN. Will you please state to the stenographer in what capacity you appear.

Mr. HARRIS. As a member of a delegation from the business interests of Minneapolis and St. Paul, and with them, as representing the sentiment of the Northwest.

The CHAIRMAN. You are a banker?

Mr. HARRIS. Yes, sir; I am a banker living in Minneapolis, Minn.

The CHAIRMAN. What relation do you hold, and to what bank?

Mr. HARRIS. I am president of the National Bank of Commerce of Minneapolis. I might say that I have been in the banking business for thirty-six years. I have been through the panics, beginning with that of 1872, and have had some little experience in dealing with an agricultural community. You gentlemen, many of you, as I notice from a list of the members of the committee, represent, with me, agricultural districts in the South, the Southwest, the West, and Northwest, representing cotton, corn, and wheat. We represent more particularly the wheat interest, and it is owing to the demands that banks such as ours make upon the banks of the central reserve cities that trouble comes during the movement of the crops; and while we are very much interested, all of us, in having sufficient funds with which to move the crops during the three months of the fall, yet we appear here unanimously as opposed to the Aldrich bill as it is now before this committee.

Perhaps I had better not go into the bill itself as it was originally introduced by Mr. Aldrich, but refer simply to the amendments that have been offered. As we believe, first, the section referring to the increasing of cash in the vaults would mean a shrinkage of the available cash means of this country in a very large amount. It would mean multiplying that by four or five times. Multiplying that four or five times would mean the loss of the loaning ability of the national banks of the country, so that if this bill should go into effect with this amendment, we believe that serious trouble would be before us. Unlike the speaker before me, we see nothing in the immediate future which needs to cause undue alarm. Of course we recognize that the financial system of the country is far from perfect, and that it needs legislation, and it needs legislation based on human experience, not on theoretical knowledge. We have nothing to offer here. We simply wish to appear as opposing the Aldrich bill in its present form, first, for the reason that it would very much curtail the ability of the banks to accommodate the public, the business men in our section, the business

men of the Northwest. I might say that Minneapolis and St. Paul furnish the means to the country for the primary movement of the crops. This is done with money that goes from Minneapolis and St. Paul very largely. It is shipped in from Chicago and New York in large amounts. I suppose on an average during the crop movement season three quarters of a million dollars a day would represent about the amount that goes out from St. Paul and Minneapolis to the country districts to purchase the wheat. Now, this means something of a strain. If we had what European countries have, some place to dispose of our bills, some place where we could get our bills receivable discounted and receive the cash for them temporarily during the two or three months of the crop movement, it is all that we need.

More and more the Northwest is becoming able to move the crops without outside help, but still it must have some help, and we would look with a good deal of alarm upon this provision of this bill which we believe will curtail our ability to carry on the business of the Northwest. We believe also that it is an absolute impossibility for national banks to live up to any such requirements, especially during the three months of October, November, and December, and this bill might properly be entitled a bill to compel bankers to break the law. Under the present requirements banks in reserve cities, such as Minneapolis and St. Paul, as you know, are required to carry 25 per cent as reserves Twelve and one-half per cent of it must be in cash in their own vaults. It is with the greatest difficulty that the banks in Minneapolis and St. Paul can preserve that 12½ per cent reserve during the last three months of the year, although they always carry, or almost always carry, between 40 and 50 per cent of available means. You may think that very strange, but if you could visit one of our banks during the busy season and see the amount of calls made upon us, the amount of currency that we are shipping out, the amount of eastern bills, domestic and foreign bills, that we have to take in and furnish the money for, you would easily understand that it is very difficult for us to maintain, under the present law, our legal reserve at 12½ per cent. Gentlemen, it would be absolutely impossible to maintain a two-thirds reserve under the present law.

Then, again, to be brief, we object to that section prohibiting banks from lending money to any firm or corporation in which its directors may be interested. We believe that would cut off from the directory of the banks, and from the guidance and experience of our directories, the best element in them. I know in my own bank that the best paper we get is that from the firms and the corporations which are represented by the members of our board; and so it is with the other banks in Minneapolis and St. Paul. We think that is a very vicious provision.

Mr. JAMES. You refer to the amendment to the Aldrich bill?

Mr. HARRIS. Yes.

Mr. JAMES. Does not that forbid not the lending of money, but only investment in bonds and securities?

Mr. HARRIS. That is the reading of it on its face, but under legal advice we are here to say that we believe it does prohibit dealing in the commercial paper of these firms and corporations.

Mr. JAMES. How could that be so interpreted? This reads:

That no national banking association shall invest any part of its funds or deposits in the stocks or other securities of any corporation or association, any of the officers or directors of which are officers or directors of such banking association.

Mr. HARRIS. I think Mr. Fowler has a list there of references to the decisions of the courts, which cover this very point. It is under the head of securities.

I do not know that there is anything further that I need say. Of course you may take it for granted that bankers will be opposed to this bill, as they are almost universally, and I have been somewhat surprised in my brief visits in different cities since coming East to find that while the banks are opposed to the bill in its present form—almost all of the bankers are, and necessarily are so, because they see that it is going to work disaster to the business interests of the country—yet as to the idea of a bond-secured circulation, I see there is a great diversity of opinion here. My own opinion is decidedly against a bond-secured circulation. We of the West and Southwest have no bonds to put up for any such circulation, and it is my experience that it is difficult, in a time of need, and very embarrassing to the banker to borrow any large amount of bonds that would be required for security. So, so far as we are concerned, I do not know that I speak surely for all of the delegation from Minneapolis and St. Paul, but my own personal view is that I see no relief in the Aldrich bill as it was originally introduced for the movement of the crops, which is the only period in which we need any additional circulation I see no help in it for us.

Mr. HAYES. You would apply that to the whole western country?

Mr. HARRIS. Yes.

The CHAIRMAN. That is, as it originally stood?

Mr. HARRIS. Yes, sir.

Mr. PUJO. Suppose it should become patent that no legislation, no general revision of the currency and banking law of the country, can be adopted this session; do you think any evil results would flow from nonaction of Congress?

Mr. HARRIS. I believe that it is the prayer of two-thirds of the bankers of the country that no real action will be taken excepting possibly the appointment of a commission. They think that the first steps ought to be taken at the next session of this Congress, to make a beginning. It is probably a long process to get what we need in this country, but the beginning ought to be made, and all that we hope for is the appointment of a commission that will begin that work.

I do not look with alarm upon the present condition of this country. I think that values have gone to a point where there will not be the shrinkage that we experienced in March of last year and in the stock panic in New York. In fact, we knew very little, excepting through the newspapers, of the dire conditions of New York. We knew that we were cut off from our currency supply, but we arranged that in a way that the movement of the crop was resumed. The banks of Duluth, Minneapolis, and St. Paul put $2,000,000 into the movement of the crops in connection with Mr. Hill of the Great Northern road, to finance the movement of the wheat from the terminal points, such as Duluth and Minneapolis, to the seaboard, where it meant money—gold. There was no time when the banks of Minneapolis and St. Paul were not shipping currency into the country at the request of their correspondents, in moderate amounts, after scrutiny to see whether the request was based on actual need; and in every case of actual need currency was supplied. I do not

know what St. Paul shipped, but I presume fully as much as Minneapolis, and Minneapolis during November and December shipped $2,000,000 of actual currency to their country correspondents.

Mr. JAMES. But the failure of the banks throughout the country would have been appalling but for the issuance of clearing-house certificates?

Mr. HARRIS. Certainly; it enabled us to bridge over. That is to say, they were used in Minneapolis and St. Paul between banks only. It enabled us to take care of the public. But the gratifying thing that came to the bankers of the Northwest after the whole thing was through was an expression from the business men of their confidence in the bankers and their appreciation of the way the thing had been handled.

Mr. WEEKS. Suppose all the bankers of the State of Minnesota were authorized to form a clearing-house association, and they were authorized under proper requirements to issue a clearing-house circulation based on commercial paper, as you issue your clearing-house certificates; do you not think that could be done promptly and wisely and effectively, and you could provide this circulation for moving the crops without calling on anybody?

Mr. HARRIS. The same thing is effected, I think, by the issuing of certificates by the reserve cities themselves.

Mr. WEEKS. Yes; but we can not legislate that way.

Mr. HARRIS. Yes; I understand. It is illegal, as has been said; but the way it worked during the late panic was that any country bank that had an actual need for money was able to borrow it in moderate amounts for their actual needs. Now, that is a pretty large question, about organizing the machinery for the handling of commercial paper of all the commercial banks.

The CHAIRMAN. I did not hear what you said.

Mr. HARRIS. The question was about organizing district clearing houses, as I understand, to take in all national banks in that district.

Mr. WEEKS. Yes.

Mr. HARRIS. It is a thing to which I have not given very much thought, and I am not able to speak intelligently to the point, but it seems to me that the situation in these different districts can be taken care of by the reserve cities. I think it would complicate the matter somewhat to bring all the country national banks into it.

Mr. WEEKS. Practically it would be taken care of by the reserve cities, but if you legislated to give the reserve cities that power and did not give the same power to the country banks, there would be criticism that you were giving power to the big fellows that you did not give to the little fellows.

Mr. HARRIS. That, I dare say, is true; and therefore there seem to be complications along that line of dealing.

Mr. WEEKS. Do you not think that this class of circulation would be better than bonds?

Mr. HARRIS. Safer.

Mr. WEEKS. Do you not think it would be better handled?

Mr. HARRIS. And I do believe that it would more immediately meet the requirements of the situation.

Mr. HAYES. It would require no extraordinary effort, no extraordinary requirement of reserves on the part of the banks.

Mr. HARRIS. No: we would simply put up what we have.

Mr. GILLESPIE. You say it would curtail the lending power of the banks to change as required in the Aldrich bill?

Mr. HARRIS. Yes.

Mr. GILLESPIE. Suppose we had a legal requirement of only 5 per cent reserve, and business were adjusted on that basis, and experience should demonstrate that that was too small a reserve, and there ought to be an increase of that reserve. Would not the same objection be urged to that change, to increasing reserves so as to increase the strength of the bank and to keep down speculation in the country; and would not the same objection that you urge to the change of the reserves in this bill be made in that case, because business would be already adjusted to that basis and men would see that their profits were going to be interfered with and they could not handle the business in the same way as they had been handling it? Is not that true? If the law required a banking business to be done upon a 5 per cent reserve, and experience demonstrated that that was too small a reserve, would not there nevertheless be the same objection to any increase in the reserve required?

Mr. HARRIS. You are speaking of the cash reserves?

Mr. GILLESPIE. Yes.

Mr. HARRIS. In the vaults?

Mr. GILLESPIE. Yes. Your objection to keeping large cash reserves in the vaults of the banks is based upon the fact that it would curtail the profits of the banks, because it would curtail the business of the banks and the banks could not handle the same volume of credit, of course, that they can handle upon a smaller reserve.

Mr. HARRIS. Replying to your last question first, as it appears in my mind as to curtailing the profits of the bank; in a time of public peril profit is the last thing a bank thinks about.

Mr. GILLESPIE. Yes; but we are speaking of conditions that lead up to this public peril.

Mr. HARRIS. It would, of course, curtail profits. But we must take the experience of the world as a basis. The fact is that in no nation in the world, to my knowledge, none of the commercial nations, are banks required to keep any reserve whatever. As a matter of fact the joint stock banks of London keep much smaller reserves than the banks of the small reserve cities in this country.

Mr. GILLESPIE. You mean in coin or in Bank of England notes, or altogether—all cash items?

Mr. HARRIS. I mean in their total reserves, both in their vaults and in the Bank of England. I was in London about eighteen months ago, and I looked over some of the statements of joint stock banks, and I found they averaged about 14 per cent altogether, instead of 25 per cent, as is required in this country.

Mr. GILLESPIE. That is required of all banks? What kind of banks?

Mr. HARRIS. The joint stock banks. Those are the large banks outside of the Bank of England that do the business of the country.

Mr. GILLESPIE. They are private institutions?

Mr. HARRIS. They are corporations.

Mr. GILLESPIE. Yes, I understand. They have 14 per cent reserve?

Mr. HARRIS. They had at that time, and this was in the summer of 1906.

Mr. GILLESPIE. Take the national banks in this country; what is their average reserve, actual money?

Mr. HARRIS. Yes; but first let me state that back of these banks is the Bank of England with power to issue currency in case of need.

I was going to call your attention merely to the fact that the present law requires the national banks of the country to carry a larger reserve, both in cash and in available means, than any of the other commercial nations of the world. That ought to be a basis, and I think a fair basis, upon which to argue this question. Five per cent would be insufficient for us. We could not do business on 5 per cent.

Mr. GILLESPIE. Then your opinion is that 6 per cent in country banks is sufficient?

Mr. HARRIS. Yes.

Mr. GILLESPIE. Twelve and a half per cent in reserve cities and 25 per cent in central reserve cities?

Mr. HARRIS. Yes. But you will remember that in addition to that the small country bank has quite an amount in addition to its legal reserve in other banks or due it from other sources.

Mr. GILLESPIE. I understand.

Mr. HARRIS. And we have in the reserve cities usually from 15 to 20 per cent more than our legal reserve of 25 per cent.

The CHAIRMAN. Let me ask you, if you had a system that gave you practically a free conversion of your book credits into note credits, you would not carry 40 or 50 per cent, as you say you do, in the other seasons of the year, would you?

Mr. HARRIS. That is a pretty large question. I never have been so situated, and I would not know how to answer it. It requires 40 per cent of our deposits to carry on our current business during the active season of the year.

The CHAIRMAN. You accumulate, do you not, for the fall, more or less?

Mr. HARRIS. Yes.

The CHAIRMAN. And that accumulation and the actual demand for capital as against currency, those are two distinct things in a way?

Mr. HARRIS. Yes.

The CHAIRMAN. You would not accumulate such a large amount of reserve if you were not compelled to use your reserve for currency, would you?

Mr. HARRIS. If we had some method of converting our bills receivable into currency, then of course we would not be required to carry so much on hand.

The CHAIRMAN. Exactly.

Mr. HAYES. As I understand, you stated that you had none of the securities required by this Aldrich bill?

Mr. HARRIS. I want to amend that, because we do happen to have $10,000 worth that we took of the city of Minneapolis.

Mr. HAYES. Your statement I do not wish to controvert. What I want to get at is whether you are speaking for your own bank and your correspondents or the West generally?

Mr. HARRIS. I think I am very safely speaking for the western banks generally.

Mr. HAYES. I think so.

(It was moved and seconded that a vote of thanks be extended to Mr. Harris for his statement, and the motion was unanimously carried.)

The CHAIRMAN. Who else is there to be heard?

Mr. COLVER. Mr. Harris has represented the banks of the two cities of the Northwest, and we have with us two bankers from Minneapolis and two bankers from St. Paul, and we have in our delegation three gentlemen from St. Paul and Minneapolis representing the jobbing interests and the grain interests. Mr. Jackson represents the jobbing interests of St. Paul.

The CHAIRMAN. We will hear Mr. Jackson.

STATEMENT OF MR. J. M. JACKSON.

Mr. JACKSON. I am here, Mr. Chairman, representing the St. Paul Jobbers and Manufacturers' Association, which is an organization comprised of practically all of our large wholesale and manufacturing interests in the city of St. Paul, and individually I am a wholesale merchant and manufacturer in St. Paul.

To begin my remarks, it may be that we business men who find our operations located in the Northwest are more fortunately situated in some ways than those located in other parts of this country, but it is a fact that we do not believe that the depression under which this country has recently gone is going to be of long continuation. We feel that the change has already taken place, and therefore, that being the case, we had much rather see currency legislation that will tend to give us permanent relief, and the right kind of relief, than any emergency bill that would have to be amended or supplanted by some other bill at some future date. We feel that this time, when the country is very much stirred up by the panic through which it has recently passed, is the time to bring about some such enactment, but we do not feel that it is necessary that Congress should pass a bill immediately. In other words, as I stated in the first place, we feel that, having undergone this panic, and having to a certain extent adjusted ourselves to these conditions, in all probability we are not going to suffer the same strain in the immediate future, and therefore it would be wisest for Congress to take proper time to pass a measure that is going to give us permanent relief and put this country, so far as its finance is concerned, upon the proper basis, whatever that may be.

I am here in behalf of the institutions and interests that I represent to oppose the Aldrich bill, because we do not think that it is the best bill, nor nearly the best bill, that could be passed; and if at this present session of Congress no bill but that in its present form could be passed, we would much rather that no bill were passed at all, but if necessary that this bill should be referred to some commission. And we think that after due deliberation no doubt a better bill could be passed in the interests of the jobbing and manufacturing and, of course, the banking, interests of the country.

Mr. WEEKS. Do the associations which you represent comprise all the associations of that kind in St. Paul?

Mr. JACKSON. Yes, sir.

Mr. WEEKS. You have had a meeting to consider this question?

Mr. JACKSON. Yes.

Mr. WEEKS. Was there any considerable portion of the attendance at that session in favor of the Aldrich bill?

Mr. JACKSON. I did not hear of any.

(By a unanimous vote the thanks of the committee were extended to Mr. Jackson.)

STATEMENT OF MR. F. B. WELLS, REPRESENTING THE CHAMBER OF COMMERCE OF MINNEAPOLIS, MINN.

Mr. WELLS. I represent the Minneapolis Chamber of Commerce, Mr. Chairman and gentlemen. It is an institution to whose members the banks of Minneapolis, St. Paul, and Duluth furnished the currency which, as Mr. Harris has stated, was shipped into the country. We furnish the facilities for the marketing of the northwestern crop, and of course come directly in contact with the farmer. We are strenuously opposed to any bill that will in any way curtail the credits extended to farmers. It is sufficiently difficult as it is, under some conditions, to finance the movement of our crops, and it would be decidedly detrimental to the interests of the Northwest at large to pass any measure which necessitated tying up additional currency in reserves. We have the largest primary grain market in the world—that is, the market receiving the largest shipments direct from the farmers, and in that way we come very closely in contact with general northwestern sentiment, and I think I can state that there is no feeling of apprehension among the people in our country as to the prospects for the coming fall or the coming year, and that we would all infinitely prefer to wait for a well-thought-out, well-matured currency bill rather than to have a makeshift measure passed which might be a bar to a proper bill in the immediate future. And furthermore, as a director in a bank, I think I should like to speak in regard to section 11. It would be a very weakening factor—I am speaking personally now—in my opinion, if active business men were eliminated from the directorates of our banks. I speak now from local conditions in my home. Through no other source could the banker keep as closely in touch with the grain merchants, the lumber and jobbing interests, as through having representatives of these interests on the boards of directors; and it goes without saying that the representatives of these interests could not serve them by being on these boards, and it would eliminate the possibility of their corporations or firms borrowing from that bank.

Another point. It may sound suspiciously altruistic on my part, because my firm is perhaps the largest grain operator in the Northwest, but if there is a curtailment of credit and currency through the passage of such an act, it would inevitably lead to a much larger proportion of the grain business being diverted into the hands of large grain firms. The small merchant in a country town usually does his business through one bank, and his paper is not known in the currency market, and with a curtailment of credits, he would not be able to be accommodated by his bank, and he could not get the accommodation elsewhere because he would not be known elsewhere. With the larger firms the total restriction will be greater, but they will have more openings for their paper; their paper has a commercial value over a much larger portion of the country.

Mr. JAMES. I understand you are opposed to this section 11. Is it not true that the failure of the bank in New York which precipitated this panic was caused by officers and stockholders underwriting their own stock in other corporations?

Mr. WELLS. That is not the point. I am not advocating the underwriting of stock, but the purchasing of commercial paper which is issued by firms or corporations which may be represented possibly in the directorates of banks. You could hardly go to any bank in the

commercial centers of this country and eliminate from its directorates the men who are in the firms and corporations and are interested in that bank, without practically wiping out the boards of directors of the banks as they exist to-day, and leaving the banks without any means of gauging the responsibility of their customers. Of course that would be especially true of small places.

The CHAIRMAN. Is it not a fact that the men who are interested in and officers of these firms and corporations are the very men whose advice is most valuable in the conduct of your banks?

Mr. WELLS. Yes, sir; and very often in the system of commerce that prevails, through the advice and often the gratuitous assistance of these men, a concern is liquidated and its affairs are wound up without loss, as it could not be done without their aid.

The CHAIRMAN. In other words, the assistance of these great merchants and manufacturers is essential to a wise and safe administration of the affairs of the banks of the country?

Mr. WELLS. Undoubtedly it enables the banks to feel the pulse of the commercial activities of the country much better than they could otherwise.

Mr. HAYES. I suppose your chamber of commerce had a meeting to consider this matter?

Mr. WELLS. Yes.

Mr. HAYES. What is the sentiment?

Mr. WELLS. The sentiment is opposed to it.

Mr. HAYES. Unanimously?

Mr. WELLS. Yes; I was requested by the directors to appear and oppose the Aldrich bill.

Mr. HAYES. As at present framed?

Mr. WELLS. Yes.

Mr. HAYES. So that there is no sentiment in favor of the legislation as it is now framed?

Mr. WELLS. No, sir.

Mr. GILLESPIE. Is that all based on section 11?

Mr. WELLS. It is all based on the general proposition that we in the Northwest, rather than act precipitately, would prefer to wait and have the matter submitted to a commission if necessary, and have a more adequate bill presented to Congress.

Mr. GILLESPIE. Had you association considered the Aldrich bill before the amendments were put on it?

Mr. WELLS. Yes.

Mr. GILLESPIE. What was their action before these amendments were put on it?

Mr. WELLS. Before its amendment I think they saw no relief to the Northwest from a bond-secured circulation; because our banks, as Mr. Harris has stated, hold practically none of the bonds that are available under this bill.

The CHAIRMAN. It would, in other words, be of no use to you.

Mr. WELLS. Very little.

Mr. GILLESPIE. With regard to section 11, possibly that is too restrictive, but you see the evil against which it is directed?

Mr. WELLS. Yes.

Mr. GILLESPIE. The one-man bank?

Mr. WELLS. Yes.

Mr. GILLESPIE. Can you suggest any amendment to the national law that would give relief against one man organizing a bank and

promoting a railroad or some other enterprise and financing the other enterprise from the bank, so that the success of the bank depends entirely upon the success of the other enterprise?

Mr. WELLS. I am not a banker.

Mr. GILLESPIE. But this is a practical question?

Mr. WELLS. It seems to me the moral obligation of the directors of the bank should be more thoroughly appreciated.

Mr. JAMES. Is not a man more liable to live up to his duty when he himself is liable to be affected by his violation of that duty?

Mr. WELLS. No one director in any bank that I know of dictates what paper shall be and what shall not be purchased by the bank, and it is not in legitimate commercial paper that the banks sustain their losses.

Mr. JAMES. But you do not dispute that this panic was started by this very thing?

Mr. WELLS. Of course in our part of the world, in the Northwest, we have very little to do with that sort of thing. We do not finance men for speculative enterprises.

Mr. JAMES. You have not felt the evil of this thing, then?

Mr. WELLS. We felt it pretty severely. We were tied up pretty tight.

Mr. GLASS. Does not this occur from the violation of existing law?

Mr. WELLS. From violations of existing law, as I understand it.

Mr. GILLESPIE. We have laws against officers of banks borrowing from the banks, but not against officers of corporations borrowing from them. The two may be apparently independent, and yet the man who elects the board of directors and controls the policy of the bank may be the same man who elects the board of directors and controls the policy of the corporation, and he just uses the bank to collect the money of the people, of poor and rich alike, and puts the money which they deposit right into his particular business. It seems to me that this panic has demonstrated what was a great defect and evil in our system of banking.

Mr. WELLS. It seems to me the touble was that somebody accepted collateral that had not the value it should have had.

Mr. GILLESPIE. But do you not know that men always have confidence in their own enterprises, and they think the paper is good, whereas if they were not under such influences they would not touch such paper?

Mr. WELLS. That is out of my sphere, because we have strictly commercial paper in my part of the world.

Mr. JAMES. Do you think that people would deposit their money in a bank that was known to be in that condition with that degree of confidence that they would deposit it with another bank that was not so situated?

Mr. WELLS. Yes; because they know that the money loaned in the West is loaned for strictly legitimate purposes.

Mr. GILLESPIE. Suppose a man in your city should organize a bank and use the funds of the bank to promote his own schemes; I do not care where they might be situated.

Mr. WELLS. He could not get the deposits. I am not speaking of New York or any other particular situation. I am only speaking of the man who borrows to move the crops from the hands of the farmers and carry it until it is wanted.

Mr. JAMES. But there is a vast difference between the character of business done in the West and the business done in the East?

Mr. WELLS. Yes, sir.

Mr. JAMES. You are dealing with something that really exists?

Mr. WELLS. Yes, sir.

(Upon motion of Mr. Prince a unanimous vote of thanks was extended to Mr. Wells for his statement before the committee.)

STATEMENT OF MR. G. H. PARTRIDGE, REPRESENTING THE JOBBERS AND MANUFACTURERS OF MINNEAPOLIS, MINN.

Mr. PARTRIDGE. I am in the wholesale dry goods business in Minneapolis, and I represent the jobbers and manufacturers of Minneapolis. I think I have nothing to add to what has already been said by these other gentlemen. The matter of this bill, the amended Aldrich bill, has been up for discussion more or less at our meetings, and the sentiment with us is opposed to the present amended bill, and in all human probability to any bill that could be passed in the short time of this session. It is felt that we have gotten by the panic so far as the currency feature of it is concerned, and there is little likelihood of a recurrence of similar currency troubles until Congress shall have had time to thoroughly digest and develop a bill that would not be of a temporary character.

I do not know that I have anything further to say.

Mr. HAYES. Then the sentiment of your association is opposed to the principle of the Aldrich bill?

Mr. PARTRIDGE. I would say yes.

Mr. HAYES. Is it pretty nearly unanimous?

Mr. PARTRIDGE. The sentiment is that there is no necessity for an emergency bill at this time.

The CHAIRMAN. There is no need for a currency bill at this time?

Mr. PARTRIDGE. We do not think an emergency similar to that we have just had is at all likely to come on for some years, at any rate.

(By unanimous vote the committee extended its thanks to Mr. Partridge for his remarks.)

ADDITIONAL STATEMENT OF MR. S. A. HARRIS.

The CHAIRMAN. I would like to ask you, Mr. Harris, what you think of the principle of carrying bonds as a part of your national reserve?

Mr. HARRIS. It is vicious.

The CHAIRMAN. I presumed that Mr. Harris included the part when he spoke of the whole.

Mr. COLVER. May I say just a word on that?

The CHAIRMAN. Certainly.

STATEMENT OF MR. D. S. COLVER, CASHIER OF THE GERMAN AMERICAN NATIONAL BANK, OF ST. PAUL, MINN.

Mr. COLVER. I do not want to be questioned at all here, but I want to give my opinion. I thought of this thing when Mr. Glover made the remark regarding bonds being a quick asset. I presume the bank I represent carries more high-grade bonds than any other bank in the

Northwest, and we have carried them for years, thinking that they were a good secondary reserve; and the panic of November has demonstrated beyond a doubt that they are the poorest reserve we had in our bank, not but what the bonds were unquestionably good, but we could not realize on them. We get quotations every day of bonds being worth so much, but you put them on the market and they are sold one at a time and two at a time, and to sell $100,000 worth of bonds might take a month—that is, to get anywhere near the price at which they are quoted.

The CHAIRMAN. In other words, they are not liquid at all?

Mr. COLVER. They are not liquid at all. The most liquid asset we have in our bank is good commercial paper, the paper of the jobbers and grain men and our lumbermen's paper.

The CHAIRMAN. I will ask you this question, and the other bankers may approve or not as they see fit, whether the average loss on commercial paper in the Northwest country is not as small as one-half of 1 per cent?

Mr. COLVER. I could not answer that. I can say, though, that the loss on our commercial paper of the Northwest has been remarkably small.

Mr. GILLESPIE. What would you put the loss at, to be on the safe side?

Mr. COLVER. I would not want to say. I would say that it is much lower than the percentage of loss we have on our bonds.

The CHAIRMAN. I wanted to bring out the comparison of commercial paper, as a liquid asset and a sound asset, with the bonds, and to compare the losses on commercial paper with the losses on bonds.

Mr. WALDO. He has stated that already. He has stated that it is very much less.

Mr. COLVER. Very much less.

Mr. PRINCE. And he also stated that the bonds were the least liquid of all their assets.

Mr. COLVER. The least liquid of any assets we had in our bank.

Mr. GILLESPIE. As to the availability of your bonds as a secondary reserve, the advocates of the Aldrich bill say that if they had to take these bonds and use them on the market they would agree with you; but they say that in eight hours, under the Aldrich bill, the whole 500 millions would be in circulation. Under this law you would take these bonds and deposit them in the subtreasury and get the money at about 5 per cent.

Mr. COLVER. Yes; but the question was asked of Mr. Glover if he thought it was a safe asset for the Government to issue circulation against when a bond would depreciate from 111 to 65, or even more than that, and I would have liked to ask the gentleman where he was going to get any benefit from that circulation, where he was going to increase his actual cash. There is no bank on earth that will take out bonds under the Aldrich bill——

Mr. GILLESPIE. You mean take out circulation?

Mr. COLVER. No; no bank will buy bonds under this Aldrich bill and carry them, that will not figure reserve against them, as they allow them to here as provided in this bill. Now, if you take those bonds and hypothecate them for your circulation, you have certainly depleted your reserve 25 per cent at once, because you can only borrow 75 per cent on them.

Mr. WEEKS. I do not want to pry into the business of your bank but could you use any considerable part of the bonds which you actually own now as a basis for circulation under this bill?

Mr. COLVER. Our bonds are all railroad bonds, every one of them.

Mr. GILLESPIE. Did you favor the bill when railroad bonds were available under it?

Mr. COLVER. I never favored the bill, and do not favor it to-day.

Mr. CRAWFORD. What would be your suggestion for supplying currency for an emergency, if you believe in emergency currency?

Mr. COLVER. Commercial paper.

Mr. CRAWFORD. Would you not have the same trouble with that whenever conditions were disturbed? It would depreciate and you could not collect. How would the merchants get that money to pay on that paper?

Mr. COLVER. You know, I kind of agreed that I did not want to be asked a lot of questions. I could not answer that question, really; I am not well enough posted on this subject.

Mr. CRAWFORD. If you got this money, would not the notes be presented for redemption at once?

Mr. COLVER. No doubt they would. No doubt they would with any emergency currency. I can not see how a municipal bond could be counted upon as a good asset to issue currency against.

Mr. CRAWFORD. It is a safe one, because it has the power of taxation behind it.

Mr. COLVER. Yes; it is safe.

Mr. CRAWFORD. You have no power behind the commercial asset except the power of the man making it.

Mr. COLVER. I think any bank in this country to-day that owns bonds is violating the national banking law. A bond is a mortgage, pure and simple.

Mr. HAYES. Just as much so as a mortgage on real estate.

Mr. COLVER. And the banking law provides that we shall not invest in mortgages. I think that before this Aldrich bill could become a valid law, they would have to amend it to that extent.

(By unanimous vote, the thanks of the committee were extended to Mr. Colver.)

STATEMENT OF MR. GEORGE C. POWERS, PRESIDENT OF THE SECOND NATIONAL BANK OF MINNESOTA.

Mr. POWERS. I have not anything further to say except as indorsing the statements of our brother bankers and those of our merchants, that so far as the sentiment is concerned of those I have talked with and know, it is opposed to this Aldrich bill, as far as it has gone, and in fact you might say to almost any legislation along those lines. I represent a commercial bank with three millions of deposits and two and a half millions of loans, and carrying commercial paper. We are a Government depository. We have a large number of Government bonds. We are the largest depository in the Northwest. We do not own bonds; we do not want to invest in bonds. We think it is the province of a commercial bank to loan to commercial industries and to merchants and jobbers and grain men and lumbermen, and my directors are decidedly opposed to this Aldrich bill.

The CHAIRMAN. That is, to the principle of it?

Mr. POWERS. To the principle of the Aldrich bill, yes.

Mr. CRAWFORD. Are your people in favor of securing deposits?
Mr. POWERS. In the way of guaranteeing deposits?
Mr. CRAWFORD. Yes.
Mr. POWERS. No, sir.
Mr. CRAWFORD. Is that the general sentiment?
Mr. POWERS. I think it is.
Mr. GILLESPIE. You heard Mr. Glover's statement, that banks usually borrowed the United States bonds even that they based their present circulation on?
Mr. POWERS. Yes.
Mr. GILLESPIE. What is the situation with you on that?
Mr. POWERS. We have always owned the bonds, for forty years.
Mr. GILLESPIE. That is the general rule in your section of the country?
Mr. POWERS. They own the bonds; that is, Government bonds.
(On motion of Mr. Prince, by unanimous vote the committee extended its thanks to Mr. Powers and also to the members of the delegation for coming to appear before the committee.)
Mr. COLVER. I would like you to hear Mr. Prince, representing possibly the largest bank in the Northwest.

STATEMENT OF MR. F. M. PRINCE, REPRESENTING THE FIRST NATIONAL BANK OF MINNEAPOLIS, MINN.

The CHAIRMAN. You are from Minneapolis?
Mr. PRINCE. Yes, sir.
The CHAIRMAN. Representing what bank?
Mr. PRINCE. The First National Bank. I do not see how I can add anything to what has been said here. My associates have fully covered the subject, and I can only say that I am heartily in favor of what they have said, both the bankers and the representatives of the commercial interests.
The CHAIRMAN. That is, you are opposed to the principle of the Aldrich bill, and to any legislation at this session of Congress?
Mr. PRINCE. At the present time; yes.
Mr. WEEKS. What do you mean by the principle of the Aldrich bill?
Mr. PRINCE. I mean the issuing of currency secured by bonds, and, secondly, the two amendments that have been made for the additional reserve in the way that they have got it, and also section 11, which would be very detrimental to our interests.
The CHAIRMAN. Are there any questions?
Mr. CRAWFORD. I would like to ask him a question; I do not believe it has been drawn out, at least not to my satisfaction. Why is it that the national banks have issued 690 millions of dollars on deposits of national bonds during this panic and just prior, whereas during a similar stringency in 1893 and 1894 the amount was reduced to 168 millions? Why this discrepancy and difference?
Mr. PRINCE. I do not know that I can answer that. The circulation was increased in November because it furnished currency at that time which could be used, and we could use at times our eastern funds to purchase bonds and get currency more quickly than any other way.
Mr. CRAWFORD. Yes; but they needed it just as much in 1893 and 1894, and the amount then was reduced.

Mr. PRINCE. There was not a currency famine in 1893 and 1894. There was plenty of currency in circulation at that time.

Mr. CRAWFORD. There was?

Mr. PRINCE. I do not recall any difficulty in getting currency if you had credit.

Mr. CRAWFORD. The banks did not suspend in 1893 and 1894 as they have in this panic?

Mr. PRINCE. No, sir. I do not think there was any suspension of payment except in one or two of the larger cities.

Mr. HAYES. I wanted to ask you and the other gentlemen from Minneapolis and St. Paul who are interested in banks and have gone on record as against the Aldrich bill, if you are moved to this opposition by the interests of yourselves and your banks or whether you are moved to it by the interests of public policy, believing that it would be detrimental to the business interests of the country generally?

Mr. PRINCE. We felt that it was detrimental to the business interests of the country generally; and if it is detrimental to them, it is certainly so to us.

Mr. HAYES. But in your opinion would it be leaving out of consideration this section 11 because it is directly detrimental to the interests of the banks or because it would be detrimental to the business interests of the country?

Mr. PRINCE. I think both.

Mr. GILLESPIE. You say you are opposed to that principle in this bill as a currency measure. Now, of the different measures submitted to Congress and discussed generally and the currency systems of the world, have you any choice as to the policy you would like to see our country pursue personally, individually?

Mr. PRINCE. I do not think I want to suggest any special remedy.

Mr. GILLESPIE. Would you favor the Canadian bank system, or the English or the French, the German or the Scotch system, or what?

Mr. PRINCE. I do not feel qualified to say as to that.

Mr. PRINCE, of Illinois. I suggest that we are here to hear the Aldrich bill discussed.

Mr. GILLESPIE. It looks to me as though the whole question is up. Here are men representing the business interests of the entire Northwest, and I believe each one of them has an individual opinion about what we ought to do, and I would like to know it if we can get it from them.

Mr. HAYES. It has been suggested that there should be a currency commission appointed.

Mr. PRINCE. That is a measure that I would favor.

Mr. JAMES. That is only in the nature of a continuance, is it not?

Mr. PRINCE. You know perhaps better than I do about that.

Mr. WALDO. Without referring to any special measure, is the sentiment and the opinion of your city and of the West, so far as you know it, favorable or unfavorable to a credit currency?

Mr. PRINCE. I think it is favorable to a credit currency.

The CHAIRMAN. Is there anyone else from the Northwest who wishes to be heard?

Mr. COLVER. We have no one else, I believe.

The CHAIRMAN. If not, we will hear Mr. Hamlin, of Boston.

STATEMENT OF MR. CHARLES S. HAMLIN, CORPORATION COUNSEL OF THE BOSTON CHAMBER OF COMMERCE.

The CHAIRMAN. Will you please state your former connection with the Treasury Department?

Mr. HAMLIN. At one time I was Assistant Secretary of the Treasury, from 1893 to 1897.

Mr. Chairman, I shall be very brief. The Boston Chamber of Commerce is a corporation consisting of over a thousand members, of every branch of mercantile pursuit, and almost every profession except the ministry. At a meeting held March 6, 1908, which was very largely attended, the following resolutions were passed by a unanimous vote. If the chairman desires me to read them, I will do so. There are three or four simple propositions.

The CHAIRMAN. You had better read them.

Mr. HAMLIN. They are as follows:

Resolved, That the Boston Chamber of Commerce is opposed to the passage of Senate bill 3023 for the amendment of the national banking laws known as "the Aldrich bill," because—

1. It is makeshift legislation, which tends to perpetuate another piece of makeshift legislation originally adopted as a war measure, and which had chiefly for its object the creation of an artificial demand for Government bonds rather than a scientific, elastic currency.

2. It provides for the subtraction of $500,000,000 of mercantile balances from active trade.

3. It contemplates the investment of $500,000,000 of deposits payable on demand in long-time obligations instead of in short time and constantly maturing obligations which constitute the proper and customary method of employing bank deposits.

The acute strain on our national banks of the recent panic is now over, the country is not under the stress of war, and the Boston Chamber of Commerce believes that now is the proper time to set the house in order by a comprehensive, constructive and scientific piece of currency legislation, and we have confidence that the intelligence and patriotism of Congress can give us a currency system which will equal in merit the best system in vogue in any other country.

The contemplated legislation should embody the following features:

1. An elastic currency which shall expand and contract not merely under the crux of a great commercial crisis, but shall be sensitive to the seasonable and other minor fluctuations of trade.

2. The currency should be guaranteed by the Government.

3. The Government should be amply protected in its guaranty by such tax as shall serve to fully cover any possible loss under the guaranty.

4. The emergency currency should not be marked or labeled in any way as emergency circulation, but should consist of a fluctuation in amount of the currency normally in use.

5. If the currency is to be secured by the special pledge of collateral, the banks should be permitted to deposit with the Government clearing house certificates secured in turn by the deposit with the local clearing house of short time mercantile paper.

I am instructed to say that the members of the Boston Chamber of Commerce are unalterably opposed to the passage of the Aldrich bill. We feel that there is no emergency justifying legislation of this character. We feel that the present crisis, or the crisis from which we are just emerging, was caused in part—perhaps largely—by an over expansion of credit, in part by injudicious loans on fluctating stock exchange collateral, and in part by other causes which are not material to this inquiry. We feel that in the coming year, when there will again be crops to be moved, the banks and bankers will be more conservative, and that loans will be made more conservatively, loans of the banks will be more cautiously undertaken, and in that manner we shall be able to withstand the ordinary pressure for currency at the

crop-moving season, and for that reason we do not need the kind of legislation that is presented in the Aldrich bill.

If these emergency notes should be issued, in my opinion—and I speak now not as a banker—they would be very quickly sent in for redemption. They would, under the proposed law, require no reserve behind them, and, of course, the 5 per cent reserve deposit in Washington would not be a reserve on which a bank could depend if these notes should be sent back, as would very likely happen, the next day or within the next ten or fifteen days and presented for redemption over their own counters. If the banks were to issue fifteen or twenty-five millions, they would come back quickly, and they would be a strain on the reserves of the banks, because they would in such event have to be paid over their own counters, and, as I have just said, no reserve is required by the Aldrich bill to protect these banks other than the reserve the banks keep in Washington. Now, certainly no banks in a time of financial crisis would want to take their own money and buy bonds for note security, because they would only be allowed to issue in notes 90 per cent of the par or market value of the security. The notes would also be taxed 6 to 9 per cent, and in addition the banks would have to have in Washington the 5 per cent safety fund. Under these circumstances it would seem to be contrary to all principles of good banking for a bank to take that amount out of its own reserve in time of financial stress.

If, on the other hand, the bank had an available surplus, that surplus would do more good to the public and bring more profit to the bank if loaned directly.

It seems to me that banks ought not to be encouraged by such legislation, to invest their assets in bonds of this kind in times when they perhaps have a surplus. These bonds would only be used as a basis for circulation in times of emergency if they were used at all, and it seems to me contrary to the principles of good banking to have an investment of this kind of funds which are there to be used in business.

Of course the answer may be made that the banks do not intend to buy any of these bonds; that they will borrow them. Where would a bank be likely to turn to borrow bonds in time of financial panic? I suppose there are two classes of corporations to which they would instantly turn; they would go to the insurance companies and they would go to the savings banks. Now, what would happen? A savings bank would be appealed to by a national bank. It owns some of these bonds; they are good bonds, perhaps gilt-edged securities. They represent the savings of thousands of people. The national bank comes to that savings bank and says: "I want to borrow those bonds of yours." They get the bonds and give an obligation to return the bonds in a certain time, and perhaps pay 1½ per cent interest on them. The point I want to make is, even if it is permissible in law, whether a savings bank ought to do such a thing. The savings bank would have to give title to the bonds to the national bank and the national bank has to give title to those bonds to the United States, because this act says that the title to any bonds pledged must be in the United States; so that the title must go from the savings bank to the national bank and from the national bank to the Government.

The savings bank, the custodian of the savings of the people, would, in the ordinary course, receive only a book credit in return, on which it would come in as an unsecured creditor in case the national bank

failed. Now, you may say there is not much danger of the bank failing; but I reply that the only time that this plan would be put in operation would be in time of acute financial stringency, when there might be danger of any bank failing. I was asked to give a legal opinion on this question during the late financial stringency, and wholly apart from legal considerations, it seemed to me shocking that the president of a savings bank, whether he could legally do it or not, should even consider a proposition by a national bank to borrow millions of gilt-edge Government bonds and give in return to the savings bank merely a book credit, when no one could foresee but that the next week the bank might fail, might go down in the convulsions of a panic. That is what we are encouraging by this bill. It may be lawful for the savings banks to do this—I realize that in our State they can invest in stocks of a national bank, notwithstanding the stockholders' liability; but I certainly think it is unfortunate, to speak mildly, for a State to permit any savings bank to make such investments. And the same conditions would apply to insurance companies.

I can only add that in my judgment it would be cheaper for the national banks, in a crisis, to go out and buy the few Government bonds that are left outstanding not pledged for circulation or deposits and take out the full amount of circulation that, under present law, national banks can now take out. I speak of this subject to correction, but I suppose there is still left a couple of hundred millions of circulation that the banks could take out under present law to-day. They could, for example, buy the 4 per cents of 1925—160 or 170 millions. No matter what they had to pay for them, it would cost far less, in my judgment, than to issue notes under this bill, which notes would be taxed from 6 to 9 per cent, and would be limited in amount to 90 per cent of the value of the bonds.

As to the feeling of our people, I would say that we are unalterably opposed to this measure. I think the majority of our people, nine-tenths of our people, believe in the principles of this so-called Fowler bill. There is some difference of opinion on the question of the guarantee of deposits, and I want to say that Mr. Sears, who is one of our most representative bankers in Boston, can give you information as an expert on that question.

I can only conclude as I began; we feel there is no necessity for this sort of bill, but there is a necessity for a scientific, comprehensive system of elastic currency, and we feel that your bill, Mr. Fowler, is a long step in the right direction, and that the details can be worked out in such manner as Congress sees fit to enact.

(By a unanimous vote, the thanks of the committee were extended to Mr. Hamlin for his remarks.)

The CHAIRMAN. We will hear Mr. Sears next, and he is the last of the Boston delegation, I believe.

STATEMENT OF MR. FRANCIS B. SEARS, VICE-PRESIDENT OF THE NATIONAL SHAWMUT BANK OF BOSTON, MASS.

Mr. SEARS. I am a vice-president of the National Shawmut Bank of Boston, but I am here at the request of the Boston Chamber of Commerce and the Boston Merchants' Association.

Mr. Chairman, I will go briefly over some of the points of opposition to the Aldrich bill that have occurred to me, and will, if I may, answer

two or three suggestions that have been made during the discussion here, and then, unlike my friend from Minneapolis, I should like you to ask me all the questions you want to, because it helps to bring out fully what I would like to say to you.

The CHAIRMAN. I will speak for the committee. I know Mr. Sears very well, and I know we would all like to hear you very fully about this subject. We want you to proceed without interruption until you get through, and I want to say that we would like to hear you very fully.

Mr. SEARS. I am very strongly opposed to the Aldrich bill, as are all the bankers and business men of Boston. Most of the following points have been raised before. I merely want to confirm what has been said. The last thing that a bank ought to do is to put any part of its reserves into bonds. The reason has been fully pointed out. The bonds, some may say, are readily salable. Mr. Glover, with whom I differ with great reluctance—I have a great admiration for him and great respect for his character—says this currency will never be issued. Perhaps these bonds are readily salable, and they can be put on the bargain counter and marked down and sold, if you can find somebody to buy them; but no bank is going to sell them at the price they will then bring. There are two classes of banks—those outside of the large cities, that can get bonds only by buying them, and a few banks in a few of the large cities that can borrow them. I would like to add that insurance companies and savings banks are large bondholders, and undoubtedly arrangements can be made with them to get bonds for some large banks. The rate is 1½ to 2 per cent for borrowing bonds in that way.

The CHAIRMAN. I would like to have you comment on what you think of that as a banking principle—borrowing those bonds?

Mr. SEARS. As an emergency measure, I do not know that I object to it particularly. I suppose last fall that if a bank in Boston could have borrowed United States bonds, for instance, and could have taken out circulation, that undoubtedly would have helped the situation, and undoubtedly part of the relief did come in that way. I do not know that I object to that so much, but I do object to banks carrying bonds in their reserves. The out-of-town banks rely on the reserves in the reserve cities; and the additional burden is coming on the city banks as it did last fall.

Mr. WEEKS. I did not understand Mr. Hamlin to criticise the banks for borrowing bonds; he criticised the savings banks for lending them under some circumstances.

The CHAIRMAN. That is the reason I wanted to ask Mr. Sears whether he approved of the savings banks and other institutions parting with their bonds for such purposes. Is it wise and proper?

Mr. SEARS. In the main I do not think it is right. The principle on which they act is this. They are allowed to own bank stock on which there is a possibility of an additional 100 per cent liability. Of course there is less danger in lending their 4 per cent bonds at 2 per cent additional, which makes quite an additional profit for them, and furthermore they may deposit their funds in the banks if they want to do so, and I suppose they would say, "If we can deposit our money in the banks at 2 per cent interest why should we not deposit also at 2 per cent interest a reasonable amount of bonds?" That is the argument on the other side. I will not say that I approve of it. If I was a

director in a savings bank or a trust company, perhaps there might be circumstances under which I would be willing to make a loan of bonds, but I should want to select my banks. Josh Billings said he believed in the final salvation of men, but he wanted to pick the men, and I should want to pick the banks. [Laughter.] As a rule, I do not believe it wise. Suppose banks buy these bonds and carry them in their reserves; when they use them to get circulation, they deplete their reserve by that amount of money, and it is a smaller amount of cash that they get back, and it is in national bank notes and not reserve money. They have to replace that amount by additional bonds or by reserve money. I do not see any advantage in that.

In regard to section 11, there seems to be some difference of opinion as to what kind of securities are referred to, but until some other gentleman has tested that section, to find out whether he is going to be imprisoned for five years or ten years, I do not want to risk it. [Laughter.]

The CHAIRMAN. The court has passed on the question of whether or not a note is a security.

Mr. SEARS. They say it is a security?

The CHAIRMAN. Yes.

Mr. SEARS. That means that a bank must lose all its good directors or most of its good deposits. In the bank I represent we have a vice-president of the New York, New Haven and Hartford road, a very valuable man; and a very large account is connected with him. We have Lieutenant-Governor Draper, a director of corporations; and our president, Mr. Gaston, is connected with the Boston Elevated Railroad and other large corporations. The services of those men are valuable to us. Then we have Mr. Greene, the treasurer of the Pacific mills, the largest and strongest corporation in New England, and we have Mr. Henry S. Howe, of Lawrence & Co., who are selling agents for a large number of mills, and he is connected with a large number of corporations. We can lend those firms and corporations anything they want with safety. Then there is Mr. Joseph B. Russell, treasurer of the Boston Wharf Company, and he is also a director in the West End Railroad, I think. Mr. William S. Spaulding, of the Revere Sugar Refinery, and Mr. Frank G. Webster, of Kidder, Peabody & Co.; Mr. C. Minot Weld, president of the New England Cotton Yarn Company, and Mr. George W. Wells, president of the American Optical Company; Mr. Jeremiah Williams, of Jeremiah Williams & Co., and Mr. Moses Williams, president of the State Street Trust Company, and a director in many large corporations, are also on our board of directors. The carrying out of that provision of the Aldrich bill, if it meant that we could not lend to any of the corporations in which these gentlemen are officers or directors, would mean with us that we would lose almost our entire board of directors. It would mean that every bank must be managed by a set of men who have not ability enough to rise into any prominent position whatever.

Mr. GILLESPIE. Suppose that were modified so as to only include a director or officer of a bank who controlled the bank and also controlled the corporation, voting the stock? Suppose it were made to apply only to a man who controlled both institutions?

Mr. SEARS. I do not think that I see any objection to that. I believe in the principle, but I think there is law enough at present. I think perhaps we have a tendency to pass new laws to prevent cor-

tain things instead of enforcing the laws that we have. I do not see why the Comptroller of the Currency is not armed with ample powers to prevent anything of the kind. I have been acquainted with most of the Comptrollers of the Currency for a number of years past, and some of them I have counted as personal friends, and I think they have been upright men, and have administered their offices with ability and integrity. I think that by established custom they are not strict enough in enforcing the decrees they make. A bank examiner comes into one of the banks and goes through his examination and he reports to Washington. Very likely he finds something to criticise; perhaps he finds excessive loans, or perhaps he finds loans of the character you describe, and he writes to Washington about that, and the Comptroller writes a letter to the bank. I asked Mr. Ridgely one time what answer was usually made to such a letter, and he said the answer was that some of the loans were paid and the others were going to be. After that the matter usually will be allowed to rest for six months, until the bank examiner comes around again. I think if any Comptroller had courage to revolutionize things, and perhaps make himself unpopular with the banks, he might insist that his representative should stay at an offending bank and see these things remedied. He has power to do that.

Mr. GILLESPIE. The trouble here is with the timidity of the Comptroller—that he is afraid to do that?

Mr. SEARS. I do not want to put it that way. I think the Comptroller is simply carrying out an old established custom.

Mr. GLASS. He is carrying out a custom instead of the law?

Mr. SEARS. No, sir; he carries out the law.

Mr. GLASS. Do you think that he carried out the law in the case of the Walsh bank in Chicago, when he was warning the bank for over two years that it was doing an illegal business?

Mr. SEARS. He was trying to carry out the law, but he showed unwise leniency in using the powers that he had. Those powers have not been used in an extreme way. It has been considered rather harsh to treat a financial institution so strenuously; and it is a serious thing to put it into the hands of a receiver.

Mr. GILLESPIE. It would seem that when they were thinking of doing that sort of thing they would say, "Here is the district attorney and here is the grand jury that is likely to get hold of us." Do you not think that is likely to have a different effect upon them?

Mr. SEARS. Yes; but still, when a man gets into a tight place I do not think he stops much to think about law.

Mr. GILLESPIE. This is to enable him to keep out of a tight place.

Mr. SEARS. Suppose he did it anyway?

Mr. GILLESPIE. Then nobody ought to show him any leniency whatever.

Mr. SEARS. Yes.

Mr. JAMES. You have given us the names of a number of gentlemen, directors in your bank, who would come under this provision as being officers in two corporations: but you could not supply us with the names of that vast throng of people who have a little bit of money in the banks, or the names of those people whose fortunes have been wrecked and everything taken from them by reason of the fact that men under such circumstances have acted in a double capacity and loaned money to themselves.

Mr. SEARS. I think they could get around that. They could appoint dummy directors of the corporations which were going to borrow. It is pretty hard to prevent it. You have got to depend after all in the main on character, you have got to have upright and honest men. I was speaking about corporations. I do not like to be personal too much, but I am a director in several corporations.

Mr. JAMES. This is on the theory of avoiding temptation.

Mr. SEARS. Yes. As I say, I am a director in several corporations that keep accounts in the Shawmut Bank. I never think of passing on a loan for one of them. I take it in to the president of the bank and say, "This corporation wants a loan of this amount."

Mr. JAMES. But this is not intended for men like you, but for the other fellow, who does not do that.

Mr. SEARS. Yes; but I think the result from section 11, and the evil effects on many banks, would be so great that I would rather trust to the powers that the Comptroller has to-day, as the gentleman on my left has suggested.

Mr. GLASS. The effect of this law would be simply to emasculate every bank directorate in the United States?

Mr. SEARS. Yes.

Mr. GLASS. It would practically deprive the bank of the services of every man who was competent?

Mr. SEARS. Every man who had risen to prominence in the community would be barred from this service.

Mr. CRAWFORD. Do you not think the service could be improved by giving the bank examiners salaries instead of fees?

Mr. SEARS. I do not know.

Mr. CRAWFORD. They have to be in a greater hurry in getting from point to point, do they not?

Mr. SEARS. The banks have to be inspected twice a year. You may say that it is a nuisance to have the examiners come into the bank, but we like to have them come.

Mr. GLASS. What you have said of your bank, and the gentlemen who compose the directorate, is largely true of every national bank in the country?

Mr. SEARS. I think so. The prominent men in any community are naturally directors of banks.

Mr. GLASS. Men who own bank stocks and are therefore eligible as directors are men of knowledge of conditions in the community, men of business interests, and men who borrow money?

Mr. SEARS. I think so. If I should take the directors of the bank that Mr. Weeks is interested in, I would find that same thing. He would lose the larger number of the men on his board of directors under section 11.

Mr. JAMES. Is it not true that many of these corporations are anxious to get men in as directors who are directors in these other institutions for the purpose of borrowing money in that way?

Mr. SEARS. May I trouble you to repeat that question?

Mr. JAMES. I say is it not true that corporations which are organized for the purpose of building railroads and promoting different enterprises and organizations get officers of the national banking associations in as officers in their corporations for the purpose of borrowing money?

Mr. SEARS. I have no doubt that is done at times.

Mr. WALDO. Is it not more usually because they want to get the deposits of the large corporations?

Mr. SEARS. That would be true just the reverse of the last reason.

Mr. WALDO. It is quite natural that they should look around the community and see who will do the most for the bank, and it is natural that they should pick out a prominent man in the community when there is a vacancy?

Mr. SEARS. That is true.

Mr. WALDO. The man who will do the most for the bank and bring the largest deposit, if they can get him, is the man that they want to fill the vacancy?

Mr. SEARS. Yes; that is largely true.

Mr. WEEKS. You have been in the banking business for a number of years?

Mr. SEARS. Yes.

Mr. WEEKS. I would like to ask you if you ever knew a bank director to put through a loan of a company with which he was connected without referring it to some other officer of the bank or the finance committee of the bank?

Mr. SEARS. I do not know actually of that, but I think you can remember instances where we believe that it was done.

Mr. WEEKS. No; but I have been thinking of that, and I do not recall an instance of that kind. The very fact that a man was connected with a corporation would lead him to submit that matter to his brother officers or to the finance committee of the bank.

Mr. SEARS. Yes; and with the proper officers of the bank they would see that that loan went before them.

Mr. GLASS. These are exceptional cases that you are speaking of, and not the rule.

Mr. JAMES. He would submit that to his fellows on the board with him because he would recognize the danger of his acting where he was personally interested.

Mr. SEARS. Not the danger, but the impropriety and possible danger.

The CHAIRMAN. Proceed, Mr. Sears.

Mr. SEARS. Somebody has said here, "Suppose commercial paper were used as a basis for the issue of circulating notes in the form of clearing-house certificates, or something of that kind, would it be paid when there was a panic?" Before I answer that may I say a word about what occurred last fall? I do not think it is fair to say that there was a commercial panic. The merchants stood up well and paid their notes. I think that almost every merchant paid his outside notes as they fell due. By "outside notes" I mean notes sold through brokers, or notes for money borrowed of any other than his deposit banks. We at least had no difficulty whatever of that kind. Now, there *was* a currency panic. There never was a day when there was not currency enough in the country to do the business, but a great deal of it was withdrawn by frightened depositors, and more, I think, was withheld by banks who feared there was going to be a run upon them. I do not want to name any particular part of the country, but statements were sent to our bank, and Mr. Weeks, I suppose, had many of them in his bank, showing that some banks had much more reserve than usual.

There was one bank in a distant State which issued a statement showing that they had 100 per cent of their liabilities in their vaults, and a number of others according to their statements had 50 per cent. I am not criticising them; they were frightened. They were not acting maliciously, but they were alarmed as to what might happen to them. Now, I think the banks of Boston were largely short of their reserves; that is, they were using them. If the banks outside of New York and Boston had used their currency freely I will not say that there would not have been any suspension of currency payments, but we would have been much more comfortable. We would have gone through the money stringency with much less trouble and suffering. The stringency occurred from an overexpansion of credit and from the locking up of too large a proportion of our assets in what we call fixed assets--that is, other than assets immediately convertible into cash. That was the cause of the money stringency. We should have gone through that all right. It began in August, and in October rates were still high, but there was currency enough for all legitimate purposes. But then came the currency scare, and that aggravated the money stringency.

The CHAIRMAN. Is it not true, or what are the facts in regard to this, that this last fall it was more a bankers' panic than we have ever had before in the history of the country?

Mr. SEARS. I should say so. In 1893 there were many more mercantile failures. This last fall the commercial failures were few, and were those of people who had grossly mismanaged their business and who were insolvent. The merchants had to get their banks to carry them, and their outside notes were met. This is the point I am getting at. When the bank puts up securities for clearing-house certificates—I think the questions that Mr. Weeks has asked looked in this direction—it is possible that these clearing-house certificates be used by the Government as a basis for circulating notes. Then those notes would be based on the very best paper that the banks have; because if the banks put up paper for this purpose, they would put up the best paper they had, and they would take a pride in doing it. I think the commercial paper that would be put up as security for clearing-house certificates, for whatever purpose the clearing-house certificates would be used, would be the best we had, and it would be met at maturity, and the clearing-house certificates based on 75 per cent of the face value of these securities would be absolutely safe.

I did not mean to talk so long to you. I just want to add a word in regard to interest on United States deposits. All that a bank makes on these is what little interest it gets on the bonds. If the bank puts up 2 per cent United States bonds to secure its deposits, those 2 per cent bonds at a slight premium pay less than 2 per cent, and that is all a bank makes on a Government deposit, because it can not earn any more on commercial paper than it could before it had the deposit.

The CHAIRMAN. It does not make all of that 2 per cent, does it? It is less the cost of the premium, and then you have to take other things into consideration.

Mr. SEARS. It depends also on whether the bank keeps its full reserve on those deposits.

The CHAIRMAN. On those notes it has to keep 5 per cent.

Mr. SEARS. Yes.

The CHAIRMAN. And then it does not keep them out all the time You mean the actual loss?

Mr. SEARS. Yes. It is not a serious matter, but the profit to banks is not so great as some people suppose, on Government deposits; and such deposits do not increase their loaning power at all, because they have to buy United States or other bonds. One point I would like to speak of to you gentlemen here. You want to bear in mind, it seems to me, in trying to deal with this currency question, the needs of certain sections of the country above others. There are two sources of profit to a bank, the use of deposits and the use of circulation. In the North, in our city for instance, we make our money from deposits. Outside of New York and Chicago and Boston, and the great centers, what the people of the country need is not so much more currency as more banking facilities. If you can devise a well-considered, safe scheme of asset currency that is not secured by the deposit of bonds, you will furnish a possible occasion for the establishment of a very large number of banks in the South and the West, where there are no deposits for them to make money on to-day. If you can give them a little profit on their circulation which does not now exist, you can make it possible to establish a large number of little banks in small places, where drafts can be negotiated with bills of lading for grain or cotton, or whatever it may be, so that the asset currency, or whatever you choose to call it, is largely a problem for the undeveloped sections of the country, where there is no possibility of obtaining large deposits. I suppose all you gentlemen are familiar with that idea, but it had not been spoken of in my hearing and I thought I would like to suggest it.

Mr. HAYES. I do not know whether you have stated, and I would like to ask you whether or not your bank carries any considerable amount of the bonds that would be required under the Aldrich bill?

Mr. SEARS. It has a considerable amount of bonds. I think banks ought to use their funds in commercial paper. We accommodate our depositors, we give them whatever accommodation they need and are entitled to have. We also buy a large amount of commercial paper from note brokers, and we do also carry a considerable amount in various bonds, I should say in the neighborhood of three million dollars. That is not a large part of our assets.

Mr. PRINCE. What are your total assets, from your last statement?

Mr. SEARS. The last statement to the Comptroller showed $70,000,000 assets.

Mr. HAYES. Are those bonds of the character this bill requires?

Mr. SEARS. To a certain extent.

The CHAIRMAN. Do you concur in the general opinion expressed by Mr. Hamlin as to the Aldrich bill?

Mr. SEARS. Yes, sir. I was present at that meeting of the Chamber of Commerce. I would like to explain one clause of their resolutions presented here, as to the guarantee by the Government of circulating notes. As a general principle, I do not like guarantees by the Government. In that case it means, simply, as I understand those resolutions, that the Government shall collect a sufficient tax from the banks, and be merely the distributing agent; not that the Govern-

ment shall itself imperil any of its resources, but that it shall simply collect a sufficient tax to guarantee these circulating notes.

The CHAIRMAN. That is not the position he took, because the resolution stated that the Government should guarantee the notes.

Mr. SEARS. The next section says that it shall collect a sufficient tax. Suppose the tax was not sufficient, the Government would increase it.

The CHAIRMAN. Would you have the Government guaranteeing any I O U of the banks?

Mr. SEARS. Not without an ample provision to reimburse the Government.

The CHAIRMAN. But do you approve of that principle of guaranteeing by the Government, whether it is secured or not?

Mr. SEARS. I do not know that I can put it better than I have done. I think the Government may act as the administrator of a certain trust, and that trust shall be to collect a sufficient tax from the bank to protect those notes.

Mr. WALDO. In other words, you think that the Government should merely be the trustee of the fund?

Mr. SEARS. That is all. It should not go beyond that.

Mr. GILLESPIE. What would you think of the guarantee of deposits?

Mr. SEARS. I do not think the Government should guarantee deposits any more than it should compel the grocers, for instance, to guarantee each other's debt to us.

Mr. GILLESPIE. Is not the note the debt of the bank?

Mr. SEARS. The note is the debt of the bank. The difference is just this: Any man who is intelligent enough to open a bank account, has intelligence enough to select good banks. If he does not, but deposits in banks where, because of high interest paid, or because of friendship, or for any other cause, there are excessive or unsafe loans made, I do not think you ought to protect him. I do not think you need to protect the general creditors of the bank. They are men of intelligence, and they can look out for themselves. But you do want to look out for the laborer in New Orleans, or the seamstress in New England, who may have a bank note paid to her.

Mr. GILLESPIE. Is it not just like you would offer them a check on a given bank? Suppose we had that system of bank-note obligations; every man would know that it was simply an obligation of the bank.

Mr. SEARS. I do not think ignorant people distinguish those points. A bank note is money to them.

The CHAIRMAN. Do you think there is any seamstress in Boston that is any less innocent in making a deposit in that bank than a seamstress in Denver that holds a note of that bank?

Mr. SEARS. Well, she has the opportunity to inquire; but I do not believe any of those people would ever accumulate enough money to deposit to make it a serious question.

The CHAIRMAN. It is serious to them.

Mr. SEARS. No. They would put their money in a savings bank. I do not believe that class of people are depositors to any extent.

The CHAIRMAN. That class of people must have a great deal of money. Take all that class of innocent people, laboring men and working women, who have no education; the great mass of the laboring people, of whom there are 15,000,000 in this country, know absolutely nothing about the true inwardness of banks, and they

have got their money deposited in banks. Are not they just as innocent, if they do not know what is inside of the bank, as the other creditors of the bank?

Mr. SEARS. They have their opportunity to inquire.

The CHAIRMAN. But they are just as innocent, are they not?

Mr. SEARS. Yes, they are just as innocent.

The CHAIRMAN. If you take that position, is it not absolutely wrong to have any examination whatever of banks? If you are going into a system of moral and financial responsibility, let the United States banker stand on his own footing, and take no precautions at all by examination. Why take any precautions at all?

Mr. SEARS. Why should not the Government which charters the bank take reasonable precautions to see that it is rightly managed?

The CHAIRMAN. The people think that it does, and many of the people who deposited in the national banks thought that they could not lose their deposits, because they were in a national bank.

Mr. SEARS. Yes. I believe that the examinations of the Government should be made so frequent and so searching that depositors would be protected. I think that should be done. There is a clause in the bill presented by the American Bankers' Association, not calling for any guarantee by the Government, but making the bank notes a preferred lien on the assets. I think probably that would not be needed, but that would make the notes absolutely secure.

The CHAIRMAN. Do you think that is fair to the depositor?

Mr. SEARS. I do. You can not make a law for 80,000,000 people which is going to do exact justice to every individual; but in the main I think the note holder has more claim on our protecting care than the depositor.

Mr. WALDO. That is merely because he is in all parts of the country and can not know anything about a local bank? That is the real reason?

Mr. SEARS. Yes.

Mr. CRAWFORD. But is it not true that all the people are interested in the soundness of every dollar that circulates, and that they are not interested in the obligation to any particular individual?

Mr. SEARS. I think that is true.

Mr. WALDO. If behind any emergency circulation a bank is permitted to issue up to the full amount of the funds that the draft can be drawn against, then there is no reason for a guaranty on either side.

Mr. SEARS. I think that is too big an undertaking.

Mr. WALDO. Of course that is true.

Mr. SEARS. I do not want to put the late president of the Mercantile Bank of New York on the same footing with A. B. Hepburn, of New York. I do not want to put John R. Walsh, of Chicago, on the same footing with James B. Forgan, of Chicago, and all other honorable men.

The CHAIRMAN. Do you think there would have been any John R. Walsh if you had had the proper supervision of banks in Chicago?

Mr. SEARS. Yes; but if there was proper supervision of the banks I do not think there would be any need of guaranteeing deposits.

The CHAIRMAN. These men did guarantee these deposits after he had done all these things; they went in and took their loss and guaranteed the deposits themselves.

Mr. SEARS. They did in that case.

The CHAIRMAN. Is there any case in which they did not do it in the last panic?

Mr. SEARS. Yes.

Mr. WEEKS. That was a case of self-preservation, was it not?

Mr. SEARS. Yes; I think they were afraid of a run on themselves.

The CHAIRMAN. Is it more important that the banks should be protected or that the depositors in the banks should be protected?

Mr. SEARS. They wanted to protect their depositors; but if it was not going to protect the banks of Chicago, if it had not been good business management, they would not have had a right to use the funds of their stockholders in that way.

The CHAIRMAN. If that was good policy, to take a loss of four or five millions, is it not far better policy to coinsure and prevent any such circumstances arising at all?

Mr. SEARS. I think the circumstances ought to be prevented in another way; and there are times when the banks do not step in. There have been a number of cases in our State of Massachusetts. The sentiment of bankers is very strong against revealing their affairs to others. I think it is mistakenly so. In my own city I should like to see the plan of Chicago examinations adopted, but I do not know of any other bankers who are in favor of it except ourselves. When you get right down to it, the real objection is that they do not like to have any committee or any other bankers know about their affairs. That feeling is unnecessary. I think it is wrong; I think it is mistaken.

Mr. WALDO. In the big districts where they have clearing houses they do have some such examinations, do they not?

Mr. SEARS. The clearing house has the power, but practically it never exercises it except when some bank appeals for assistance. They did not in New York until the banks asked for assistance; then they said: "Show your hand."

Mr. WALDO. If you had the banks under a district supervision, not necessarily the examinations that the Fowler bill now provides by a committee of the banks of each district, would not that largely prevent such wild schemes of banking, and would it not also lead practically to each district taking care of every bank, and seeing that it went into liquidation before it ever got to the condition of the Walsh banks.

Mr. SEARS. It would have that tendency, very strongly.

Mr. WALDO. So that the practical result of such a district supervision would be really a guaranty by that district that everything should be kept safe in that district?

Mr. SEARS. It would come pretty near to that, if you got the right men. I do not know what kind of men each district would select.

The CHAIRMAN. We have such men as Mr. Sears and Mr. Weeks in the Boston district. [Laughter.]

Mr. SEARS. Mr. Sears might be an unsuccessful candidate for that position.

The CHAIRMAN. Let me ask you if your bank is not the largest bank in Boston?

Mr. SEARS. Yes.

The CHAIRMAN. And Mr. Weeks's bank is the next largest?

Mr. SEARS. They are very nearly the same. Our capital is a little larger.

Mr. PRINCE. The language of section 6 of the Aldrich bill reads as follows:

Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury.

Do you regard that as wise? That in effect pledges the Government, by the written or engraved signature of the Treasurer and the impression of the seal of the Treasury, that the note will be redeemed by the United States in lawful money upon presentation at the Treasury. Assuming that 500,000,000 of this kind of notes are issued, or 1,000,000,000, as Mr. Glover said would be his idea, you would put that burden upon the present burden of the Government, to maintain all of its money in currency at a parity. Do you think you would be straining the Government any and impairing the gold basis by putting this burden upon it?

Mr. SEARS. I do not know that I should say that it made much difference whether the burden was placed on the Government or any other agency. I have said that I do not like a Government guaranty. I am one of those who believe in having the Government manage the business of individuals and corporations just as little as possible. I should like to see larger reserves kept.

Mr. PRINCE. You do not catch just what I mean. We have now so much silver that we have to maintain, which is merely worth 50 per cent, 50 cents on the dollar.

Mr. SEARS. Yes.

Mr. PRINCE. Then we have greenbacks worth 50 per cent on the dollar; we have $150,000,000 to redeem those or maintain them at a parity. We have $695,000,000 of national-bank notes now which can be redeemed, in a way, by the Government; which can and must be redeemed. Now, you would add to that a billion more of inflation currency, the burden of the redemption of which is placed upon the Treasury of the United States, to redeem it in lawful money, without providing for any gold on the part of the banks of issue, or providing for the raising or maintaining of any part of this gold for redemption purposes. Are you not going pretty rapidly toward the use of an endless chain, and forcing the Government to issue bonds to maintain the parity of this money?

Mr. SEARS. The Government would have the right, of course, immediately to call on the banks. Is that in case of a failure of a bank?

Mr. PRINCE. No; but if the Government has to pay this in lawful money, what has the bank?

Mr. SEARS. The bank presumably has assets.

Mr. PRINCE. But the bank must furnish lawful money. Where is the Government to get this extra billion of lawful money?

Mr. SEARS. It was Mr. Glover's idea, and I perhaps agree with him there, that no large amount would be presented. They would go home to the banks. If they came to the Government as they do to the banks now——

The CHAIRMAN. Do they go to the banks now?

Mr. SEARS. Yes.

The CHAIRMAN. Does it go over the counters of banks?

Mr. SEARS. Large notes do, and all notes go to the banks for redemption finally——

Mr. PRINCE. These are all small notes, fives, tens, and twenties. But this would be emergency currency to be used as currency by the people.

Mr. SEARS. It would, of course, add to the burden that comes on the gold reserve, whether such reserve be in the possession of the Government or in the possession of the banks. I believe in larger reserves in the banks.

Mr. PRINCE. Do you not think if this is emergency currency that the one who owes it ought to pay it instead of throwing the burden on the Government when we are in a stress?

Mr. SEARS. I think the bank of issue certainly ought to pay it.

Mr. PRINCE. I am taking the law as it is. It says that the Government must redeem this in lawful money.

Mr. SEARS. Just as the Government redeems the present bank notes in lawful money.

Mr. HAYES. It is not a pledge.

Mr. SEARS. Is it not pretty near a pledge?

Mr. GILLESPIE. National-bank notes are required to be redeemed at the Treasury in United States notes; that is, all of them?

Mr. SEARS. That is my impression. My impression is that it is intended to follow the custom of redeeming the present bank notes. All this is an added and additional strain on the reserve of the banks. I should like to see the banks required to keep larger reserves. I do not know that I am competent to give an opinion as to the banks in nonreserve cities. I think any bank which undertakes to keep the reserves of other banks as deposits ought to keep at least 25 per cent cash reserve. I should like to see my own city made a central reserve city, but the banks as a whole would not support the proposition.

Mr. PRINCE. These notes are interchangeable with bank notes—that is, with the present bank notes, are they not?

The CHAIRMAN. Yes; they may be redeemed in bank notes.

Mr. GILLESPIE. No.

The CHAIRMAN. They certainly are redeemable in bank notes.

Mr. SEARS. I did not suppose so.

Mr. CRAWFORD. It says "lawful money."

Mr. SEARS. It has been pointed out by a previous speaker that the Bank of England carries the ultimate reserves of the banks in England, and if the reserve of the Bank of England gets below 40 per cent, they take measures to increase it. I think any bank that carries the reserves of other banks ought to carry at least 25 per cent in cash, and I wish that all the reserve cities were either central reserve cities or not reserve cities at all. I would have been glad to see the bill introduced two years ago passed, dealing with that subject.

Mr. PRINCE. This bill, section 6, reads further:

> They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier.

It seems to be purposely omitted there that they should pay them in lawful money on demand.

The CHAIRMAN. It is either lawful money or national-bank notes, so far as the national banks are concerned.

Mr. SEARS. Apparently that is so. I presume that was not the intention, however.

The CHAIRMAN. What kind of redemption would you consider that?

Mr. SEARS. I should consider that no redemption. It should be in lawful money.

The CHAIRMAN. That would not be redemption at all, would it?

Mr. SEARS. No, sir.

Mr. PRINCE. On page 11, in section 8, we find these words:

Provided, however, That not more than one-third of the reserves required to be kept in the vaults of such associations shall be held in such securities.

Do you regard that as a safe reserve? When depositors wanted their money, would you tell them that one-sixth of the reserve was tied up in these bonds?

Mr. SEARS. No, sir; I said at the outset that I did not believe that a bond was a proper reserve for any bank. It is not as good as commercial paper for reserve.

Mr. PRINCE. Have you known, in your long experience as a banker, of any bank having in its possession good bond security, such as you would call gilt-edged, and yet the bank being unable to convert that into money with which to pay depositors?

Mr. SEARS. They can convert such bonds into money, sometimes at a large shrinkage in value, and the out-of-town banks do not convert them then; they hold on to them and borrow of their city banks.

Mr. PRINCE. They ask for help somewhere else?

Mr. SEARS. Yes; and the result is a heavier strain on the city banks because of that provision.

Mr. PRINCE. Then it is an improper provision?

Mr. SEARS. It seems to me nothing is more unwise.

Mr. PRINCE. What suggestion have you as to what this committee should do as to this question now before us? You have heard the questions asked and the answers made by various men here this morning. What suggestion have you to this committee for a proper measure as to the way, if any, to get out of it—what to do?

Mr. SEARS. I hope eventually to see something very much on the line of the American Bankers' Association bill. I differ with much reluctance with the chairman, whose great work I recognize in behalf of currency legislation. I do think it is not best to attempt too much at once. It seems to me a complete change in our currency system might unsettle public confidence. And I do not quite agree with Mr. Glover in thinking there is an emergency. I do not believe anything is going to happen this fall. The mercantile community is in pretty good condition. There have not been many failures, and I do not see why there should be many. They are liquidating their assets and getting into better shape all the time; and while it is true that the business outlook for this year is not good, and it is not going to be a good business year, yet if we have good crops, I do not see why another year is not very likely to bring us better things. Money will be firmer in the fall; it always is, because we undertake to do a larger amount of business; to move the crops. We have to ship a great deal of money south and west, but the burden does not fall very heavily on the mercantile community. They may have to pay as much as 6 or 7 per cent for their accommodation; very few have to pay more than that, and if they do, it is only on a small part of their liabilities.

What looks alarming is the high rate on demand loans in New York. I do not think that anybody should concern himself very seriously

about that. It is a symptom, in a way, but it affects only that class of borrowers for whom the banks care the least. The banks say "They have beaten us down to the lowest point, and have been getting their money for 1½ and 2 per cent; we shall not waste much sympathy on them if they have to pay us 40 or 50 per cent in the fall." The banks do loan money on the New York Stock Exchange. A bank has got to have some money where it can put its hand on it immediately. If the bank which I represent, and other large banks in Boston, had not had large amounts of money loaned last August on the New York Stock Exchange where they could call them in, and where they did get them in in an hour, we should not have been able to carry the mercantile community through as we did. We carried them through in Boston and made up their pay rolls for them. We had large demand loans and we called them in. I have seen a demand loan called in which was drawing 60 per cent, in order to make a loan to a merchant at 5½ per cent. We do this by having large loans that we can call at once. New York is the only place where we can call our loans in that way.

Mr. PRINCE. What is your suggestion as to what this committee should do?

Mr. SEARS. Not believing that any emergency is likely to exist this fall, and as I do believe that there is hardly time to consider thoroughly a currency measure, it seems to me wise that a commission should be appointed. I do not believe any emergency measure is needed. I may be mistaken. I have great respect for Mr. Glover's opinion, but with the great lessening of the volume of business that is coming, it seems to me that demands on the banks this fall will not exceed what they can take care of, and I do not believe that another currency panic is coming for years.

Mr. PRINCE. You are living in a city that is in the midst of commercial activities, while Mr. Glover resides in a city that is a good deal like a nice little place in an eddy, where the current is not moving very rapidly.

Mr. SEARS. I know business men are contracting their liabilities. I know that they were advised to do so more than a year ago. I know that banks in New York were calling in customers and advising that they contract their indebtedness and reduce their stocks of merchandise. I have done that, and I know other bankers were doing it. Now, people have seen the necessity of doing that very thing of liquidating their affairs somewhat and getting themselves into better shape, and I believe they have done it; and prices have declined, and it does not take so much money to do the business as it did a year ago. I am not alarmed myself as to the situation this fall.

Mr. HAYES. I want to ask Mr. Sears, as an old banker and a man of great experience, if he thinks, supposing the Aldrich bill were to become a law, that the effect of that would be that the ordinary banks, I mean all over the country, would be less careful about how they managed their affairs, for instance during the summer and early part of the fall, they relying upon this bill and the opportunity which it would give to get emergency currency in case trouble came?

Mr. SEARS. I hardly feel so. I think the large banks, the banks in the large cities, would prefer not to be driven to take out circulation and pay 6 per cent on it. We would prefer not to do so. In an emergency, when it comes to providing a pay roll for our customers, we will provide that, whatever it costs; but we would prefer not to

take out currency under those conditions. And the smaller banks, I think, will rely mainly on the larger ones for taking care of them and providing their currency, as they have always done. What I am afraid of is that some banks might be tempted by the larger percentage of income—I presume they could get 4 per cent on some of their bonds—to invest a part of their reserves in bonds to get 4 per cent, instead of 2 per cent in New York.

The CHAIRMAN. I suppose if this bill should become a law the inevitable result of it would be, if any currency is taken out, to greatly raise the rate of discount.

Mr. SEARS. Yes.

Mr. HAYES. Would not that be general over the country? While that circulation is taken out, would it not have a tendency to raise the rate throughout the year?

Mr. SEARS. It would have some tendency that way.

The CHAIRMAN. The tendency, the general tendency, would be that interest rates should be raised as the result of it?

Mr. SEARS. It would have that tendency. The borrower pays the tax.

Mr. WALDO. I want to ask Mr. Sears whether he is in favor of the final adoption of some credit currency system, not necessarily any that is before us.

Mr. SEARS. I am in favor of the adoption of something on the lines of the American Bankers' Association bill.

Mr. WALDO. But that simply gives a small amount of currency on top of the present circulation?

Mr. SEARS. Yes, sir.

Mr. WALDO. Would you be in favor of doing away with the present national bank-note system, and having it all credit currency eventually?

Mr. SEARS. I should hope to; but before making my final decision I should want to wait and see the result of that experiment.

The CHAIRMAN. What would it have done last fall? It only provides for about two hundred and forty millions, and as near as I can find out about clearing-house certificates, all told in various ways we used about five hundred and twenty-five millions. What would have been the result last fall? Would it have saved us from trouble? I am not quite clear in that statement, because I did not include that last.

Mr. SEARS. If there had been no currency panic, this credit currency would have been ample.

The CHAIRMAN. Would not that have prevented the panic?

Mr. SEARS. I should hope it would. Hindsight is better than foresight, but it is my impression that that is what we shall ultimately come to, a currency based on our assets. Certain things ought to be done; we want to improve and extend our system of redemptions. We want to have the examinations of banks frequent and searching, the redemption easy and quick and inexpensive; and that tax on circulation, as you, Mr. Chairman, have very ably argued, would provide means for these, in my judgment. And we want the legal-tender quality taken away from bank notes as far as possible; we want that they should stand on the same basis as checks against deposits.

Here is one thing which is very important, we want that national-bank notes should not be used for the reserves of trust companies.

The CHAIRMAN. Will you tell me how you are going to effect that? That is what I would like to find out, how we are going to prevent national-bank notes from being used as reserves of State banks and trust companies.

Mr. SEARS. I do not know. I suppose that it would be impossible for the United States, for Congress, to pass a law that would prevent the States from allowing that in the State institutions.

The CHAIRMAN. That is the greatest peril of the hour, is it not, in the financial world?

Mr. SEARS. It is one of the great financial perils.

The CHAIRMAN. I am glad you spoke of that.

Mr. SEARS. That is a very important matter, and perhaps it needs the cooperation of the States.

The CHAIRMAN. Which is impossible, of course.

Mr. WALDO. What amount of reserves do you believe ought to be kept in the large cities of the country?

Mr. SEARS. Twenty-five per cent cash reserves; and any well-managed large bank will keep a large amount of its other assets in quickly maturing paper or demand loans in addition to that——

Mr. WALDO. What amount do you think should be kept in the reserves?

Mr. SEARS. Twenty-five per cent ought to be sufficient if banks are wisely managed and have other resources at hand.

Mr. WALDO. What amount should be kept in the banks in the rest of the country?

Mr. SEARS. I have had no experience on those lines, and I do not want to say that the present reserve is not sufficient. It looks small to me, because I have always been in a city.

Mr. WALDO. There is three-fourths of it, is there not, or three-fifths of it, which can be sent into the central reserve cities?

Mr. SEARS. Yes; or the reserve cities.

Mr. WALDO. When it gets to the central reserve cities, 75 per cent of the money sent in can be then loaned by the reserve banks, and it becomes then an ordinary deposit?

Mr. SEARS. Yes; and the banks in the reserve cities have only 12½ per cent and not 25 per cent cash reserve. The reserve cities send half of their reserves to the central reserve cities.

Mr. WALDO. Yes; so that 75 per cent of whatever reserves accumulate in the central reserve cities will disappear?

Mr. SEARS. Yes, it will be loaned; and half of it will have been sent to the central reserve cities by the reserve cities.

Mr. WALDO. So that the result of the present operation is to secure the disappearance of that much in loans, or perhaps permanent investment?

Mr. SEARS. Yes.

Mr. WALDO. Ought there not to be some legislation, either requiring other reserves, or preventing that process?

Mr. SEARS. I think I said a while ago that it seems to me every bank that carries reserves for other banks ought to carry at least 25 per cent reserve in cash. These banks in the reserve cities—Baltimore, Philadelphia, and Boston—ought to carry their full reserves in their vaults instead of carrying half of them in New York, Chicago,

or St. Louis. A deposit in St. Louis last fall was of no use to us. Either the National Shawmut Bank or the First National Bank of Boston could legally have had half of its reserve in St. Louis.

Mr. WALDO. And it would have been absolutely useless to you in case of this panic?

Mr. SEARS. Yes.

Mr. WALDO. Under any scheme that could be devised, would not the immediate necessity of the banks probably be over before you got this currency back from Washington?

Mr. SEARS. The currency panic lasted nearly sixty days. If all the machinery was ready for operation, it would not take many days, perhaps, to get the currency.

Mr. WALDO. Is it not a matter of fact that during this last panic many of the national banks that attempted to get additional currency by the deposit of Government bonds were unable to get the currency until some time in January?

Mr. SEARS. Largely so because they had not the machinery ready to start out. It takes thirty days to print the currency.

Mr. WALDO. Referring to Mr. Glover's statement, that this Aldrich bill ought to be passed to meet an expected panic this coming fall, are you aware that the Government office would need two years in order to have plates made in order to meet the demands of the Aldrich bill?

Mr. SEARS. I was not aware of it.

Mr. WALDO. That is what they state there.

The CHAIRMAN. To put you right, they have corrected that. I went to see Mr. Treat yesterday, and he said he thought they could have half of the plates for half of the banks ready in November.

Mr. WALDO. That would not be of any use under the terms of the bill. They have got to have them distributed throughout the country, and they have got to have them all before they can use any.

The CHAIRMAN. I was going to ask Mr. Glover about that. Mr. Treat told me this yesterday. Pardon me for interrupting you.

Mr. WALDO. Then, with the plates all ready, under the present circumstances, the money not being printed, it would take some time from the beginning of the panic until some time in January to get the bills from plates that were ready.

Mr. SEARS. Not quite from the beginning of the panic. I think it could be done in thirty days, perhaps. The panic lasted sixty days.

Mr. WALDO. I do not know whether this is matter of record or not, but some bankers have been here who stated the fact to me that they applied almost at the beginning of the panic and did not get the bills until January. Was not that so, Mr. Glass.

Mr. GLASS. Yes; that statement was made here.

Mr. CRAWFORD. In that case, why could not the Government furnish the uniform issue to all the banks? What would be the difference? Would not that eliminate this difficulty?

Mr. SEARS. I should have to stop and think about that a little while. That is a new idea. Of course I can see that each bank would be responsible for a proportional amount only, and its liabilities, therefore, should not be any greater. I should want to think that over before venturing an opinion. It might work out all right.

Mr. WEEKS. I would like to ask you one question which has not anything to do with what we have been discussing. I want your opinion. Under the law as it now exists, when currency comes in,

worn-out, or for any other reason, it is reprinted and put out at once by the Secretary of the Treasury, is it not? Supposing the Secretary of the Treasury were allowed to use his judgment and he believed there was a redundancy of the currency which would enable him to hold up, or which did not compel him to put out in affirmative form, currency at once, do you think that would act as a balance wheel and have a good effect?

Mr. SEARS. I do not like putting so great a responsibility on any one man, no matter how able and honest he may be. He may make a mistake. And it seems to me that the whole matter of elastic currency ought to be made as automatic as possible, and I believe, with the prompt and efficient redemption of bank notes and the prohibition of their use as reserves by trust companies, and the removal of the legal-tender quality from them, that they would act very much as bank checks now act. I have seen $10,000,000 of business in Boston settled in one day by the payment in the clearing house of $251 actual cash.

Mr. WALDO. I saw a statement here within three or four days of some western town where they had a clearing house, and on that day they settled up their balances among the different banks, and there was not a single dollar to be paid over, when they adjusted all their accounts; which never occurred before, and they never expected it would occur again.

Mr. SEARS. I do not see exactly how that could be. Settlements are sometimes made by checks, however.

Mr. CRAWFORD. What do you think produced all this trouble so far as you can see?

Mr. SEARS. As I said I think the monetary stringency which began in August arose from the over expansion of credit, and the putting of too much of our money in fixed assets. A manufacturer would put too large an amount of money into his factory, and he had not quick capital enough; and the towns have spent money for parks and all sorts of luxuries, very nice things, but I think too much money got tied up in that way, and there was not quick capital enough to do the business. You take a man that has $100,000 capital, and he puts up a $150,000 factory, and he is short of money. I think the country as a whole got into that condition.

Mr. CRAWFORD. Is there any remedy for that kind of thing?

Mr. SEARS. No, sir; it will come in years of prosperous business. But there was no commercial panic. The cause of the currency trouble was that the people who controlled certain banks in New York were found out to have used those banks improperly, and the people got scared, not so much as to the ultimate payment of the deposits, but they were afraid of not getting currency enough for their business. That was the cause of the currency trouble, I believe.

(On motion of Mr. Weeks, the thanks of the committee were by unanimous vote extended to Mr. Sears for his statement.)

At 1.55 o'clock p. m. the committee took a recess until 2.45 o'clock p. m.

Monday, April 13, 1908.

The committee met at 2.45 o'clock p. m., pursuant to the taking of recess, Hon. Charles N. Fowler (chairman) presiding.

STATEMENT OF MR. ALEXANDER GILBERT, PRESIDENT OF THE NEW YORK CLEARING HOUSE.

Mr. PRINCE. Can you give us any idea of how many banks are connected, directly and indirectly, with the New York Clearing House Association?

Mr. GILBERT. I will not undertake to speak definitely. I think there are about fifty-two.

Mr. PRINCE. You appear not only for the city, but for other cities nearby there?

Mr. GILBERT. We have one or two banks, I think, in the Bronx and one or two in Jersey City, besides the members in New York.

Mr. PRINCE. Yes. The Clearing House Association practically represents the banks of New York City?

Mr. GILBERT. It does. I will commence by saying that I feel I am speaking under considerable disadvantage inasmuch as the whole subject has been so thoroughly gone over by those who appeared here this morning, and of course you will all admit that when a man feels that he has got to say what has been so well said so many times, he is likely to feel that he is guilty of a good deal of repetition; and I feel that I am somewhat under a disadvantage, too, inasmuch as I am pressed for want of time, and your committee are not all here. But I will speak as directly as possible and say that I am opposed to the passage of the Aldrich bill, and so far as I am able to learn the bankers of New York as a rule are opposed to the passage of the bill. I am quite sure that the representatives of all the commercial banks are opposed to it. We are opposed to it first because we do not believe that it can possibly become operative, not for the reason advanced by Mr. Glover here this morning, but for the reason that the cost of taking out the currency under the Aldrich bill would prevent its ever, except in the direst emergency, offering an inducement for a commercial bank to make application for circulation under the provisions of that act. I will say, as a representative of the clearing house, that when we took out, or voted to take out, during the recent panic, clearing-house certificates, we hesitated until the very last moment, not only because it imposed a tax of 6 per cent upon the

banks, but because we were fearful that the issuance of clearing-house certificates by the New York Clearing House would result in a suspension of cash payments throughout the country, owing to the fact that all of the clearing houses of the country would follow New York's lead; and you will notice that just as soon as the panicky conditions were modified sufficiently to make possible a gradual liquidation of those clearing-house certificates, the bankers were eager, in order to save the 6 per cent interest, to retire them as quickly as possible, and I want to fix firmly in your mind the idea that the retirement of the clearing-house certificates is quick, just as quick as possible, and that no banker will consent to pay that interest one day longer than is essentially necessary; and the cost of taking out the Aldrich bill currency, in my judgment, would operate against the taking out of currency under the provisions of that act to a very great degree. And there is not only the cost but the risk of loss. Every commercial bank realizes that there is a great risk there. The gentleman who sat in the chair on my left this morning asked the question, What is the difference between the loss on commercial paper as an investment and on bonds as an investment? I can give you my experience, and I have looked into that quite recently myself, to satisfy my own judgment as to that question. I went thoroughly into it, and I ascertained that during the year 1907, which you will all admit was a year which would entail greater losses upon banks than any normal year, we discounted during that year from 25 to 30 millions of commercial paper, purely commercial paper, and that at the expiration of the year, and I will say including the losses during the first quarter of this year, the total was not over one-fifth of 1 per cent. The custom of my bank is to charge off everything at the expiration of every quarter that is under suspension—not absolutely lost, but all the paper that is under suspension—a large portion of which we hope to recover later on; and I can say definitely that the losses which our bank incurred during the panic year of 1907, including the losses charged to profit and loss during the first quarter of 1908, amounted to not over one-fifth of 1 per cent.

Mr. PRINCE. Please state what the name of your bank is.

Mr. GILBERT. The Market and Fulton National Bank. I am happy to say that I represent a bank that is purely commercial. We have $1,600,000 surplus. Our deposits run up to about 9 or 10 millions, and we discount from 25 to 30 millions of commercial paper during the year.

During the years 1905 and 1906, which were years of excitement and stringent money part of the time but not all of the time, I thought that I would take advantage of a little surplus money that I had and invest in some New York City bonds, the idea in my mind being to avail myself of Government deposits if money got very stringent in the fall. I invested $500,000 in those New York City bonds. During the year 1907, toward the midsummer, panicky conditions became acute, and my judgment was that I ought to sell those bonds and get ready for the fall, for I could see what every conservative banker in New York had seen for more than a year and a half, that this panic outbreak was something that was sure to come, and that it could not be escaped. So in the year 1907 I sold my New York City bonds, and the loss on the New York City bonds was 1.3 per cent. Had I kept them until this time, taking into consideration the recovery that has

already taken place in the price of bonds, the loss would have been 13.3 per cent. Now, I gave you these figures accurately, because I have gone into it definitely.

I am opposed to the Aldrich bill not only because I think that it can never become operative, but, secondly, because it introduces a very unwise principle in the banking business of the country. I will not say it is a vicious principle, as some of the speakers characterized it this morning, but I say it is a very unwise principle to legislate so as to encourage commercial banks to invest any part of their assets in bonds. I speak from my own experience, and I want you to understand that I am in point of service the oldest member of the New York clearing house. I may not look it, but when I was elected president of the New York clearing house it was in my power to say: "Gentlemen, you may be surprised when I make this statement to you, that of all the men who attended the first meeting of the clearing house which I attended not one beside myself is living to-day;" and that experience has carried me through the panic of 1873 and every subsequent panic. I will say that twice a year, as a rule, in the spring and in the fall, when money is in great demand and stringent conditions prevail, it is very difficult for commercial banks to maintain their lawful money reserve, simply because the commercial demands of the country are so great, and anything which encourages commercial banks to invest any part of their assets in bonds will make it just so much more difficult once or twice each year for them to accommodate their customers and maintain easily their lawful money reserve. Now, you all know that everything a bank holds is payable on demand, and that its assets should always be kept in liquid shape, in the most liquid shape, and it is almost impossible for banks to invest in bonds and keep their assets in liquid shape. I was very much interested in listening to Mr. Sears's talk to you this morning, and I felt that I was just sufficiently older in the banking business than he to tell him something interesting. During the panic of 1873 one of the banks which afterwards was taken into the combination which now is known as the National Shawmut Bank sent $100,000 worth of United States bonds to me for sale, and I went myself among those banking houses in Wall street with those bonds, and I could not get a bid for them. That was my own experience.

Mr. HAYES. This was in 1877?

Mr. GILBERT. In 1873, when the clearing house for a week was closed.

Mr. HAYES. Yes.

Mr. GILBERT. Another objection which I have to the bill is that it seeks to perpetuate a system which the conservative banking judgment of the country has not only criticised adversely for the past ten years, but which it has been trying to find some way to get rid of, and this proposition of Senator Aldrich not only seeks to perpetuate that system, but it seeks to perpetuate it by introducing into the system an inferior security to that which is now used for currency purposes. It might be as well for me to say, in order to fix this thought clearly in your minds, that a scarcity of currency does not create panics any more than an issuance of emergency currency can prevent panics. Now, I know that the notion largely prevails that in time of panic, or the approach of a panic, it can be prevented by the

issuance of emergency currency. When rates are high and when money is almost unobtainable, it is not because there is a scarcity of currency; it is because there is a scarcity of banking credit. When Wall street pays from 50 to 75 or 100 per cent for call money, it is because there is not a sufficient amount of banking credit to enable them to finance their operations, and I might say also that the guarantee of desposits, in my judgment, will not prevent a run on banking institutions.

Panics are not created by a sudden fear that takes possession of people that they will not ultimately be able to get their money out of the banks. Panics are created by reason of the fact that too great a strain has been put upon the banking credit of the country through a prolonged season of business excess; and somehow or other depositors in banks intuitively are able to put their hands right on the weak place, and when runs on banking institutions take place they are generally on the right institutions, on the institutions which, through bad management and unwise speculation, have neglected to safeguard themselves until the panic makes its appearance; and then, when they cry for help, no help comes to sustain them. When the Knickerbocker Trust Company applied for help they could not get it. Somehow or other the public found it out, and they commenced a run right away. When the Mercantile Bank applied for help they could get it, because the banks offered to help them under certain conditions. And so with the Bank of North America. The people knew where the weak places were, and they commenced to run on those institutions; but none of the solvent, strong institutions of New York, and very few throughout the country, had any trouble so far as being run upon by depositors was concerned. The fear on the part of a depositor is not that he may not ultimately get his money, but the fear is, if there is any suspicion created in the mind of the general public about an institution, that they may not get it now, when they want it. You understand that the provision to guarantee deposits does not propose to pay a depositor just as soon as the bank gets in trouble. I am speaking now of the guarantee against the deposits, that guarantee against ultimate loss; but people want to put their money in banks where they do not have to wait until the ultimate loss can be ascertained; and so I think that the ultimate guarantee of deposits would not be, under a wise and beneficent system, such as is provided, for instance, in the Fowler bill, a premium on bad banking.

My own experience with regard to the panic of 1907 was this, and from that experience I think I would be justified in saying that the time will never come in the history of this country, so long as the present banking system prevails, when clearing-house certificates will not be essentially necessary in time of panic. I do not know of any other relief under our present banking system that would hold the panic in check, that would stop it immediately, and I want to emphasize, gentlemen, in your minds this thought—that the effect is immediate. There is no postponement of it. Just as soon as the business public are apprised of the fact that the clearing house has met and resolved to issue clearing-house certificates, the panic conditions are allayed. They know that a sufficient amount of banking credit will be obtainable to enable them to meet their maturing obligations.

Now, the hoarding of money is not entirely owing to the fact that people who are afraid that their deposits are not safe in banks draw it out and lock it up, either for profit or for safety, but it is largely owing to the fact that business men as well reason that while their bank is entirely solvent and there is no danger of their losing, still there may be some difficulty in their getting currency, and they say, "Instead of depositing my currency in bank, as I generally do, I will deposit it in my own till, and I will withdraw a little currency from the bank and put it in the till also, so that I may have it when the time comes." But by far the largest cause of currency hoarding is the fact that the banks throughout the country all proceed to fortify themselves. There are 6,600 national banks, all of them outside of New York, hoarding centers—I will not say all of them, but the majority of them, hoarding centers—dominated by an idea of self-preservation, each seeking to fortify its own reserves. And why is that? Simply because there is no central agency of relief to which they can apply for help in time of trouble. Every banker feels that he must stand alone. In October, 1907, when the clearing house of New York resolved to issue clearing-house certificates, the panic was at its height. Our lawful money reserve had been decreased $54,000,000. We were trying very hard to postpone the necessity of issuing clearing-house certificates, and we postponed the issuance of these certificates three or four days longer than we should have done; but our reserve was being rapidly depleted.

I want to correct an idea that prevails in Washington considerably, that prevails in both Houses of Congress, or at least I judge so from speeches I have read from time to time of different Members, to the effect that cash payments were immediately suspended in New York, and that clearing-house certificates were taken out to help Wall street speculation. Now, cash payments were not entirely suspended in New York, and I want to say, and say it with a good deal of confidence, that quite a number of banks did not suspend cash payments at all. Quite a number of banks took out clearing-house certificates for the purpose of paying for the importation of gold and the purchase of currency. My own bank was one of them, and I know a number of others who did the same thing. We kept up our cash payments over the counter, and we accommodated our manufacturers with their pay rolls just as usual, and we charged the cost of it to profit and loss, knowing that it would not only help our customers, but that it would be the very best advertisement we could make of the bank. And I want to say also in regard to the statement that has been frequently urged in Congress, that the national banks aided and abetted speculation with their clearing-house certificates, that nothing could be further from the truth. Of course there are some of those large banks that are intimately associated with Wall street business, which is not entirely illegitimate. There is a good deal of legitimate business in Wall street. The great banking houses and great Wall street institutions do largely a legitimate business, and their accounts are with stock-exchange houses, and in the hour of panic it is just as essential that the weak spot in Wall street should be protected as that a weak bank should be protected or that a weak mercantile firm should be protected. And it is to be said to the glory of the New York Clearing House that they made no distinction as to the locality of the

weak places. If a weak spot was in Wall street, they were ready to help it, and if it was a bank or trust company they were ready to help it. During that panic a number of mercantile houses came to us and said they were unable to get along further without assistance, and we helped them. The trust companies came to us, although for a number of years they had not been affiliated with us very closely; they came to us and we helped them. And so when a cry of distress came up from Wall street, we were bound to help them, not only because Wall street needed help but because it was essential that we should strengthen all the weak places in order that there should be no extension of panicky conditions. And I want to say further, and I wish I could ring it through both Houses of Congress so that every man, every Member, could hear it, that there is no more conservative, patriotic body of men doing business in this country or any other country than the men who make up the membership of the New York Clearing House, and the men who represent them in this executive committee are men of intelligence and strength and character.

Now, just a word about my own views as to what I think should be done. I noticed you asked that question of nearly every gentleman who appeared before you this morning, and I presume you will ask it of me. I am going to anticipate it. I have told you that I am not in favor of the Aldrich bill. I never can be in favor of it. I oppose the provision which I have already referred to. I oppose section 8, and I oppose section 11. I oppose section 8 because it introduces a very dangerous principle, which provides that a part of the reserve fund of the banks may be invested in these bonds, practically weakening the reserve fund of the national banks. I am fearful, gentlemen, that, in spite of all the opposition that has been expressed to you here during the past week, the Aldrich bill finally may become a law. If I thought there was no danger of that, then I would say, "Do nothing." I do not believe there is the slightest danger of the recurrence of another panic for some time to come. Conditions are very, very different from what they have been for a number of years. During the past five or six years, as you all know, there has been a great deal of business excess, and every panic is the result of business excess. It was business excess in 1873 and it was business excess in 1884 and again in 1901, and nearly every panic that I have passed through has been the result of business excess. It has not been scarcity of currency; it has not been any other cause than business excess. Scarcity of currency is one of the effects of panic; it is not a cause.

Mr. GILLESPIE. You did not speak of 1893.

Mr. GILBERT. I would add 1893, as well. If there had not been business excess, the troubles that prevailed at that time with regard to our Treasury conditions, the silver agitation would not have made it as disastrous as it was, in my judgment. Another fact that has not been touched upon—and I have thought it over very carefully—if there is any danger at all in your minds of the passage of the Aldrich bill, it certainly ought to be amended, not only with regard to the two sections which I have referred to, but there ought to be added an amendment which would provide, in addition to the bonds called for as a basis for circulation, for the issuance of clearing-house certificates, the use of clearing-house certificates for that purpose as well.

Mr. McMORRAN. What are your reasons for thinking that this bill is going to pass the House?

Mr. GILBERT. Perhaps it is only based on my apprehension. I think that political influence is strong enough to force it through; that is why. It is simply an apprehension on my part.

Mr. McMORRAN. It is a question of politics only?

Mr. GILBERT. I would not say that. That would not be respectful to Congress. But I drew up before I left home those amendments which, for reasons I have expressed to you, I would like to see added to that bill if it becomes a law. Right after the word "Manila," in line 13 on page 4 of the bill, I would add the following:

And clearing-house certificates issued by any clearing-house association of any central reserve city, representing the deposit of commercial paper, otherwise known as promissory notes, with such clearing-house association, which commercial paper is held by said clearing-house association to secure the payment of said clearing-house certificates, the total amount of said certificates not being in excess of seventy-five per centum of the amount of commercial paper deposited to secure the same, and are further guaranteed by the joint guarantee of all the banks, members of said clearing-house association.

Mr. WEEKS. Why do you limit that to central reserve cities?

Mr. GILBERT. For this reason. I think central reserve cities can furnish all the emergency currency that is required, and they carry the 25 per cent reserve; and it will prevent this suspension of cash payments by the issuance of clearing-house certificates by all the minor clearing houses throughout the country. I thought at the time I confined it to the central reserve cities that it might possibly be wise—and that is something for you to think about—to include four or five of the largest cities of the reserve class, such as Boston and Philadelphia and Pittsburg and Cincinnati and San Francisco; but among the reserve cities there are a very large number which have only two or three banks, and I do not think it would be wise to include all the reserve cities. My judgment is that the central reserve cities would be able to issue all the emergency currency that would be required.

Mr. HAYES. You would not think that that would be true of San Francisco, for example, so far removed from any central reserve city?

Mr. GILBERT. No; but San Francisco seems to be a city by itself. It maintains gold payments right through every panic, and they do not seem to require any assistance. A San Francisco banker was in my office two or three weeks ago and he was boasting of the fact that San Francisco needed no help; that they had all the currency they required, and were on a gold basis all the time.

Mr. HAYES. That was not quite true.

Mr. WALDO. One San Francisco gentleman told me that he sent down to a New York bank for $100,000 of currency and he could not get it, and he had to buy it.

Mr. GILBERT. The fact that New York was so low in its reserves made it very creditable that they held their doors open as they did.

Mr. WALDO. They had a vacation in California.

Mr. HAYES. Yes.

Mr. WALDO. How many days did they have a vacation in California?

Mr. HAYES. I do not remember. A whole month, I believe.

The CHAIRMAN. I would like to have the record corrected, in the light of this statement that Mr. Gilbert has made with regard to this

matter, because I think we ought to bring it into conformity with history.

Mr. GILBERT. He perhaps counted the long vacation they had as one of the favorable influences in California.

The CHAIRMAN. San Francisco also issued clearing-house certificates to the extent of I do not know how many million dollars' worth.

Mr. PRINCE. The amendment that you suggest would be the means of getting emergency currency, would it not?

Mr. GILBERT. Yes.

Mr. PRINCE. And they would not avail themselves of the other provisions of the bill?

Mr. GILBERT. No, sir; they would not.

Mr. PRINCE. So that what you are suggesting would practically do away with the bill?

Mr. GILBERT. No, sir; I leave Mr. Aldrich in the proud possession of his bill, but I simply suggest this amendment.

Mr. PRINCE. It would do away with the provisions of his bill if the amendment, as you offer it, is accepted?

Mr. GILBERT. I would give anyone that wanted to take out this emergency currency the practical ability to do so, and I believe if I could reason this over with Senator Aldrich he would accept the amendment.

Mr. GILLESPIE. These clearing-house certificates have all, practically, been redeemed now and taken in?

Mr. GILBERT. Yes.

Mr. GILLESPIE. If you issue these clearing-house certificates, that nobody is compelled to take, you can gather them in again pretty soon after the emergency has ceased which called for their existence; but if you substituted for them the notes of the Aldrich bill, providing they shall be legal tender among the banks and be redeemed by the United States Government in lawful money, could you get them back as easily?

Mr. GILBERT. Very easily. The same principle which works in regard to the issuance of clearing-house certificates now——

Mr. GILLESPIE. You can get the clearing-house certificates back easily. A clearing-house certificate is merely a commercial check.

Mr. GILBERT. We could deposit the money with the Government and redeem them at once, and they would cancel them as they came in. In either case contraction of the currency would be the result. We would take the money out of the reserves. We would want to stop the interest.

Mr. GILLESPIE. Would not the reserve money be accumulating here all the time in the Treasury as a special fund?

Mr. GILBERT. I do not think so. The redemption of national-bank notes is much faster than you gentlemen, perhaps, imagine.

Mr. WALDO. When you had deposited your reserve money to take up these currency notes, would there be anything then to drive them back there? I do not see how there would be.

Mr. GILBERT. The national-bank notes are pouring into the Comptroller's office all the time for redemption.

Mr. HAYES. Only those that are soiled and are worn out so that they have to be destroyed.

Mr. GILBERT. One half of our circulation, and I think the rule applies to all the banks, is renewed annually. According to the Comp-

troller's last statement, it is 50 per cent of the circulation. Now, instead of sending back new circulation, reissuing it, he would simply cancel those notes.

Mr. HAYES. Is it not true that these bank notes that are sent in for redemption are bank notes that are nearly destroyed, which are sent in for reissue?

Mr. GILBERT. But he could cancel them, destroy them, and not reissue, until all our emergency currency had been retired.

Mr. HAYES. Yes; if you let him cancel the bank notes.

Mr. GILBERT. Of course, the notes would be issued under the provisions of the national-banking law, and they would be all alike.

Mr. MCMORRAN. In the early part of your remarks you made the statement that you thought the majority of the banks in New York were against the Aldrich bill. Do you include in that what is known as the Morgan group and the Standard Oil group?

Mr. GILBERT. I would not like to say that I do, and I would not like to say that I do not. I do not know what is the attitude of those larger banks. I am glad you asked that question, for this reason, that the larger banks of the country practically do not represent the commercial banks of the country. The commercial banks are the banks of moderate capital and moderate circumstances.

Mr. WEEKS. Will you not limit that to New York City?

Mr. GILBERT. I do not know that I should. When I speak of larger banks I mean banks having from $5,000,000 of capital upwards.

Mr. WEEKS. There are only half a dozen of those.

Mr. GILBERT. And even in New York it is only the very large banks that I would say might possibly be in favor of the Aldrich bill. I do not know that, and I would not like to say it; but I want to say this, that during the very worst season of the panic, at a meeting of the clearing-house committee, when the trouble for lack of currency seemed to be at its height, and currency could not be obtained throughout the country for pay rolls, and so forth, I said to our committee: "If you gentlemen will agree with me, I would like to take the train and go on to Washington and suggest to the right people there that if they will allow us to extend our clearing-house system so that we could use it for the taking out of national-bank notes, that would remedy this scarcity of currency within two weeks." And we could have done it, just confining it to the central reserve cities. New York could have issued half a billion easily.

Mr. MCMORRAN. On that question, again, from what you know of what is called the Morgan group and what is called the Standard Oil group in New York, from what you know of their character of business, would you think that it would be for their interest that the Aldrich bill should pass?

Mr. GILBERT. No; I do not think so.

Mr. MCMORRAN. Is it not a matter of fact that most banks are large holders of bonds?

Mr. GILBERT. Yes; the First National Bank is a very large holder.

Mr. MCMORRAN. And other securities?

Mr. GILBERT. And I suppose that the City Bank has a large amount of bonds. But still I do not think that either of those banks, or any of the banks that are identified with them, would advocate the passage

of the Aldrich bill for the purpose of speculating in bonds or otherwise profiting by the passage of that bill.

Mr. WEEKS. Do you wish the committee to understand here that you have never heard that those two groups favored the passage of the Aldrich bill?

Mr. GILBERT. I never have heard it; no. I never have heard it. I know that Mr. Hepburn, who, I think, is to appear before you one day this week, is in favor of the American bankers' and chamber of commerce bill. His bank might be classed with the Morgan group of banks. I know that he is in favor of that bill, and I think he will advocate that bill when he comes before your committee. I know he is totally opposed to the passage of the Aldrich bill.

Mr. MCMORRAN. I noticed another remark you made about your bank going through the panic and paying over the counter. You made the statement that you were strictly a commercial bank, and I inferred from that that your assets were of a liquid nature.

Mr. GILBERT. Yes.

Mr. MCMORRAN. Had that been true of the banks of the country at large, would not the banks have been in much better condition than as they were, having so much money locked up in what might be called fixed investments?

Mr. GILBERT. Undoubtedly. I am a firm believer in the principle that every commercial bank should keep its assets in the most liquid shape.

Mr. HAYES. You do not regard bonds as liquid?

Mr. GILBERT. No long-time investment should be made.

The CHAIRMAN. I want to say to you, Mr. Gilbert, that if you have any other things you want to say I would like to have them said without interruption, because we shall have to quit at 4 o'clock.

Mr. GILBERT. Then I will take three or four minutes more to say what I wanted to say about this amendment.

Mr. WEEKS. One of the most frequent criticisms made here is that the legislation is for the larger interests and not for the smaller interests. If your ideas were carried out about the clearing-house certificates, that criticism would be pretty pronounced, and would quite likely affect a good many votes. Do you not think some method ought to be brought to bear to bring the banks in the clearing house to meet that necessity?

Mr. GILBERT. I do not know that I understand the first part of your question.

Mr. WEEKS. The first part of my question was a statement that if this legislation is passed, as the bill permits clearing-house banks in central reserve cities to do things that other banks can not, then the representatives in smaller localities are going to criticise that.

Mr. GILBERT. I do not know why they should.

Mr. WEEKS. Perhaps they should not, but they will.

Mr. GILBERT. This legislation is for the best interests of the country and not for the interests of the banks. The banks do not profit by it.

Mr. WEEKS. I am perfectly willing to admit that, and I see it as you do, but that will not answer the criticism.

Mr. GILBERT. It will work just as though we had a central bank composed of three central reserve cities. Here is a bank that can

furnish the relief, and these central reserve cities can distribute that currency through the country.

Mr. WEEKS. That is absolutely true, but it would mean a difference of 50 votes on the floor of the House.

The CHAIRMAN. I would like to have you proceed without interruption, Mr. Gilbert.

Mr. GILBERT. I want to say one word further. When we take out clearing-house certificates we tax ourselves 6 per cent; that is the cost. I think if we use them for circulating notes, the bank should be required to carry 25 per cent gold reserve behind them, and in that event they ought not to be taxed at a greater rate of interest than 5 per cent, because that would make the cost of them a little over 6 per cent, and it would give greater redemption security to these notes.

The CHAIRMAN. I want to put into the record here, so that it will be correct, what the Comptroller said, that the redemptions last year were $257,154,923, of which $209,424,957 were delivered to the Comptroller for destruction and $39,903,555, being in good condition, were returned to the bank of issue. This was the note redemption in about two years and three or four months, I should guess, looking at the time.

Mr. GILBERT. If I had a little further time at my disposal I would have liberty to suggest the idea of increasing the number of redemption cities.

Mr. HAYES. Do you not think that a conservative bank in a central reserve city would carry 25 per cent against those certificates, anyhow?

Mr. GILBERT. I would confine them to the central reserve cities, which now do carry it.

Mr. HAYES. Yes; but you suggested that they ought to be obliged to carry 25 per cent reserve. Would not they do it anyhow?

Mr. GILBERT. I do not think they would unless it was required, because paying 6 per cent tax and carrying 25 per cent reserve would make it cost them 8 per cent, and it might operate to prevent their taking it out.

Mr. MCMORRAN. Why tax them 5 per cent? Whatever tax you put upon them is going to be a tax upon the borrower, is it not?

Mr. GILBERT. I would make the tax high enough to insure a prompt return as soon as the panic was over.

The CHAIRMAN. But do you not think it would be unwise to deposit lawful reserve money and leave credits out?

Mr. GILBERT. And leave credits out?

The CHAIRMAN. Yes.

Mr. GILBERT. What do you mean?

The CHAIRMAN. Because your clearing-house certificates are credit notes, and you have deposited 25 per cent to retire them.

Mr. GILBERT. When we retired them, of course we would have to retire them by the deposit of lawful money in the reserve in order to insure quick retirement.

Mr. WALDO. Your general conclusion from all of which is that if the passage of the Aldrich bill can be prevented nothing should be done in the line of emergency currency?

Mr. GILBERT. My judgment is that we can get along without further legislation at present. I should like to see a currency commission appointed to take up this whole subject and go over it carefully and dispassionately.

The CHAIRMAN. But you want no immediate legislation?

Mr. GILBERT. No immediate legislation.

Mr. WALDO. Are you in favor of some system of credit currency without any regard to any particular measure that may be pending?

Mr. GILBERT. Yes, sir; I am in favor of an asset currency.

Mr. PRINCE. Speaking about the central reserve cities issuing clearing-house certificates, how would a small bank in the interior, if it was in need of currency, get it?

Mr. GILBERT. Through their connection with the central reserve city. All the banks of the country have some connection with a central reserve city, or most of them do.

Mr. PRINCE. What would they have to do? They would borrow money from the central reserve cities—put up their securities?

Mr. GILBERT. They would offer commercial paper as security and ask them to send them bank notes.

Mr. PRINCE. The class of security that you have on which to issue clearing-house certificates, what does it consist of?

Mr. GILBERT. Commercial paper.

Mr. PRINCE. Wholly?

Mr. GILBERT. Commercial paper; yes.

Mr. PRINCE. You do not have any bonds at all?

Mr. GILBERT. Some of the banks do. The issuance of clearing-house certificates during the last panic, by the bank I represent, was about 72 per cent commercial paper and about 28 per cent bonds.

Mr. PRINCE. On the 72 per cent of commercial paper there was practically no loss?

Mr. GILBERT. Not a loss.

Mr. PRINCE. What percentage of loss would there be on the other securities?

Mr. GILBERT. I can not tell you what the loss would have been, but there was a large shrinkage in the value of those bonds. The clearing-house committee has recently made a statement, and in that statement they made the astonishing remark or statement that not one dollar of promissory notes, securities, had been defaulted upon.

Mr. PRINCE. Will you make that statement again?

Mr. GILBERT. I have this statement in my pocket, and I will just read that item. I do not want to read the whole of it. It is as follows:

It appears from the report made yesterday that only thirty-two banks took out clearing-house certificates, leaving twenty others which did not think it necessary to make use of the asset currency. One bank took out $17,000,000 of the certificates and this amount was the record. The minimum amount taken out by any one institution was $250,000. The clearing house received in all $1,116,245 in interest on the credit extended during the twenty-two weeks in which the certificates were outstanding.

Mr. WEEKS. Does it give the total there?

Mr. GILBERT. It says:

The loan committee held 90 meetings to attend to the work of issue and supervision of the loans. An idea of the vast amount of work entailed can be judged from the fact that $453,000,000 of the collateral was handled and vised by the loan committee. The collateral consisted of commercial paper, stocks, and bonds. Naturally there was considerable shifting and replacing of collateral by the borrowing banks. It was shown that 73 per cent of the collateral pledged, or $330,000,000, was commercial paper and $123,000,000 was in stocks and bonds.

This statement is not complete, but the report of the committee embraced this idea, that of the commercial paper there was not one dollar that was defaulted.

Mr. PRINCE. That is the report of your clearing-house committee?

Mr. GILBERT. Yes.

Mr. PRINCE. Let me ask you further, Did you make any calls for additional paper to secure your banks that were asking for clearing-house certificates?

Mr. GILBERT. No; I think not; although the subcommittee of the clearing house had the details of that under their supervision.

Mr. PRINCE. What I mean by that is this, did the 75 per cent put out of commercial paper remain intact, or were substitutions made of other paper that came in?

Mr. GILBERT. Our margin was 25 per cent. Seventy-five per cent was advanced. That margin was kept good. Whenever the amount of the collateral was less than the margin required by the rules of the clearing house then we called for more margin.

Mr. PRINCE. Can you recall that you did call for more?

Mr. GILBERT. No, sir; I am not sufficiently familiar with the details.

Mr. PRINCE. It has been intimated that such was the fact.

Mr. GILBERT. But we always had an abundance of collateral.

Mr. CRAWFORD. In that connection, I gather from your statement that you are in favor of substituting a credit currency for the present banking system or making it supplemental to that.

Mr. GILBERT. My statement was this, that if there is danger of the Aldrich bill becoming a law I think it ought to provide for loans on certificates as well as on the bonds enumerated in section 2 of the bill.

Mr. CRAWFORD. You think we ought to get rid of the present banking system?

Mr. GILBERT. Not until a new one has been devised.

Mr. CRAWFORD. It should be a substitution for it?

Mr. GILBERT. When we can wisely do so we ought to substitute an asset currency for the present bond-secured currency.

Mr. CRAWFORD. What is the matter with the present system?

Mr. GILBERT. It has not sufficient elasticity.

Mr. CRAWFORD. In 1893 and 1894 the banks reduced their circulation to about $160,000,000, and now they have increased it to $690,000,000.

Mr. GILBERT. Possibly.

Mr. CRAWFORD. Is not that a pretty large margin of elasticity?

Mr. GILBERT. No; I do not think so. Of course the reduction was not what you would call an elastic reduction—that is to say, the circulation was retired because it was not profitable for the banks to keep it out, and they simply retired the circulation and sold their bonds. That was not elasticity. When they did that they had no idea of reissuing that. That is one of the objectionable features of a bond-secured system.

Mr. CRAWFORD. They withdrew their bonds for the purpose of making sale of the bonds?

Mr. GILBERT. They canceled and retired the currency and withdrew the bonds because there was no profit in the circulation.

Mr. CRAWFORD. That was not in the interest of the people?

Mr. GILBERT. No; it was in the interest of the banks; and that is one of the troubles with the system.

Mr. CRAWFORD. Is it not true that the banks under the present system could retire every dollar of currency they have within two or three months?

Mr. GILBERT. No, sir; because the law provides that not more than $9,000,000 a month shall be retired.

Mr. CRAWFORD. All told?

Mr. GILBERT. Yes.

Mr. CRAWFORD. So that it takes some time to retire it all?

Mr. GILBERT. Yes.

Mr. CRAWFORD. All the national banks together can retire only $9,000,000 a month?

Mr. GILBERT. Yes.

Mr. CRAWFORD. Or each bank can retire $9,000,000?

Mr. GILBERT. No, sir; all together.

Mr. CRAWFORD. I was not quite sure whether it was all together or that any one bank could only retire that much.

Mr. GILBERT. No, sir; all together.

(Upon motion, the committee extended a unanimous vote of thanks to Mr. Gilbert for his statement.)

STATEMENT OF MR. JOSEPH MOORE, PRESIDENT OF THE NATIONAL BANK OF THE NORTHERN LIBERTIES, OF PHILADELPHIA, PA.

The CHAIRMAN. State in what capacity you are here.

Mr. MOORE. I am one of a committee of two in behalf of the Clearing-House Association of the Banks of Philadelphia, and our instructions are to present resolutions, and if you will permit me I will read them. I can do so in three minutes, and it will not be necessary for me to make any argument.

The resolutions presented by Mr. Moore are as follows:

THE CLEARING-HOUSE ASSOCIATION OF THE BANKS OF PHILADELPHIA,
April 10, 1908.

Whereas the Aldrich bill, as passed by the Senate, embodies provisions which would seriously restrict the ability of national banks to extend accommodations to the business public and require the withdrawal as directors of many of the best men now identified with our banking institutions; and

Whereas the said bill would revolutionize the legal reserve requirements of the national-bank act by introducing into reserves approved bonds which, in our opinion, have no place in bank reserves, and by increasing the cash reserves of national banks would withdraw many millions of dollars now available for loans to the business community, to be locked up in vaults or invested in specified bonds: Therefore be it

Resolved, That in our judgment the transfer of this money from banks, where it is now available for lending purposes, to an idle fund would seriously impair the working capital of the country and result in the curtailment of credits to the very class of borrowers the bill is intended to benefit.

Resolved, That a temporary measure, such as the Aldrich bill was bank to its officers, there is very serious objection to such a prohibition against loans to directors or companies in which directors are interested. This would tend to bring about the withdrawal from boards of directors of the men who have in the past proved most helpful by their counsel and business experience.

Resolved, That a temporary measure, such as the Aldrich bill was avowedly designed to be, and which is not called for by any present emergency should not be permitted greatly to change the conditions under which the national banks are now operating, as such changes would seriously disturb the business interests of the country; and that unless sections 8 and 11 be eliminated it would be advisable to disapprove the bill entirely.

We would therefore most respectfully urge that the entire matter of our banking and currency laws should be referred by Congress to a commission composed of representative business men and financiers, in conjunction with Members of the Senate and House of Representatives, to consider thoroughly the subject of our national finances and to present the result of their investigations and deliberations at the next session of Congress.

Philadelphia National Bank, L. L. Rue, president; Bank of North America, H. G. Michener, president; Farmers and Mechanics' National Bank, H. W. Lewis, president; National Bank of the Northern Liberties, J. Moore, jr., president; Southwark National Bank, J. B. Harper, president; Kensington National Bank, E. A. Landell, president; Penn National Bank, H. G. Clifton, cashier; Western National Bank, Charles F. Weyroll, cashier; Manufacturers' National Bank, W. H. Heisler, president; Girard National Bank, J. Wayne, jr., cashier; Tradesmen's National Bank, Howard A. Loeb, second vice-president; Consolidation National Bank, Horace T. Potts, president; Corn Exchange National Bank, Benjamin Githens, president; Union National Bank, W. H. Carpenter, president; First National Bank, Kenton Warne, cashier; Third National Bank, Louis Wagner, president; Sixth National Bank, Wm. Emley, president; Eighth National Bank, Chas. Porter, president; Central National Bank, William Post, cashier; National Security Bank, Philip Doerr, president; Centennial National Bank, C. H. Clark, jr., president; Merchants' National Bank, F. W. Ayer, president; Ninth National Bank, James E. Mitchell, president; Tenth National Bank, Jno. K. Cuming, president; Northwestern National Bank, Edw. A. Schmidt, president; Southwestern National Bank, Wm. J. Barr, president; Fourth Street National Bank, by R. H. Rushton, president; Market Street National Bank, James F. Sullivan, vice-president; Quaker City National Bank, C. S. Hinchman, vice-president; Northern National Bank, Herbert F. Gillingham, president; Franklin National Bank, J. R. McAllister, president; Textile National Bank, Chas. F. Kolb, jr., cashier.

Mr. Chairman, these resolutions, as you can see, are signed by each of the 32 banks of the city of Philadelphia. We are a unit on the subject of their substance. I do not think that after the very voluminous argument you have heard, after the careful thrashing out of every section of this measure, I would be able to add a single word. I simply urge upon you not to allow this Aldrich bill to emerge from your committee; and in the present disturbed state of opinion throughout the country, here in Congress, and among the banks themselves, it is eminently proper that such a commission should be appointed, which should deliberately and carefully and advisedly prepare a plan during the summer and next fall, and present it to you at the opening of the session this coming winter. I thank you for the opportunity of appearing before you.

Mr. WALDO. Are the banks you represent in favor of some system of credit currency?

Mr. MOORE. If I should answer that question I should answer it for myself. The Clearing-House Association of Philadelphia has not discussed that subject, and if I answered your question it would be a mere individual expression of opinion, and under my instructions, probably, I had better adhere to what I am sent here to do.

(The thanks of the committee were extended to Mr. Moore.)

STATEMENT OF MR. JOHN M. MILLER, JR., VICE-PRESIDENT OF THE FIRST NATIONAL BANK OF RICHMOND, VA.

The CHAIRMAN. Will you state whom you represent?

Mr. MILLER. I represent the Chamber of Commerce, of Richmond, Va.

The CHAIRMAN. Do you represent the clearing house?

Mr. MILLER. No, sir; not the clearing house. Mr. Chairman and gentlemen, the Richmond Chamber of Commerce had two meetings, at both of which they condemned the Aldrich bill, and at the last meeting they approved the Fowler bill, provided an amendment be inserted. This resolution was to the following effect:

That it respectfully urges the distinguished author of the bill bearing his name, Hon. Charles N. Fowler, to so amend the same as to give to the managers of each of the redemption districts, therein provided for, the power and authority to withdraw from any national bank the privilege of the coinsurance or guaranty of its deposits, so as not to permit said guaranty to cover deposits made after notice of said withdrawal, where, in the opinion of said managers, said bank is not conforming to prudent and conservative banking and where the abuses of which it is guilty do not make it fair and reasonable that its depositors should thereafter enjoy the advantage of the coinsurance or guaranty clause of the Fowler bill.

As I said, it passed two resolutions, one condemning the Aldrich bill, which I will read if you like; but the speakers who have preceded me with the exception of the first speaker this morning have gone over the ground pretty carefully. The Richmond Chamber of Commerce and several of the banks, one of which I represent, are opposed to the Aldrich bill and fail to see one good feature in the Aldrich bill. They think they have seen and do see a great many features in this bill that are inimical to the best interests of the commerce of the country. I would like to call attention to the first two or three lines of the Aldrich bill, prefacing my remarks, however, with the statement that every principle involved in it we discard as

incorrect. You will note that in section 1 of this bill it makes a change in the provision of the bond-secured circulation, secured by United States bonds. As I understand the present national bank act, the bank can begin under the national bank act by purchasing 25 per cent of its capital in United States bonds, against which it is supposed to issue circulation. Am I correct in that? A bank with a capital of $100,000 has to have only $25,000 in United States bonds.

The CHAIRMAN. I do not think that applies to some of the larger banks, not in the same ratio.

Mr. MILLER. Fifty thousand dollars is the minimum requirement for a bank of $1,000,000 capital or more?

The CHAIRMAN. Yes.

Mr. MILLER. This bill requires 50 per cent of the capital to be invested in United States bonds. Why? I do not know. I have been trying to find out.

Mr. GILLESPIE. That is so as to provide a market for the United States bonds.

Mr. MILLER. Yes; we have had that, and for forty years we have been trying to get rid of it. Here is a circular from one of the firms in New York that deals in United States bonds, offering to sell you United States bonds because they think the Aldrich bill is going to pass. This is to compel the little bank with $100,000 capital and $25,000 invested in United States bonds to go and put $25,000 more into United States bonds before it can take advantage of the provisions of the Aldrich bill.

The CHAIRMAN. They can issue $100,000 worth of circulation.

Mr. MILLER. Do they want to tie up 25 per cent more of their capital? The country banker has got to buy more United States bonds to get in under this. I do not know why. There is no pressing demand to put up the price of United States bonds and make a further market for them.

Again, you take these country banks with $100,000 capital. Take one of those banks that has been in business three years and has been successful, and has built up a surplus of 15 per cent; that bank can not get in under this bill at all. This requires 20 per cent surplus. Why force a bank to build up a surplus here, in order to borrow money under this Aldrich bill, of 20 per cent, and refuse to allow it to take advantage of the provisions of the bill when it has only 15 per cent surplus? Why discriminate against the small bank in the rural community, which needs as much help as a city bank does?

Further, this gives the Secretary of the Treasury entirely too much power. It makes him the judge of local conditions. He can say yes or no when the bank wants money. It leaves it entirely to the Secretary to say whether a district down in North Carolina or South Carolina or Tennessee or Texas needs money. Furthermore, if North Carolina should be slow in calling for her pro rata of this circulation, and the State of Iowa should call for hers pretty rapidly, the Secretary of the Treasury might say, "Iowa has called for hers, and North Carolina has not called for hers," and North Carolina will be cut out if she comes a little bit late, unless it is taken away from some other State.

Further, Mr. Chairman, in section 6 it provides that the engraved notes shall be prepared for 6,600 national banks. I think we will find that every bank has about two sets of plates, the $5 notes being

printed from one plate, and the tens and twenties on another, the fifties on another, and probably the $500 and $1,000 notes on another. How long will it take to prepare 6,600 plates, and after they are prepared to make that currency, $500,000,000, half of the capital stock of the banks? How long will it take to get those plates and make the engraved currency after we get them? As an emergency measure I do not believe you could get it to working in two years. I went to an engraver the other day and I said, "How long will it take to engrave that plate?" He said, "A first-class engraver could engrave it in two and a half to three days." If we ordered a plate to-day for United States bond-secured circulation, I dare say we could not get it from the Department for two or three weeks. Therefore, as an emergency measure, you can not get these plates engraved and can not get this currency ready for this fall, unless I am vastly mistaken.

As to this increase of reserves, we have been running for forty-odd years with the present reserve requirement. I am speaking from the standpoint of a country banker; and right here I might say that Richmond has deposits of $20,000,000 or $25,000,000. It did not suspend payments during the panic. My bank is in close touch with the country banks of four or five States. I was a national bank examiner for three years in North Carolina, South Carolina, Virginia, East Tennessee, and West Virginia, and I think I know the needs of country banks, and I know something about the national bank examinations, also. To increase the reserve-vault requirements, as here provided of the national banks of Richmond alone, would necessitate the locking up in our vaults in October, November, and December of from $1,200,000 to $1,500,000 more than we have got in there to-day.

Now, is that an emergency measure? That would come mighty near to breaking a good many merchants and manufacturers in Richmond, to pay us $1,500,000 in October, November, and December. Somebody will say, "Take it out of your reserve balances." We can not take it out of our reserve balance, because we do not keep any more in our balance than we actually need for our exchanges. The law now permits them to carry 9 per cent with their reserve agents, that is in New York, St. Louis, Pittsburg, Louisville, Boston, Philadelphia, New Orleans, Chicago, and Baltimore. That counts in your reserves. This bill here allows us to count only 3 per cent of that money for reserves. Whereas, the bank I represent has deposits of between $5,000,000 and $6,000,000, we can not get along to save our lives with less than $600,000 in this reserve fund. Why? Because we can not use money in St. Louis, Chicago, and Pittsburg and those outlying districts until we get it into New York, Philadelphia, or Boston. Therefore we would have to take that amount, $500,000, away from our borrowers and put it in our vaults. We can not take it away from the reserve agents. We have got to have that to make our exchanges. Now, they propose that we shall increase our reserves to $2,400,000 by the 1st of next January. In the bank I represent, our reserve requirements to-day are $300,000 in our vaults. Next January they will be $600,000, $300,000 more locked up, and we have got to collect it from borrowers. We can not take it out of the reserve, because we need it there; we are bound to have it in the reserve cities. Out of that $300,000 increase we will be permitted under this bill to invest $200,000 in bonds. We do not want to invest in bonds. We do not invest in bonds to-day. They are a fixed investment,

and you can not realize on them when you want to. You do not want them at all. If we do buy these bonds we can go and borrow money from the Government to the extent of 90 per cent of the market value; but when you have taken them out of the vault you have left a vacuum of $200,000. What have you left in place of that? You can get $180,000 of national-bank notes. Then you are going to come back with $180,000, and you have got a $200,000 hole in your vault to fill up. You are $20,000 short. You have $180,000 in national-bank notes, and you have got to put $200,000 in lawful money in your vault. Therefore the purchase of those bonds and the holding of those bonds, and the issuance of the currency secured by those bonds is absolutely a disadvantage to the bank, and it is a disadvantage to the mercantile community.

The CHAIRMAN. Would you extend the credit base on that amount?

Mr. MILLER. Certainly. Now, you say the bank objects to locking up $300,000 in its vaults. You say the bank loses interest on that. Yes, we lose interest on that currency, but we do not lose much on that. The borrowers lose it. The rate of money is largely controlled by supply and demand. You make me lock up $300,000. The interest on that is $18,000 a year. I have a very large amount of loans, and I can make that $18,000 out of increasing the rate a very small fraction. The consumer pays the tax, and the banks do not lose it. You are aiming at the mercantile community, and you are taking it away from them, and it goes to bond dealers, and they are going to put up the price of bonds. I spoke of a circular from a firm of New York bond dealers. I will read you an extract from this:

We would also call your attention to the provision of the Aldrich bill, passed by the United States Senate on March 27, and now under consideration in the House of Representatives, whereby a bank is required to hold Government bond-secured circulation to an amount of not less than 50 per cent of its capital stock in order to avail itself of the privilege of the issuance of emergency circulation.

You see you have increased the demand for United States bonds, and here these people are right on your track, right away. Here is another circular, which says:

A recent amendment to the bill, however, forms a more definite basis for an estimate, and should, in our judgment, create a special demand for these securities. The amendment referred to provides that after January 1, 1909, the banks outside of the "reserve" and "central reserve" cities shall keep four-fifths of their 15 per cent reserve in their vaults, one-third of which may be in the securities mentioned in the Aldrich bill, while in the "reserve" cities the banks are required to keep two-thirds of their reserve in their vaults, one-sixth of which may be in the above securities.

Mr. Chairman, this bill does not say that they shall keep two-thirds of their reserves in their vaults in reserve cities. It says they shall keep less than that, and I want to call your attention to that, and if I am mistaken I will beg your pardon for taking up your time. I can not put that construction on this. You have raised the vault requirement on country banks to 12 per cent. You have decreased the vault requirement of the reserve city banks from 12½ to 8¼ per cent. Listen while I read this, please:

SEC. 8. That after January first, nineteen hundred and nine, national banking associations located outside of reserve or central reserve cities, which are not required by law to keep a reserve equal to fifteen per centum of their deposit liabilities, shall hereafter hold in their own vaults four-fifths of such reserves,

either in lawful money as now required by law, or in the securities enumerated in section two of this act, which shall have been approved by the Secretary of the Treasury.

Four-fifths is 12 per cent. Then the section continues:

Provided, however, That not more than one-third of the reserves required to be kept in the vaults of such associations shall be held in such securities; and that after the first day of January, nineteen hundred and nine, all national banking associations, located in reserve cities, shall at all times have on hand in their own safes or vaults, in lawful money of the United States, or in the securities enumerated in section two of this act, not less than two-thirds of the amount of reserves of lawful money——

Do you hear that?——

of lawful money required to be held under existing law.

What is the requirement of lawful money now with reserve cities; 12½ per cent, is it not?

Mr. HAYES. Yes.

Mr. MILLER. Not less than two-thirds of the amount of reserves of lawful money required to be held under existing law. What does that mean? It means that the Philadelphia banks, instead of having 12½ per cent, can keep 8⅓ per cent in their vaults. That is evidently a mistake, but it is there, and it has been passed that way. I am afraid you do not catch my meaning.

Mr. HAYES. I catch your meaning, but I do not think that is the language.

Mr. MILLER. I have read the language, my dear sir, and it seems to me that is the interpretation of it.

Mr. HAYES. That is the language, but it does not bear that construction.

Mr. WEEKS. Under the present law the banks in reserve cities must keep 25 per cent. It does not say that they shall keep it in their vaults, but they must keep 25 per cent, and under this law they must keep two-thirds of that in their vaults, or 16⅔ per cent.

Mr. MILLER. Two-thirds of that 25 per cent?

Mr. HAYES. Yes.

Mr. MILLER. Two-thirds of 12½ per cent is 8⅓ per cent.

Mr. HAYES. Yes.

Mr. MILLER. You are probably right, but that is very ambiguous.

Mr. WALDO. This provides that not more than one-sixth shall be required to be kept in their vaults.

The CHAIRMAN. I do not know that I exactly catch your point.

Mr. PRINCE. How much does the law now require a reserve city to hold?

Mr. GILLESPIE. His contention is that it is only 12½ per cent.

Mr. PRINCE. Then two-thirds of 12½ is what he is talking about; that is 8⅓.

Mr. WALDO. No; the law requires 25 per cent, and 12½ per cent must be cash in the vaults.

Mr. MILLER. Cash in the vaults is lawful money. There is nothing else lawful money except cash in the vaults.

Mr. GILLESPIE. But this section says "not less than two-thirds of the amount of reserves of lawful money required to be held under the existing law." Now, if you have it on deposit somewhere else, you do not hold it. You only require 12½ per cent to be held in the bank. That is the way this is worded here.

Mr. MILLER. If you will go back to the first part of section 8, you will see that that does not read like the latter part. It talks about country banks, and it says "which are now required by law to keep a reserve equal to 15 per cent of their deposit liabilities." It might have used over here the language, "not less than two-thirds of the amount of their deposit liabilities." We all know what they meant by this, but I think the bill ought to be so clear that we would all agree on it.

They propose in the Aldrich bill to charge interest on Government deposits. There is no profit on Government deposits secured as originally intended by Government bonds; just about 1 per cent. If you are going to charge 1 per cent on it the banks are not going to put up the bonds.

Section 11, in reference to officers and directors, simply would demoralize every bank in the country. Most bank directors and officers are honest; but if this bill is going to pass at all, for the Lord's sake try to amend that so that it will not force us to take all the good directors we have got off of our boards in order to retain their business. If you pass this, you will force us to get them all to go off of the boards, and we will have to take on a lot of financiers who have been out of business for ten or fifteen years and are out of touch with active business, or to supply those places as we best can. We are bound to have the bank directors interested in firms and corporations. Prohibit officers, if you like, from borrowing from their own banks. That is abused sometimes, but not often, I think. It is all right to prohibit the officers from borrowing from their own banks.

Mr. WEEKS. If an officer is going to borrow money, would you not rather have him borrow it there?

Mr. MILLER. No, sir. I am not talking about the directors now, but the officers.

Mr. WEEKS. Yes; I am talking about officers.

Mr. MILLER. I do not think it is the best place for them to borrow, from their own banks, where there is a certain amount of courtesy—senatorial courtesy, if you please to call it that. Let them get what they want from a neighboring bank. But do not prohibit the directors of a bank from borrowing from it. I do not believe there is any necessity at this time to prohibit corporations from borrowing from a bank in which they happen to have an officer or director. Take a personal illustration: I happen to be a director in three companies, which give to the bank three of the best accounts we have got on our books. They all three borrow. Personally I do not pass on all these notes, but submit them to the president, who is not a director in these corporations. One of these is a cotton mill, one is a wholesale dry goods house, and the third is a paper mill. I am a very small stockholder in them. These are three of the best accounts we have. Why, in the name of goodness, must we lose those accounts? Simply because this privilege has been abused in a few cases. Mr. Chairman, better banking and banking supervision is what we need in this country, and that is something that Congress ought to have passed on long ago, and almost every Comptroller of the Currency has said so. You pay the examiners on a fee system, and some of them not enough. You take the country banks like those in the territory throughout the South and the West, and I should say that the average fee of the bank examiner is $22.50 from every one of those banks. He has got to

pay his own expenses, traveling expenses and otherwise. Necessarily he is going to make as hurried an examination as he can, to get through. I have been a bank examiner myself. I was, fortunately or unfortunately, as you may deem it, able to convict several criminals from Virginia, North Carolina, Tennessee, and West Virginia, and some other places; but the Lord knows how many of them I missed. I was paid an average of $22.50 a bank. I was not a philanthropist; I had a wife and children to support, and I could not afford to give the Government $50 worth of work for $22.50, and I did the best I could and gave them $22.50 worth. We have in Richmond various fees for bank examiners. One bank pays $75, and another bank right across the street, just as hard to examine or harder to examine, on account of the character of the business, pays only $25. What sort of a system is that by which the examiner is paid fees, and is paid to rush through his work? I say we ought to have better bank examinations, and I do not know of any better provision for that than the one in the Fowler bill, which gives us examiners selected by bankers themselves, and not by politicians, and who are required to do their work in a proper way and are required to stay there as long as necessary.

The CHAIRMAN. Do you think there is going to be any such condition as requires legislation this fall?

Mr. MILLER. I am glad you asked that question. I argued this with a member of the clearing house of Richmond. He argued that we were bound to have a panic. If I ever saw a panic as far off as it is to-day I can not remember when it was, and I have been in business for twenty-five years. If there is anything in conditions to cause a panic this fall I can not see it. The reserves in New York City to-day are over $40,000,000 in excess of requirements. They are twice as high as they have been for years and years. In 1904 they got up to $22,000,000 at one time. But in the country banks as a whole there is less need for it. There are over a million laborers out of work in this country to-day; prices have gone down; the needs for money are less than they have been for a number of years. The Bank of England has reduced its rate from 7 per cent to 3 per cent, and has an extraordinary reserve. There is not demand enough to borrow the money we have got. Did you ever see a panic when there was too much money?

The CHAIRMAN. What is your recommendation?

Mr. MILLER. My recommendation is that we do not pass the Aldrich bill. I think that it will do us more harm than good. It will not raise a solitary dollar. There is not a bank in the country that will take out any circulation under the Aldrich bill unless they happen to have the bonds already or can borrow the bonds. I do not think that a first-class bank, if it can possibly avoid it, will take out a dollar of this currency. The principal banks of Boston, New York, and Philadelphia will not take it out; they will be ashamed of it. They will not take it out. What we want is asset currency. We want to kill the Aldrich bill right now, if we can. We want to advocate an asset currency and complete reform of the banking system of the country. We want to get away from a bond-secured circulation. We want an asset currency; we want the retirement of greenbacks; we want better banking.

I expect I stand alone, almost, in the South and in the East—I do not believe there is another gentleman here that agrees with me who is a banker—in thinking that the coinsurance of deposits is right. But it has got to come.

The CHAIRMAN. What would you recommend, then, to reach that result?

Mr. MILLER. I recommend that you kill the Aldrich bill first. Then you should get to work just as hard as you can on an asset-currency bill, and if you can not get it through this Congress, have a commission appointed, and when that commission is appointed invite the bankers and merchants from all over the country to come here and talk before that commission, advocating asset currency, and keep them away from anything but an asset currency. I do not believe you can get anything through this Congress. You have got to kill the Aldrich bill first, and then you should go immediately to work to get an asset currency. If you could get the asset idea, and get a commission appointed, you might be able to get an asset currency through in the coming Congress for the next year. You should have it just as quick as we can get it, and we do not want anything but an asset currency. Every speaker, except the first one that spoke here to-day, has practically told you that there is no need for currency now, and if you put this miserable bill through, No. 3023—a good skidoo number—I tell you it will embarrass us for a long time to come. They will say, "Let us give it a trial," and they will keep on postponing; and there is not a single one I have heard talk that believes there would be a dollar issued under it. They say that is the beauty of it; we will not have to issue it. What is the use of a bill that is not to be used; and where is the first-class bank that will issue under it and pay 8 or 9 per cent on that currency? Nearly all the merchants and corporations that have spoken on the subject are dead against it, and for an asset currency.

Mr. Chairman, you asked me if I thought there was any need for emergency currency this fall. I would like to read you a clipping here from the Wall Street Journal of about four or five days ago:

The panic manifestations have passed, and there has been recovery from most of the immediate effects of panic. For instance, several of the banking institutions which closed their doors during the panic have resumed business. The banks, as a whole, are making payments and extending ordinary credit in much the same way as they did before the panic. The scare of depositors has passed. The hoarded money is being restored to the banks. The clearing-house banks of New York, which at the beginning of the year reported a deficit in their reserves, now show a surplus of over $40,000,000. The Bank of England, which at the beginning of the year had a discount rate of 7 per cent, has reduced this to 3 per cent; and it has gained $40,000,000 in its reserves. The process of liquidation in securities has been checked. Average prices of railroad securities are ten points above the low-panic level.

But while we have definitely, and with a high degree of success, passed out of the stage of panic, we are still within the boundaries of industrial depression; and the records of the past three months show plainly how severe that depression has been and still is. The panic of 1907, as measured by the statistics of the past three months, has been the most acute in its immediate effects of any panic that we have had. Measured by bank clearings the country's business during the past three months has been 28 per cent less than in the corresponding three months of 1907. Gross railroad earnings have been fully 12 per cent less, while net earnings have fallen off from 20 to 25 per cent. Upwards of three hundred thousand railroad cars are idle, owing to lack of traffic. The failures of the past three months have numbered nearly 5,000, with liabilities of over $75,000,000, figures which have never been exceeded in

any corresponding three months. It is estimated that fully 1,000,000 persons are out of work, one-third of whom are railroad employees. Iron and steel production has been proceeding at about 50 per cent of the normal output.

The fourth stage, that of revival, has not as yet set in. There has been large sentimental improvement owing to the subsidence of panic conditions, the strengthening of the bank reserves, and the somewhat clearer political outlook; but the revival of trade has been delayed much longer than was anticipated, and we are still anxiously looking to the future for a restoration to a more normal volume of business. We are, of course, now speaking broadly of the situation. Conditions are better in certain portions of the country than in others, and it is unquestionably true that the situation in the East, and particularly in New York, appears worse than in certain parts of the West, where, owing to agricultural strength, there are indications of a noteworthy degree of confidence and buying power. Reports from Nebraska, for instance, are particularly good. Moreover, on the side of foreign commerce, American conditions are particularly gratifying, owing to the fact of large exports of American products at good prices and the falling off in imports, by which a great balance of trade in favor of this country has been established, so that the gold that we imported during the panic has remained with us and American credits have been established abroad.

The question is, When will the fourth stage of clear, unmistakable industrial revival set in? Most people are now looking for next fall, with its development of the crops and its clearer vision as to the result of the Presidential election to give an answer to that question.

Mr. Chairman, I think, so far as I have been able to judge, those are the facts, and with the depression in business and the increase in the volume of the reserves in money and the exports I do not see how we should look for tight money. Of course it is almost always tight in the fall, but why there should not be an abundance of money this fall to go around I am unable to see.

Mr. CRAWFORD. I notice that the Southern Cotton Manufacturers' Association have agreed to suspend for sixty days.

Mr. MILLER. I believe it was a meeting at Charlotte, N. C., I think of the yarn manufacturers. There has not been a dollar of profit in making yarn, generally speaking, for six months. There is no demand for cloth; the people can not sell cloth, and they have had to shut down their mills to a very large extent. They can not make money.

Mr. CRAWFORD. You do not see the end of it yet, do you?

Mr. MILLER. No; you can not make any money in the cotton-mill business until the revival of the demand for cotton goods, until the people stop using their old clothes, until they stop putting patches on the old garments and buying no new ones.

Now, the surplus reserves in the New York banks are as follows, again referring to the Wall Street Journal: In 1907, $19,441,225; 1906, $2,560,625; 1905, $8,682,525; 1904, $22,916,400; 1903, $2.130,825; 1902, $2,649,525; 1901, $5,817,975.

Here we see that the reserves in New York have gone up over $40,000,000 excess, which is nearly twice as much as it was in 1904, and four or five or six or seven times as much as it has been in other years for the past seven years.

The CHAIRMAN. Concurrently with that, have you figured out how much higher the reserves in the country are from the last report of the Comptroller?

Mr. MILLER. No, sir; I have not.

The CHAIRMAN. They are from 50 per cent to double what they were last year at the same time, are they not?

Mr. MILLER. They must be a great deal greater; I would not like to give any guess at that except probably in the South. I am not posted as to the West, but there are a great many banks in the South which are loaded up pretty close, and it is largely due to the timidity of the credit of the North, where the southern merchants and manufacturers frequently borrow a good deal of money. Credit is so timid that they are not discounting freely. For instance, you take the cotton mills paper; it is right hard to sell it now North, because men do not want to buy paper when there is no money in the business, no money in the manufacturing business which that paper represents. Therefore a great many of these cotton manufacturers and men in other lines are having to borrow their money at home, where they are well known. The personal equation cuts a big figure, and the northern brokers are not freely selling that paper.

I would like to make this suggestion for the future consideration of your committee, if they ever reach it: That is, that a reserve should be kept not only on deposit liabilities, but that a reserve should be extended to rediscounts and bills payable liabilities. Do you catch the idea?

The CHAIRMAN. Yes.

Mr. MILLER. A bank with practically no reserve on hand and not a dollar borrowed money is in pretty good shape, if it has been fairly well managed, because they can get relief from their correspondents. A bank with 15 or 20 per cent reserve on hand and loaded up with borrowed money to the amount of their capital stock has nowhere else to go. Twenty per cent reserve is not sufficient for its deposits and its borrowed money at the same time. Take, for instance, a bank with $100,000 capital and $200,000 deposits—a country bank. The reserve requirements there would be $30,000. If that reserve ran down to $10,000 and he had no borrowed money at all, he could go to his northern correspondent or his reserve agent, wherever it was, and borrow plenty of money to put that reserve in good shape immediately. Suppose, however, he has $200,000 deposits and $30,000 reserve, that is 15 per cent; suppose he has $100,000 borrowed money, which is the limit under the law, the amount of his capital stock, and he has a flurry and he has a drop in his deposits or an unexpected demand, and he has to reduce his reserve of $30,000 to $10,000; he can not borrow any more under the law, and he is in a very tight place. There is no reason in the world why a reserve should not be required against rediscounts and bills payable. It is a liability, just as much as a deposit is. That is one of the very weak points in our present law.

The CHAIRMAN. I never heard it raised, and I think it is as good as a reserve against a deposit.

Mr. MILLER. The rediscounts and bills payable are just as much a liability as a deposit, and a reserve should be carried against them. As I say, the bank that is loaded up with bills payable and no reserve, or the reserve required has been decreased, has no place to go.

Mr. GILLESPIE. Does not the Comptroller of the Currency now treat those as deposits and require reserves?

Mr. MILLER. No, sir; he can not do anything except what the law permits him to do.

Mr. GILLESPIE. I know that.

Mr. MILLER. No, sir; he can not do it. As I understand, your question is this: Can not the Comptroller require a reserve against bills payable and rediscounts?

Mr. GILLESPIE. Yes.

Mr. MILLER. No.

Mr. GILLESPIE. And the way they calculate reserves, do they not require it?

Mr. MILLER. No, sir; I am quite sure of it.

The CHAIRMAN. Then your suggestion would be simply to extend the law requiring reserves in all the various central and reserve and country banks, the same reserves that they now hold against deposits?

Mr. MILLER. Yes, sir. I would not alter the reserve requirements against deposits one iota. You do not want to lock up any more money, but you want to protect the creditors of a bank from undue inflation by permitting them to borrow, by rediscounts and bills payable, the amount of money under the law and keep no reserve against it at all. Suppose I have a bank with $100,000 capital, and I am carrying my minimum reserve. I borrow $100,000 in New York paper—and that is the way a great many banks borrow it, but they never expect it to be called until they are ready to pay—and that bank gets it into its head that it does not like my way of doing business, and they call for the payment of that money, and I have not a dollar in reserve. One of the weakest things in the national banking system, in my judgment, is the fact that you have 6,600 banks with one Comptroller of the Currency and one Deputy Comptroller to manage it. How in the name of goodness can two mortal men look after 6,600 banks? There is hardly a bank of $500,000 capital in this country that has not got two or three, or maybe four, pretty able officers to run that little bank, and they are paid more than the Comptroller of the Currency and the Deputy Comptroller. I say those men are worked to death, and it does not stand to reason that we can have supervision until we put more machinery to operate those banks. They had the same number of Comptrollers and Deputy Comptrollers forty-odd years ago, when there were a few hundred or a few thousand banks.

I would like to say something on bond-secured currency. A commercial bank has no business investments in bonds. They are nothing in the world but a piece or a fixture, or something like that. You can not sell them when you want to. That is the experience of every banker who has tried them as a secondary reserve. The Wall Street Journal some time in January printed an article from a western banker and asked for replies to that inquiry, and I will read you my reply. I have not the article from the Wall Street Journal, but I would like to read you the reply that I wrote to the Wall Street Journal, giving some idea of the folly of carrying bonds as a secondary reserve. The Wall Street Journal, in its issue of about January 4, printed an article from a country banker and invited replies and criticisms. This was the reply I wrote:

Referring to the article in yours of recent date headed, "A country banker's views," I beg to say that I agree with the gentleman in his third proposition, "That high-grade bonds may be a good secondary reserve for normal times, but not for panics."

It seems to me that the bond market for months past has been very narrow, and that very few high-grade bonds bought previous to the depression could

have been sold during the past few months except at a heavy loss. Therefore, at the time when the banker would like to have converted his bonds into cash, he could not well do so except at a considerable loss.

Further, if many banks had attempted to convert these bonds into cash during the panic, there not only would have been a much heavier loss to realize, but it is doubtful if they could have been sold at all in any volume.

How many bankers can you find that would be willing to convert these secondary reserves into cash at a heavy loss for the purpose of discounting paper for their good customers at normal rates? Good customers hardly ever expect to pay 6 per cent.

Right on that point I want to say that the merchants and manufacturers of this country are entitled to a system that will get them money at any time at 6 per cent. When you offer the merchant or the manufacturer of this country a bill that offers him money at 8 or 9 per cent, he does not want any legislation of that kind; he is hunting for something that will give him a reasonable rate.

Answering the fourth proposition as to whether a 20 per cent reserve is sufficient:

That was the question this gentleman put, a 20 per cent reserve. His, evidently, was a 15 per cent bank, and every bank that carries 15 per cent reserve has to have 5 per cent of quickly available stuff which is almost as quickly collected as reserve money.

Answering the fourth proposition as to whether a 20 per cent reserve is sufficient:

For the country bank, I believe a 20 per cent reserve is sufficient, even for panics, provided the bank will carry a secondary reserve in high-grade commercial paper, maturing, say, every week in the year. In my opinion, there is nothing so sure to bring money, even during a panic, as high-grade commercial paper against consumable commodities.

During the recent panic, this bank happened to have a large volume of commercial paper, which it had been carrying as a secondary reserve and from which it collected, in regular course, between October 22 and December 2, $1,500,000, whereas not a security owned was marketable except at an enormous discount. Practically not a collateral note was paid, and practically not a dollar of demand paper was paid, for the reason that it was local paper and the makers never intended to pay it until they got ready.

Mr. WEEKS. You mean a collateral loan in Richmond?

Mr. MILLER. Yes, sir; we do principally a local business. I would like to say right here, for the information of some of the gentlemen who may not be familiar with banks, that there is hardly anything that is proper to call "demand paper" unless it is Chicago, Boston, or New York; there is very little demand paper. We call it demand, but, as some gentleman said, you could hardly make noise enough to attract its attention.

Bonds and collateral paper in times of panics appear to me more as investments than as liquidating assets.

I want to say, in advocating commercial paper as a proper basis for banking and currency and whatever else you choose to put it up as liquid capital for, a commercial paper for consumable commodities is the only thing that is pretty sure to bring in money, and the money that is paid in to a bank on commercial paper is generally money that comes from the four quarters of the compass, we will say; it is money that comes out of the pockets of the people. A collateral loan is scarcely ever paid except by selling the collateral of a borrower or going to another bank and getting it. Commercial paper is paper that brings money from the pockets of hundreds and thousands of

people into the channels that bring it into the bank, and the people who give that paper give it with the knowledge and expectation of paying it at maturity. A collateral note or a bond does not bring in money. The bond has maturity of maybe ten or twenty years, for that is a fixed investment just like a real estate, practically, but you can not get that money on a collateral note except by selling the collateral or having the loan transferred to some other bank. That is generally speaking; of course, there are exceptions.

But I want to see a currency based on commercial paper, a currency that will expand and contract with the needs of commerce; a currency that is taxed and guaranteed so that it will be absolutely safe, and still there will be a profit for the banks issuing it. A small tax will send that currency home for redemption, just like the cash or checks are sent back for redemption. A bond-secured circulation is so rigid as to contract or expand, to some extent, probably, at the very time that you want it to do otherwise. It does not meet the requirements or conditions of trade in the least.

Going back to the Aldrich bill, I fail to find where it will benefit anybody except the men who have bonds to sell, or the man who wants his bond prices increased.

Mr. McCREARY. I move a vote of thanks to Mr. Miller for his presence and his remarks.

(The motion was unanimously carried.)

STATEMENT OF MR. WILLIAM SALOMON, OF 20 BROAD STREET, NEW YORK CITY.

Mr. SALOMON. Mr. Chairman, my firm is at the head of the syndicate which is constructing railways in the Philippine Islands. Congress enacted a law several years ago empowering the Philippine government to guarantee the interest upon railway bonds to the amount of $1,200,000, the amount of principal that would call for $1,200,000 interest per annum. The Bureau of Insular Affairs invited bids to construct those railways. The building of them was safeguarded in many ways; the building was entirely under the supervision of the Philippine government and under the Secretary of War.

I have not proposed to speak upon the Aldrich bill as a bill, but I speak for the syndicate. I may say that we feel that if there is subsequent legislation to this act I refer to, which includes various bonds of States and counties, that it should regard this bond it has created as a quasi government bond, and equally as good as any State or municipal bond, and should, by amendment, include those bonds among the bonds securing the emergency currency. If you will permit me, I will read the various conditions covering the issue of the Philippine railway bonds, which lead me to consider that the railway company is entitled to this treatment upon the part of the United States Government, and consider that the United States Government should not cast any reflection upon the guaranty which has being given upon those bonds.

(1) The Philippine Railway first mortgage 4 per cent sinking fund gold bonds, unconditionally guaranteed as to interest by the Philippine government, can not properly be classed as a railroad bond, their value resting primarily on the government guaranty. They are thus a quasi-government security.

(2) The bonds are issued in accordance with the terms of an act of Congress of the United States.

(3) The guaranty of interest has been placed upon the bonds by act of Congress.

(4) All details of the mortgage and issue have been approved by the Secretary of War of the United States.

(5) The guaranty of 4 per cent interest is equivalent to a 2 per cent Government bond, with a sinking fund of 2 per cent which would retire the bonds prior to maturity.

(6) The Treasury Department, after careful consideration, has ranked these bonds prior to State and municipal bonds (which are acceptable under the Aldrich bill) as security for United States deposits. This is evidenced by the following ruling dated January 25, 1908:

"The Treasury Department, when the deposit of public moneys with the various national banks is reduced, will require that bonds other than the following be first withdfawn: United States, Philippine, Philippine Railway, Porto Rican, and Hawaiian."

(7) The railroads are constructed under the supervision of the Philippine government, and all expenses are passed upon by said government prior to the

issuance of bonds. The latter can only be issued up to 95 per cent of the cost as approved by the government.

(8) The bonds are accepted by the Philippine government as a basis for circulation of the Bank of the Philippine Islands. The Philippine government has further shown its confidence in the railroad by purchasing the railway company's bonds for the account of its sinking funds and of the Postal Savings Bank.

When this work was undertaken on the invitation of the Bureau of Insular Affairs, it was understood that many restrictions were placed upon the syndicate undertaking that construction. The work had practically to be done, not as they deemed best to do it, but under the direction of the Philippine government, its engineers. Besides, it had to accept what has since been enforced in this country, the condition that the rates should be determined and regulated by the Philippine government. It was not a very inviting proposition to the capitalists who were undertaking to build the road, as they had to take a 4 per cent bond for 95 per cent of the cost, but they regarded the faith of the United States so highly that they felt that a bond issued under those auspices would always be treated as a quasi-government bond, which should receive every possible protection, and we therefore felt it proper, in this emergency, to come before this committee and ask that the Aldrich bill, if it should come out of this committee, should be amended in the second section, on line 13, after the words "of the Philippine Islands," as follows: "bonds on which the interest is guaranteed by that government."

Mr. WALDO. That government is the War Department, is it not?

Mr. SALOMON. No; that government is the Philippine government in this instance.

Mr. WALDO. That is the Philippine Commission, is it not?

Mr. SALOMON. The words preceding that are "bonds of the government of the Philippine Islands," and then the amendment would be "bonds on which the interest is guaranteed by that government." That means the government of the Philippine Islands.

Mr. GILLESPIE. How long does the Government of the United States guarantee the payment of interest on those bonds?

Mr. SALOMON. Thirty years, and therefore it is equivalent to a Government 2 per cent bond.

The CHAIRMAN. How long do the bonds run?

Mr. SALOMON. Thirty years.

The CHAIRMAN. Do you require a sinking fund to pay them off in that time?

Mr. SALOMON. No; a sinking fund is required by the act, but the company has voluntarily, in its mortgage, provided for a sinking fund to come out of its surplus before it pays a dividend, after a certain short time.

Mr. GILLESPIE. What is the total amount of those?

Mr. SALOMON. The total amount of the bonds which would have to be issued to complete the mileage under this concession would be $15,000,000. The amount of bonds which could be issued under the act of Congress would be about $30,000,000, because the act provided that $1,200,000 could be appropriated for the payment of interest on bonds to be issued, the bonds issued for 95 per cent of the cost, regardless of how much the road might cost. It was not determined how much the roads should cost; they could cost anything that was necessary to build them.

Mr. GILLESPIE. What do you estimate the value of those bonds would be increased on the market by putting them in this bill?

Mr. SALOMON. I do not know that the value would be increased at all. We valued the bonds at a certain figure when we undertook the work. What we were fearful of is that the value would be decreased and the bonds made unsalable, possibly, for any price that would make the operation for the syndicate a reasonable one, would be made unsalable by the omission in this act.

Mr. GILLESPIE. The other question I had in mind was, do you consider it a discrimination against these bonds not to put them in this bill?

Mr. SALOMON. Yes, sir; I consider it a discrimination against the bonds to place these bonds below State and municipal bonds.

The Treasury has placed them above State and municipal bonds in rank, as I have read in the Treasury ruling. We consider that it would be placing them below State and municipal bonds and depriving us of the advantage of the Treasury ruling, which has taken what we consider a just view of the value of the guaranty, depriving us of that and also casting a very serious reflection upon the value of the guaranty of the Congress of the United States. If the Congress of the United States is legislating and requiring bonds as security for the currency, we feel that it should treat its own children as well, if not better, than the children of anybody else, and we looked upon that security as a child of the United States, and the syndicate would only have approached the business on the terms made at the time with the view that the public at large would regard this guaranty as one which in no case could be disregarded.

The CHAIRMAN. Is it not a fact in human nature that a grandparent is always fonder of its grandchild than it is of its own child?

Mr. SALOMON. I do not see the application.

The CHAIRMAN. The bonds of the States, then the grandchildren, the bonds of the towns and villages.

Mr. SALOMON. I do not know that that is always the rule.

Mr. GILLESPIE. Do you not believe it would increase the market value of your bonds by putting them in the Aldrich bill?

Mr. SALOMON. No, because we put such a high value on them originally I do not think it could be increased.

The CHAIRMAN. What would be the effect on them if we did not put them in?

Mr. SALOMON. I think if they were not put in it might be very serious; it might be a bar—I am sure it would be a bar to further railroad extension in the Philippine Islands for a long time to come on any such terms as were made by this syndicate. I am sure it would be a bar to the free marketing of these bonds, which was, of course, contemplated by the insular bureau when they asked for bids—invited bids for this work. They really thought at the time, and represented, that these bonds were of such a high quality because of this guaranty that really they ought to be able to build those railroads on a 3½ per cent basis.

Mr. GILLESPIE. What is the market value of these bonds now?

Mr. SALOMON. Ninety-five; that is, we are holding them and selling them at 95.

Mr. GILLESPIE. Four per cent bonds?

Mr. SALOMON. Yes, sir.

Mr. GILLESPIE. Suppose they were made the basis of a currency issue like United States bonds; the twos are selling at 104.

Mr. SALOMON. Yes, since this emergency currency. We do not suppose that these bonds could be issued for ordinary currency; it is only emergency currency, which means a temporary issue; we would be perfectly satisfied if the Aldrich bill does not pass; we are not advocating the passage of the Aldrich bill; we are only standing up for this child of the United States.

Mr. WALDO. What is the amount of this issue?

Mr. SALOMON. This issue is $15,000,000; that is for mileage which is to be covered by this concession that is constructed.

Mr. WALDO. How much per mile?

Mr. SALOMON. It is not determined how much it shall be per mile, but on the estimate, to construct the mileage proposed would be at the rate of about $50,000 per mile. The roads, as you understand, are built under the supervision of the Philippine government, under their own engineers—a very high-class road.

Mr. WALDO. What particular road does this refer to now?

Mr. SALOMON. It refers to the three railroads which are being built on three islands, the island of Zebu, Negros, and Panay, about 100 miles, approximately, on each of those islands.

Mr. WALDO. It has no relation to the road on Luzon?

Mr. SALOMON. No, sir; that is a private enterprise; it has no connection with the United States construction.

Mr. WEEKS. Was this matter stated to the Finance Committee of the Senate?

Mr. SALOMON. Yes.

Mr. WEEKS. Did they pass on it?

Mr. SALOMON. They did not pass on it, because all railroad bonds were eliminated, but personally Mr. Aldrich assured me that if railroad bonds were introduced, that these bonds should certainly be in.

Mr. WEEKS. Were these bonds ever in the bill?

Mr. SALOMON. No, they never were in the bill.

Mr. WEEKS. Do you think Congress could justify itself in allowing a railroad bond of the Philippine Islands to be issued as a basis of circulation, and not railroad bonds of this country?

Mr. SALOMON. Certainly, as in this case, where the security is rested entirely upon a guarantee. The syndicate undertaking to build these roads never would have approached the business with an idea that the security rested upon the railroad bond itself, because there was no means of judging whether the roads would be perfected or not. They simply entered upon the business upon the strength of the guarantee, solely upon the faith of the United States.

Mr. WEEKS. But you can buy the 4 per cent railroad bonds of this nation, the principal and interest of which are guaranteed by perfectly sound corporations, just as sure to be paid at maturity as if guaranteed by the Government.

Mr. SALOMON. I do not question that at all, but if you ask me whether, if railroad bonds were generally excluded, these might not be admitted, I should say yes, but I do not question for one instant that there are railroad bonds which could be included, which would be just as safe, if not safer, than these—safer is not the right statement, because no bonds are safer than the Government bonds. But as

the Aldrich bill did not undertake to select railroad bonds, but was excepting railroad bonds under general conditions, it is another matter.

The CHAIRMAN. I understood you to say that you were not for the Aldrich bill, but you did not want to be discriminated against.

Mr. SALOMON. That is all. As a banker I have always taken the position regarding the Aldrich bill that it was not scientific.

The CHAIRMAN. The point is, that you do not think that the Government has any right, having entered into this arrangement, to discriminate against your bonds, and so disparage them that the market may be destroyed?

Mr. SALOMON. Exactly. I consider that they smirch this guarantee by discriminating in this way against them.

STATEMENT OF MR. W. MORGAN SHUSTER, A MEMBER OF THE COMMISSION TO THE PHILIPPINE ISLANDS.

Mr. SHUSTER. Mr. Chairman and gentlemen, I will not take up a moment of your time. I am a member of the Philippine Commission. I hold the position of secretary of public instruction. I shall appear before you for a moment in the somewhat peculiar guise of a government official taking up for a railroad. My interests and the interests of the government of which I am a member in the Philippines are in seeing the work of railroad construction go on in the Philippine Islands as it has been commenced, and seeing further railroad construction take place there. I do not believe it is necessary to say a word to any Member of the House of Representatives, who are fairly well informed throughout as to conditions in the Philippine Islands, as to the necessity of railroad development there. We have practically no railroads, outside of a very short one, on the island of Luzon. The rest of the islands are without railroads. If the Aldrich bill becomes a law, and my knowledge of it is confined purely to what I have heard in this committee this afternoon, I am informed, and have every reason to believe, that the bonds, foreign railway bonds, interest upon which is guaranteed by the government, will be disparaged, as the chairman of the committee has well put it, and the disparagement of those bonds means that only such construction work, the minimum work of railroad construction which this syndicate and the company they are back of can do under the law, will be done, and that will be a serious detriment to the prosperity of the Philippine Islands, not only by virtue of the fact that we will have a small amount of railroad construction there, but by virtue of its deterrent effect upon other investors either in railroads or other commercial enterprises in the Philippine Islands. The people who have gone into this railroad investment, I have reason to believe, represent the highest financial interests in the United States, and are people of the highest class in those circles.

If they can not go into the Philippine Islands and make a reasonable return on their investment, I do not see how the government or any branch of it can expect any other investors to go there in any other line of commercial or industrial work. But I can speak of my own knowledge when I say that the situation in the Philippine Islands to-day, due to our failure to get relief on the tariff question

and due to a long line of other conditions which I will not tire this committee with, is such that we must have the investment of foreign capital there if there is to be any rise at all from the condition of depression, or what they term in Spanish "prostration," in industrial and commercial circles that exists in the islands to-day, and without being specifically authorized by the government to come here before you to-day, for I have only been acquainted with this matter in the last two or three days, I feel that I can speak conservatively and say that the government and that the business interests of the Philippine Islands, a very large proportion of which are American business interests, feel that any depreciation of the securities resulting from railroad construction in the Philippine Islands at present going on and the deterrent effect which the depreciation of those securities and the curtailment of work and future extensions would have, would be a very serious blow to the industrial and commercial prosperity, and to that extent would be very seriously regarded by the government officials, by commercial and industrial circles, both American and Filipino, and undoubtedly all foreign interests there. Unless there is some question, I thank you very much for your kindness.

The CHAIRMAN. How many miles of road have you already built, Mr. Salomon?

Mr. SALOMON. We have built on the island of Zebu nearly 60 miles, and on the island of Panay nearly 40.

Mr. WALDO. How much do you have under contract?

Mr. SALOMON. We expect to build on the island of Panay about 33 miles more. Those two islands will have about 133 miles; altogether about 270 miles, the balance being on the island of Negros, which has not been, as yet, undertaken.

Mr. WALDO. What business do you expect to find there for the railroads? Do you think there is business enough to make them pay?

Mr. SALOMON. Yes, we do expect that when the railroads are in complete operation they will pay; that they will earn their interest; that they will not be a charge upon the government at all. On Zebu the largest business will be from passengers. It is a very densely populated island. On Panay the population is dense, but there the conditions are better for freight traffic than they are on Zebu. And there we expect also that the line will be fully self-sustaining, and we hope in time that the group building the railroads can see some little profit in building them. At the present moment there is little profit to be discovered from building them, because the bonds are not as readily salable as to be desired.

Mr. WALDO. Is there any business to be anticipated there except that from an agricultural population? Are there any mines or anything of that kind?

Mr. SALOMON. There might be possibly, on the island of Zebu, some business from coal. There are undeveloped coal mines, or partially developed coal mines, on the island of Zebu, from which some traffic is expected, but it is a very short haul. On this subject Mr. Smith can speak better than I can, because he has been out in the Orient and he knows those matters more in detail than I do, but I think I explain it correctly, do I not, Mr. Smith?

Mr. SMITH. You certainly have spoken correctly on the subject.

STATEMENT OF MR. ELMER H. YOUNGMAN, EDITOR OF THE BANKERS' MAGAZINE.

Mr. YOUNGMAN. Mr. Chairman and gentlemen, Senate bill 3023, entitled "An act to amend the national banking laws," and commonly known as the Aldrich bill, is apparently intended to provide for the issue of an emergency currency.

The meaning of the word "emergency," as used in this connection, is somewhat elastic. It can hardly be held that the furnishing of extra supplies of money to move the crops is an "emergency," calling for the issue of bank notes of a special character. On the contrary, to provide the means for harvesting and marketing the crops is the most natural and the most legitimate function a bank can perform. Although it may call for a temporary increase of currency, or rather for a change in the form of bank credits from those representing checking accounts to something that will pass from hand to hand as money, if the banks were permitted a reasonable freedom in the use of their credit, they would meet this demand promptly and efficiently.

An "emergency," however, may signify the conditions created by a great calamity, such as the fires at Chicago, Boston, and Baltimore, the flood at Galveston, or the earthquake and fire at San Francisco. These real and serious emergencies were met without resort to any such doubtful expedient as this bill proposes. The people, the banks—all interests and all classes—stood together as a unit, and by cooperation, the only sure reliance at such times, saved the day.

Then there is another kind of emergency, arising out of panics, such as we experienced in 1893 and again in 1907. Whatever may be the cause of panics they are, in this country, almost invariably marked by a run on some large bank or trust company, resulting in its suspension, followed by a more or less general demand on the banks for cash. This demand comes in part from frightened depositors, who may wish to withdraw money and hoard it until normal conditions are restored. There are further demands for cash made upon their correspondents by banks in anticipation of heavy withdrawals of deposits. The machinery of exchange gets out of order and unusual amounts of money are required to transact the country's business.

There are thus two phases of a panic demanding attention: First, a distrust of the banks; second, extraordinary demands for cash.

This bill, in my opinion, contains nothing calculated to remove that distrust of banks which arises in times of panic and which constitutes one of the most serious features of every financial crisis. The bill does attempt to provide for meeting the extraordinary demands for cash that occur during a panic. But the way in which this is done appears clumsy and unnecessarily costly.

In the first place, a bank to be in a position to avail itself of this provision must either invest a considerable portion of its resources in State or municipal bonds, or it must borrow these securities. Should it buy them it will be locking up its capital in fixed investments. And while the banks already hold securities of this class to a limited extent, any law that offers an inducement for commercial banks to buy more bonds, of any character, is wrong in principle.

Bank deposits are either payable on demand or at short notice, and it is necessary that the resources of the banks should consist of short-time paper.

The whole art of banking has been declared to lie in the ability to distinguish between a mortgage and a bill of exchange. The bill under consideration loses sight of this important distinction, and invites the banks to lock up their capital in bonds, or, in other words, in mortgages.

The notes provided for in the bill are unnecessarily costly. First, the bonds to be used as security can be bought, as a rule, only at a premium, while the notes that may be issued against them are limited to 90 per cent of the market value of the bonds, and are in no case to exceed the par value of the latter. The tax on the circulation secured by other than United States bonds, running from 6 to 9 per cent per annum, will also be a serious addition to the cost of the emergency notes.

Should the banks borrow the bonds, instead of buying them, they would have to pay for the temporary use of the securities. The issue of an emergency currency proceeds on the theory that the way to relieve a panic is for the banks to increase their debts. And this bill authorizes an increase of the note circulation to the extent of $500,000,000.

To me it seems that the more economical and effective way to forestall a panic would be to permit the banks to change their deposit credits into bank notes. This would not entail any increase in the debts of the banks, but would be merely a change in their form, and the notes would be protected by the same reserves that supported the deposits. If to this were added a small safety fund, set aside out of the present tax on circulation, the safety of the notes in the hands of the people would be absolute. In this way all the expense of issuing notes as provided for in this bill would be avoided. And of course it is realized that this expense must be borne by the commercial community.

In section 1, line 13, it is provided that the granting of applications for the issue of the emergency currency shall rest in the discretion of the Secretary of the Treasury.

> The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same, and shall determine the time of issue and fix the amount, etc.

No Secretary of the Treasury, not even Hamilton, Gallatin, or McCulloch, could possibly exercise this discretion wisely. James A. Garfield once truly declared:

> There never did exist on this earth a body of men wise enough to determine by any arbitrary rule how much currency is needed for the business of a great country.

Yet the bill under consideration would confer this tremendous power upon one man—the Secretary of the Treasury. This knowledge of local business conditions can be had only by the local banker, and it is obtained by dealing face to face every day with the men who make up the business community. Nor can it possibly be obtained in any other way.

The business men themselves—farmers, merchants, manufacturers, etc.—are the best judges of the need of more currency. Their needs in

this respect will naturally be expressed through the banks, just as their need for meat will be expressed through the butcher shops. There are two tests to be applied to the issue of bank notes; namely, is the security offered adequate, and does the bank hold a sufficient reserve to protect its notes.

By making the Secretary of the Treasury the sole judge of the necessity of issuing emergency currency, this bill confers upon one man the authority to regulate the issue of $500,000,000 of paper currency. That is a power too great to be intrusted to any individual.

No man in this country, not even the wisest, is competent to assume so great a task. Think of it! The entire business interests of the country dependent upon the will of the Secretary of the Treasury.

I am too good an American to believe that any man who has held that great office has been corruptly influenced. But it is conceivable that a Secretary, inexperienced in financial affairs, might be hypnotized by powerful financiers and defer to their opinions. The true policy would be to adopt some simple means of insuring safety of the bank notes and guarding against inflation, and then let the people themselves regulate their supply of bank currency. They can do it much better than the Secretary of the Treasury or anybody else.

Nor is there anything profound or mysterious in the operation. A farmer, desiring money to pay his harvest hands, goes to a bank and procures a loan, taking the bank's notes in exchange for his own note. For the latter the bank has given the farmer something that will circulate as money, and the discount charged on the note is virtually the premium the farmer pays for having his own credit insured. The bank takes care that the maker of the note is solvent and sets aside the required reserve to support the note it has issued. It is the business of the Government to see that the notes are always safe and that there is no inflation.

A small part of the present tax on circulation, set aside to redeem the notes of insolvent banks, would assure the goodness of the notes, without any bond security whatever, and a proper system of redemption and provision for an adequate reserve would effectively prevent inflation. The attempt which this bill makes to secure an equitable distribution of the proposed emergency notes is arbitrary, and also leaves too much to the discretion of the Secretary of the Treasury. At present the circulation of the national banks is limited to the amount of their paid-in capital.

This limit is removed by the bill under discussion, and the banks are allowed to issue notes to the amount of their capital and surplus. The capital of the national banks on February 14, 1908, was $905,000,000, and their surplus $554,000,000.

In the past ten years the circulation of the national banks has increased from about $200,000,000 to over $600,000,000. This bill makes possible another addition of $500,000,000, bringing the total up to over $1,000,000,000. All this to be done without adding a single dollar to the coin reserve of the banks. The issue of such an enormous volume of paper currency not based upon gold, will of itself tend to engender conditions favorable to panics. Instead of preventing a financial crisis, this bill will help to create one.

Section 2 provides for the acceptance of State and municipal bonds as security for the additional circulating notes. The issue of a bond-

secured bank circulation can be defended only on the ground that it enables the Government to borrow at a lower rate of interest than would otherwise be the case. But it is not the business of the Government to enhance the price of securities other than its own.

Section 4 fixes the tax to be paid on the additional circulation. This tax is so high that it will make the notes of no use to commercial borrowers, who rarely have to pay more than 6 per cent, but may make them of service to stock speculators, who sometimes pay from 10 to 100 per cent.

Section 7 of the bill makes the bank notes redeemable in lawful money. This may mean silver dollars or legal-tender notes. In my judgment, credit obligations of the banks, circulating as money, ought to be redeemed in gold.

Section 8 of the bill slightly increases the proportion of reserves which a bank must keep in its own vaults. But whatever advantages might be gained from such a provision are wholly destroyed by permitting one-third of the reserves kept in the banks' vaults to be in the form of securities enumerated in section 2 of the bill.

If banks held their reserves in securities of any kind, they would, in times of financial pressure, be compelled to market these securities to obtain cash, and the result would be that the securities could be sold only at a sacrifice, if at all. Properly speaking, the only reserve of a bank which can be depended upon at all times and under all circumstances is the cash held in its own vaults. I believe that gold coin, kept actually in the possession of a bank, constitutes the safest basis for the expansion of bank credits, whether in the form of deposits or notes.

Beginning at line 13 of section 8, provision is made for exempting deposits of public moneys of the United States in designated depositaries from the reserve requirements of the national banking act. When a ruling was made by a former Secretary of the Treasury of a like effect, the banks of New York refused to be governed by it on the ground that such a practice would be unsafe.

Section 9 gives the Secretary of the Treasury absolute power in regulating the operations of the act, although the Comptroller of the Currency, from the nature of his office, would seem to be in a better position to judge of the condition of the banks. As the Comptroller's bureau is by law under the general direction of the Secretary of the Treasury already, the necessity for this section is not apparent.

Section 10 provides that national banks designated as public depositaries shall pay upon all sums of public money deposited with them interest at the rate to be prescribed by the Secretary of the Treasury, but not less than 1 per cent per annum.

It is hardly the business of the Government to collect money from the people and lend it to the banks. A large part of the public funds now on deposit with the banks was borrowed at 2 per cent. To lend it to the banks at 1 per cent would not be a good business transaction from the public standpoint. The bill continues the present requirements as to the security for public deposits in the banks.

I believe it would be better if the Treasury would deposit its surplus funds from day to day, as received, in banks in such parts of the country as would suit the public convenience, exacting no interest for these deposits, and checking against them just as business men do. Nor is it necessary that an equal amount of bonds be lodged with the

Treasury to secure deposits. But the Secretary could require satisfactory security in the form of a surety bond, or otherwise.

If interest is to be paid by the banks for Government deposits, the rate should be fixed at not less than 2 per cent, the present practice of the Treasury in requiring the deposit of an equal amount of bonds as security should be abolished, and a safety fund created out of the interest received to pay any losses through the failure of depositary banks.

Section 11 provides that no national banking association shall invest any part of its funds or deposits in the stocks or other securities of any corporation or association, any of the officers or directors of which are officers or directors of such banking associations.

I am not unmindful of the evil which this section seeks to remedy. But its provisions appear too sweeping. As a rule, the purchase of stocks and securities by commercial banks is not desirable. But undoubtedly there are times when it may be advantageous to a bank to invest a portion of its funds in high-grade bonds. If this bill should become a law, with section 11 unchanged, it would either deprive the banks of the opportunity of making such investments, in many cases, or it would cause the officers of the corporations to resign from their banking connections, thus depriving the banks of the service of some of the ablest business men in the country.

As cities and States are corporations, probably no bank whose officers or directors held any public office could invest in the bonds prescribed in the bill as security for additional bank circulation. This bill makes no attempt to remedy the admitted defects of our banking and currency system. It virtually says to the boomer and speculator, "Go ahead and get drunk financially; here is a practically unlimited supply of stimulants in the shape of paper money." The high rates for money usually prevailing in the fall, however, objectionable they may be, impose a restraint on stock speculation. This restraint will be removed should the bill before you become a law. For speculators could afford to pay the high tax on the circulation, which would still afford them a practically unlimited supply of funds and at lower rates than they now obtain them.

Let no one imagine that the emergency currency provided in this bill is analogous to that issued by the Imperial Bank of Germany. The German bank notes are secured, invariably, by one-third cash and two-thirds short-term commercial paper. Will the possibility of adding $500,000,000 of bank paper to the present total of $600,000,000, none of which is based upon coin reserves, strengthen our position or weaken it? Inflation of credit, in the opinion of many, is one of the primary causes of a panic. Is more inflation the proper remedy? A flood of additional paper money, representing that much more liability on the part of the banks, may conceivably add to distrust instead of checking it.

This measure is directly antagonistic to the interests of the South and West, sections where there is supposed to be an especial need for additional supplies of bank notes at certain seasons of the year. The banks of these sections hold but a comparatively small amount of the bonds which the bill permits to be employed as a basis of the increased circulation. Moreover, if the banks should buy such bonds as a preliminary to issuing notes, it would not only fail to afford their communities any relief, but would actually aggravate the local dis-

tress. A bank would have to buy $100,000 worth of bonds in order to issue $90,000 in notes. Thus, instead of adding to the volume of currency in its own locality, a bank taking out circulation under the Aldrich bill, if it must first buy the bonds, would actually reduce it. On the other hand, if the bank owned the bonds, and hypothecated them for notes, it would be taking that much from the funds held to secure the payment of its deposits, and pledging the securities for other additional liabilities.

Commercial paper—that is, drafts drawn against products on their way from the producer to the consumer, or the promissory notes of farmers, manufacturers, merchants, and others—is the true form of security for a bank circulation.

Under proper regulations there is no reason why a bank should not exchange its circulating notes for such security. It is the only form of security which is universal, and the producers of cotton and grain would be especially benefited by making their notes available as a basis of bank-note circulation. As to the safety of such a note circulation, if based upon a further security of a gold reserve of 25 per cent, and with a proper system of redemption, there can be no question. The report of the Comptroller of the Currency for 1906 shows that since the beginning of the national banking system the national banks which have been placed in the hands of receivers had issued a total circulation of $27,628,108. During the existence of the national banks they have paid in taxes on circulation $98,730,906. So that if this tax had been applied to the payment of notes of failed banks, a very proper use for it, there would have been a surplus, after paying all the notes of failed banks, amounting to $71,102,798. This is on the assumption that the notes of the failed banks had been secured only by the tax. As a matter of fact, however, the national banks that have failed have paid 75 per cent, or over, of the claims against them, so that the amount of notes to be paid out of the fund derived from the tax on circulation, if there had been no bond security, would be reduced to $6,907,027, and the surplus left over after paying these notes out of the fund mentioned would be increased to $91,823,879.

In the late panic the loan committee of the New York Clearing-House Association accepted as collateral security for loan certificates, stocks, securities, and commercial paper of an aggregate value of $453,000,000. Of this amount $330,000,000, or 72.92 per cent, was commercial paper. Not a dollar was lost. Not a single merchant whose paper was accepted defaulted. If bonds are the most desirable form of security, the fact seems to have escaped the observation of the New York Clearing-House Association, composed of some of the ablest bankers in the country.

In dealing with panics I believe in hygiene rather than in medicine. But at all events, the proper cure is not to be found in a resort to the printing press. A flood of bank notes is not the proper remedy. The panic of last October was not broken by the issue of "shinplasters," but by the importation of gold. When the toppling credit structure was reenforced by the solid foundation of $100,000,000 of gold brought in from abroad confidence was restored. And in this connection I wish to say that, in my judgment, it was not Mr. Morgan or Mr. Rockefeller, nor the bankers of the country, who were chiefly instrumental in restoring confidence, though I shall not wish to take anything from the credit justly belonging to them. But in

the final analysis we find that the situation was saved by the American farmer, whose products, rapidly moved forward to the world's markets, afforded the basis for importing the $100,000,000 of gold that gave a solid basis for our weakened credit structure, and thus restored confidence.

Gentlemen, I have scanned this bill attentively. I find in it some provision for benefiting the syndicates that may have municipal bonds to sell. I find a provision for the issue of bank currency that may be of help to the Wall street speculator. But the most diligent study of this bill fails to reveal a line or a syllable that will be of the slightest benefit to the farmer, the merchant, or the manufacturer. The bond broker and the stock speculator seem to have been taken care of and the producers and the commercial classes completely ignored.

This bill is fundamentally unscientific and unsound. Should it become a law it will be a direct incentive to speculation, extravagance, and undue extension of enterprise. It does not squarely meet the issues of the time, but evades them.

Compromise is sometimes unavoidable. But it presupposes a sound basis to work from, and no such basis exists in this bill.

It is from beginning to end hopelessly wrong, and no amount of tinkering can make it right.

I shall not presume to offer this committee a substitute for the bill under consideration, but content myself with the following suggestions as affording a basis of whatever legislation may be finally adopted:

First, the safety of our banks should be increased, either by more efficient supervision or otherwise.

Second, the Secretary of the Treasury should be prohibited from attempting to regulate the money market.

Third, the issue of bank notes based upon bonds should be stopped, and, under proper safeguards, the banks should be allowed to issue their notes based upon gold coin and commercial paper.

Fourth, the bank reserves should be strengthened.

For dealing with great financial emergencies, I doubt if any more effective machinery can be devised than the clearing-house associations of the country. It might be wise, however, to regulate their operations to some extent and to legalize expedients which have been found serviceable.

Finally, if our country is to hold its own in the contest for the world's trade, we must take care that our banking and currency systems are made thoroughly efficient. Nothing but the best will suffice. This bill offers no hope of improvement. It perpetuates a mistaken principle and introduces new and dangerous elements into our currency. In my opinion it will tend to engender the conditions that lead to panics and will be wholly useless as a remedy.

(Thereupon, at 6 o'clock p. m., the committee adjourned until to-morrow, Tuesday, April 14, 1908, at 10.30 o'clock a. m.)

Tuesday, April 14, 1908.

The committee met at 10.30 a. m., Mr. Fowler in the chair.

STATEMENT OF CHARLES G. DAWES, ESQ., OF CHICAGO, ILL.

Mr. PRINCE. Mr. Dawes, will you give your name and residence?

Mr. DAWES. Charles G. Dawes, Evanston, Ill.

The CHAIRMAN. What is your occupation?

Mr. DAWES. I am president of the Central Trust Company of Illinois.

The CHAIRMAN. Located at Chicago?

Mr. DAWES. Located at Chicago.

Mr. PRINCE. You were formerly Comptroller of the Currency?

Mr. DAWES. Yes, sir.

Mr. PRINCE. Between what years?

Mr. DAWES. From 1898 to 1901, I believe.

Mr. PRINCE. Is the bank of which you are president a commercial bank?

Mr. DAWES. The bank of which I am president is a State bank. Yes; we do a commercial business.

Mr. PRINCE. Does it do a regular commercial business?

Mr. DAWES. Yes. We do not take commercial paper. We loan only on collateral; but we do a regular commercial business, with checking accounts.

Mr. PRINCE. You do a checking-account business?

Mr. DAWES. Yes. Just here, gentlemen, let me say——

Mr. PRINCE. Just let me ask you one or two more preliminary questions, to get them clear in the record.

Mr. DAWES. Yes; go ahead.

Mr. PRINCE. If this Aldrich bill, that is now under discussion, should become a law, would you avail yourself of its privileges?

Mr. DAWES. I do not know; I have not considered that matter as yet.

Mr. PRINCE. Could the bank of which you are president avail itself of its privileges now?

Mr. DAWES. Ours is not a national bank; therefore we could not avail ourselves of its provisions.

Mr. PRINCE. That is what I am getting at. Let me ask you a further question: If this bill should become a law, would you change your present form of bank into a national bank in order to get the privileges of it?

Mr. DAWES. I do not know, Mr. Prince. I have come here to speak from a general standpoint about the Aldrich bill. It is a matter of

no interest to this country as to whether my bank would avail itself of the provisions of the Aldrich Act or not. If you will please let me proceed now with a general statement upon this bill, after I get through I shall be very glad indeed to answer any questions that I am able to answer. But I would like, if I can without interruption, to make a statement upon this bill as I see it from its general standpoint, not with reference to my bank or any particular bank, but with reference to the interests of the country as a whole.

Mr. PRINCE. All that I wanted, Mr. Dawes, was to have the House and the country know exactly the conditions as they appear before the committee. I do not wish to catechise you, and I do not wish to interrupt you. Go on now in your own way. I simply wanted to show the facts as they exist.

Mr. DAWES. In the first place, I want to say, in connection with the Aldrich bill, which has passed the Senate, that I do not appear as advocating the passage of that bill in its entirety. I believe, as do most of those who have appeared before this committee, that the section relating to loans upon securities in which directors of the banks are interested—the number of the section I have forgotten—is unwise.

Mr. PRINCE. It is section 11.

Mr. DAWES. Yes; section 11. I believe it is unwise, and should be eleminated from the bill. But I do wish to make an argument for the general principles embodied in the bill and to point out the necessity that exists at this time for the enactment of substantially the provisions of the Aldrich bill in regard to emergency circulation and in connection with national banking reserves.

Before taking up the detailed argument in this connection, I want to say that we are confronted by a necessity in this nation for remedial legislation of some sort. We were confronted by that necessity in the panic of 1893, and it was the panic of 1893 which first brought to the attention of the people as a whole the defects of our national banking system. At that time, which was a time of emergency and crisis, as at this time, there was a widespread discussion and quite a general effort made to get united support behind some measure which could pass through Congress and relieve the national banking system from the situation in which it was and from its inability to properly respond to the needs of the country. But there was an utter inability to agree among the financial doctors of the United States at that time, as there seems to be at this time, after the passage of some fourteen years, among those who believe in radical changes in the national banking system of the United States.

This is no time for the discussion of branch-banking laws, of laws authorizing the establishment of a central bank, of laws radically changing the method of note issues. This, I say, is not the time for the discussion of those measures as of practical importance in connection with this session of Congress and with this emergency. I say that for the reason that there has been demonstrated the absolute impossibility of the financial doctors of this country themselves uniting upon any one measure, just as there was at the time of the last emergency. And because of their inability to unite, this country has gone without the protection which it should have had put into our statute books at that time until we have gone into this panic

and through it without such laws. We had at that time the Baltimore plan; we had at that time the Walker plan; we had at that time the Indianapolis commission plan; we had at that time Secretary Gage's plan; we had at that time Mr. McCleary's plan; we had at that time Secretary Carlisle's plan. We have now the American Bankers' Association plan; we have Mr. Fowler's plan; we have Mr. Ridgeley's plan for a central bank; we have the New York Chamber of Commerce plan; we have almost innumerable plans coming from all over the country suggesting radical changes in our national banking system. And I say that we are confronted by a condition of public sentiment in the country at this time which makes impossible of legislative enactment any radical change in our national banking system.

We have been through a panic in the United States in which the banks in the central reserve cities over this country largely repudiated their debts. Let us see just what that means:

Suppose that down in a country town the retailers should get together and say to the wholesaler who came to collect a debt: "We have agreed among ourselves to pay you in due bills." Those men, in my judgment, would soon have the sheriff to deal with. But the banks in the central reserve cities of the United States, when a banker from a little town came and asked in currency for the deposit which was due him under the contract, sent him home without it, or with only a part of it, throughout almost all of this United States. It was repudiation. The banks got out clearing-house certificates. And what was one of the purposes of those clearing-house certificates, which is so often overlooked? It was to enable the banks safely to repudiate the obligation upon them to pay in currency and in lawful money. For under the clearing-house arrangement, if I were a city banker, and any one should come to my bank and ask for his deposit, and I should say, "I will give you only a portion of it in currency," if the clearing-house certificate system was not in effect he would go home and put in a check upon my bank through the Continental National Bank of Chicago, or the First National Bank of Chicago, and I would have to settle in currency through the clearing house for that check.

So that these clearing-house arrangements are a fence around the lawful money of the central reserve city banks and the reserve city banks to enable them to safely say "no" to the man who comes to collect his deposit in cash in order to meet the customers whom he has to meet face to face over his counter. Take the little banks all over this country which are isolated, with perhaps no other national bank in the town; they have to meet face to face their customer who demands his money. They do not have the moral support of a number of other banks with obligations doing the same thing. They are unprotected and alone. This clearing-house arrangement in the cities is perfectly justified under the law of public necessity; it is justified in public sentiment; it is justified morally because of the greater evil that would come to the business of the country if the banks did not take this means of self-protection and did not repudiate in this way; and those considerations greatly overshadow the moral wrong involved in the refusal in a time of panic of the reserve cities to cash the deposits of the country bankers. But the country banker

is the man who has been left largely exposed in this last panic; and the question of the relation of the reserve held by the country banker to his deposit liabilities is one of the most important questions involved in this Aldrich bill.

But the point I wish to make first is that if it is possible at this time—call it unscientific if you like; call it in subversion of economic principles if you like—to pass the kind of law that will enable the banks in the reserve cities to pay their debts in a time of panic, it should be done by all means. And I maintain that a grave mistake is made by any man or any set of men who maintain that nothing should be done at this time to right this intolerable situation, which comes up every time we have a general contraction of credits in the United States, simply because a remedy which is confessedly possible of legislative enactment is "unscientific" or "tending in the wrong direction."

We want the national banking system of the United States put in such a condition that the business of the United States in these times of emergency can be protected. And I say that those men are making a mistake who say now, "Do nothing," simply because away off in the future, when we can agree upon a branch banking bill, when we can agree upon a central bank, when we can agree upon an asset currency, we will be able to do it with less difficulty than if this statute is passed at this time.

We should have relief at this time for the protection of the business interests of the country. The loss and the misery that are caused by repudiation by banks we all know. And it seems at this time, since this bill has passed the upper House, that there can be enacted into legislation some remedial bill, provided it is not in conflict with the fundamental principles which, right or wrong, have underlain our banking system.

We proceed slowly in this country. We have prejudices to confront in this country. We must have united effort. We must have concessions made in order to get through any legislation. And I think I can say without contradiction that no bill radically changing our banking system can be passed, at this session of Congress at least. Now, how can any radical legislation be enacted later, if, with all the object lessons pointing to the necessity of a change which exist before this Congress, which exist before this people, just out of the panic of 1907—how, at any time in the near future, can radical legislation be passed if temporary remedial legislation can not be passed at this time, owing to the prejudiced efforts which are made against it?

Suppose you introduce for general discussion before the country the proposition of asset currency. Let the people of this country believe that that is possible of legislative enactment—let the people of this country, with all the prejudice which has been created against the process of centralization in other lines of business, believe that there is a chance for the passage of a bill establishing a central bank, or branch banking, which will enable the laws of business to be applied unfettered to the banking business, and see what the opposition will be. You have not developed the opposition in the United States to radical changes of our banking laws, for the reason that the people do not think that there is a chance, that Congress does not think that there is a chance, of their being made. And if remedial legislation is not had at this time, this country will have to go through another

panic unprotected; these reserve cities will again repudiate, of necessity and rightfully; and we will again be face to face in the future with all that we have passed through in the recent past. And the men who will be responsible for that condition will be the obstructionists at this time when, upon some remedial measure, it does at last seem possible to get action by Congress.

I want now to discuss the reserve feature of the Aldrich bill and to say that in my judgment never has a bill been so misrepresented before the people of the United States as has this Aldrich bill in connection with its reserve requirements. I have here resolutions of clearing houses which have been passed throughout the United States, starting with the resolution of the Chicago Clearing House. In that resolution it says:

Whereas the Aldrich bill changes the legal reserve requirements of the national banking act which have stood for forty years, so that nearly $200,000,000 of lawful money, or about one-sixth of the lawful money holdings of the national banks, must be withdrawn from loanable use and locked up in vaults or invested in certain specified bonds: Therefore, be it

Resolved (1) That the transfer of this money from the liquid reserves of the banks, where it is available for loans, to an idle fund, which the banks are forbidden under any circumstances to encroach upon, will seriously impair the working capital of the country. It is not merely a transfer of money from reserve cities to other localities, but a definite withdrawal of money from use as a basis of bank credits. The total lawful money holdings of all the national banks on December 3, 1907, according to the statements of that date to the Comptroller of the Currency, were $1,045,795,019, on the basis of which the banks had outstanding loans of $4,585,337,094. If the available cash in their vaults at that time had been reduced as proposed by the Aldrich bill, the banks would have been obliged to contract their loans by approximately $1,000,000,000. We submit that such a reduction in the loaning power of the banks concerns the business community quite as much as it does the banks. It means restricted accommodations to the business men, higher interest rates upon commercial loans, and a permanent burden upon the country in the form of returns upon idle capital, the system of reserves in this country being already more costly than that of any other country.

That comes from the clearing house of the city of Chicago; the intimation being that a loan contraction of $1,000,000,000 may be caused by the passage of the Aldrich bill.

Then come the other clearing houses in the wake. Here is one from Lincoln, Nebr., to practically the same effect. Here is a letter from the ex-president of the American Bankers' Association. Notice that these resolutions are being sent out by the thousands:

GENTLEMEN: The Aldrich bill has passed the Senate and is now before the Committee on Banking and Currency of Congress.

This measure as it has been amended is a dangerous bill. Instead of giving us an emergency currency of $500,000,000 to meet the constantly growing demands of trade, it takes from the reserve cities $221,143,179, and ties up in the reserves of the country $571,265,496, of which amount $147,428,786 shall be in bond securities, which precludes the possibility of these bonds being used to secure emergency circulation.

And so on.

I say that no bill has been so misrepresented in its general effects as has this bill. That is evidenced by these intimations that it will be necessary to contract the loans of this country $1,000,000,000 because of the Aldrich bill. Let us analyze the effect of the reserve provision of the Aldrich bill; for if that would be so, unquestionably it should be stricken out of the bill. It is not so. I have taken the trouble to make a careful computation on that point from statistics

obtained from the Comptroller's Office—not from the statement of December 3, which is not relevant, but from the last statement—showing the condition of the banks as they are at the nearest available date.

On February 14, 1908 (the central reserve cities are not included in the following statement, for the Aldrich bill does not change them), the lawful money on hand in the country national banks was $232,373,202. This does include the insular possessions, whose banks are very small. The Aldrich bill requirement of four-fifths of the 15 per cent reserve upon which these banks are allowed to do business amounts to $295,255,488, of which $98,418,496 can be carried in bonds as provided for in the bill. So that the lawful money requirements under the Aldrich bill are $196,836,992. Subtracting that from the amount of lawful money which they had on hand, there is an excess at this time in lawful money over the Aldrich bill requirements in the money requirements under the Aldrich bill.

Mr. PRINCE. Would it be proper to ask you a question right there, in connection with that statement?

Mr. DAWES. Yes, sir.

Mr. PRINCE. It has been stated before the committee that for about nine months of the year there is a redundancy of currency; that during the crop-moving season of the year there is a greater demand for currency, and that if the provisions of the Aldrich bill with reference to the reserve were in force during those crop-moving seasons of the year (to illustrate, at Minneapolis and St. Paul), they would be absolutely helpless to comply with the provisions of the bill and at the same time give the currency necessary to move the crops. You are giving, if I get your statement correctly, the statement of the month of February, when the banks throughout the United States, as a result of this currency trouble, had been piling up reserves in their banks. What is your answer to the other statement as to the crop-moving season?

Mr. DAWES. Mr. Prince, I will ask the stenographer later to read your question, which I shall answer as soon as I finish on this particular point.

Mr. PRINCE Very well; I did not want to interrupt you, but that inquiry was germane at this point.

Mr. DAWES. Yes; it is germane, and I want to take it up.

In reserve cities, the lawful money on hand at the present time is $200,362,786. The Aldrich bill requirements would be $219,488,306 less the amount which they are authorized to carry in bonds, $36,581,384. Subtracting that sum of $182,906,922, which represents the net requirements of the Aldrich bill in lawful money, the excess of lawful money now held by the banks over the Aldrich bill requirements in reserve cities is $17,455,864. The total of excess over the Aldrich bill requirements of the reserve city banks and the country banks (not including, of course, the central reserve cities, which are not changed by this bill) is $52,992,073. In addition to this surplus of $52,992,078 over the Aldrich bill requirements in country banks and in the reserve cities, the central reserve cities of the United States now hold a surplus over their 25 per cent reserve in lawful money of $45,576,494. So that the grand total of surplus in lawful money now held by the

banks of the United States over the Aldrich bill requirements is $98,568,567.

Now, tell me where there is a basis for the statement, or room for the inference to be drawn, that we are facing a contraction of loans of $1,000,000,000 as a result of the passage of the Aldrich bill? The Aldrich bill will require the investment in these municipal and public bonds of $134,999,880.

The CHAIRMAN. That is the amount to be put into the bonds?

Mr. DAWES. That is the amount to be put into the bonds.

Mr. GILLESPIE. In their reserve?

Mr. DAWES. In their reserve, to be carried as a reserve.

Mr. PRINCE. Let me ask this question: Does that mean, also, the bonds that are required by the very first section of the bill, which uses the language "any national banking association which has circulating notes outstanding secured by the deposit of United States bonds to an amount of not less than 50 per cent of its capital stock?" Is it not true that many national banks do not have 50 per cent of their present capital stock in United States bonds?

Mr. DAWES. Oh, yes; that is true.

Mr. PRINCE. Have you figured the amount that will be required in United States bonds to comply with the very first section of this act?

Mr. DAWES. I have not figured that amount; no, sir.

Mr. PRINCE. I will ask you if it would not be a large amount?

Mr. DAWES. If I have not figured it, I can not answer as to how large it would be, Mr. Prince.

Mr. PRINCE. As the former Comptroller of the Currency, have you any present knowledge, or means of giving to the committee the information, as to how many bonds would be required to comply with that provision of the bill?

Mr. DAWES. The larger the amount of bonds which would be required to comply with that provision of the bill, Mr. Prince, the smaller the amount they would have to buy of these municipal bonds, because of the smaller amount of currency they would take out.

Mr. PRINCE. Oh, no; I beg your pardon. Before they can avail themselves of the provisions of the bill they have to——

Mr. DAWES. I understand; but I am discussing now the ability of the national banks of the United States to stand the passage of the Aldrich bill in connection with the movement of lawful money and in connection with that question of loan contraction.

Mr. PRINCE. Yes; but you have a double class of bonds.

Mr. DAWES. Wait a minute. I understand; and I will try to take up that point in a minute. I have shown that utterly irrespective of the bond question (to which I was alluding incidentally), the banks of the United States have now $98,000,000 of an excess in lawful money over that required amount. As to the amount of additional United States bonds that they would have to buy, the total capital of the banks is at this time something over $900,000,000 and the amount of the bonds to secure circulation is, in round numbers, $600,000,000. The Aldrich bill would require them to hold only about $450,000,000. As to how they are apportioned, whether between banks in reserve cities or outside or banks in central reserve cities, of course, would not affect this question one way or the other. That particular point I have not figured.

Mr. PRINCE. I wanted to know about that, because that is creating a value for bonds that enters into this whole question and results in absorbing that much actual capital before the banks can operate. No one has seemed to touch upon that point.

(At this point, by request, the stenographer read aloud portions of the foregoing questions by Mr. Prince.)

Mr. DAWES. The purpose of that question is to indicate that a larger proportion of the cash moneys, as I understand (for that is what you are discussing now), will be tied up because of the necessity of the banks to purchase these bonds?

Mr. PRINCE. The question is a double question. What I want to get at is this: First, will it not require the tying up of money in these bonds? And will it not also, in view of the fact that the number of these bonds is limited, place an additional value upon them which they do not possess in themselves? In other words, will it not create a bond value for men who own or control these bonds that they do not at present have?

Mr. DAWES. The question is as to what you mean by "tying up." I am discussing the matter of the relation of lawful money in connection with the statement that there will be a loan contraction because of the transfer of lawful money out of use by the banks of the United States. It does not make any difference how many more United States Government bonds the banks buy. They do not tie up lawful money in buying those bonds. They have $714,000,000 of other bonds under the last statement, all of which they can sell for bills of exchange and for drafts in the same terms that every other kind of business is done—money in terms of checks and drafts and other bank-credit currency that has not any material relation to lawful money supply, which I am discussing at this time. They can change those bond securities at that time into the kind of bonds now required for national banks, and it might involve them in some loss of profits in that way. That is a question which relates to the finances of the individual banks. The country as a whole is not concerned so much as to whether the banks make a profit or make a loss in complying with the provisions of this bill, unless, in doing that, the banks have to interfere with the supply of lawful money in the banks which is a basis for loans, and the unreasonable diminution of which may cause a contraction of loans.

In connection with some argument which we had out in Chicago, this statement was made by Mr. Roberts:

> You say that the banks may carry $134,999,880 in bonds. How are you going to buy those bonds with an excess in lawful money of only $53,000,000?

The answer to that is that the matter of lawful money has nothing to do with such transactions as are mentioned by Mr. Prince and by Mr. Roberts. That involves the sale of one kind of securities and the investment in another kind of securities. The banks of the United States have, in the one item of bonds and securities, $714,000,000 out of which they would get these other bonds without either decreasing their reserves with the central reserve cities or contracting any portion of their $4,442,353,647 worth of loans.

When we get down to discussing what will be the effect upon general business of a compliance on the part of the banks of the United States with this bond provision, we are getting down to very small

figures, from which very little result could flow one way or the other so far as the interests of the public are concerned. To get $135,000,000 of municipal bonds, to get the difference between the $600,000,000 of bonds which they have now to secure currency and the additional amount which Mr. Prince refers to—suppose it amounted to $200,000,000 of Government bonds—of course it would cause an increase in the price of Government bonds, which might involve the banks in some loss in that connection, but they would not be compelled to encroach upon their lawful money supply to do that, except in a very small degree, if at all. These transactions in bonds by banks are not done in lawful money. We all know that. They are done in the same kind of currency that 90 per cent of all of the business of the United States is done—by a transfer of banking credits. And this question can not be befogged by the injection into this discussion of questions relating to the purchase or the sale of bonds. That is a question which relates to the banks themselves. The banks themselves might make that argument—that it will be too costly for them; that some of them may not want to avail themselves of this provision. But my point is that there is a surplus at this time of lawful money in the banks of the United States to such an extent that, because of the purchase of bonds (either Government or municipal bonds) by these bank[illegible] the extent provided for by this bill, it will not be necessary to [illegible]roach materially upon that surplus or reserve in lawful money. It would not begin to consume the surplus over the Aldrich bill requirements at this time. I am speaking now of lawful money.

Mr. WEEKS. I do not want to interrupt you or break the thread of your argument; but let me suggest that that condition did not obtain a year ago.

Mr. DAWES. I am going to answer that. Mr. Prince referred to that matter.

What is the weak point of our whole banking system? It is this system by which, to so great an extent, the country banks of the United States are allowed to do business on the basis of a debt from another bank, called a deposit with a reserve agent. That weakness in our banking system has been the subject of discussion off and on for the last thirty years in the Treasury Department of the United States. John Jay Knox, in 1873, called attention to it. Attention has been called to it by other Secretaries of the Treasury, including Mr. Cortelyou. I called attention to it in my report to Congress for 1899. Mr. Forgan calls attention to it in an address which I have here, in which he quotes from my report to Congress—that this reserve law in the United States which enables a country bank to run with a reserve of $6,000 cash (two-fifths of 15 per cent) on every $100,000 deposit liabilities, results in too great a disproportion between the aggregate deposit liabilities of the banks and the aggregate cash in which those aggregate deposits are liable to be called for. There is an inducement given each summer by the redundancy of money in the country banks for them to send it to their central reserve agencies; and, as Mr. Prince has said, in the summer there is a great redundancy of money. And where does it go? It largely goes to the central reserve cities—first from the country bank to the reserve city; then from the reserve city to the central reserve cities, largely to the city of New York; and the banks of the city of New

York, of necessity, in order to get the money with which to pay the 2 per cent interest on their deposits, loan it on call in Wall street. I should estimate that even to-day there is in the neighborhood of $400,000,000 of the money of national banks and country banks loaned upon Wall street.

Mr. GILLESPIE. Is all of that reserve requirement—that $400,000,000?

Mr. DAWES. Oh, no; I am just speaking of the amount of the loans.

The CHAIRMAN. You mean those loans, too, which are in excess of the reserve?

Mr. DAWES. Yes. I am not speaking, Mr. Fowler, simply of loans made by the city banks. I am speaking also of loans which are made through agents. That has no particular relation——

Mr. WALDO. What Mr. Gillespie asked you, and what I want to know, is whether you think that $400,000,000 is the accumulation of reserves from the country banks?

Mr. DAWES. No.

Mr. PRINCE. He says not.

Mr. DAWES. No.

Mr. GILLESPIE. It is just the country banks gambling in Wall street?

Mr. DAWES. No; it is not that. I will come to that a little bit later.

The CHAIRMAN. Mr. Dawes, I do not want to interrupt you; but I want you to make the point plain that the banks are doing that and sending money there to be loaned largely without any reference to reserves at all. I wish you would explain that.

Mr. DAWES. Yes, they are doing that; and my estimate of the amount of money which is sent there by the country banks of the United States (that is, the banks in the interior cities) at this time is about $95,000,000. About five months ago it was as high as $150,000,000. I have made some investigation into that matter; and, apart from the loans which are made by the New York city national banks on the "street," there are probably brokers' loans made for the banks of the United States to the extent of approximately $100,000,000 at this time.

Mr. CRAWFORD. Do you regard that as an evil?

Mr. DAWES. I most certainly do, as I am going to try to prove.

Mr. CRAWFORD. What remedy have you?

Mr. DAWES. Just exactly the remedy provided by the Aldrich bill—to keep more of that cash money where the deposit liabilities for which it is pledged exist.

Mr. GILLESPIE. If this money is not needed for reserves in the country banks—if they are not only making their reserve deposits, but are sending their depositors' money in greater amounts to invest in stocks and bonds in the stock and bond market of New York——

Mr. DAWES. But it is needed in their reserve account. That is what I am trying to show.

Mr. GILLESPIE. But it is in excess of their reserves, is it not?

Mr. DAWES. The point is that the Aldrich bill increases the amount of the reserve which the country banks have to hold; and I maintain that the increase of the amount is a necessary increase and that the permission given under the law to send to their reserve agents so large a proportion of their reserve results in the undue accumulation of money in New York and in unduly low interest rates upon that form of loans which are readily convertible.

Mr. WEEKS. You do not want to let that suggestion of Mr. Gillespie's go in that form. The country banks do not invest in bonds and stocks; they loan to others, with bonds and stocks as collateral.

Mr. DAWES. Certainly.

Mr. GILLESPIE. Oh, yes; it is a case of "tweedledum and tweedledee."

Mr. WEEKS. Oh, no; it is not even "tweedle."

Mr. DAWES. Now, as to that evil: The permission given under the law to deposit so large a proportion of their reserves with the reserve cities and central reserve cities results, in the summer time (to which Mr. Prince refers) in an undue accumulation at New York. The New York banks know that they will probably have to ship currency in the fall, as against the deposits which are withdrawn by their country banks, so they loan that money on Wall street, and those loans on Wall street are paid. There was no money lost on the Wall street loans in the panic of 1893, I am told by the Comptroller's office. There was no money lost, to my knowledge, on brokers' loans in the panic of 1907. As a rule, those loans are promptly met when due. A personal relation does not subsist between the borrower and the lender. The business is done through brokers. It is done on a large margin. It is done upon those securities that are largely dealt in upon the exchanges, and those notes are quick cash. And this provision of the reserve law which allows so much of the country banking reserves to be held in the shape of a debt from another bank is what causes the undue collection of money in New York in the summer time, when there is a redundancy, and encourages speculation in Wall street and produces the congested condition in Wall street which, as in the summer of 1890, results in 40, 80, and 100 per cent money and in the frightening of the whole country and in the impairing of the confidence of the whole country because of that condition.

The efforts of the New York banks in the fall to contract their loans to meet the demands from the country banks for this money, which, in order to get 2 per cent interest, they have deposited there in New York, is what brings us to these emergencies. And in 1907, in October, that movement precipitated the great panic that the country experienced.

This evil is an admitted one. Mr. Forgan's remedy for it—he admits the evil—is branch banking. Let me read it:

> In the last annual report of Mr. Dawes, as Comptroller of the Currency, he called the attention of Congress to this subject. He pointed out the danger of our system of permitting so large a portion of the legal reserves of one bank to be represented by deposits in another. Mr. Dawes was entirely right in his diagnosis.

This comes from James B. Forgan, one of the foremost opponents of the Aldrich bill, which strengthens these reserves.

> It is a danger which confronts us whenever public confidence weakens. Whenever individual banks, through fear, withdraw their funds from their reserve agents and fortify themselves by increasing their cash reserves in their own vaults, then enforced liquidation takes place at the financial centers, where weekly reports of the shrinkage are published for the further terrifying of the already alarmed public.

Then he goes on——

Mr. WALDO. Mr. Dawes, if that were the only thing in the Aldrich bill, there would not be very much objection to it, would there?

Mr. DAWES. That is apparently the chief objection of the bankers of the United States.

Mr. WALDO. I do not think so; I have not heard of it. My understanding is that the whole trouble arose from the fact that the law originally allowed this deposit of reserves for the purpose of redemption; that subsequently the law was changed, making the sole redemption point here in Washington, and that provision was not taken out, as it ought to have been. That is all there is in it. There is nobody that knows anything about banking that does not believe that the reserves ought to be kept in the bank, where they belong. So I think there is nothing in that.

Mr. DAWES. The resolutions of these clearing-house committees point out, as they indicate, a great danger in this reserve feature of the bill in the strengthening of the reserves of the country national banks and maintaining this strengthening of the reserves (and it is very small) in lawful money. In the matter of the country banks, it means that they would have to carry only $8,000 in currency on every $100,000 of deposit liability, instead of $6,000; but that is something.

Mr. WALDO. The actual provision of the law is 15 per cent, is it not?

Mr. DAWES. Yes; but I am talking about the amount which they can carry in reserve cities. They are allowed under the present law to carry three-fifths of it in reserve cities, and only two-fifths of it must be carried in lawful money in the banks. Two-fifths of 15 per cent is 6 per cent. The Aldrich bill says that they must carry four-fifths of their reserve in their vaults, but one-third of the four-fifths—that is, one-third of 12 per cent, which is 4 per cent—can be in the shape of these municipal and public bonds. That leaves the actual cash lawful money requirement 8 per cent—an increase of only $2,000 on $100,000 deposits in the case of national banks.

Mr. WALDO. You have no objection to that?

Mr. DAWES. I want to, if I can——

Mr. WALDO. I do not think anyone on this committee has any objection to that. If there is such a person, I have not heard from him.

Mr. PUJO. I would like to have them keep the whole 15 per cent there.

Mr. GILLESPIE. But, as Mr. Waldo says, the fight has been made by the bankers here. They dwell on the provision of the Aldrich bill changing the reserve.

Mr. DAWES. That is the chief provision that they object to; and why? They want the use of that additional amount of money in their banking reserves in the reserve cities. It is natural enough that they should.

The CHAIRMAN. After you require them to hold it there, if you then authorize them to buy a bond that will bear 4 or 5 per cent interest, any country banker is going to convert his cash reserve (and the reserve is not anything unless it is cash) into these bonds.

Mr. DAWES. Exactly. That is just exactly what I want to bring out.

The CHAIRMAN. Just a moment. What have you accomplished if you get him to put his money there, and then allow him to put it into a fixed investment?

Mr. DAWES. I am just explaining that you have increased your cash reserve 2 per cent under the lawful money reserve requirement of the

Aldrich bill. The banker has to carry $8,000 cash instead of $6,000. To the extent of that additional $2,000 the foundation of all banking credits in the United States is stronger. Then the Aldrich bill provides that he can carry one-third of that four-fifths, which is 4 per cent, in these bonds. Then it also provides that if there is an emergency and the banker has to have the cash money to pay his depositors on demand, he can go to the nearest subtreasury and get 90 per cent of the value of those bonds in these emergency notes. And if he wants to use those emergency notes as reserve, the law provides that he can get that amount of the emergency notes in lawful money over the same counter from which he takes his emergency currency.

The CHAIRMAN. Just a moment.

Mr. DAWES. In other words, he can reenforce his lawful money reserves.

The CHAIRMAN. Here is a reserve of $4,000 on $100,000; is there not?

Mr. DAWES. In bonds; yes.

The CHAIRMAN. In bonds?

Mr. DAWES. Yes.

The CHAIRMAN. Very well. They are reserves when they are in the form of bonds; are they not?

Mr. DAWES. Yes.

The CHAIRMAN. Very well. Now, when the banker comes to Washington——

Mr. DAWES. He will go to the nearest subtreasury.

The CHAIRMAN. Let us say the subtreasury, then—when he comes there and deposits his bonds, he has depleted his reserves $4,000 when he takes the notes back in his hands; has he not?

Mr. DAWES. Exactly.

The CHAIRMAN. Very well. Then what is he going to do to build up the reserve that he has depleted?

Mr. DAWES. Under the provisions of this bill he can take the emergency notes back, and the United States, under its provisions, has to give him lawful money of the United States for them. Have you not read the bill? That is what it says.

Mr. WALDO. Then will not the United States present the emergency notes to him immediately and take the lawful money away from him? That is the next thing that will happen in that case; is it not?

Mr. DAWES. If that is the case, introduce a bill to correct it, if you please. But the point is, and it has been made by the bankers generally——

The CHAIRMAN. Practically this is what he would have to do: If he takes this $4,000 in these bonds——

Mr. DAWES. Four per cent, you mean.

The CHAIRMAN. Yes; this 4 per cent—$4,000 to $100,000 is the way I express it, because we understand those things better.

Mr. DAWES. Yes.

The CHAIRMAN. He takes them down to Washington; and those are his bonds?

Mr. DAWES. Yes.

The CHAIRMAN. He deposits them, and he gets nonreserve money. Therefore he has to go and call $4,000 of loans in his town in order to build up his reserve?

Mr. DAWES. Why, not at all.

The CHAIRMAN. Absolutely so. In other words, the commerce of the United States would have to liquidate five hundred millions of its loans in order to build up the reserve.

Mr. DAWES. Mr. Fowler, you are making exactly the same mistake there that most of these bankers have made. That $4,000 in bonds which he has in his reserve he can take to the subtreasury and get for it 90 per cent ($3,600) of money in the form of emergency notes. The bill provides that the Government of the United States, on demand, will exchange those emergency notes for lawful money of the United States, which goes into the reserve, and which, so far from necessitating a contraction of the loans, is an addition to that extent to the cash supply of the United States.

The CHAIRMAN. Will you tell me where the Government is going to get that five hundred millions when there is a shortage of revenue? Tell the committee where the Government is going to get that five hundred millions.

Mr. DAWES. That is the first time that matter has been mentioned. That was not your former argument. This is step by step.

The CHAIRMAN. Oh, yes; it is. It is all a piece of work. Please tell this committee where you will get your five hundred millions.

Mr. DAWES. Let me make this point, too, right in that connection: That the question of whether those emergency notes are legal reserve or are not legal reserve will never concern the banker for one minute in the emergency which he confronts.

The CHAIRMAN. In other words, you are going to allow the national banks to hold their own notes as reserves?

Mr. DAWES. Mr. Fowler, I am going to take up that question of reserve notes.

The CHAIRMAN. I should like to have you tell this committee where the United States Government is going to get that five hundred millions which it will have to get.

Mr. GILLESPIE. You are in favor of the Williams bill?

The CHAIRMAN. Just a minute; I should like to have you tell this committee where the Government is going to get that five hundred millions?

Mr. PUJO. Revise your tariff, increase your revenue, and put a Democrat in office.

Mr. DAWES. If the Government of the United States agrees to redeem these emergency notes on demand in lawful money, the great probability is that the demand for redemption will be such that, under the ordinary rule of banking (which is that the actual demand will only be a fraction of the possible demand), the United States Government can meet that demand without any special legislation upon the subject.

The CHAIRMAN. Five hundred millions in the course of two or three months?

Mr. DAWES. Five hundred millions in the course of two or three months? Five hundred millions would never be presented for redemption in the course of two or three months. This Government of the United States ran here for years without a full gold reserve behind all its notes, and it has not got it now. Suppose the $346,000,000 of greenbacks should be presented all at once, what would the Government of the United States pay them with?

The CHAIRMAN. What did they do in 1895?

Mr. DAWES. They issued bonds and increased their gold reserve.

The CHAIRMAN. And that is what you would have to do in this case.

Mr. DAWES. But you do not know what the amount of the presentation is going to be. I tell you that these notes will not be presented to get the lawful money, because the people know that they can get lawful money if they do present them, just as your greenback notes are not presented for redemption in gold at this time. There will be the element of exchangeability.

The CHAIRMAN. Suppose you put a burden of five hundred millions more on this country, how long do you suppose it will be before some one will think that the Government can not pay lawful money and will start this endless chain again?

Mr. DAWES. My answer to that is that the credit of the Government of the United States, even if the possible additional demand of $500,000,000 is made upon it, will be equal to the protection of the credit of its obligations.

The CHAIRMAN. In what way? It has no liquid assets—not a dollar. In what way?

Mr. DAWES. If necessary, by the sale of bonds.

The CHAIRMAN. Ah! That is it. That is exactly what I wanted you to say.

Mr. DAWES. If necessary, by the increase of revenue.

The CHAIRMAN. That is the whole thing. That ends it all.

Mr. DAWES. That ends it all, Mr. Fowler, in your particular mind.

The CHAIRMAN. No, no; in the public mind.

Mr. DAWES. Let us analyze this; let us finish up these things one at a time. Here the chairman of the Committee on Banking and Currency maintains that if the banks take out $500,000,000 of this currency, which is subject to a tax of 6 per cent if it is not redeemed in four months and a tax of 9 per cent for the time that it runs after that, that within the time the banks will be willing to take out that currency there will be something like a possible demand upon the Government of the United States for $500,000,000! No more nonsensical proposition than that was ever uttered. These notes will probably only be used once in fourteen or fifteen years. These are emergency notes, subject to heavy taxation. And the idea that the solvency of the United States Treasury is in any way involved by the possibility of the changing of those emergency notes into lawful money of the United States is nonsensical.

I say, further, that this question of reserves, and the relation of reserves to credits, is largely theoretical. If the people know that these emergency notes are redeemable, and redeemable on their face by the United States Government in lawful money, and can be changed into lawful money on demand, they are going to circulate just as the national-bank notes do now. The whole theory of our currency system in that respect is that the actual demand for redemption is only a fraction of the possible demand. And in the consideration of a bill which is confessedly for the purpose of emergency use, to say that the Government of the United States is going to be embarrassed by demands for lawful money I say is unfounded, in the first place, because the bank will pay those notes out over its counters to its frightened depositors. That is the purpose of the

bill. The bank which gets out this emergency circulation will not even wait to change the notes into lawful money at the Treasury Department. The Comptroller of the Currency might write them in thirty days, saying, "Your reserve is short." Is the banker thinking about his reserves? He is thinking about keeping his bank open.

As a matter of fact, Mr. Fowler objects to the fact that national-bank notes enter so largely into the reserves of the national banks. Nobody pays any attention in these days to whether a note is a national-bank note or a Government note. There will, in my judgment, be no demand of any considerable amount at any time for the redemption of these notes in lawful money, although technically they could be changed into lawful reserve under that provision of the bill.

Mr. WALDO. Let us take a concrete case, if you will. Suppose a bank has a capital of $100,000 and a surplus of $100,000, and it takes out the ordinary bond notes and starts in. Of course when it starts it has $200,000, either in lawful reserves or something that must be as good as lawful reserves. It takes out $100,000 in the ordinary notes. That takes $100,000 of its reserves to start with, does it not? That is the first thing it has to part with before it can get its notes, because it has to buy its bonds. Suppose that bank wants to take out what this bill provides, the amount of its capital and surplus in addition—that will take all the rest of the reserve. How many loans could it make when it got through with that operation?

Mr. DAWES. I will have to ask the stenographer to read that question to me slowly in order to get its import.

(The stenographer read as follows:)

Let us take a concrete case, if you will. Suppose a bank has a capital of $100,000 and a surplus of $100,000——

Mr. DAWES. What has that to do with reserves? Reserves are figured on deposits; not on capital and surplus.

Mr. WALDO. No; they have that much reserve money when they start, before they do any business at all.

Mr. DAWES. But they have that much reserve money on what—deposits?

Mr. WALDO. No; I mean they have lawful money assets that are reserve money when they start the bank to the amount of $200,000.

Mr. DAWES. Yes. You are talking now about a new bank starting—not one already in existence?

Mr. WALDO. Yes; a new bank starting. Suppose they start under this Aldrich bill—the first thing they may take out $100,000 of the ordinary United States bond notes.

Mr. DAWES. My answer to that would be simply this, as a practical banker: That at the time these emergency notes were desired, in time of panic, no new banks would be starting. What is the use of going into these theoretical questions? That has been the trouble with this whole subject. What the United States wants at this time is some relief from an intolerable situation; and this bill is the first intelligent effort upon which it seems possible to unite.

Mr. WALDO. Let me ask you another question.

Mr. DAWES. I would like, if I can, to finish the main thread of my argument; and then I will stand up for catechism as best I can.

Mr. WALDO. Very well.

Mr. WEEKS. Have you finished the part of your argument which applies to the location of reserves?

Mr. DAWES. No; I have not at all.

Mr. WEEKS. I want to ask you a question about that when you get through.

Mr. DAWES. All right, Mr. Weeks; wait until I get through with that point.

I was going to say that Mr. Forgan, one of the opponents of the Aldrich bill, calls attention to this weakness in the matter of our reserves. Comptroller Ridgely, in his last report, calls attention to it in a very emphatic way. Mr. Forgan's remedy was that of branch banks, such as they have in Canada. Mr. Ridgely's remedy is that of a central bank. Let us see what he says about this condition (it is a very good statement of it) which is caused by the permission given to the country banks of the United States to keep so large a proportion of their reserves which are pledged to meet their local deposits in city banks. He says:

The chief weakness of our present national banking system is the provision in regard to reserve deposits, which piles reserve on reserve, in reserve cities and central reserve cities, without requiring a sufficient amount of actual cash reserve on hand. As we have seen in the present crisis, when a real emergency arises these reserves are not reserves at all, because they may in a day become unavailable.

Then he goes on to say, in commenting upon the enormous extension of banking credits, and the enormous disproportion between the actual cash in which deposits are redeemable and the amount of credits which are built above them by this system of duplicating credits:

Is it any wonder, then, that the demand in the fall for about $200,000,000 in currency for crop moving always makes a disturbance, and that when this demand was accompanied by withdrawal of deposits and a curtailment of credits, caused by uneasiness and distrust, that the banks were forced in self-defense to partially suspend payments, adopt clearing-house certificates, and various other expedients to furnish currency to meet such an emergency?

I will say, with reference to that, that adopting the clearing-house certificates was in my judgment largely an expedient to avoid furnishing currency. It was to enable the city banks to protect themselves against the demands for the shipment of currency by means of drafts made through other banks in the same city, which would have to be met in currency at the clearing house.

The surprising thing is not that there has been such a disturbance of credit and business, but that the situation has been met as well as it has. It speaks volumes for the credit of the banks that they have done as well as they have, and shows the confidence of the people in their ultimate solvency and strength. It is the greatest possible evidence of the wisdom, patience, forbearance, and sound, conservative sense of our business men.

It does not, however, speak well for our political wisdom that this condition has been allowed to stand unchanged without any attempt to improve our laws. This situation is nothing new, but has been known to all students of our banking and currency system and written and talked about for many years. It has produced disturbance and stringency every autumn for forty years, and panic after panic.

It is directly and immediately due to this that the crisis of October, 1907, assumed the phase of a bank panic and spread all over the country, instead of being confined to the comparatively few people and concerns who were first involved, and it undoubtedly added to and spread the business reaction in all directions.

Mr. Ridgely's remedy for that is the central bank. Mr. Forgan's remedy for it is branch banks. I may be very unscientific and un-

economic, but my remedy for it is to keep a larger cash reserve on hand and not let it go out. I think that beyond any question it is shown that the banks of the United States (which now have on hand, as I have shown, a total lawful money surplus over the requirements of the Aldrich bill of something like $98,000,000) can comply with the requirements of that bill without contraction of the national-bank loans; and that is the argument which is made which appeals to the country at large and which has alarmed your commercial associations. It does not involve the contraction of loans to put the national banking system of the United States in this stronger shape, with a firmer cash foundation under the credits, and this is the only time when it can be done without disturbance of business. If you wait until money goes into business, until loans expand again, until there is not this redundancy of money to which Mr. Prince referred, you bid good-by to any opportunity to increase your cash reserves in the future.

Mr. Forgan well criticised me in connection with my former recommendation to Congress for the increase of reserves, on the ground that it would have caused a panic in this country if that recommendation had been complied with at that time. It would have done so, because that money had gone into the reserve cities. It had gone into business. It had gone from the place where it should have remained, in the vaults of the bank where the deposits were for which it was liable, and into general business. To call it back meant the kind of reduction in loans that those who were opposing the Aldrich bill have erroneously claimed would result at this time. My only excuse is, in that connection, that I did not consider that there was any immediate prospect of the passage of that bill into law at that time as a result of the recommendation of a Comptroller of the Currency. But it was my idea of registering my ideas in connection with this fundamental weakness of the national banking system of the United States. Perhaps it could be cured under a branch-bank system. Perhaps it could be cured under a central-bank system. But it can be partially cured at this time without embarrassment to existing business of the United States by the passage of that provision of the Aldrich bill.

Mr. GILLESPIE. What is the motive for a country bank to withdraw these deposits if they can be counted as a part of their reserve and if they had them at home they could not lend them out? What is the motive? If that is all the money they have on deposit in reserve and central reserve cities—I believe they have a great deal more that is invested in loans up there—but if that is all of the money they have (just the portion of their reserve that is counted as reserve), if they had it in their own vaults, they could not use a cent of it without violating the law.

Mr. DAWES. No; and that is just the point. I am not making this argument for the purpose of increasing the profits of the banks. They will put this money, which they now have in their reserves, in their vaults, into reserve cities, if the Aldrich bill is not passed, after a time, after the effects of this lesson have worn off. If the Aldrich bill is passed, they will keep $8,000 on every $100,000 of deposits in cash in their vaults, on which they will not get any interest. The banks of the United States at this time are running with stronger reserves, because they are just over this panic; and as a matter of

business precaution they are doing more at this time than the Aldrich bill requires them to do as a matter of public interest. But if the Aldrich bill is not passed, the country banks as a whole will hold, or are liable to hold, about 6 per cent of their deposits—$6,000 on every $100,000—in cash. They will put the balance of their 15 per cent reserves on deposit with the central reserve cities or the reserve cities, because in that way they get 2 per cent interest on it; and if they kept the full 5 per cent in cash in the vaults, they would lose the interest. Under the Aldrich bill requirements the banks of the country in nonreserve cities will lose the interest on $2,000 out of every $100,000 of deposits. They will lose 2 per cent on $2,000, which is $40 a year.

The CHAIRMAN. But if they got 4 per cent on their bonds——

Mr. DAWES. If they got 4 per cent on their bonds, they would keep that reserve in bonds, and that is just the point I wish to make at this time—that the Aldrich bill is so drawn that in all probability the banks of the United States will have on hand $131,000,000 of bonds which they can take to the subtreasury for the issuance of emergency currency, and thereby increase the available currency of this country in times of panic and in times of emergency to the extent of $121,499,892.

I have made an estimate here of the additional strength over present requirements in lawful money and in possible emergency notes which will be the result of the passage of the Aldrich bill. That is in answer to the objection which is made that the banks will not take this circulation out. Some bankers are making the objection that they will not take out this emergency circulation because it costs so much. If they do not take it out because it costs so much, it will be because they do not need it so badly. But this is an estimate of the strength with which it is possible for the banks to be fortified in case the Aldrich bill is passed. Remember, in considering these figures, that this does not represent an increase in the amount of lawful money which they have on hand now; they have very much more than this on hand; but it is the amount of that excess which will be impounded under the Aldrich bill and kept as an additional foundation to protect the superstructure of banking credits above it. Contrast, if you please, the smallness of these figures with the magnitude of the results which have been predicted as a result of the passage of this bill.

The country banks will keep on hand in lawful money an additional $49,209,248. The reserve city banks will keep on hand in lawful money an additional amount of $18,208,155. Those two amounts will be all the additional requirements of the Aldrich bill in lawful money for the banks outside of the reserve cities. But they will have $134,999,880 in these bonds, for the reason (and that answers, I think in part, a suggestion that has been made here) that they will get 4 per cent interest on those bonds which are in their reserve instead of the 2 per cent which they would get if they had the money on deposit with the reserve agent. Taking 90 per cent, estimating the value of those bonds at par, there is a possible emergency currency which the banks of the United States can take out of $121,499,892. The latter sum represents money not now in existence, which can come out in times of emergency to help liquidate credits, which can go out to lessen the effects of a panic such as we have passed through in 1907.

If anybody does not think that that amounts to something, let him compare that amount with the money which the Treasury of the United States deposited with the banks of the country to relieve them in this crisis. It was a very good thing for this country that in this last crisis it had the independent Treasury system, which has been the subject of attack by so many of those who want radical changes in our law. We might have been in the same position in which the Treasury of the United States was in the panic of 1837, when, with the largest cash balance that they had ever had in their history up to that time, there was only a little over $1,000,000 of it available, the rest being tied up in embarrassed banks. In the panic of 1857, after the passage of the Independent Treasury act (which was forced upon this people as a necessity), the Government, as it did in this panic, not having all its money tied up in the banks, fed it into the banks, to the great relief of the business situation.

That emergency currency of $121,499,892 will be almost certain to be added to the circulation of this country in the next panic if the Aldrich bill is passed. Adding that sum to the amount which is impounded and kept where it is—the two amounts I have given before—it makes a total additional strength under the Aldrich bill which is practically certain in times of panic of $189.007,295. And the banks can still take out additional emergency circulation to the extent of the difference between $121,499,892 and $500.000.000—to wit, $378.500,108.

If you are afraid you are going to endanger your gold, if you are afraid of the possibility of the embarrassment of the United States Government by the demands of the holders of these emergency notes (although, as a rule, the people who are after money in those times are not thinking very much about its redemption, if the promise of the Government of the United States to pay is on them, just at that particular time, though they may later), then reduce the amount of the notes which you authorize under this bill. I have not made the careful examination which ought to be made on all these things of the ability of the Treasury to make this exchange——

Mr. HILL. That is a very serious question.

Mr. DAWES. And nobody else, as far as I can see, has made any examination on that point. As yet no objection has been made that the United States Government will not be able to keep its promise to redeem these emergency notes in lawful money if the demand is all made. There would be an embarrassment if it was all made. But the point I make is that it is a very great stretching of the probable to contend that there would be any demand which would be embarrassing upon the United States Treasury for the exchange of the emergency notes into currency. In the first place, those notes are taxed, so that they will probably be back in four months, redeemed by the banks, which will themselves furnish the lawful money to take them up.

There is not any question that these notes will be temporary, and the fact is that a request for the changing of those notes into lawful money notes to any large extent would only be made by a bank which feared action on the part of the Comptroller because its reserves were short. In a time of panic, in a time of emergency, the bank itself is not going to take the trouble to go and make demand on the United States Treasury for the exchange of its emergency notes into lawful

money, because of a provision in the national banking law under which, in a perfunctory manner, the Comptroller's Office generally calls attention to the shortage of the reserve thirty days after it has been made good. The banks are going to take out this money to pay over their counters into circulation. Then the money is taxed so that it will be forced back in four months. The lawful money will be on deposit in the Treasury of the United States to enable it to take up these notes long before any large presentation is made. There is nothing in the point when it comes down to a practical consideration.

Mr. PRINCE. Right there let me ask where you find any provision in the Aldrich bill requiring the banks to redeem this emergency currency in lawful money?

Mr. DAWES. You do not need any provision requiring them to do so.

Mr. PRINCE. I find a provision here that the Government of the United States obligates itself to do so.

Mr. DAWES. Yes.

Mr. PRINCE. I find no provision here that the bank of issue obligates itself to pay its "I. O. U." in lawful money. I think they would redeem in their bank notes.

Mr. DAWES. I think, as I have said, that there are defects in this Aldrich bill. One very great defect——

Mr. PRINCE. Is not that a very serious defect—throwing the extreme burden upon the United States Treasury of maintaining its present money upon a gold basis, and then adding from five hundred million to a billion more of inflation money, to be maintained upon a gold basis?

Mr. DAWES. Yes; I was going to say that if the bill does not already do so, it should be amended so as to provide that the banks shall deposit the lawful money to take up these notes, so that the banks themselves will protect the Government in its obligation to take them up in lawful money.

The CHAIRMAN. You know the bill does say "lawful money or bank notes."

Mr. DAWES. Yes; but then it provides also that the Government of the United States shall hereafter redeem all bank notes in lawful money. So that, after all,——

Mr. GILLESPIE. It amends the law as to the redemption of national-bank notes?

Mr. DAWES. Yes.

Mr. GILLESPIE. They are only redeemed now in United States notes?

Mr. DAWES. Yes.

So much has been said in connection with the use of bank notes as reserve that I wish to refer briefly to that matter. I want to say that in all my figures I have made no reference to about $34,000,000 of the bills of other banks, which would be in addition to this surplus in lawful money of $98,568,567, which the banks of the United States would have over the requirements of the Aldrich bill. I have made no reference to thirty-four odd million dollars of national-bank notes. bills of other banks, held by these banks. I have read what Mr. Fowler has said in connection with the use of bank notes as a reserve by State banks; and I read with a great deal of interest last night some catechism of Mr. White, which was indulged in here. It may be uneconomic, it may be unscientific, but I would like to have any-

body show me where it is an injury to anybody for the State banks of the United States to use national-bank notes as a reserve.

The CHAIRMAN. What would they use if they did not use them?

Mr. DAWES. They might use lawful money of the United States.

The CHAIRMAN. What would they use if they did not use the bank notes? What would they use?

Mr. DAWES. Bank notes form, of our total circulation, six hundred and some odd million dollars out of a total of $2,700,000,000. There is plenty of other money. There is about $1,660,000,000—is not that right, Mr. Fowler? (referring to Mr. W. J. Fowler)—of money in circulation in the United States to-day not in banks.

The CHAIRMAN. Let us get right down to an actual fact: What would a bank use for reserves if it did not have bank notes?

Mr. DAWES. A State bank?

The CHAIRMAN. Yes; any bank?

Mr. DAWES. It would use Government money—lawful money.

The CHAIRMAN. Very well. The lawful money is maintained upon a gold basis by the Government, is it not? In other words, they would have gold, would they not? If they did not have bank notes, they would have gold or its equivalent?

Mr. DAWES. Theoretically.

The CHAIRMAN. Therefore it is true, is it not, that every bank note that a bank holds excludes just that much gold from its reserve?

Mr. DAWES. Mr. Fowler——

The CHAIRMAN. Hold on; is not that right?

Mr. DAWES. No; I do not agree with that conclusion at all.

The CHAIRMAN. Just a moment; let us follow it out and see. If they did not have bank notes, you say they would have what is equivalent to gold, because the Government maintains all its money on a gold basis. Therefore, if they did not have bank notes, they would have gold. Is it not, therefore, evident that if you have five hundred millions of bank notes in the reserves of this country, you have excluded five hundred millions of gold?

Mr. DAWES. Now, Mr. Fowler, just let me answer that, because I think that is a fair sample of your reasoning. You are a recognized leader in this country on this subject, but let me give you my idea of that form of argument: I do not, when I am running a State bank, sit down and figure out how my dealing in national-bank notes over the counter is going to affect my conduct of that business in regard to my loans. I handle the national-bank notes just as I would handle the Government money of the United States. It is exchangeable, for all practical purposes, into money of the United States. Nobody makes any question about it. Therefore these "scientific" and "economic" arguments in connection with the use of bank notes in State banks as reserve have never appealed to me as a practical man.

The CHAIRMAN. Do you know that from 1837 to 1844, in England, bank notes were used as reserve, and drove every dollar of gold out of Great Britain?

Mr. DAWES. I never have made an examination of that particular question.

The CHAIRMAN. That is a historic fact. They began in 1834 to use bank notes in Great Britain as reserves; and in 1844 they were absolutely stripped of gold.

Mr. DAWES. Let us analyze your objection in connection with the use of these national-bank notes in State-bank reserves. You do not object to the country national banks holding a part of their reserves on deposit in city banks, do you? No. None of the bankers do. In your bill you provide for it.

The CHAIRMAN. Do you mean of their balances?

Mr. DAWES. Of their balances.

The CHAIRMAN. Certainly.

Mr. DAWES. It is due them, you see.

The CHAIRMAN. Certainly.

Mr. DAWES. Now, what is a bank note? A bank note is a written promise to pay on demand made by that bank, secured by Government bonds. You say that you are willing to let the State banks and the national banks bank on a book credit as a reserve in these reserve cities; and yet you say that they can not bank on the written expression of that debt, backed by a Government bond.

Another thing: I do not think that you make proper estimates in connection with the use of these reserves in the State banks. I was reading with a great deal of interest here, I wanted to bring that subject up, a speech that you made at Chicago in connection with this use of bank notes for State reserves. You say:

> Already $200,000,000, or nearly one-quarter of all the reserves now held by the banking institutions of the United States, are in bank notes. That is, of the $12,000,000,000 deposits in the banks of the country, between $2,500,000,000 and $3,000,000,000, are based upon bank notes, mere promises to pay.

That is all a reserve balance is; only this is in writing, and secured.

> And these mere promises to pay are again in turn based upon a debt of the Government, another mere promise to pay, which is not due for about twenty-five years, and then to be paid, if at all, out of taxes to be collected.
>
> How long will it be before all of our deposits will be based upon mere promises to pay, which in turn will be based on the debt of the Government, the debt of States, the debt of municipalities, and the debt of railroads?

I have taken occasion to look up the amount of these bank notes that are held in the banks. I do not find any $200,000,000. I find in the report of the Comptroller of the Currency for 1907, on page 49, that the amount of national-bank notes which are held by the national banks (6,429 banks) is $28,100,425, and all other banks (13,317 in number) $12,724,605. That is a total of $40,825,030. I do not see where you get your $200,000,000.

The CHAIRMAN. I know two banks not very far from Chicago that have, between them, $5,000,000; at least, I have been told that. I will tell you. I got those figures from the Comptroller's office, from which I deducted the difference——

Mr. DAWES. I got these figures from the Comptroller's office myself.

The CHAIRMAN. Oh, yes; that is their statement.

Mr. DAWES. But I do not see how you reconcile a statement of that sort with these figures.

The CHAIRMAN. But, Mr. Dawes, Mr. Ridgely told me just before I made my speech in the House that he did not believe that there were $150,000,000 of bank notes in circulation, leaving $500,000,000 as a reserve.

Mr. DAWES. The point I want to make is that it is all a question of belief; and if the statistics in the Comptroller's office, made from

the sworn reports of the banks of the United States, show that there are only $40,000,000 of these notes held in both State banks and national banks, how do you reconcile the statement (when the only possible source of complete information under oath is contained in those reports) that there are $200,000,000 of them held by the banks?

Mr. WEEKS. Do you, as a State banker, keep them separate?

Mr. DAWES. As a State banker?

Mr. WEEKS. Yes.

Mr. DAWES. Mr. Weeks, I am sorry to say that I really do not know.

Mr. WEEKS. Can you tell from your own report how many national-bank notes you have in your bank?

Mr. DAWES. No; and that is just the point I am going to make about this whole thing—that it does not make any difference; and that this talk about the distinction to be made between national-bank notes——

The CHAIRMAN. You say there that you have the sworn statement of the State banks that they only have $13,000,000 of these notes, and yet you say that you do not know how many you have.

Mr. DAWES. Yes; but how do you know that they hold $200,000,000?

The CHAIRMAN. Do you think there is a single State bank that makes any difference whatever in them? You said you never did—that you treated them all alike. Do you not know, as a matter of fact, that all State banks use them indiscriminately, and never make any difference? Do you not know that?

Mr. DAWES. I think there is a good deal in that.

The CHAIRMAN. I will tell you how I came to that conclusion. I did it by a process of deduction. I put it at $200,000,000, and Comptroller Ridgely puts it at $500,000,000.

Mr. DAWES. I just want to show the uncertainty of these estimates which are made of the relation of national-bank notes to the reserve system of the country. As a matter of fact, you do not know; and the only statements we can get which are official on this subject show that there are only $40,000,000 kept in the reserves of the national banks. If there are $200,000,000, what difference does it make? The point I make is this: that a national-bank note is a written promise of a national bank to pay, secured by a Government bond; and Mr. Fowler makes no objection to banking on a debt the evidence of which consists of an open account.

The CHAIRMAN. How do you know?

Mr. DAWES. What is it all but playing on words? And yet you use figures here which intimate that that has some relation to the matter of loan contractions.

The CHAIRMAN. How do you know that I am not in perfect agreement with you as to the wisdom of increasing the reserves in the country? How do you know?

Mr. DAWES. I hope you are, Mr. Fowler; and I do want to say this——

The CHAIRMAN. I never have said that I was not.

Mr. DAWES (continuing). That this question as to whether these emergency notes are reserve or not bears upon the question which I have brought out of the real lack of importance of the discussion as

to whether those emergency notes are legal reserve under the law. And if that is so, does it not lessen (that is what I am getting around to) the importance of any point you might make about the embarrassment of the Government in regard to the redemption of these notes in gold coin?

The CHAIRMAN. You think they are legal reserve?

Mr. DAWES. No; but the point will never come up practically. They will not use them for making a demand for lawful money of the United States.

The CHAIRMAN. Why not?

Mr. DAWES. They will pay them out over their counters to the depositors who are drawing their money in time of panic. They will go into circulation; and before any of these notes are presented by the people who got them in these small amounts for redemption in lawful money the 6 per cent tax and the 9 per cent tax after four months will drive the lawful money of the country into the Treasury of the United States to take them up. If the bill needs amending so as to make it obligatory upon the banks to put in lawful money to relieve the Government of that demand, it should be done. There is no practical point to your objection.

The CHAIRMAN. Right there I want to call your attention to this matter: You say that you would amend the Aldrich bill, now, just think of it, so as to compel these banks to deposit lawful money. In other words, you would impound $500,000,000 of lawful money in the United States Treasury and leave $500,000,000 of pure credits afloat?

Mr. DAWES. The impounding of that money is simply for the retirement of this emergency circulation.

The CHAIRMAN. It is impounded, however, is it not?

Mr. DAWES. No; it is not impounded.

The CHAIRMAN. What do you do with it?

Mr. DAWES. It is paid out, of course, to redeem the emergency notes, and goes to the public again. It will not stay in the Treasury.

The CHAIRMAN. But who is going to send in the notes? It takes almost two years and a half to redeem our notes now.

Mr. DAWES. That is very simple. The money is impounded there for the purpose of stopping interest on the emergency notes which are out in circulation; and the emergency notes are so printed that unquestionably a great many of them, payable on demand in lawful money of the United States, will be in circulation months after the banks have ceased to pay interest and have impounded the lawful money. But what difference does it make if the lawful money is there to take them up? There is no impounding; there is no contraction of the currency; there is no locking up of that money.

The CHAIRMAN. Is there not a contraction of the reserve to the extent of $500,000,000?

Mr. DAWES. Not at all. I have just shown you that the possible contraction of the reserves is less than $67,000,000.

The CHAIRMAN. Just a moment, now, at this point. If the banks issue $500,000,000 of this emergency currency, and then, to get rid of the tax under your proposed amendment, bring in $500,000,000 of lawful money, they do impound $500,000,000 of the reserves?

Mr. DAWES. Surely; but what difference does it make? There is $500,000,000 of these notes that will have to stay out in circulation.

The CHAIRMAN. But you do not propose to have them used as reserves, do you?

Mr. DAWES. I say that the point in connection with the reserves is a point that is of no practical consequence. I say that national-bank notes ought to be used as reserves. I do not think it would make any difference. I have yet to find anybody, as I say, from the practical standpoint, that has been able to show me where there would be any practical difference if national-bank notes, secured by Government bonds, were used as reserves right now in other banks.

The CHAIRMAN. Then I want to make your position clear—that you are in favor now of making national-bank notes a legal reserve? That is your position?

Mr. DAWES. I would not object to it; yes, sir.

The CHAIRMAN. And you are also in favor, on top of that, of making the proposed emergency notes lawful reserve because they are the same thing?

Mr. DAWES. If they are redeemable in lawful money of the United States, yes; there is no reason why they should not be made lawful reserve.

The CHAIRMAN. That is all.

Mr. DAWES. There is no objection whatever to it.

Mr. PRINCE. Let me ask you a question here.

Mr. DAWES. Just one minute.

Mr. PRINCE. All right.

Mr. DAWES. I think the Aldrich bill should be amended in this regard: I think it was a great mistake that railroad bonds were taken out of the bill as a basis of security for these emergency notes. I think the Aldrich bill should be so amended that in some way the banks in the central reserve cities can use commercial paper as a basis of security of these notes on some proper margin of security. The 6 per cent tax which is paid on those notes will, in my judgment, furnish a fund which will be sufficient to take care of any redemptions which may be in default on account of any failure. And if in some way we can broaden the basis for the issue of these notes, every step in that direction is of the greatest importance. It was a mistake to have narrowed the basis of this security by eliminating those railroad bonds. It was done for political reasons. But if they have experienced that difficulty in the Senate in connection with railroad bonds of the kind that are provided for, it is a fair illustration of the difficulties of legislating in connection with a subject of this sort.

The Aldrich bill is not perfect. There are these flaws in the Aldrich bill in connection with the matter of directors; for certainly it is just as important to keep good men on the boards of directors of banks as it is to drive bad men off. Under this provision of the Aldrich bill, if it is passed as it is now, we will have to get somebody besides business men to serve on the boards of banks. A great many people seem to think that if we can only put the banking business of our country into the hands of men who are not men of affairs we will in some way better it. As a matter of fact, we need the best business men on these boards of directors. I think—and when it comes to that we all have plans of our own—that there ought to be some limitation on the right of directors of national banks to borrow from their own banks; and I have made a recommendation in connection with that matter. But this broad, sweeping provision will have the effect of driving out of the banks, which are the custodians of the savings

and the surplus of the people, the men who are best qualified to administer upon them as a trust.

The general point that I make in connection with the Aldrich bill is that its principles should at this time find legislative expression in some way. I say that the fact that it does in a sense perpetuate, if you please, the theory upon which our banking business has been built up this far is no reason why this country should be allowed to go without some legislation which will enable the banks during the short time of the existence of a panic to give relief to this country and not be compelled to subject it to the bank liquidation that there was in the last panic. A grave responsibility rests upon those who have these plans of their own if they result in the country going without legislation of this sort—and they are able plans; they are well-conceived plans. Mr. Fowler has been one of the leaders in the education of the people in connection with these banking problems, but how near has he gotten the people or even this committee to a concensus of opinion upon the advisability of his plan? You may say that the Fowler plan is the leading plan of the various plans of the United States; but how nearly are the members of this committee (who have given thought to the subject, who certainly are more divested of prejudice than the ordinary collection of men who gather in public places, or in Congress, or in the Senate, we will say, to discuss this question) a unit on any particular bill? Take the American Bankers' Association bill, providing for taxed emergency circulation—what proportion of the people are united behind that bill? You have no chance to pass a radical bill at this time, as I think you nearly all agree—I do not know, of course, but I know it certainly seems to be the expression of those best informed in connection with the legislative situation at this time that there is no chance to pass a bill involving a radical departure from the system we have. Our people are conservative. They have made experiment after experiment with the financial laws of the United States. This system is the result of a sad experience in such panics as the the panic of 1837 and the panic of 1857.

The CHAIRMAN. I beg your pardon. It is not founded on a single panic we ever had, nor a single mistake we ever made. I challenge you to name it.

Mr. DAWES. The Independent Treasury system——

The CHAIRMAN (interrupting). A curse for sixty years.

Mr. DAWES. You challenge me to name it? I name it right now—the Independent Treasury system, which so many complain of at this time, was the direct result of the experience of the United States Treasury in the panic of 1837—and that Independent Treasury act saved the condition of the United States Treasury and saved its credit in the panic of 1857. It was the direct result of the sad, bitter experience that this country had in connection with the deposits of the Government of the United States in the banks of the country, as you propose in your bill in connection with the national banks of the United States hereafter. I am not criticising your bill, Mr. Fowler, because I have not studied it sufficiently to know whether you have properly safeguarded that particular point or not; but I do say there is an instance where the act establishing the Independent Treasury system, one of the most fundamental and important parts of our

entire financial system, was passed as a result of the condition in which the United States Treasury found itself after the panic of 1837, because it did not lock up——

The CHAIRMAN. When was a subtreasury established?

Mr. DAWES. In 1846.

The CHAIRMAN. It was not the result, then, of the panic of 1837.

Mr. DAWES. It was the result of the panic of 1837; and the same arguments were used during the years that followed that were necessary to finally bring about that legislation. One bill was passed and then repealed; and then, in 1846, this action was taken. The question at this time is, Is it possible to get together upon some remedial legislation which will let the banks of the central reserve cities pay their debts to the country banks in times of panic? That is the important thing, and the trouble is, that we obscure this question with discussions of this bill and that bill, involving fundamental changes. The Aldrich bill, in its present form, is unquestionably defective. If I have failed to see all of its defects, why does not the Banking and Currency Committee attempt to remedy those defects along the line of something that it seems possible to pass?

The CHAIRMAN. There is nothing to start with.

Mr. DAWES. I think you have a very good start. I think it is very perfectly practicable, without jeopardizing in any degree the stability of the currency of the Government of the United States, to make it possible for the banks to at least give us $125,000,000 of extra emergency circulation. And I do hope that the Aldrich bill may be amended so as to provide a larger basis of security, to make the conditions less onerous and less difficult. There are a great many objections of that sort, that have not been brought out, to the cumbersome way in which it works. But my observation is that in times of panic—and I sat in the clearing-house meetings in the city of Chicago at the time of the last panic—the banks are pretty ingenious about availing themselves of any device for getting additional currency to pay their debts. If you let the opportunity pass at this time for remedial legislation we shall not have any bill passed until we have again passed through such a crisis as we experienced in 1907.

This is a time to sink differences as to radical plans, impossible of legislative accomplishment at this time, and to set our minds to the consideration in a practical way of what is possible. It is not a question of what is best theoretically in this life, but of what is best at the time being, considering the rights and the opinions of the other men who have a voice in this form of government of ours. This is not a time when any one leader, like Alexander Hamilton, through his genius, and because of the homogenity of the people, and because of the pressure of other problems of importance upon other great men who might be interested in the question, can centralize in himself the confidence of the people of the United States in such a way as to let him found a banking plan. No plan of any one man will ever pass into law. Concessions will be made when those things come up practically for passage before the Congress of the United States. With our diversified interests, with our diversified opinions, with the great breadth of our country, any legislation which will be passed in this country will be composite, and in every instance it will be a compromise. And yet I have seen very little effort to reach a common basis after this time of great emergency, when we were

very much nearer going over the brink than the great majority of our people think at this time in connection with the situation that existed in New York. As Mr. Fowler very well said, it was because some men like J. Pierpont Morgan rose above small things and, at self-sacrifice, helped the situation, that we got through as well as we did.

The great misfortune of this country at this time is that we are spending so much time discussing the faults of our system and comparing our system with others. Andrew Carnegie said the other day that we had "the worst banking system in the world." As a matter of fact, the banking power of the United States is nearly 40 per cent of the total banking power of the whole world. We have built up our banking system under a different theory from that of continental Europe. We have built our banking system from the bottom up; not from the top down. We have here nearly twenty thousand differentiated banking units, independently manned, where the man who goes before one of them has the chance of personal contact with the man of sole authority in the matter of making loans. He does not have to go to the agent of a branch bank, acting under delegated authority, exercised at a distance, and necessarily circumscribed.

This system of separate and distinct banking units is always essential for the best development of an undeveloped country. Our banking system is that which has been the best for the magnificent commercial development of this country, and we do not hear anybody apologizing for that. Hand in hand it has gone with the commercial development of this country; and the commercial development of this country is dependent upon this banking system of ours. And yet we hear it held up in comparison with the banking system of the Dominion of Canada, whose entire banking power is less than the banking power of the one city of New York by nearly 50 per cent. That is the model that is held up to us.

I say we have unique conditions. We have a unique country. We have a unique theory on this side of the water that it is the right of the small institution and the small business man to protection which has resulted in our marvelous commercial and banking growth. I have no patience with this wholesale and widespread criticism of the greatest banking system in the world. See how it passed through the last panic—how small the losses to its depositors. Why, two banks failed under the branch-banking system of England, to which Mr. Fowler was referring, where the losses were about as much as the losses of the entire national-banking system of the United States for the whole period of its existence. You can not break some great central bank here and spread misery and desolation throughout the United States. We have too many feet to stand on.

There are compensations in our system. It may be that as we grow older, as our country grows and becomes more developed, we can make more of the savings incident to branch banking; that we can have some of the benefits of the fluidity in the flow of circulation incident to branch banks and incident to a central bank. But that is in the future. We can not reach it at this time legislatively in any way. And instead of holding our banking system and its defects up to the scorn of our people; instead of seeking to show how much better we can make the banking system of the United States if anyone of us

could reform it, if anyone of us could change the whole system and start the kind of a system which they have in continental Europe, consisting of the large bank ramifying out through it branches, let us pass at this time, as patriotic citizens, that kind of a law which will enable this magnificent banking system of ours in the next panic not to repudiate its obligation. The banker in the reserve city, who had to refuse the little country banker, located by himself out in the country, the money necessary for him to keep his banking doors open, without a chance to put the iron fence around his money that the clearing-house arrangement did in the cities of the United States, felt as if we should have some remedial legislation. And it resulted in the expression, I dare say, in every clearing house in this country, of the need of something like that in time of emergency.

The men who expressed that need are not students of economics. These resolutions which come to you are not the expressions of those men in large numbers who have studied this question. If you look at the resolution of the clearing house of Lincoln, Nebr., you will see that there is a very suspicious similarity to the language of the resolution of the clearing house of the city of Chicago. People in connection with these questions are apt to take at par the deductions of the man who makes a study of them; and the great misfortune in this country is that there are not more men making a study of them who have not bills of their own to get through Congress. I do not mean in any way to reflect upon the chairman of this committee, who has done one of the greatest works in the education of the people of this country on this matter. But I do maintain that his greatest usefulness, and your greatest usefulness, and my greatest usefulness, and the greatest usefulness of any man interested in this question at this time, is not to pick flaws in the Aldrich bill except for the purpose of making a better suggestion. It is practicable, it is possible, to give emergency circulation to the central banks and to get the banks——

Mr. WALDO. If we, or any one of us, believe that the Aldrich bill would be a serious detriment to the country, should we feel inclined to pass it?

Mr. DAWES. Not at all; not at all. But there should be a sincere effort made to correct the defects of the Aldrich bill in some way.

Mr. WALDO. Why should we try to correct that which we believe to be absolutely bad?

Mr. DAWES. If that is your conviction, founded upon a careful study, of course you will be governed by your own sense of duty. But my own hope is that at this time, considering the great need of the country, we may have intelligent cooperation for the passage of some bill at this time giving relief. And I do believe that the Aldrich bill, faulty as it is in certain respects, constitutes at this time the best groundwork for the passage of helpful remedial legislation.

(At this point, by request of Mr. Dawes, the stenographer read aloud the question asked by Mr. Prince at the early part of this session, as follows:)

Mr. PRINCE. It has been stated before the committee that for about nine months of the year there is a redundancy of currency; that during the crop-moving season of the year there is a greater demand for currency; and that if the provisions of the Aldrich bill with reference to the reserve were in force during those crop-moving seasons of the year (to illustrate, at Minneapolis and St. Paul), they would be absolutely helpless to comply with the provisions of the bill and at the same time give the currency necessary to move the crops.

You are giving, if I get your statement correctly, the statement of the month of February, when the banks throughout the United States, as a result of this currency trouble, had been piling up reserves in their banks. What is your answer to the other statement as to the crop-moving season?

Mr. DAWES. (During the reading of the foregoing question.) Where was that stated?

Mr. PRINCE. I think you read it a while ago. You read something about two hundred millions, I think—that in the crop-moving season there is two hundred millions required. That is in line with the statement of the gentleman from Minneapolis, who declared before this committee (I will put that in) that if the reserve provision, which is no part of an emergency measure at all, was inserted in the bill, and became a part of the permanent law, it would seriously cripple and impair the business of the Northwest.

Mr. DAWES. My answer is this: That the whole purpose of this bill is to keep more money in the banks where the crops are to be paid for, so that the demand of the country banks on the reserve cities and the central banks for currency, which produces this contraction of credits there, will not be necessary to that extent. In other words, that it is only in times like these, when there is a redundancy of money and when the bank reserves are full, that it is possible to impound it by such a provision as the Aldrich bill contains, so as to render unnecessary this trouble in the fall incident to the shipment of $200,000,000.

To be sure, as I show here, the Aldrich bill will impound only about $67,000,000 of this $200,000,000 in the country banks; and all that, of course, would not be in western country banks, so that it would be less than that. But to that extent it prevents the demand for so large an amount of currency. For when money is redundant, as Mr. Prince says, in times like these, it is shipped down to New York and it is loaned by the banks there, since they have to get it back in the fall on the Wall street speculative exchanges. Then your credits puff up. Then, when the banks commence to ship the currency, comes the congested condition. Then come the high interest rates. Then comes the frightening of the people, as a result of trying to get the money they need. So that I do not just see the point of the argument that Mr. Prince is making, because the Aldrich bill will lessen the amount which will be obtained from these country banks, and will therefore lessen the disturbance incident to the shipment back of the money. My contention is that there is no need in general business of all of this cash reserve that the banks hold at this time, because if there was, they would use it in making their loans, etc. But they have been frightened by this last panic, and they are keeping it on hand. Gradually, as we get away from it, they will send it back into the reserve cities to get the 2 per cent. Confidence will be restored, and in a short time there will be this great disproportion between the aggregate deposit credits and the cash reserve of the country, which, in time, precipitates trouble such as we have had.

Mr. PUJO. I should like to ask you one question there: Do you believe it is necessary for this Congress to pass emergency legislation of some kind?

Mr. DAWES. I do.

Mr. PUJO. To avoid another panic this fall?

Mr. DAWES. I do not think panics can ever be avoided.

Mr. PUJO. I mean a panic this fall?

Mr. DAWES. But the evil results of panics can be very greatly mitigated by the passage of legislation providing emergency circulation. My own idea about emergency circulation, if I may be pardoned just a minute, is more along the line of Mr. Fowler's. I made a recommendation as far back as 1899 that banks should be allowed to issue currency unsecured by any bonds, subject to a heavy tax like this, along the line of Mr. Fowler's theories, which, as a rule, are along correct and scientific lines. But let us do something, gentlemen. If we must take bonds (which makes it cumbersome and difficult to get) in order to get this emergency circulation, do provide for some sort of an emergency circulation, so that the banks will not have to again repudiate their obligations.

The CHAIRMAN. Do you think there is any probability of a panic within a year or two?

Mr. DAWES. I do not; no, sir.

The CHAIRMAN. There is no chance of one?

Mr. DAWES. Not the least. There is going to be no trouble soon.

Mr. WALDO. You do not think there will be any need of this kind of emergency currency——

Mr. DAWES. For many years.

Mr. WALDO (continuing). For ten or twelve years, probably?

Mr. DAWES. I should not like to go that far.

Mr. WALDO. For several years, at any rate?

Mr. DAWES. Yes. I do not think there is any danger, therefore, of any very great demand on the reserves of the United States. It is purely a temporary emergency measure. It will be found such. But it does not make any difference if it is fifty years before we need it, it should be passed at this time.

Mr. WALDO. Do you not think it would be better to try to have a commission appointed, or in some way arrive at a proper system of currency at this time, rather than to adopt some emergency measure that would perhaps prevent any other legislation?

Mr. DAWES. As I tried to explain before, I am never a sympathizer with a postponement of the correction of an evil. I do not see any connection between the appointment of a commission to consider some better change and the giving of this relief which will make it possible for the banks of the country to get along better through a panic. Pass your emergency circulation bill, faulty as it is, and give the business interests of this country relief.

Mr. WALDO. If I understand you at all, Mr. Dawes, you do not pretend that this bill is going to give any relief except at the time of such a panic?

Mr. DAWES. That is all.

Mr. WALDO. The real relief that the country needs is some measure by which the banks can change their credits from book form to note form, is it not? Is not that the real trouble?

Mr. DAWES. I do not want to answer that question generally. I have opinions on that subject, but I think that is one need. Yes; that is a need. The difference between you and me in our judgment is this: I do not think you will have any chance in the next fifteen

years to pass any bill relating to your banking system radically changing the existing order of things, desirable though it may be, because you have not done anything since the panic of 1893 in connection with banking.

The CHAIRMAN. Oh, yes; we have.

Mr. DAWES. You passed the law of March 14, 1900, of course.

The CHAIRMAN. Fourteen years ago (I will go back as far as that) you could not find in the American Bankers' Association, with a search warrant, a credit-currency man, but last fall at Atlantic City they were unanimously in favor of a credit currency.

Mr. DAWES. Yes; and I want to say in that connection that it would be a great deal better for the passage of any radical reform measure if the American Bankers' Association would entirely absolve itself from the responsibility of outlining the financial legislation of the United States. I am talking of that matter from the practical standpoint.

Mr. WALDO. Where are you going to find anybody who——

Mr. DAWES. Let me finish on that point. That has been one of the trouble in connection with it. If we were going to make a law regulating the packers in connection with the inspection of meats, we would not go to consult the packers about the kind of a law to get up.

Mr. WALDO. But that is what we did.

Mr. DAWES. You may talk with them; but——

The CHAIRMAN. That is just what we did do.

Mr. DAWES. Of course it is all helpful in this way——

The CHAIRMAN. I only speak of that matter as showing the progress of education.

Mr. DAWES. Yes; education is progressing; but in my judgment it has not yet progressed to the point in this country where you will get remedial legislation until after you have had another period of trouble. You did not get such legislation satisfactorily at all after the panic of 1893. You got some advance after the panic of 1873, in the resumption act. You got some after the panic of 1893, in connection with the passage of the gold standard measure; and you can get something now, after this panic, if you will get together. But if you let this opportunity pass to get through some remedial legislation, and let the business of the country run on, and it goes on for a while without any serious bumps or difficulties, in my judgment you will get through no radical bill, at least no bill more radical than this. It is hard enough to get through this measure, which is really an extremely conservative one, despite your own alarm about certain features of it, Mr. Fowler. Nobody denies the necessity of relief at this time so far as the general business of the country is concerned. Nobody has portrayed more eloquently than you the necessity of relief at this time. But at a time like this, when we can do it, let us strengthen our cash foundation in connection with our reserve, and get some sort of emergency circulation for relief.

Mr. WALDO. Do you not understand that the real question is whether this is relief or not? That is the real question. The question is whether this prescription will not kill the patient instead of relieving him. That is the real trouble.

Mr. GLASS. Why should we immediately pass the Aldrich bill if you say it will not be utilized for twelve or fifteen years?

Mr. DAWES. I have tried to explain that. I have tried to make it clear that it is only at times when public sentiment is largely aroused in the country as to the necessity for action that we can get legislation which affects the things in which the great body of our people are interested. The status quo under our system of government, with the veto power and the passage by the two Houses of Congress and the method of enacting laws, is such that it is very difficult to disturb legislative conditions, except when public feeling is generally aroused to the necessity of action, as it has been aroused by this panic. Some legislation ought to be the result of this panic. If you do not pass it at this session of Congress and business goes on in its usual way and credits become expanded and this money which is now in the banks of the country goes out into speculation and goes onto Wall street, you will have your credits built up again and you will not get any relief in the matter of reserve laws, because the point will be made then that Mr. Forgan made when I was Comptroller of the Currency, that after the money has gone into business you can not draw it out without practically creating a panic.

A time like this, when you have stopped your machine, gotten it geared up right, and built up your cash foundation, is the time to act. The idea of a country bank with a hundred thousand dollars of deposit liability trying to run with $6,000 cash——

Mr. WALDO. If you were here advocating a bill simply to make all the banks keep their reserve in their own vaults, I could see that your position would have something behind it; but instead of advocating that, you are advocating the depletion of the reserves by putting them into bonds—into permanent investments.

Mr. DAWES. It is a depletion of reserves by putting them into bonds, which become immediately available in time of emergency with the actual cash; so that this plan does not decrease the amount of lawful cash in the banks at this time, but adds the possibility of that amount to it.

Mr. WALDO. I think there is a fault in your argument there, because it certainly does deplete it. It seems to me it must. The process is that, first, you must take your lawful reserve and buy these bonds. That is your first proposition?

Mr. DAWES. Yes.

Mr. WALDO. Your next proposition is to deposit your bonds and get notes?

Mr. PRINCE. Ninety dollars for each $100.

Mr. WALDO. Yes. The next step, you say, is to take those notes back to the United States and get lawful reserves for them. The next step after that is that the United States will say, "Pay up your notes;" and your lawful reserves go back into the vaults of the United States Treasury, and you are right where you started.

Mr. DAWES. Will you let me make a statement?

Mr. WALDO (continuing). Except that you have to pay the expense of the operation.

Mr. DAWES. Let me make a statement as to what——

Mr. WALDO. That is the result; is it not?

Mr. DAWES. No, sir.

Mr. WALDO. How are you going to compel the United States to keep your notes and not compel you to pay them back again?

Mr. DAWES. Just let us trace exactly what takes place. You have traced it in your way. Now please let me go ahead without interruption.

Mr. WALDO. Yes; I am going to——

Mr. DAWES. Go ahead if you want to.

Mr. WALDO. No; I am going to let you go on.

Mr. DAWES. The banks in the first place will buy, in my judgment, about $134,999,880 of these bonds. They will go into their reserves. In buying those bonds they are not going to lessen the lawful money in the banks of the United States. They will not use currency to buy those bonds. They will sell some of their other bonds. They will contract some of their loans, perhaps. I do not think they will; but let us say that they will contract some of their loans, and they will buy that $134,999,880 of bonds, which is a very small transaction for the national banking system of this country, with over $8,000,000,000 of resources. Well and good. They have bought them. They have not lessened the amount of lawful money in any of the banks of the United States—not a bit. Then we will say that an emergency comes up when we need more currency. The banks, as a result of that transaction, are running with less reserve in cash resources—that is where the confusion exists—but not less reserve in lawful cash. They are running with 2 per cent more reserve in actual lawful money than they had before they bought those bonds. In buying them they have not reduced the lawful money on deposit.

Well and good. You have gotten up to that point. There is no decrease there. Now, here is where the increase comes. When the panic comes, and there is need of additional circulation in the United States, these banks that have not diminished in any way by that purchase the amount of lawful money in their hands for use and for loaning will take those bonds, which are a part of their reserve—I am just stripping this of technicality—to the subtreasury of the United States, we will say, at Chicago or somewhere else, and leave the bonds, and get 90 per cent of their value (which, as I figure here, would be one hundred and twenty-one million and some odd dollars) in emergency notes. That would be a distinct addition to the circulation of the country. They would have to pay on that circulation a tax of 6 per cent for four months. To be sure, the Government of the United States would be liable, if called upon, to redeem those notes in lawful money during the four months that they might be out. As a matter of fact, they would probably be out on an average much less time than that. The clearing-house certificates were out on an average much less time than that, and they would be fully as expensive as clearing-house certificates. They would come in mighty quickly, I will tell you; and the banks will be very glad to get them back. They would be just like clearing-house certificates in that respect. They would be in before the four months had elapsed.

But suppose somebody did come and make a demand for lawful money on these notes. Then the emergency notes would be withdrawn from circulation and the lawful money would go out. But the notes are printed alike, the emergency notes and the other bank notes; and when the banks came to redeem them, they would deposit lawful money of the United States, which would cause a contraction of the currency after the need of the extra amount was past.

It is an addition, not a subtraction. It can not be figured out as giving anything except a temporary increase in the circulation to the extent of 90 per cent the amount allowed by this bill.

Mr. WALDO. That would be assuming two things. In the first place, it would be assuming that the bank already had its money invested in these bonds.

Mr. DAWES. No; I am not assuming that at all.

Mr. WALDO. You must assume it.

Mr. DAWES. That has been the trouble all through this discussion. Many of the bankers of the United States have confused lawful money and cash reserves.

Mr. WALDO. Let us drop the lawful money altogether.

Mr. DAWES. Very well; let us drop it altogether.

Mr. WALDO. It must be national-bank notes, or in some way——

Mr. DAWES. Not at all. The balances will be in checks and drafts. If we want to go into the market and buy municipal bonds, do we take lawful money or bank notes? No; we give our cashier's check. We do that business in the same terms that 90 per cent of the business of the United States is done—in a check or a draft. Do you suppose that the national banks of the United States can not buy $135,000,000 of bonds without using lawful money? Why, the bulk of the business of this country is done on credits. This is a question of lawful money that we are talking about now. The banks have $714,000,000 of bonds and securities to sell if they desire. They do not even have to contract any loans if they do not want to in order to get these bonds.

Mr. WALDO. They do not get lawful money, do they? They get their own notes; that is all. They get a right to use their own credit. That is all they get.

Mr. DAWES. Why, of course they get a right to use their own credit, in a shape which will pass from hand to hand and which will tend to relieve the country in time of emergency. There is no contraction about it. There is no impounding about it which will result in a contraction of currency in the United States, but it will result in an addition. If the banks hold this part of their reserves in bonds under the Aldrich bill, it will result in time of panic in a possible addition to the money which can be used in the United States in business, from hand to hand, of at least $121,499,892. And in addition these country banks will hold about $67,000,000 more lawful money on hand with which to supply their depositors. It is perfectly plain, I hope. If anybody has not grasped that, I should like to be questioned further about it, because I do want to make that plain—that the Aldrich bill is not going to tie up anything; that it gives additional emergency circulation.

Mr. WEEKS. Let me call your attention to this one point: You have discussed this question of the location of reserves much more exhaustively than has heretofore been done before this committee. But take the country bank that has to keep a million dollars of reserve. Under the present law it keeps $400,000 of that money at home and $600,000 with the reserve agents.

Mr. DAWES. Yes; under the present law; you are right.

Mr. WEEKS. The country banker comes here to this committee and says:

If you require me to keep more at home, 8 per cent or 10 per cent, or whatever it is, I will have to call loans in order to do that.

Why?

Because that $600,000 is necessary for the proper conduct of my business with my reserve agents. I have to have $600,000 in their hands all the time, in Louisville, in Atlanta, in Chicago, in St. Louis, in San Francisco, in Boston, in New York, and in Philadelphia. I can not carry on my business unless I have $600,000 with them. Therefore, if you compel me to bring some of that $600,000 home, I will have to call my loans and restrict my credits at home in order to do it.

What have you to say to that?

Mr. DAWES. One of the most experienced bankers in the city of New York, Mr. George F. Baker, president of the First National Bank of New York, was talking with me recently, and I asked him his opinion on that very subject. He said:

If we have these bonds on hand and know that we can get this money, we will dip into our reserves in time of emergency, and we will use them more fully. We will ship more currency to the western banks if we know that when we do we will not have to shut up because we can not get anything to pay out over our counters in an emergency.

There will be, with this amount of possible emergency circulation which the banks can take out, a freer use of reserves. That will offset to some extent the point which you make. I do not admit at all, Mr. Weeks, that the necessity for scattered accounts is such that it will make it necessary for the banks to carry any materially larger reserve. It may make some difference, but not to the extent necessary to cause, with $98,000,000 of surplus lawful money in the banks of the United States now, any material contraction of loans such as ought for a minute to be considered in connection with the benefits to be derived from this kind of a bill.

Anything which goes to increase the amount of cash reserves in the country banks and to relieve us of this very great menace which all our financial authorities in the past have repeatedly called our attention to, ought to be put into effect at this time. It may involve some hardship on the country banks, but this is not simply a banking measure. This is a measure for the people of the United States. That is the point about it. The trouble is that we drift off too much into such question as how it will affect (as Mr. Prince said there) the banks that will have to buy these additional Government bonds—the question of expense. There is no impounding of lawful money in that proposition of bond purchases, any more than there was in this emergency matter. That is only important in so far as it affects the probability that the banks will use this measure of relief for the benefit of the public. You represent, here on the Banking and Currency Committee, the people of the United States. You are concerned, of course, with the protection of all the rights of the banks under the law. But primarily the question of profit or lack of profit to the banks is important with you only on the point as to whether or not profit or the lack of profit will cause them to do something or refrain from doing something in the public interest and for the public welfare.

Mr. WEEKS. We are not legislating for the purpose of giving banks profits; but we have sense enough to know that if we legislate in a way that is going to hurt the banks it is indirectly going to hurt all the people.

Mr. DAWES. The country banks of the United States are not going to be hurt by the passage of any reserve provision requiring them to keep $2,000 more on every $100,000 deposits in cash in their vaults.

Mr. WEEKS. I do not disagree with you necessarily about the reserve requirements of this bill.

Mr. DAWES. And this bond feature is extremely important, because, in my judgment, unless in connection with the Aldrich bill some provision is passed which gives an inducement to the banks, in the way of a larger return on a portion of their reserve than is given under the present law, they will not buy these bonds. But having this chance to carry them in their reserves makes it very probable, and in fact almost certain, that the banks in the next emergency will have on hand $134,000,000 of these bonds upon which they can take out emergency circulation: and they will have exchanged, probably, to get that kind of securities, a portion of the $714,000,000 of bonds and other securities which they now hold. It is no hardship for the banks of the United States as a whole to change a small proportion of their present bonds into bonds which will be available for circulation under this bill.

Mr. WEEKS. Would you not rather have commercial paper as a basis for circulation than bonds?

Mr. DAWES. I would, a great deal; and if some provision of that kind could be enacted—if Mr. Fowler, for instance, with his ability and knowledge of this question, would devote his attention to in some way making commercial paper available as a deposit to secure this currency, or remedying those points of this bill in which he deems it defective, he would be doing the greatest service to our country at this time. But do not let us go into a panic another time without some way of getting money to pay the debts we owe.

Mr. PRINCE. Do you favor striking out all of the bond provisions of every kind and character and basing these notes upon commercial paper?

Mr. DAWES. Mr. Prince, you are asking now for my personal opinion. As long ago as 1900, I think it was, in one of my reports to Congress I recommended that an emergency circulation be provided for without bond security, so heavily taxed—and I did not make the tax at any time over 6 per cent—that its retirement would be compelled as soon as the stringency was over. I do not differ with you theoretically on those things; and if you can get a bill through like that, without any security, subject to such a heavy tax (it is only going to be a temporary arrangement), I would be most certainly in favor of it. But the point I make is that we can not get a general acquiescence in any law of that sort which changes the fundamental principle of our note issues, faulty as it is, defective as it is. I do not deny the force and efficacy of all these arguments which you make.

Mr. WALDO. If you would suport with the same force and energy the opinions which you really have upon this question, instead of supporting, as you do now, something which you believe is a mere makeshift, would you not do a great deal toward getting through proper legislation?

Mr. DAWES. I do not want that word "makeshift" used in regard to the Aldrich bill. Nothing is a makeshift which will enable the banks of this country to increase their circulation in time of need to the extent of $121,000,000. The Government has about $67,000,000 on deposit in New York to-day; and since December 1 there has been

$55,000,000 returned. That makes over $120,000,000. And see what good the use of that $120,000,000 did in New York! Why, it was lifeblood at that time to the banking institutions there and to the banking institutions in the West. Here is a provision, irrespective of the impounding of $67,000,000 lawful money, which would put $121,000,000 additional emergency currency into circulation, making a total of $189,729,000, which would be added to whatever relief could be obtained from the United States Treasury in the shape of Government deposits.

I do believe that if I or anybody else should go into a campaign for any kind of money except something which is based upon a security which the people regard as absolutely certain, we would not make any headway. I am far from being conceited enough to suppose that I have any special influence in the matter. But you people have done a wonderful work here on this committee, as I say, in the education of the people of the United States in correct banking principles. In my judgment, however, you are still a long way off from that concensus of opinion, even among yourselves, which will give any prospect of relief when times are good. So, I say, give us some relief at this time.

Mr. WALDO. Let me tell you this: I think this committee has been canvassed a good many times; and, so far as I know, there is not a single member of this committee that does not believe that the enactment of the Aldrich bill will be a very serious detriment to the whole business interests of the country, without regard to how it will affect the banks. I think that is the fact to-day. We did not start in with that opinion, by any means. There may be one or two that differ with us, but not more than that.

What I want to call your attention to is this: I think your opinions are not very different from those of other men who have studied this question. You believe that a credit system of some kind is the only system that will ever put the banks in proper shape. It seems to me that a man of your ability and your experience and earnestness in this matter ought to devote his abilities to trying to enforce his real belief, instead of something that is not his real relief. That is what I want to call your attention to.

Mr. DAWES. In view of my rather forcible suggestions and conduct, that is a very mild and courteous rejoinder on your part; and I thank you.

Mr. GILLESPIE. I should like to have your opinion on the effect of the Aldrich bill on the price of the securities described in the bill.

Mr. DAWES. That brings up just this point: The Treasurer of the United States has made some figures, based on the bill in its original form, as to the amount of these bonds that would be available, that could be purchased by the banks under the provisions of the Aldrich bill. That was when the bill provided that they should only take the securities of towns of 20,000 inhabitants and upwards. The question of the price will depend upon the supply, you see. He estimated at that time, in a general way, that there were $1,765,821,218 of these municipal bonds and public bonds which they could buy under that old provision. The Aldrich bill, as it has been amended, takes out that population restriction altogether and opens up nobody knows

how much of a field. For instance, it will allow the drainage district bonds and the park district bonds of Chicago to come in, and the bonds of towns all over the country.

Mr. GILLESPIE. And the bonds of school districts?

Mr. DAWES. Yes; school districts of all sorts. I asked Mr. Aldrich for his opinion about that matter, and he seemed to coincide in the opinion that $4,000,000,000 would not be an excessive estimate of the amount of bonds that would be available. Out of that amount the banks would have to purchase, in the first instance, about $135,000,000 of these bonds; and if they took the emergency circulation they would have to purchase more. But it would probably have some effect in appreciating the value of these municipal securities, which, with the public getting the benefit of it, is certainly not a public evil. Of course they do not always get the benefit of it, but where they are issuing them they get the benefit of it in the increased demand.

Mr. CRAWFORD. I would like to ask you this question, Mr. Dawes: In 1893 and 1894 the national banks reduced their circulation below $200,000,000 during the panic. During this panic they increased it up to $690,000,000, I believe. What is the difference between the conditions in 1893 and 1894 and the conditions in 1907 that made that difference in the amount of circulation the banks put out?

Mr. DAWES. Have you the figures on that point? I do not recollect; but I can tell you something about one reason why the circulation was not increased. I discovered, when I was Comptroller of the Currency—and Mr. Fowler, of the Currency Bureau, who is here, will bear me out in this—that there was over $40,000,000 of orders for national-bank notes canceled because the Comptroller of the Currency did not have them on hand. The reason the Comptroller of the Currency did not have them on hand was this—and it shows how important in their general effects little things sometimes are: He did not have them on hand because in the Treasury Department there was not a vault big enough to hold them. It would have cost us probably $10,000 at some time in the past to enlarge the vault so as to provide room for them. On just the same principle, when the next panic comes up, if something is not done now, we will say: "Why, it would have been very easy at that time to have passed this remedial measure; but we could not get this bill just right, and we could not get that bill just right, and we did not do it, and here we are." And that is just the way it was in regard to those notes.

Mr. CRAWFORD. They are reducing their notes all the time.

Mr. DAWES. But I will tell you—it was not the panic which affected the national-bank notes at that time, because the banks, in the first place, could not get the notes out. The panic came suddenly, and there is always a demand at such times for more notes. If the notes are printed, well and good; and they get them out. But you know we did not have the bond issues at that time, in 1893, that we have now. And, as Mr. Fowler points out in many of his addresses, the trouble with our bond-secured circulation is that it is the question of the profit to be had in the purchase and sale of these Government bonds which secure them which largely determines the amount of circulation in existence in the country. It does not rise and fall in accordance with the natural laws of business. That is the point which he makes against this bond-secured system; and that is one reason,

and I think a very strong reason, why he objects to the perpetuation or even a recognition of the system in connection with this Aldrich emergency plan. But at that time, prior to 1893, you will find, if you go back, that the amount of circulation that was out was dependent upon the fact that there was or was not a profit to be had in the bonds at that time which justified them in taking out the circulation, whereas later——

Mr. CRAWFORD. The premium was high?

Mr. DAWES. The premium was high; there were not so many of them, you know.

Mr. CRAWFORD. In other words, they issue circulation only when it is profitable as a banking proposition?

Mr. DAWES. That is it.

Mr. PRINCE. Let me ask you one question, Mr. Dawes. Assume that this bill passes and becomes a law, and that a few days thereafter there is a necessity for using emergency currency thereunder. It has been stated to the committee that the machinery could not be put in order to carry out the provisions of the bill inside of from nine months to a year at least. What would be going on in the meantime?

Mr. DAWES. In the first place, I will answer that question by saying that you would not be hurt any, or materially (that is, we would not be any worse off, practically, then), than we will be if you do not pass this bill. If you do pass it, the Secretary of the Treasury has not yet determined how long it will take to get the Treasury Department ready. I was talking to him about that yesterday.

Mr. PRINCE. What did you find out?

Mr. DAWES. He said that he had not yet been able to determine how long it would take to put this machinery in operation, and that there are very important requirements which should be included in this Aldrich bill. You will have to see about your vault room). You do not want to pass this bill without some reference to vault room. If you do, you will be in the same fix that the Comptroller's office was in 1893, when the small vault room was the cause of their being unable to supply $40,000,000 of orders for notes which would have gone out in the panic, and would have helped to relieve the congestion that existed to that extent. Just think what $40,000,000 of currency would have meant to the banks of the United States at that time. But, Mr. Prince, if you will devote your abilities—and you have been a careful student of these things—to suggesting a few changes in the law which will enable the Secretary of the Treasury to get ready quicker, you will be doing the country a great service. I think you suggested reform on my part.

Mr. PRINCE. I think, generally, the people's efforts at reform are misdirected. Perhaps my efforts are misdirected. Now, we are in this position: Here is a great committee of the House that has presented to it a bill that was for four months in process of preparation before a very distinguished coordinate branch of this Government. They have presented to us a finished product that, I am frank to say to you, no human being dares to stand up before this committee and say he wants to have passed in the shape that that finished product is presented to us.

Mr. DAWES. Mr. Prince, do you ever regard a bill from the Senate of the United States, or a bill from the House of Representatives of

the United States, as a finished product until it has passed and been considered by the other House in legislation?

Mr. PRINCE. No.

Mr. DAWES. Then why do you call it a finished product?

Mr. PRINCE. I call it a finished product because it is the result of their deliberation, and of all of their deliberative machinery; and yet you say that provisions have not been properly made for several important things. I find here a statement in the Chicago Tribune of to-day, April 13, just coming to hand, which says:

NATION-WIDE WAR ON ALDRICH BILL.

Canvass of banks in the large cities shows practically everyone opposed to currency act—Peril to commerce seen—Sections regarding reserves and restrictions on loans main cause of scores of protests.

Then a list of 37 cities is given—11 banks out of the 37 cities, including State banks and trust companies, favoring the measure; 410 banks—national banks—opposing the measure. We are presented with that situation.

Mr. DAWES. Mr. Prince, I do not know why you read newspaper articles of that sort as affecting the deliberations of a body of this sort. I read the speech that Senator La Follette made last week in connection with this Aldrich bill, which did not seem to me to be a proper one for anyone endeavoring to properly and carefully conserve the interests of the people to take as a model for a direction in the matter of legislative effort. The trouble with all this discussion is that public men seem to have one eye on a part of the people, another eye on the banks and on Congress, or something else.

Unquestionably the Aldrich bill needs amendment in some of these essential particulars. But if we study the bill itself, irrespective of the newspaper comments on it, irrespective of the statements of those who are clearly anxious to exploit their own personalities through their advocacy or denunciation of the bill, and look at it from the business standpoint of the nation as a whole, and at this time make an effort to modify it as it needs, it will be a very beneficial thing.

I want to say that there is nothing that is a finished product in legislation under our form of government until it has passed both Houses of Congress, and has been signed by the President. The very purpose of having one House pass a bill and send it to the other is so that the House of Representatives may correct the deficiencies of the Senate, and the Senate may correct the deficiencies of the House. This is the first time I have ever heard any Member of the House of Representatives suggest that because a bill comes from the Senate it must therefore be considered a finished product.

The CHAIRMAN. But after the House has put its touches on the Senate product, would that be absolute proof that it was a finished product? [Laughter.]

Mr. DAWES. The absolute proof of the finished product would be the adoption of the conference report, the passage by both Houses and the signing by the President of a bill which will let the banks of this country pay their debts in time of emergency. That is the fundamental thing involved in this matter. And as public-spirited men it is your duty, in any way you can, to reconcile these differences and give up the discussion of radical measures which can not be

passed now and get behind this simple, practical proposition of giving the business men of this country relief.

Mr. PRINCE. The reason I read that heading from the newspaper article was that it has just come to hand. It is not an old paper; it is dated Monday, April 13, 1908, and this, I think, is about Tuesday. It is pretty fresh. I must confess that I am governed in my actions by the people that I try to represent; and if I find the banking interests of this country unanimously opposed to a measure, it is at least notice for me to halt and find out what is the right thing to do.

Mr. DAWES. To halt and look into it?

Mr. PRINCE. Yes; that is what I am doing. Now, what is your answer to this? If I am in doubt, what do you say as to these 410 banks?

Mr. DAWES. I have commented on that in the beginning of my speech, and endeavored to show here at considerable length (all of which you will find in my argument) why the statements of the Chicago clearing-house resolution, which is the model upon which the banks of almost this entire country have drawn up their resolutions, are incorrect. I have been engaged in the joint debate there. I have been pulled by the ears into this controversy. It is not a pleasant thing for me to come down here and speak in opposition to what seems to be the judgment of my fellow bankers and my personal friends in the city of Chicago. It is no welcome task for me. But I got into this debate in connection with that statement of the Chicago clearing-house, which was sent out by thousands all over the United States, and which alarmed the people of this country. And I maintain that, until an argument has been made on the other side, this expression of sentiment on the part of the bankers of the United States is not a permanent one. It is based upon wrong deductions from the bill. It is based upon deductions, as I explained, from the December 3d statement of the national banks instead of the February 14th statement.

I went out to Lincoln, Nebr., the other day, and came from there here. They handed me a resolution of the Lincoln Clearing House Association in which they referred to this "one-billion-dollar loan contraction." I do not think that the drawing of that resolution such a short time after the passage of the Chicago resolution we can regard that as a mere coincidence—that is, the "one-billion-dollar loan contraction." But, starting with Chicago, starting with one of the great leaders in advanced banking methods in the United States (and, from his standpoint, better methods), and taking it up to the American Bankers' Association, all of them supporters and advocates of these radical remedies (and they may be better—I am not arguing that), this mistake in taking the national-bank statement of December 3 has produced an erroneous impression among the bankers of this country. And I would not hesitate at all to take any ordinary group of bankers and lay before them both sides of this question—the reserve question and all the other questions connected with the Aldrich bill—and feel sure that on the essential points I would not find that practically unanimous condition of sentiment. To be sure, in connection with the provision as to directors, the banks as a whole, and the people as a whole, ought to be opposed to it. But the bill at this point can be amended, and can be corrected in other essentials.

The CHAIRMAN. There were to my knowledge but two different associations (commercial bodies, chambers of commerce, or anybody that represented anybody else) that ever approved this bill from the start. One was a body at Louisville, which has since retracted it. The other one is at Omaha, and they write me they would retract if the man was there who was the inspiration of getting up their approval. So that that would leave the bill from its birth up to the present date without a single supporter in the way of a commercial body.

Mr. DAWES. Mr. Fowler, is that any excuse for you and the other members of the Banking and Currency Committee to cease making an effort to correct the bill so that it will be satisfactory to these people, if it can be done with due regard to the public interests, and so that the people of this country and the banks of this country can have the benefit of an emergency circulation in time of panic?

The CHAIRMAN. I can bring you in a stack that high [indicating] of protests against it. I think there are two or three letters in favor of it from the start of this thing, and we will bring them here if the committee wants them. They are against the bill because it is fundamentally wrong.

Mr. DAWES. I disagree, Mr. Fowler, with that. There is not that widespread interest in the financial question from the theoretical standpoint.

The CHAIRMAN. It is not theoretical.

Mr. DAWES. The objects of this bill are all practical.

The CHAIRMAN. They have learned their lessons now.

Mr. DAWES. Yes; they have learned their lessons now. That is just the point. For instance, in connection with this clause in regard to directors, what proportion of the objections to this bill should you estimate come from these people because of the inclusion of that clause, which can and should be omitted?

The CHAIRMAN. But all of these people had sent their protests in before that. The Chicago people had entered a protest before that, and everybody else had.

Mr. DAWES. Suppose that they all protested, and suppose that all of the members of these associations had made a study of this question—would that relieve you from properly making an effort to have this bill amended so as to secure an emergency circulation for the country?

The CHAIRMAN. I do not think there is any such thing in the world.

Mr. DAWES. I do not want to get into a discussion of the emergency circulation of the Bank of Germany on this point.

The CHAIRMAN. There is not a thing in it in Germany, Mr. Dawes. Take the 5 per cent tax; there is nothing in it whatever. Take the three years before they increased it, in 1900, and the three years afterwards, and you will find that the 5 per cent had absolutely no effect whatever on it. They copied that, as Mr. White well said here two or three days ago, from the instances where the Bank of England act had been suspended and imposed a high tax. They copied a blunder.

Mr. DAWES. That has been the trouble, Mr. Fowler, with this whole currency debate—it is so cumbered with references to foreign countries and foreign systems which, however relevant, obscure the

main issue. That issue at this time ought to be a simple one—some simple device to relieve us of the necessity of repudiation in time of panic. You may call it a makeshift if you want to, but the people of the United States want relief. They are not going to get it by any radical bills, and they are not going to be enlightened by economic discussions of these other banking systems.

The CHAIRMAN. I believe with you that we want to do a simple thing; and do you know what I think it is? It is to get right; to stop going wrong.

Mr. DAWES. Therefore I hope you will do what you can to get this Aldrich bill passed when properly modified.

Mr. GLASS. Can you imagine a more dreary prospect for a measure than there seems to be for the Aldrich bill now, with every member of the Banking and Currency Committee against it?

Mr. DAWES. I am very sorry to say that any banking bill seems to have a dreary prospect in the Banking and Currency Committee when it comes to the matter of securing a consensus of opinion upon it.

Mr. GLASS. But we have reported a bill from this committee.

Mr. DAWES. I do not know what the chances of that bill are.

Mr. WEEKS. Mr. Chairman, I move that the thanks of the committee be extended to Mr. Dawes.

(The motion was unanimously carried.)

STATEMENT OF EDMUND D. FISHER, ESQ., CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE NEW YORK STATE BANKERS' ASSOCIATION.

Mr. FISHER. The time is so late, gentlemen, that I am going to depart from what I deem to be good practice, and give you, in a very concrete form, the arguments I wish to make.

I represent the legislative committee of the New York State Bankers' Association; and I am sorry to say that I appear in about every point in opposition to the arguments of the last speaker. I shall not detain you long on any one point, but will go right along continuously.

Mr. Chairman, I appear before you as chairman of the legislative committee of the New York State Bankers' Association to oppose what is known as the "Aldrich bill." At a recent meeting of our council of administration the following resolution was unanimously adopted:

Resolved, That the bankers of the State of New York unqualifiedly disapprove of the provisions of the Aldrich bill; that they do not approve of a bond-emergency currency; that they demand an elastic currency based on bank assets as provided in the measure of the currency commission of the American Bankers' Association.

I do not think that means necessarily that particular bill, but the principle involved in that bill.

The principal argument in opposition to this measure is that it is purely emergency in its character and makes no provision for the retirement of the inelastic bond-secured circulation now such a detriment to the banking and business interests of the country. The present circulation has no adequate redemption in practice and is so freely used as a reserve for State banks and trust companies as to be at times a serious element of inflation. The present bank notes are based on

the security of a fixed credit and do not represent business transactions as the notes of a scientific currency should. They tend to drive reserve money into circulation and thus weaken the position of the banks and the international position of the country from a monetary standpoint. Long suspended redemption might cause abnormal demand on the banks and the Treasury during a period of international difficulty. Business exchanges should be separated from governmental finance. In the history of banking financial institutions have frequently proved stronger than governments.

Bond-secured bank notes show no power of relief during panic periods. Even as an emergency issue the large tax provided by the Aldrich bill is unintelligent in its conception. A tax should bear a direct relation in its increase to the decrease in reserves, as is the practice with the banks of Germany. Credit extension based on adequate reserves is always necessary for business growth, unless abnormal reserves tend to inflation. If this point be reached, then free coinage of gold should be restricted. The bond-secured currency, even with the emergency provisions of the measure in question, does not provide a reasonable basis because of the excessive tax for the currency necessary for the periodical increase of business. Bond-secured currency is largely dependent for its elasticity on the price of bonds rather than the demands of trade, which is contrary to the principles of good banking.

The Aldrich bill has met so many vicissitudes in the Senate that it can hardly be supposed in its present form to represent intelligent judgment. Its weakness is particularly evidenced in section 11, which provides "that no national banking association shall invest any part of its funds or deposits in stocks or other securities of any corporation or association, any of the officers or directors of which are officers or directors of such banking association." This absolute prohibition, I say, is both unintelligent and unreasonable. The superintendent of the New York State banking department has incorporated a similar principle in recent legislation, but on a reasonable basis. Senate bill 608, State of New York, provides, "Nor shall any such corporation hold or own stock of another moneyed corporation the par value of which is in excess of 10 per centum of the total amount of the stock of such other moneyed corporation issued and outstanding: *Provided, however*, That this limitation shall not apply to the ownership of capital stock of a safe-deposit company, the vaults of which are connected with or adjacent to an office of said corporation." Assembly bill No. 1112 further provides that "No corporation to which this chapter is applicable shall hereafter make a loan, secured by the stock of another moneyed corporation, if by the making of such loan its total loans secured by the stock of such other moneyed corporation will exceed in the aggregate 10 per centum of the par value of the capital stock of such other moneyed corporation." Section 11 of the Aldrich bill and the pending legislation in New York State referred to are all undoubtedly aimed at the "chain of banks" scheme which has recently proved a menace to banking interests. While it may not be entirely wise for one banking corporation to absolutely own another, yet joint directorship and partial ownership of stock are more frequently elements of stability than elements of danger. Many small banks throughout the country feel comfortable in the beneficent oversight and interest of a parent institution, particu-

larly when the self-interest of partial ownership is present. If the principle under consideration is to have the attention of this committee, reference should be made to the more intelligent conception of the subject in the pending legislation of the State of New York.

The chief objection to the Aldrich bill, however, is that it does not contemplate a scientific credit currency. A common phrase in both the Senate and House has been, "It does not seem expedient to pass a currency measure at this time." Mr. Chairman, this is an old, old story. Permit me to quote from the Commercial and Financial Chronicle of January 24, 1874, shortly following the panic of 1873: "The opinion at present is that no changes of a sweeping character will be made." Again, from the Chronicle of May 16, 1874: "The state of feeling in the House precludes the expectation that this bill or any finance bill can be got through."

Year after year, decade after decade, you get this same cry.

Mr. Chairman, it certainly would seem that the time had come, through the broad intelligence of the twentieth century, to finally settle our currency difficulties. To provide for an emergency, yes; but by a measure which provides a money good every day in the year and every year in the financial cycle.

The recent panic was certainly made less severe by the various issues of clearing-house certificates, and the report of the loan committee of the New York Clearing House, recently issued, shows how largely it was really a credit form based on business transactions.

Total amount of loan certificates issued	$101,060,000
Maximum amount outstanding at one time	88,420,000
Securities passing through hands of committee	453,000,000
Stocks and bonds, 27¼ per cent	123,000,000
Commercial paper, 72¾ per cent	330,060,000

It is, of course, well known that the liquidating power to pay the loans certificates came mainly from the maturing commercial paper rather than from the sale of stocks and bonds.

There has been much talk of a monetary commission to solve the currency problem. Is there a man on this committee that believes that more intelligent or efficient work can be done, or a more intelligent conclusion can be reached, than that of the Indianapolis commission? This commission said, regarding the general assets of banks as security for credit currency, "If these resources are insufficient they will be insufficient only because there would be such a condition of business paralysis that government, municipal, and railway bonds would be valueless." What would have been the history of credit currency under the New York bank-fund plan is well known. An eminent authority states "that if the New York safety fund had been used for currency only that the experience of thirty-six years, from 1829 to 1865, shows that the assessment to keep the fund good would have averaged less than one-fourth of 1 per cent on banking capital, or about three-eighths per cent on the average circulation outstanding." Again, it has been stated that one-fifth of 1 per cent would have covered the average annual loss in national-bank circulation from 1864 to 1899, even if notes had not been a preferred lien. Had they been a preferred lien upon the assets of banks, the loss would have been hardly worthy of record. The business of the country is concededly on a more stable basis now than during the period to

which references has been made, so with a guarantee fund of 5 per cent it is absurd to suppose that "national-bank notes," either as provided by the Fowler bill or by the bankers' plan, would be excelled in safety or quality by any notes in the world. The bankers' measure is eminently sound, as it provides for flexibility without breaking too abruptly from present methods.

In conclusion, permit me, personally (I am not standing now for the State of New York, gentlemen), to offer a simple plan which after a careful study of the various measures pending, I believe, if adopted, would be generally acceptable to the banking and business interests of the country.

CURRENCY PLAN.

Retain bond-secured notes, but tax them to such an extent that they will gradually be retired.

Authorize credit or asset currency notes under the guaranty fund and quick-redemption plan provided by the Fowler bill. These notes to bear lesser tax than bond-secured notes, so that the new issue will automatically be substituted for the old.

I find there is a great objection to anything too sudden in the comment on this present legislation.

* The Government to exchange 2 per cent bonds for new 3 per cent bonds, so that there may be no breach of faith on the part of the Government toward national banks or other holders of 2 per cent bonds.

† The Government each year to retire a percentage of United States notes (greenbacks), making payments from surplus revenues until all are finally retired.

‡ The Goverment to deposit current receipts in national banks, but to retain appropriate reserves in gold for outstanding notes.

‡ Goverment deposits to be secured by United States bonds.

‡ The Government always to maintain a gold fund for emergency purposes—that is, even after the bank notes have been finally paid.

The vital point in the plan is, of course, the suggestion to advance the rate of interest paid by the Government on the 2 per cent bonds. This change would take about $7,000,000 annually—a small price for the Government to pay to place its obligations on a right market basis and to be relieved of the support to its credit made necessary decades ago as a war measure. Bond experts state that the demand for United States bonds for security for Government deposits in addition to the demand for investment purposes would make the new 3's sell on about the same basis as the 2's do at present. Hence there would be no loss to the banks. The old 3's will not be affected by the change, as they are shortly to mature, while the 4's are now selling on a purely investment basis, not over $20,000,000 of them being used for circulation or Government deposits.

Let me strongly urge in closing that the members of this Committee on Banking and Currency, who have made so careful a study of the problems presented to their consideration, have the courage of their convictions, and strongly urge upon the present Congress the adoption of some measure which embodies the credit currency principle.

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* Refer to Appendix A.

† Refer to Appendix B.

‡ Refer to Appendix C.

I will leave this for your consideration, gentlemen. It is analyzed to some extent in the appendix.

(The appendix referred to is as follows:)

APPENDIX.

(A) United States bonds outstanding, with prices as quoted by Fisk & Robinson, April 11, 1908:

2's— $55,000,000 due Aug. 1, 1916 reg'd..102¾ bid 103¼ asked.
2's— 646,000,000 due Apr. 1, 1930 reg'd..103¾ bid 104 asked.
3's— 63,000,000 due Aug. 1, 1908 reg'd..100¼ bid 101¼ asked.
4's— 118,000,000 due Feb. 1, 1925 reg'd..120¾ bid 121¼ asked.

(B) Oct. 31, 1865—Total bonded debt United States	$2,351,000,000
April 1, 1908—Total bonded debt United States	890,000,000
Paid in 43 years	1,461,000,000
Average paid annually	34,000,000
United States Notes outstanding	346,000,000
Time it would take to retire United States notes on same basis	About 10 years
(C) United States deposits in national banks	204,000,000
April 10, 1908—General fund in Treasury	177,000,000

Currency plans; source, analysis of portion of bills.

[S. 3023 (Aldrich). H. R. 12677 (Fowler). Currency plan, American Bankers' Association, and suggested plan.]

	Present law.	Bankers' plan.	Fowler bill.	Aldrich bill.	Suggested plan.
Notes	U. S. bond secured notes.	Retain present notes. Additional issue "Nat. Bank Guar. Cr. Notes."	*Retire* present notes; new issue "National Bank Notes."	Retain present notes; additional issue with heavy tax.	Optional to retain or retire present notes, Aldrich-Fowler. New issue "National Bank Notes."
Tax	½ per cent on 2 per cent bonds. 1 per cent on over 2 per cent bonds.	2½ per cent on 1st issue 25 per cent. 5 per cent on 2d issue 12½ per cent.	2 per cent.	6 per cent 1st 4 months; 9 per cent thereafter.	2 per cent.
Limit	100 per cent of capital.	40 per cent of present National Bank Notes, 25 per cent of capital, 2½ tax, unless bond secured notes are reduced. 12 per cent of capital, 5 per cent tax, all not to exceed capital.	1st 100 per cent of capital; 2d 200 per cent of capital with consent of district.	Not to exceed capital and surplus; total $500,000,000; distributed by States.	(Same as Fowler bill.)
Printing	By Government.	By Government.	By Government.	By Government.	By Government.
Redemption	5 per cent fund with Government. $9,000,000 monthly.	Redemption cities to be designated by Comptroller of Currency.	20 cities for reserve agents with board of managers, elected by district.	By Treasurer of U. S. 5 per cent of circulation; Sec. 3, Act June 20, 1874.	(Same as Fowler bill.)
Guarantee fund		5 per cent fund including tax fund.	5 per cent guarantee fund with Treasurer.		(Same as Fowler bill.)
Reserve for notes		25 per cent of notes C. R. City. 15 per cent Res. City { 7½ banks. 7½ cash. 15 elsewhere { 9 banks. 6 cash.	25 per cent of notes C. R. City. 15 Res. City { 7½ banks. 7½ cash. 15 elsewhere { 4 banks. 11 cash.		(Same as Fowler bill.)

Security.....	U. S. bonds.	Prior lien on assets. guarantee fund.	Prior lien on assets; guarantee fund.	U. S. bonds; bonds State, city, county, town; notes 90 per cent market value; prior lien.	(Same as Fowler bill.)
Reserve for deposit.....	Central reserve 25 per cent cash. Res. cities 25. {12½ Cent. Re. 12½ cash. Elsewhere 15. {9 per cent bank:. 6 per cent cash.			Cent. Res. cities, 25 per cent cash. Res. cities {8½ banks. 4½ securities. 12½ cash. Elsewhere {3 per cent banks. 4 securities. 8 cash.	
Special features.....		Retention of bond secured notes; additional taxed issues; guarantee fund; partial flexibility; moderate tax.	Retirement bond secured notes; new issue credit notes; quick redemption; guarantee fund for deposits and notes; trust company functions; district management; part of loss borne by district; deposit of Government funds; flexibility.	Retention of bond secured notes; additional strictly emergency currency; security State and mun. bonds; heavy tax; investments prohibited in other corporations where there are joint officers or directorships.	Government to exchange 2 per cent bonds for new 2 per cent bonds, retire greenbacks, deposit current revenues in national banks, and always retain gold fund for emergency. Government deposits to be secured by U. S. bonds. Scientific currency.

(By unanimous vote the thanks of the committee were tendered to Mr. Fisher.)
The committee thereupon took a recess until 2.15 o'clock p. m.

AFTER RECESS.

The committee met pursuant to adjournment.
The CHAIRMAN. You may proceed, Mr. Attwood.

STATEMENT OF MR. WILLIAM E. ATTWOOD, PRESIDENT CONNECTICUT BANKERS' ASSOCIATION, NEW BRITAIN, CONN.

Mr. ATTWOOD. Mr. Chairman and gentlemen of the committee, the bankers of Connecticut at a meeting held in New Haven on April 10 appointed a committee to present certain resolutions which they passed at that meeting. The committee consists of myself as president of the Connecticut Bankers' Association; Mr. A. J. Sloper, of New Britain; Mr. H. W. Stevens, of Hartford, and Mr. C. C. Barlow, of New Haven.

The resolutions are as follows:

Whereas the Senate of the United States has passed the bill known as the Aldrich bill, and the same is now before the House committee for consideration; and

Whereas it is believed by this association that section 11 of said bill, if enacted, would be a serious attack on nearly every national bank in this association, as well as to the manufacturing and commercial interests of the State; and

Whereas section 9 under section 5 of said bill by reason of the ambiguity of its wording would raise doubt as to the ability of any bank to retire its emergency circulation provided for by the bill when it desired to do so and compel the payment of an excessive tax on outstanding circulation that it would be impossible for banks to redeem; and

Whereas the excessive rate of tax on the proposed emergency circulation would seriously affect the commercial interests of the country by enforcing competition with countries having an untaxed circulation: Therefore,

Resolved, That we are vigorously opposed to the passage of the eleventh section of the bill as being against public and private interests, and practically disqualifying the ablest men in manufacturing communities from serving as directors in national banks.

Resolved, That the entire question of the circulating medium and the question of reserves should be submitted to a commission for further consideration, said commission to report to Congress at the January session, 1909, for the reason that there is in our judgment no call for additional circulation at the present time, and that the Aldrich bill does not provide an emergency circulation which could be used by national banks in time of need, the provisions under which it is proposed that circulation could be obtained being practically prohibitive.

Attest:

F. D. HALLETT,
Secretary pro tem.

These resolutions are along the line of others that have been presented to this committee. There is nothing new in them. They were drawn from the standpoint of the bankers of Connecticut.

Mr. PRINCE. Let me ask you a question right there. You were here this morning?

Mr. ATTWOOD. Yes, sir.

Mr. PRINCE. You heard Mr. Dawes state that the resolutions which had been passed by the different clearing-house associations and bankers were based upon a resolution first passed by the Chicago Bankers' Association?

Mr. ATTWOOD. Yes, sir.

Mr. PRINCE. Did you copy after that resolution or is your resolution original?

Mr. ATTWOOD. Personally, I did not write it. Mr. Sloper wrote this resolution. The history of the resolutions is this, that they were agreed upon between half a dozen bank presidents, including Mr.

Sloper and myself, who met before the association met in New Haven in order to get a basis, and the resolutions were discussed by the bankers there present. My judgment is, and Mr. Sloper will tell you whether I am right or wrong, that these resolutions were not copied from anything, and whatever good or bad there is in them came from his own brain and ran the gauntlet of the bankers of Connecticut, which have not found any fault with them, and in fact they stand on these resolutions as being an expression of their opinion.

Mr. SLOPER. I never heard of the Chicago resolutions until this morning.

Mr. ATTWOOD. Besides all that, this is from the standpoint of the 15 per cent reserve bank instead of from the standpoint of the 25 per cent reserve city proposition with other reserve features. That is, from the country banks in the manufacturing cities of Connecticut.

I have nothing particular to add to this. I will say that, personally, I am not hitting this matter, so to speak. I am not a national bank man, and consequently my own views upon the currency situation, whatever they may be, are not clouded or increased in any way by being hit by any provision in the Aldrich bill, only so far as it affects the general interest of the country. Being the president of a trust company it does not strike me, and so the national bank men on this committee can better, perhaps, represent the association and the views of the association which is largely made up of national bank men than I can myself.

I will call upon Mr. H. W. Stevens, president of the Hartford National Bank, to present his views along this line.

STATEMENT OF MR. H. W. STEVENS, PRESIDENT HARTFORD NATIONAL BANK, HARTFORD, CONN.

Mr. STEVENS. Mr. Chairman and gentlemen of the committee, I am distinctly and strongly opposed to the Aldrich bill, root and branch. Notwithstanding the very interesting talk of Mr. Dawes this morning, I could not help feeling as some of the rest of you did, apparently, that he was not talking as earnestly and zealously for what seemed to be his real convictions. He did not change any opinion of mine except one. I have always felt that the Aldrich bill would not be an inflation measure because it has seemed to me that the privileges granted of the taking out of currency would not be used very largely owing to the great expense attendant upon it, but according to his showing the banks will hold less cash reserves under the Aldrich bill and in order for certain banks to take out additional circulation they will have to increase what they already have secured by Government bonds. How large an amount that would be, I do not know, but it would be an inflation measure to that extent anyway. Then added to that would be whatever circulation was taken out under the special provision of the Aldrich bill.

Mr. WALDO. Those which have only a quarter?

Mr. STEVENS. Yes, sir; in order to have the 50 per cent they would have to increase, and that would be inflation, and of course the worst kind of inflation, that we can have. It is inflation which can not be retired at the will of the banks.

The CHAIRMAN. Forced inflation?

Mr. STEVENS. Yes, sir; that is the trouble to-day. We do not take the circulation out only when it is profitable and whether it is profitable depends upon the price of the bonds, not the money. There are three principal objections to this bill, and in order not to take up your time and to make a concise statement, I have written them down:

First. I believe that increased issues of currency secured by bonds other than those of the United States are unwise. While the Government is directly and unqualifiedly committed to a currency secured by its own bonds, because of their sale with that privilege attached, it can not in justice or in wisdom ignore the fact that the consensus of opinion among experts on banking, financial, and economic affairs is that the natural, logical, and most effective basis of currency issues is not to be found in bonds at all, because they do not in the ordinary course of business find their way into a national bank's assets. The arguments pro and con are familiar and I do not need to repeat them, but I submit that the logical issue is between the advocates of a currency based upon the general credit and assets of banks, and those who favor Government issues based upon the credit of the nation. The bill which we are now considering is open to the criticism of being neither one thing nor the other, inasmuch as it ignores altogether the general credit of the banks but demands from them collateral which they do not possess and would find it difficult or costly to obtain, and then pledges the Government's guaranty on the bank's obligations. I believe that the logical and practical effect of the provisions of this bill, if passed, would be to encourage Government issues of currency.

Second. Section 8 calls for increased reserves on the part of all national banks. That sounds well, and at first thought it would seem natural that larger reserves should make a bank safer, but what are the facts? I believe the following statement is in the nature of an axiom, and will be accepted as such by intelligent men of practical experience, namely, the need for large, idle reserves in a bank is in inverse ratio to its reputation for honest, intelligent, and successful management. No matter whether a bank's reserve is 15 per cent, 25 per cent, or 50 per cent, if the public is in any doubt as to its soundness nothing less than reserves of 100 per cent can save the bank from failure. For example, it is said that the Knickerbocker Trust Company paid out $8,000,000 before it closed its doors. It is also true that wherever the management of a bank is shortsighted, narrow-gauged, or timid, reserves will be hoarded however large they may be. It takes nerve for even the most courageous banker to use his reserves unless he can see where new supplies are to come from. Experience has shown us that it is only in large clearing-house centers that reserves are used freely, and there only because of the special emergency issues made by the local clearing-house associations. And I would say in passing that in the principle underlying those issues is in my judgment to be found the kernel of wisdom for any scientific and effective currency measure.

In other protests made against this bill ample information has been given you as to the inadequacy of increased reserves to prevent panic on the part of land officials, or withdrawals on the part of depositors, as well as their effect in diminishing the ability of the banks to make loans to needy and worthy borrowers. What banks really need

in times of panic is some means of obtaining currency to take the place of their depleted reserves, or to save those reserves from depletion, but all that this bill gives them is the privilege of taking to the Government certain securities, which would not naturally be in their assets at all were they not prescribed by law, and borrowing money on them for four months at the rate of 6 per cent per annum, with renewals at 9 per cent. That is the practical statement as it appears to me. I think it is worth while to note here also, that these securities are themselves a part of the bank's reserves and as such would be hoarded as zealously, because they can not be replaced any more readily. In fact, this injection of bonds into bank reserves can only be understood by me as having been intended to make it less expensive for banks to carry the increased reserve requirements. It is also worthy of note that though the bonds count as reserve, the currency obtained against them is in amount 10 per cent less and does not count as reserve.

My final and most earnest objection is to section 11, which impresses me as not only revolutionary in the practical results it would produce, but fanatical in its spirit. It is a fair and intelligent interpretation of this section that it would prohibit any national bank from making any loan to any corporation an officer or director of which held a like position in that bank. Indeed, it may be construed as prohibiting loans on the stock of such corporations.

I can not do better than to show how this section would affect the bank of which I have the honor to be president. Out of 11 directors in our board 7 are either officers or directors in other corporations, and 3 of them represent corporations owning nearly 25 per cent of our capital. The various corporations represented at our directors' table carry balances with us representing about 25 per cent of our total deposits, and therefore the prosperity of the bank is largely dependent upon their continued favors. Moreover, all of these gentlemen are honest, intelligent, able men of high repute in the community which has known them for many years. Now, this section practically places a stigma upon each one of these directors as being unworthy to borrow of the bank in his official capacity, or in his individual capacity, provided he pledges the stock of his corporation as collateral. One of the fundamental understandings between a bank and its depositors is that a good account is entitled to borrowing privileges, and yet this section says that the Hartford Bank, for the first time in its history of one hundred and sixteen years, can not use its judgment as to whom it shall lend its money, but is definitely proscribed from making loans to certain of its depositors who collectively give it 25 per cent of its deposits! Is not such a prohibition both revolutionary and fanatical? It would disrupt our business or else force us out of the national banking system, and what would be true of us would hold equally true in countless other instances. Whoever was responsible for this section, I can not believe foresaw its practical workings, nor can I believe it will ever become the law of the land.

In conclusion, I believe the Aldrich bill is unqualifiedly bad legislation and should be defeated.

It will never pass on its merits. If passed at all, it will be because of politics. But in my judgment it will be bad politics and will prove to be a boomerang.

STATEMENT OF MR. A. J. SLOPER, PRESIDENT NEW BRITAIN NATIONAL BANK, NEW BRITAIN, CONN.

Mr. SLOPER. Emphasizing to some extent what Mr. Stevens has said in regard to the eleventh section, which I will not dwell upon except to emphasize it, I would say that what is true of his bank is probably true of nine-tenths of the banks of the State of Connecticut. The agricultural interests of the State of Connecticut amount to about $25,000,000 a year. In my own town of New Britain the output from the local factories runs over $30,000,000. I have fourteen directors on my board, and every one of them is connected either officially or as a stockholder with some one of those manufacturing concerns. I am a director in half a dozen myself and the treasurer of one of the largest. Over 33 per cent of our deposits come from our factories. We have loaned upon the stocks and to the concerns directly probably 40 per cent of our entire bills discounted. I think that same general relation will hold good in regard to almost every national bank in the State of Connecticut. You can see what it would be in our case. It would mean that we should get out of the national banking system just as soon as we could. There would be that much less circulation at least that would be available in time of panic, and we have to-day $250,000 of Government bonds upon which we base our circulation.

Mr. GILLESPIE. What is the capital?

Mr. SLOPER. Three hundred and ten thousand dollars and the surplus is $275,000. I only speak of this to emphasize it. It does not seem possible that the last clause, section 11, which is the La Follette amendment, could have been voted upon by the Senate of the United States in good faith, or if it was it was voted in such a way that anybody who would vote for that and the rest of the bill in connection with it ought not to be permitted to vote upon any financial measure, from my standpoint.

In regard to the question of the investment by national banks in bonds of various kinds, it was stated here this morning that it would not affect the reserve values of any national bank to purchase these municipal or State or other bonds to hold as security, but it would be taken out of the general credit of the business. For my part, I am unable to see how you can take out of your active funds, whether funds or credit, to make an investment without in some way making that good. You can call it reserve or what you please. The tendency of most national banks, particularly country banks, in my judgment, would be that it would necessitate the reduction of our loans and decrease our loaning ability. We carry to-day $60,000 in gold. I prefer gold to greenbacks, but if I can put that $60,000 in these bonds I am certainly going to take a chance, because all national banks primarily are in business to make money for their stockholders and we should certainly do that. When the emergency circulation is needed you can take it out. You might take it out to-morrow, and after you have taken it out that is available for exchange in Government notes and those Government notes are available to secure the gold. How many national banks are going to wait very long before exchanging those notes for gold? I tell you that the majority of the banks will do that. I was in the panic of 1893 and I was in the panic of 1897 and again last year. I have been there a good many years, and every

time the operation of our bank has been to get the "real stuff" and have it in the vaults. That is what we have done and what every other bank which is properly managed will try to do. So the United States Government, if it permits the issue of this currency, is just as certain to have a gold deficit in its Treasury as that the sun is coming up to-morrow.

One other question in regard to this emergency circulation.

Mr. PRINCE. Do you think there is enough gold now in the United States to maintain the present money and currency at a parity if this additional $500,000,000 is placed upon it?

Mr. SLOPER. No, sir.

Mr. PRINCE. Then what will the Government be compelled to do?

Mr. SLOPER. Just what we did in 1894 and 1895—issue bonds.

Mr. PRINCE. To get gold to keep the Government running?

Mr. SLOPER. Yes, sir.

Mr. PRINCE. As long as any of these notes deplete the Treasury?

Mr. SLOPER. Yes, sir. I agree with Mr. Stevens. I do not believe in its practical working that it will work out the way that it is intended. I am bound to assume that the gentlemen who framed the eleventh section in the Senate of the United States acted in good faith when they proposed this bill for emergency circulation, but I do not believe that it would have the result that is here proposed or expected.

In the first place, there would be the general objection, aside from the fact that you would get some money in your reserve, the general objection to taking out bonds, except as a good many national banks do to-day, as a sort of anchor to windward to safeguard their deposits with something that you can borrow upon in an emergency. I think the tendency would be precisely as it is now, to go to the reserve centers or where you keep your account in a national bank in the city of New York, put up your bonds, and borrow the money. If your account is worth anything, they will let you have the money. They have always given us what money we required. The banks will be slow to curtail their list of loans, which, it seems to me, is absolutely necessary if the bonds were secured. It would be in our case, and I think one country bank is substantially run upon the same general lines as another.

I do not think any great amount of circulation would be taken out on these bonds. I think the banks would fight shy of them, and therefore the remedy that is proposed is but homeopathic. It will not amount to enough to warrant the risk that goes with it. Not only that—I am speaking now for the New England States, I do not know how it would be in the West—always in the bankers' conventions for the last twenty years there has been a demand for more currency—a very proper one—at certain seasons of the year to move the crops. That has always been met up to this time except when there was a general feeling of unrest on account of local conditions in New York City. Our rule is to have the currency, and it cost us about $5,000 a hundred thousand dollars during the 1907 panic, but it is a great deal better to take the chance of doing that than to have a lot of money tied up in bonds which may be good to-day, but the difference in value afterwards might mean a great deal more.

It seems to me the whole argument this morning was fallacious, and while it was an exceedingly interesting contribution to the general

discussion, yet it was not from the standpoint of a bank that is compelled to do the business that the average country bank, especially in New England, is compelled to do.

STATEMENT OF MR. OSCAR FINLEY, PRESIDENT NATIONAL BANK OF KENTUCKY, LOUISVILLE, KY., AND REPRESENTING THE LOUISVILLE CLEARING-HOUSE ASSOCIATION.

Mr. PRINCE. How many banks are there in your association?

Mr. FINLEY. Fourteen.

Mr. PRINCE. Do you represent the banking views of your clearing house and the banks that do business with you in Kentucky?

Mr. FINLEY. I think fairly well. The meeting I came from was the committee of supervision of the Louisville national banks in that city that predominate in the clearing house. There are a few State banks that were not represented at that meeting. Mr. Murray, Mr. Powers, and myself are all bank officers, all officers of national banks of Louisville. I myself represent the National Bank of Kentucky, a bank of long age, started in 1834. It succeeded the Bank of the United States. It has a capital of $1,645,000 and a surplus of upward of $2,000,000. It has always been known as a conservative institution.

We come before you, gentlemen, to-day merely to register a protest against the passage of the Aldrich bill in its present shape. I have prepared a statement and have no address to make. Of course sections 8 and 11 disturb us more than anything else. We do not wish to be compelled to carry any more reserve than we are now carrying. We do not think that the country banker who does business with us should be required to carry more of his reserve at home than he is now carrying. We do not wish to place our investments in bonds in order to equal our reserve. We prefer to carry the reserve in lawful money.

The bank that I represent has 11 directors. Every director, including myself—I am the president of the bank—is a director in other corporations. Those particular corporations are the best customers we have. These directors are leading men in the community and leading men in their corporations. Our loans are made to these corporations and are largely represented by our directors. The loans are satisfactory, very good, the very best in the community, and we not only want to continue carrying these loans, but we want to continue to have the advice and services of these men as directors in our banks.

Mr. PRINCE. These men are products of your own community?

Mr. FINLEY. Yes, sir; they are all residents of the city. We do not wish to be deprived of their services as advisors. We do not want to have to put men who are not in touch with the business conditions in the bank as directors. We do not care to have a board made up of these men's clerks or some dummy, we prefer to have these men to help the institution and help us to conduct it on proper lines.

Louisville during the panic of 1907 acted, I think, very liberally with its customers. There were no cashier's checks resorted to, but there were clearing-house checks used between the banks to settle balances. Every pay roll, however, in Louisville, was made in cur-

rency. There was no device of any character resorted to for that purpose. The Louisville banks bought that currency at a large premium. We felt that our customers were entitled to receive it and we did not put any limit upon the checks on the banks, but met them. I think that all goes to show that the banks in Louisville are conducted conservatively, and they are conducted by directors made up of the class I spoke of.

I do not know that I can add anything to the very able paper of Mr. Stevens, the gentleman who preceded me.

Mr. PRINCE. On page 9 of the Aldrich bill these words are used:

> Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury. This pledge shall be certified by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury.

Do you think it is wise for the Government to pledge the faith and credit of the Government for the payment in lawful money of $500,000,000 of this kind of emergency currency?

Mr. FINLEY. I am one of those who does not believe that an emergency exists at present. I do not think the business requirements are such that we will need an emergency currency. I myself would prefer that a commission should be appointed that would carefully consider this whole question and take the matter up more leisurely, not in the hasty way that it seems this bill does.

Mr. GILLESPIE. What was the highest price you had to pay for currency?

Mr. FINLEY. Forty dollars a thousand.

Mr. GILLESPIE. Where did you get it?

Mr. FINLEY. From New York and Philadelphia, the only places it could be bought that I was able to find. Chicago and St. Louis did not have any currency to sell.

Mr. WALDO. Did you not buy the currency from note brokers?

Mr. FINLEY. I bought it from my bank.

Mr. WALDO. It must have been bought from some of the note brokers.

Mr. FINLEY. I was informed by our New York connections, who are interested in the importation of gold, that the premium was charged to compensate them for the expense.

Mr. GILLESPIE. Did you at the same time have money on deposit in New York which you could not get?

Mr. FINLEY. Yes, sir; and they in turn could get no money on any check that I sent to New York. Let me make this statement: I do not think that there was a check deposited in the National Bank of Kentucky from October 28 to the middle of December on which there was a single dollar of currency collected. We took the checks of other banks in Louisville and passed them through the clearing house and it simply resulted in either a credit or a debit in the clearing house. The money we used for the pay rolls either had to come out of our reserve or had to be bought. We could not collect it on any checks that came to us in the ordinary course of business.

I thank you, gentlemen.

STATEMENT OF MR. LOGAN C. MURRAY, REPRESENTING THE CLEARING HOUSE OF THE CITY OF LOUISVILLE, KY.

Mr. MURRAY. I am here to make a protest before this committee against the passage of the Aldrich bill. There is nothing to-day which so appeals to us as men of experience of long years—I have been a bank officer for thirty-seven years. I do not want to be savage in any sort of weather or to be impulsive, but to my mind the sections of this bill—and I would refer especially to numbers 8 and 11—are monstrous. I could not possibly conceive, as I followed Mr. Stevens in his remarks, that the Senate had quite read the bill through; when it got down to section 11, certainly not. There is very little to be added to what has been said because it covers the ground.

I want to say as to section 8 that the reduction which is to occur in the loans of the banks in the manufacturing cities and the great mercantile cities is to be so great as to be extremely hazardous to those institutions. I do not mean our institutions especially, but I mean to the mills and commercial houses themselves. What they will do when we begin to ask them to reduce their loans, I do not know; and I would say that I do not know what they will do in the central reserve cities, which are New York, Chicago, and St. Louis, as you are all familiar, or in the other reserve cities, Boston, Philadelphia, Louisville, Cincinnati, Indianapolis, etc., which belong to that class. I am of the opinion that we shall ask the larger cities, the first-class cities, for the deposits which we have there to an alarming extent, if section 8 should be in force.

I want to say that I do not see anything new in the Aldrich bill which appeals to men of experience and to the experienced men in the clearing house of Louisville. I know their views very fully. I know their views because, as chairman of the committee of the board of trade of that city, we confer very fully. That committee is composed mostly of the bankers in that city, and they are opposed, in a general way, to the terms of the Aldrich bill, and these last amendments are nothing short in their view, the view of the business men connected with the board of trade as well as with the clearing house—I can use no other word than that they are considered monstrous.

Mr. GILLESPIE. Suppose you strike out sections 8 and 11, what would you say then?

Mr. MURRAY. I would say, as a general proposition, that there ought to be something new in the way of a commission to give us, and I do not use the word "scientific," because that is threadbare, but something that the general level of opinion of the experienced men of this country will agree to. We do not have it in that bill, certainly. It is full of danger to the Treasury.

The CHAIRMAN. Without any reference to those two sections?

Mr. MURRAY. Yes, sir; I think the whole subject is one which to my mind is beyond anything that the House of Representatives ought to think of passing, or this committee ought to think of recommending to it.

Mr. WALDO. Are you in favor of a bond-secured currency?

Mr. MURRAY. An emergency currency?

Mr. WALDO. No; I mean generally.

Mr. MURRAY. I have never been much of an advocate of asset currency, I mean on the general assets of the bank. I have been

connected with two or three banks during my life, and I have always had the full capital invested in Government bonds and have issued circulation on them. I have thought if there was a free issue of circulation it should be on bonds. That would be my general idea.

Mr. WALDO. How would you secure any elasticity in your currency if you had it issued in that way?

Mr. MURRAY. I think we should buy bonds whenever we need them. The country is full of State and municipal bonds, and they are perfectly good for any emergency which might arise to take out circulation upon. I can not say in answer to your question, however, that there are not lines of thought which carry me to the idea that an emergency currency based on assets other than bonds can not be very well and safely done. I believe that is true. I should be fairly well satisfied with that or a joint bill.

STATEMENT OF MR. J. D. POWERS, PRESIDENT AMERICAN BANKERS' ASSOCIATION, AND PRESIDENT THIRD NATIONAL BANK, LOUISVILLE, KY.

Mr. POWERS. It is a very great pleasure indeed to come before a committee which is considering a matter of such wonderful moment not only to the banks of the country but to the people of the country, who have got to depend upon the banks as the Government has always depended upon the banks to sustain it. The credit of this Government to-day, as we all know, is sustained by the banks. We know it always has been sustained by the banks in war and in peace. In my capacity as a committeeman from the Louisville clearing house, the action of which during the late panic was a great credit to our people as we think, and as everybody else who knows the facts thinks, I want to say that we limited nobody in withdrawals. Every man who came to Mr. Murray's or Mr. Finley's bank with a check and asked for money got all that he asked for; he was not limited in his withdrawals. As Mr. Finley told you, all of our pay rolls were made in cash. We furnished the money. We made no complaint. In my representative capacity as the president of the American Bankers' Association, for the information of you gentlemen who may not understand it very fully—Brother Fowler knows it because he has been before that association on several occasions—we have belonging to that association practically 10,000 banks in the United States. Those banks—and this idea might sink into the minds of some of those who put this question on a political basis—include more than 1,000,000 stockholders.

It was suggested that if this bill was put through as a political measure it might be a roorback, and I will suggest that more than a million men are looking to see what this committee and what this Congress is going to do with this bastard production that comes from the Senate. Without any disrespect to the Senate or to Mr. Aldrich, whom I respect very highly, I regard it as a bastard bill. The paternity of it is in the top, in the headlines. It has been stripped of almost everything except the enacting clause. My good friend from Alabama, who was guilty of the eighth section of this bill, little contemplated what he was doing—he is a first-class man in every way, a good Senator, and a good Populist—when he wrote the eighth section of that bill and undertook to take $221,000,000 and lock it

up and deplete the lending capacity of the banks of this country $1,100,000,000. Then he thought the emergency currency bill would take care of itself and see that the medicine was needed, because that would be a panic, the like of which this country has never seen before, growing out of the operations of this bill. I say that because I believe it. I say that because if you take $1,100,000,000 from the commercial interests of this country they can not grease the machinery of commerce, and then commerce must stop, and when commerce stops we know what happens to the balance of the country.

If there is a necessity of an emergency bill it would be made perfectly apparent by this bill, and we would have a panic that would be a panic sure enough. But I want to say to those who think this is a good political measure that we have some difference of opinion as to who or what was responsible for the panic in the fall of 1907, but that would be known when it came to the panic that would follow in the wake of this bill. It would not wait for the 1st of January, 1909. When you attempted to get the $200,000,000 to move the crops, as you have to do every fall, the result would be that we would have a panic before the operation of this bill on the 1st of January, 1909, and then we would know, if a political party undertook to force this upon the country as a political measure, who was to blame and where to fix the responsibility. This may not be along the line that people have been talking to this committee; I do not know; I just got here a little while ago, but that is my honest conviction. We would know where to fix the responsibility, and there would be enough of the stockholders of the banks to carry the balance of power, and a political revolution in this country would ensue upon the panic that would be produced by this monster, as Mr. Murray called it, the proposition as laid down in the Aldrich bill.

Mr. McMORRAN. Do you look upon this measure as a political measure?

Mr. POWERS. No, sir; I do not. I have the sincerest sympathy for the patriotism, the energy, and the honesty of the man who does look upon it with any such view. I am only speaking of what may be expected with reference to it. That is all. No, sir; it is not a political question.

Mr. McMORRAN. I inferred from what you said that it was a political measure.

Mr. POWERS. No, sir. Why should the finances of this country be a political measure? Why should any man be for or against a bill by reason of his political affiliation? We all stand alike. You gentlemen are members of this committee, the most important committee in the House of Representatives; why should you or I undertake to support a measure because somebody else favors it or because we think it might give us an advantage in some political race or political preferment or any other kind of preferment, I do not care what it is? Whenever the finances of this country are such that men legislate on them with reference to the effect it may have upon their reelection or upon the election of the President of the United States, then that man is not a patriot; that man is unworthy to sit in judgment upon the business interests of the country.

I am here, as has been suggested, to enter my protest against the bill. I can not conceive of this committee or of the Congress of the United States undertaking to pass a bill that affects the banks as this bill

affects them without asking you and you and you, who are interested in this thing, what are the conditions and what do you think should be done here?

There is a prejudice against New York. Gentlemen talk about wanting more money in the country and that the country banks should have a larger reserve. I read a suggestion in a speech that we want a larger amount of money in the country, and therefore we want a larger reserve. Does not everybody know that that reserve must be kept there and is not to be loaned out to Tom, Dick, and Harry? How do the banks do business in this country? They do it upon the credit of the banks in New York and their own credit. That is the reason and for that reason and because it is done by checks and not by money that $221,000,000 is withdrawn and placed in these vaults and held there. A man comes to me and borrows money from my bank. I loan him the credit of the bank and he gives me the credit he has. I give him the credit in the bank. I do not give him money. He checks on it.

I want to ask this committee to stop and reflect a moment and see what was done by the great banks of New York when there was wrong being done in certain banks. The clearing-house committee walked down and said to Mr. Thomas, Mr. Heinze, and Mr. Morse: "You must stop, and if you do not stop the clearing house will withdraw its support from you." They did not hunt a statute to find out this thing, but as business men, men of affairs, they took charge of that situation and they corrected it, just as they will do all the time. There is not a banker worthy of the name in the country who, independent of any statute, does not undertake to keep a reserve to protect his bank.

Let us stop and consider what the banks of this country are entitled to in the consideration of this bill or any other bill of this character that is before Congress. The earliest thing you ever learned in American history was that a banker came to the rescue of the man for whom this wonderful city was named when he was at Trenton, and raised $50,000 and sent the $50,000 in the morning to Washington with the statement: "If you need more, you shall have it before night comes."

What was done when the credit of the Government was so low after that that they could not muster the money to repel the British? They formed a bank in Philadelphia with £315,000 as the capital stock, with the proviso that not one cent should be paid to any man who invested in the £315,000, but that it was for the good of the Government to protect its credit. That was what was done. What was done in 1812? The banks did what they have always done—furnished the sinews of war and put the Government in shape to protect itself. Stephen Girard came to the rescue of the Government; he took its bonds and furnished the money and won the battle of New Orleans, although in Philadelphia. What was done later on when we had the little brush with Mexico? Who provided the money then to furnish the sinews of war which resulted in the reclaiming of that wonderful territory that we not only enjoy but our children after us will enjoy, but the bankers? What was done when the Secretary of the Treasury wanted to issue some 3 per cent bonds in this country? We had been paying 7 per cent, 6 per cent, 5 per cent, and 4 per cent. Fifteen bankers in New York went to the Secretary of the Treasury and said:

"Money is worth to-day in New York 6 per cent. Money has been drawn from the savings banks, and they have been depleted largely. Money is high. Fifteen of us guarantee now to take these 3 per cent bonds at par or any part of the $200,000,000 that you propose to put out, but we advise you to make it a popular loan." What was done? It was made a popular loan, and those banks stood behind the Secretary of the Treasury and enabled him to go ahead and float that loan.

What happened a little later on? A gentleman referred here a little while ago to 1894. In 1894 we saw the gold taken out of the Treasury by the millions. We saw the Treasury in the attitude of collapse, because we did not have gold there to meet the requirements. What happened? There came to this city gentlemen from New York. They came here and they said: "We will buy your bonds, Mr. President. We will take your bonds on a 3½ per cent basis, but if you will put on those bonds, that which everybody in the country knows to be true, that those bonds shall be paid in gold, as we are paying for them, we will take them on a 3 per cent basis, and it will make a difference of more than $16,000,000 to the Government." Mr. Cleveland sent a message to Congress and laid the matter before them. Pig-headed jealousy, the jealousy born of ignorance, caused a majority of the Democrats and enough Republicans to defeat that measure and the Government lost by their inaction what amounted to $16,000,000. The New York banks voluntarily offered to do that in addition to what they had done before. That is the kind of people you are dealing with. That is the kind of people you are leading about.

Gentlemen, where are your 2 per cent bonds? What man among you would go and buy a 2 per cent bond and pay 104 or 105 for it? That is what they are worth to-day, while the consols are selling for 81. Who would say that they would go and take these bonds? Not one man here. I would not do it. My bank does it. We took the 2 per cent bonds and we got currency on them. Many men to-day are bringing their bonds back and saying, "We want to pull the currency down." What is it, $9,000,000 a month? I believe that is the rule laid down. What have you now? Applications running three months ahead, fellows who want to get on the band wagon, who want to get their money back and give up the bonds.

This legislation will affect every man, woman, and child in the United States; it will affect them all. The per capita now is $35 in this country. Do you want to reduce it? What do you want to do about the bonds you have out? Now, then, if it is the purpose of the Aldrich bill and of the Congress of the United States, and I have the profoundest respect for the Senate and for the House and the members thereof, if it is their purpose to get all these bonds back, particularly the 2 per cent, then you are moving in the right direction, because I tell you that hundreds of banks, maybe thousands of them, in the United States under the operation of this bill would be forced for their own protection to surrender their national charters and take out State charters and go ahead and do business, sell their bonds, and they would not bring 90 cents—the 2 percents. You take $500,000,000 of these bonds, the twos and threes, and put them on the market and what will they bring? This is a practical question, not one of theory. The time has come when we ought to stop and reflect and we ought to act with the lights before us and try to see by those lights what there is in the future. If you want a panic, pass this bill and you will

get it. There is no question about that. If you want to have the bonds of the United States thrown on the market, do that.

Let us see who is clamoring for this bill. You gentlemen here are in touch every day with the other end of Pennsylvania avenue. Now, without any insinuation, we have a gentleman at the other end of the avenue here who is very handy with his pen. As a Congressman says, "He carries a pen in one hand and a stick in the other," and he has said to you that he wants this kind of legislation. Where is the Secretary of the Treasury? Go and see what he says. Go and see the Treasurer, Mr. Treat, who has been here until he is old and gray almost; what does he say? What does any man connected with the finances of this Government say in reference to the bill? If one of them I have suggested or any of them you can find will say that the bill is a sane bill, a proper bill, a good kind of a bill, and that it should be passed for the protection of the country, then I will say that I have been mistaken in all I have said. Not one of them will say it. You have all seen what the papers are claiming about it. Does that look like Mr. Aldrich's bill? Is that the thing he started out for, that was going to subserve the interests and establish a great principle in finance? Why did he not stick? You find twice as much money there as he laid down. You find his bonds scattered and gone. You find section 5172, and I do not know how many other sections here, wiped off of the slate of the national banking act.

Mr. PRINCE. On page 3, line 18, of the Aldrich bill we find this:

And provided further, That there shall not be outstanding at any time circulating notes issued under the provisions of this act to an amount of more than five hundred million dollars.

Then on page 9, line 5, it reads:

SEC. 6. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows.

Mr. POWERS. Yes.

Mr. PRINCE. That is the section. Assuming that 500,000,000 of this emergency currency is issued, and those notes are afterwards taken out of circulation, does not that also take out of circulation the notes that are issued under that section 5172 that has been amended?

Mr. SLOPER. We would like to have you tell us. We think it does.

Mr. PRINCE. I want to hear from some others on this.

Mr. POWERS. I am a little ashamed to admit it before this intelligent committee, but this bill has worked upon me to such a degree that, absolutely and candidly, I have not fully and completely, to my own satisfaction, digested it; but I want to say that the opinion that I have in reference to this matter is that when you undertake to repeal, as this does by the amendment made, section 5172, when you have gotten rid of that which was placed temporarily in the place, and come back, you have not reenacted 5172, and therefore my opinion is—I may be mistaken in it but my opinion is—that when it is gone once it is gone for all eternity. Do you care to say anything further to me?

Mr. PRINCE. No; I just wanted to get your opinion on that.

Mr. POWERS. I am clearly of the opinion, and that is my individual opinion, that this bill ought not to pass. I think I have suggested something of that sort along in my talk. I hope I have, at least. But there is this further to be said on this subject. Your most excellent chairman has presented a bill. That bill goes to the root

of the whole matter. It is a comprehensive bill. It is one that is necessarily very long. It is one that has a good many horns to it in one direction and another, and some angles, I think, and therefore I do not believe that it would be wise in the Congress of the United States to pass that bill at present. The American Bankers' Association, which is supposed to be interested somewhat in the financial legislation that is to take place, and which has been clamorous for currency legislation in one way and another, has a bill which you gentlemen have before you now, I believe. I do not think it would be wise to attempt to pass that bill, because I do not believe it could be done at present. Therefore, my individual opinion is, of course, that I am in favor of the American Bankers' Association bill. I want that distinctly understood. But if I had the determining of this question, I would say that you have gone too far, reached too far out, and left the safe, conservative track that you should be on with legislation of this character, to undertake at this session to pass any bill whatever. But what you should do, and you should put it in such shape that there should be no mistake about the character and the formation of such a commission, is to raise a commission of the very best men you can find, of the strongest men you could find. Get some of them from the House and some of them on the other side of the Capitol and add to them gentlemen who are well versed in matters of this sort, strong and capable, and let them go to work and sit on this case until they evolve from their efforts a bill that would meet the requirements of the case, meet the requirements of the people; not alone the bankers, for I do not want a bankers' bill for the bankers' sake, but I do not want the bankers crucified with a bill like this or an abortion like this that is before you. I beg your pardon again, and I thank you for the attention you have given me.

Mr. PRINCE. Do you see any great danger of a panic now?

Mr. POWERS. None, if you let it alone. This will make one in six months.

Mr. PRINCE. You think, then, that this committee could wisely leave it to the House, and the business interests of the country would sustain them, in making a recommendation favoring a commission?

Mr. POWERS. I do.

Mr. PRINCE. Rather than to pass this measure?

Mr. POWERS. I do unequivocally say yes.

Mr. PRINCE. Do you believe we would be justified as a Banking and Currency Committee, based upon the business interests of the country, in refusing to favorably consider this bill, and favoring a commission?

Mr. POWERS. Unquestionably; a more patriotic duty could not be performed by any committee in this House.

(By a unanimous vote the committee extended its thanks to Mr. Powers.)

STATEMENT OF MR. J. HOWARD COWPERTHWAIT, OF NEW YORK CITY.

Mr. COWPERTHWAIT. Mr. Chairman and gentlemen of the committee, I have been opposed to the Aldrich bill until recently. I am now opposed to sections 8 and 11 of the Aldrich bill. I have nothing whatever to say in favor of those sections, and everything against them; but I believe that the bill can be so amended, by striking out

those sections and by inserting another amendment, that it will be a fairly good bill and well worth passing. Now, I base this statement on the idea that we can so improve the Aldrich bill that we shall have in this country the principle of central banking as practiced in Europe. It seems a strange thing to say, but I believe that is so. In Europe I believe that they avoid panics of the severity that we have in this country, because there is always a central bank which can rediscount commercial paper or which can take securities from a bank which is hard pushed and furnish it with money. I believe by a simple amendment to the Aldrich bill the clearing-house associations of this country can accomplish the same thing, and I would suggest, where it states in the bill how this money shall be issued, that the following clause should be put in:

Provided, That the Secretary of the Treasury, in his discretion, may accept the application of any national bank for new notes of such bank without the deposit of securities, such application being accompanied by the guaranty of the clearing house association of which such bank shall be a member, the said guaranty being to the effect that the said notes so issued or their equivalent in lawful money shall be returned to the Treasury within six months, together with the tax herein levied; and provided, however, that no clearing house association shall be permitted to so guarantee to a further extent than 60 per cent of the combined capital and surplus of the banks composing such association; and provided also that all of the banks in such association shall join in the said guaranty.

I suppose all of you are familiar with the use of clearing-house certificates in a panic, and you all know that never a dollar has been lost by the issue of clearing-house certificates. The New York Clearing House Association passed on over 400 millions of securities in this last panic. Nothing was ever lost by it. The New York Clearing House Association, if this amendment is put into the Aldrich bill, will be able to issue about 170 millions of dollars of money instantly, and will do it principally against commercial paper, and that is exactly the point that we wish to bring out. We wish to have some central power, some central bank, that will be able to issue money in an emergency against commercial paper, not necessarily against bonds of any kind; but whatever the securities, more than 70 per cent of it will be commercial paper. We wish to have that power that can issue money against the securities that the different banks may hold at the time when a panic takes place.

You know how we get to a panic. Business is very good in advance of a panic. There is a great deal of money demanded, and everybody appears to be making money. It is a time of great prosperity. The banks lend all that they dare to lend, and some of them lend a great deal more than they ought to lend. Then comes a time of sudden fright, and it is impossible to get currency. I should say that at that very moment, under the Aldrich bill as it is already framed, and with this addition, there will be on hand, in the hands of the Government, an immense amount of national-bank notes already printed in the names of the different national banks of the country, and I should say then that if any national bank can induce its clearing house to guarantee it, to guarantee the Government against loss on loans of money to that bank, the bank will get the money instantly and the Government will run no risk whatever, because under this added guaranty they could issue to an extent of 60 per cent of the combined capital and surplus of a clearing-house association. I believe that comes as close to the central

banking principle of Europe as you can possibly get without having a central bank. We would accomplish all that is accomplished in Europe, without really having a central bank. I do not want to take up much time of your committee; but if anyone would like to ask any questions, I might possibly be able to answer them.

Mr. GILLESPIE. If you pass that amendment, that would destroy the Aldrich bill, because that would be the main working feature of the bill; is not that so?

Mr. COWPERTHWAIT. I should hope so.

Mr. GILLESPIE. That is one virtue I see in it.

Mr. COWPERTHWAIT. There is a feature that has not been brought out in the Aldrich bill, and which I think is quite an important thing. It has been assumed in all the discussions so far as I know, excepting one which I had with the president of a large bank in New York, that a bank in order to get money from the Government must own the bonds. This president of a large bank in New York told me, and I have had it confirmed since by another gentleman, that that is not a necessity, and what actually happened in the last panic was this, and in one instance I happened to know about it: A savings bank loaned $100,000 of bonds to a national bank and obtained 2 per cent for doing it as a bonus. The bonds were then used by the national bank in order to obtain additional circulation. There were no bonds bought by that bank. The additional circulation was obtained without the use of any money to buy bonds. I do not know why that could not be done in many instances, and why it would not be done, and the president of this bank told me he could easily borrow bonds.

Mr. WALDO. If you were the president or one of the directors of a savings bank, would you be willing to loan bonds to any bank?

Mr. COWPERTHWAIT. Not any bank.

Mr. WALDO. I mean, would you think it was the proper thing for you to loan them?

Mr. COWPERTHWAIT. I should, under certain conditions. This gentleman was one of the officers of the savings bank, and he had been doing business for a great many years with this particular national bank, and he thought there was no reason then why they should not do this, and they could pocket 2 per cent for the savings bank by simply loaning the bonds, and they would get their 2 per cent interest just the same. That is what actually happened.

There was another president of a large bank in New York whom I was talking with about this Aldrich bill and how the banks in the West felt that they could not get any currency on the bill because they did not have the bonds; and a president of one of the eastern banks said, "We can get it for you and we will give it to you."

Mr. GILLESPIE. Do you think a western bank would pay 2 per cent for the bonds and then pay 6 per cent for the money?

Mr. COWPERTHWAIT. No, sir.

Mr. GILLESPIE. The idea was that the western bank could borrow the bonds?

Mr. COWPERTHWAIT. No; it was a savings bank in New York that loaned the bonds. But the large New York bank was willing to borrow the bonds in order to get circulation and give it to its western correspondent and had no objection to doing it. But I think if this amendment was added to the Aldrich bill and sections 8 and 11 were stricken out of it, it would give us emergency currency for the next ten or fifteen years whenever it was needed.

Mr. PRINCE. Do you not think if there was a bill having that provision alone without any provision for the deposit of bonds as a basis for circulation it would be a wise provision for circulation?

Mr. COWPERTHWAIT. I am trying to look at both sides of it, and I do not think you can get it through both houses of Congress if you mutilate the bill that far. I believe if you could get this through, this would be an operative provision, because the Secretary of the Treasury, when it comes to the issuing of money and he has a chance to issue it against the guaranty of clearing-house associations, will be much more willing to do it that way than to do it any other way.

Mr. PRINCE. You think if it was based upon the commercial securities, without the guaranty of the clearing house, it would be an impracticable thing?

Mr. COWPERTHWAIT. Absolutely.

Mr. PRINCE. Because the Treasury Department would have to have a force of men to examine each particular note, and the cost and the impracticability of it would defeat it?

Mr. COWPERTHWAIT. It would be absolutely impossible for the Secretary of the Treasury to handle commercial paper, because of the varying maturities; and in many cases the paper has to be renewed. It is impracticable to do anything of that sort. But no clearing-house association is going to guarantee a bank unless the securities are satisfactory to the association, as a matter of course, and then in addition to that you have the guaranty of the association to the Government that this money which the Government advances will be returned within six months, including the tax levied upon it. Without regard to the tax, the money would come back. There would be nothing permanent about any such arrangement as this.

Mr. PRINCE. How do you know there would not?

Mr. COWPERTHWAIT. You know by the experience of clearing-house associations that that would be so. They are always anxious to get rid of a guaranty. If the New York Clearing House guaranteed any bank, they would be very anxious to cancel that guaranty, and they would force that bank to get that money to hand to the Secretary of the Treasury; and if that bank did not do it, they would sell those securities. What would happen is exactly what happened in New York in this last panic. Along in January and February the clearing house reached the conclusion that they had helped all the banks, or certain of the banks, long enough, and they were anxious to close up the matter, and they notified these different banks that this thing must end; and they would do that again. They would force any bank out of existence unless it closed up its loan of currency which it was allowed in order to carry it through the panic.

Mr. GILLESPIE. Under your plan they could not do that.

Mr. COWPERTHWAIT. Under this plan?

Mr. GILLESPIE. They would not have that means of contraction, because a man gets the notes from the Government on four months' time. Could the bank force him out under those conditions?

Mr. COWPERTHWAIT. The banks only get notes by the clearing-house association guaranteeing them.

Mr. GILLESPIE. But the notes are out, and they pass as currency.

Mr. COWPERTHWAIT. No; the clearing-house association has those notes or other securities.

Mr. GILLESPIE. I am talking about the money that the bank gets from the Government.

Mr. COWPERTHWAIT. The money which is obtained by the bank from the Government is paid out by it instantly. That is why it gets the money, because it has a demand for it. Now, it can not get that identical money back at all. That goes into circulation, and nobody knows when that will come back, if it ever comes back.

Mr. GILLESPIE. That makes it different from the clearing-house certificates which are resorted to in a panic.

Mr. COWPERTHWAIT. In a pamphlet which I issued a short time ago I took the ground that the best money would be the money issued by clearing-house associations alone.

Mr. GILLESPIE. Just simply their checks, as they issue them now?

Mr. COWPERTHWAIT. Yes.

Mr. GILLESPIE. They could have them under their control, but they can not have their notes such as you provide for under their control in that way.

Mr. COWPERTHWAIT. I would rather have a measure come from Congress authorizing clearing-houuse associations to issue money, notes, against their own assets, as Mr. Fowler puts it, the little banks looking out throughout the country for each other's business in a practical way. What I mean is this, that the clearing-house association takes charge to some extent of all the banks within the association; and if any one bank in that association does things in a wrong way, the clearing-house association knows it as quickly as anybody, and they stop it. And in this case if the national bank wanted money through the clearing-house association, it would not be able to get the money unless it was entitled to it fairly, unless it was doing business in a proper way.

Mr. GILLESPIE. If a bank belonging to an association made application, and the clearing-house association guaranteed the bank, the money would go to the bank, and would not be under the control of the association?

Mr. COWPERTHWAIT. No; the money goes to the bank, and as it is guaranteed by the association, then the association would hold the securities of the bank in order to give the guaranty. They would not guarantee it unless they held the security. Then, as time went along, they would insist upon this bank returning this currency, or lawful money, to cover the amount of the loan, and if the bank could not do it within a reasonable time, the association would sell those securities, and would do it itself, and the bank would go out of existence, which is just exactly what happened in the last panic, only this is a way for the bank in distress to get Government money instead of clearing-house certificates. That was the point I made in this.

Mr. MCMORRAN. Does this only apply to New York?

Mr. COWPERTHWAIT. No; to the whole United States. Shall I read this proposed amendment again? It is very short.

Mr. MCMORRAN. I wish you would read it again.

Mr. Cowperthwait here again read the proposed amendment, as follows:

"*Provided*, That the Secretary of the Treasury, in his discretion, may accept the application of any national bank for new notes of such bank without the deposit of securities, such application being accompanied by the guaranty of the clearing-house association of which such bank shall be a member, the said guaranty being to the effect that the said notes so issued or their equivalent in lawful money shall be returned to the

Treasury within six months, together with the tax herein levied; and provided, however, that no clearing-house association shall be permitted to so guarantee to a further extent than sixty per cent of the combined capital and surplus of the banks composing such association, and provided also that all of the banks in such association shall join in the said guaranty.

As I said, the combined capital and surplus of the banks in New York City is about 290 millions, and 60 per cent of that is somewhere between 170 and 180 millions of dollars. The rest of the country I suppose contains possibly another 100 million dollars to be obtained. There may be only 50 millions; I am not familiar with the figures for the rest of the country. But the money could be obtained at once. These notes would look exactly like any other money. They would be taken at once by the people and would go into circulation, and it would stop any panic, because there would be so much of it. There would be no difficulty whatever in stopping a panic with this bill. And the best of it is that it could be obtained without any security such as bonds—without any security whatever. This is obtaining money by the use of credit, and that is exactly, as I understand it, what we wish to accomplish in a panic. You need the money and you have plenty of credit, and the thing is to use the credit to get the money at once.

Mr. McMORRAN. That is necessarily confined to large cities. It would not help the country banks in any way?

Mr. COWPERTHWAIT. It would wherever there is a clearing-house association.

Mr. McMORRAN. It would have to be in a town.

Mr. COWPERTHWAIT. Wherever there are three or four banks that form a clearing-house association. There is one feature about the Government giving money to a bank directly which I think is a very bad feature. A bank may be engaged, inadvertently perhaps, in a great speculation and be very short of money. Now, if the Government deals directly with that bank, the bank will get a good deal of money from the Government by putting up bonds, and will then carry its speculation much further than it ought to, and it makes a situation much more dangerous than it otherwise would be; but under this plan no bank would be able to get money that way, because its own clearing-house association would understand the situation as well as it understood it itself, and it would not help it to get the money. It would require in independent localities an examination of banks.

The CHAIRMAN. Do you think the country wants to be dealing with this matter in this way?

Mr. COWPERTHWAIT. It is the proper way.

The CHAIRMAN. Just think of a great nation like this having to deal with tidbits of money in that manner. Those notes would get afloat, and if they are good notes and they pass current, there is no way of getting them back, and the only way you can get them back, potentially, is to retire them by the deposit of lawful money, which is a conversion of a credit afloat by reserve money.

Mr. COWPERTHWAIT. Yes.

The CHAIRMAN. You do not mean to say that you are in favor of putting out 500 millions of currency and then retiring those notes by putting up 500 millions of reserve money and tying it up?

Mr. COWPERTHWAIT. Mr. Fowler, I have given a great deal of thought to this subject, and I have never been able to see how this

country can have an elastic currency except by the plan of a central bank, or by the use of clearing-house associations. I have never gotten it through my head that it can be done. Your bill, it seems to me, may accomplish that; but there is so much risk and such a great change proposed in your bill that I do not believe the country will ever adopt it.

The CHAIRMAN. I am not discussing my bill.

Mr. COWPERTHWAIT. No; but I think your bill is the best bill.

The CHAIRMAN. Then why do you not advocate it?

Mr. COWPERTHWAIT. I think the risk is too great.

The CHAIRMAN. What is the risk? You would add 250 millions of credit currency loans. If that bill was in effect now the amount of bank credits would not exceed 400 millions.

Mr. COWPERTHWAIT. In all financial measures there is the element of the unforeseen and the unsuspected.

The CHAIRMAN. I think that is true of the one that is before us.

Mr. COWPERTHWAIT. I think it is true of everything, of every business enterprise. When you get into it, you find that after you have been working a little while it is somewhat different from what you expected; and that is the danger of changing the currency by the passage of such a bill as yours; and while I might not be able to find fault with it except on that one point on which I have always found fault with it before, I would be afraid, if I was a Member of the House, to vote for it, because it is so radical.

Mr. WALDO. Do you really think that a bill that attempts to put into force again the system of credit currency that was in effect for thirty or forty years before the war, and which is to-day in effect in Canada and Scotland, and practically in England, and in Germany and France and Austria and nearly every civilized country in the world except the United States, can properly be called a radical measure?

Mr. COWPERTHWAIT. I do, because the United States is so wholly different from every other country. I think it is impossible to frame a measure based on the experience of any other country.

Mr. WALDO. Suppose we based it on our own experience, on the experience that we have had here? The only thing that stopped it here was the war. It would probably have been on a practical basis if it had not been for the war.

The CHAIRMAN. We had it in Louisiana and Iowa and Missouri on the west and in New England on the east. There was not any part of the United States where a credit currency did not exist.

Mr. WALDO. Yes.

Mr. COWPERTHWAIT. Conditions are very different to-day from what they were forty or fifty years ago.

The CHAIRMAN. Do you not think it would be safer to put it into effect now than it was then?

Mr. COWPERTHWAIT. I do not think you can ever do it. I do not think you can get the people to take that risk. And I do not believe you ought to do it; as much as I believe in an elastic currency, I do not believe that nine-tenths of our currency needs to be elastic.

Mr. WEEKS. Let me suggest that we are now discussing the Aldrich bill and not the Fowler bill or any other bill.

The CHAIRMAN. No; I do not want any allusion made to it. I only referred to it because Mr. Cowperthwait spoke of it. I do not want to make any allusion to my bill in these hearings, and I have refrained from making any such allusion heretofore. I want cut out of the rec ord all reference to my bill. Let the stenographer cut it out.

Mr. WALDO. I do not want anything cut out that I said about it. I want it to stay there.

The CHAIRMAN. Is that all?

Mr. WALDO. No; I want to ask him one other thing. Your proposition is there to have a credit currency based on clearing-house certificates.

Mr. COWPERTHWAIT. Not exactly.

Mr. WALDO. Well, practically?

Mr. COWPERTHWAIT. The guaranty of a clearing house association in the discretion of the Secretary of the Treasury. There is some slight difference.

Mr. WALDO. There is not much difference in the principle. How does that differ in principle from an asset currency? That is what it is, is it not?

Mr. COWPERTHWAIT. I do not know that it differs at all.

Mr. WALDO. You are now favoring, as an emergency currency, an asset currency?

Mr. COWPERTHWAIT. Yes. I believe in the asset currency as far as it can be adopted in this country, but I do not think it is necessary to adopt it for more than one-tenth of the circulation, or some such thing as that. If one-tenth of the circulation was variable and elastic, the other nine-tenths can be as rigid as possible, because you will never do without some money.

The CHAIRMAN. Nine-tenths changes every day and every month and every year, so that it has been changing since 1890; and from what? From something like a billion until now we have two and a half of bank notes.

Mr. COWPERTHWAIT Yes.

The CHAIRMAN. How are you to determine your fixed quantity?

Mr. COWPERTHWAIT. I do not mean to determine a fixed quantity, but not provide for elasticity beyond a certain limit.

The CHAIRMAN. How are you going to fix that limit?

Mr. COWPERTHWAIT. I would not fix it at all. The growth of the country would fix it.

STATEMENT OF MR. WILLIAM H. WILDER, OF GARDNER, MASS.

Mr. WILDER. Mr. Chairman and gentlemen of the committee, I do not know but it would be true if I should say that I was tired, and for one to talk to a committee that is tired, that has worked as this committee has worked to-day, it would be very hard to say much without being tedious, and I will be as brief as possible. I guess I represent the goats. You have listened to bankers nearly all day. I am a layman. By "layman" I mean that I am a manufacturer, a man dealing with credits and accounts, handling over 5,000 accounts in our

places, and something over a quarter of a million of credits. I may say incidentally that I am a member of the bar. However, I have some views in these lines, because I have been very much mixed up in finance all my life. I went into business when I was 17 years old, and went through the panic of 1892 and 1893, and got through it handling large finances of $500,000, but I fell down in 1895 through lack of heart of some of the people associated with me, and have had to pull out $150,000 of my own dead horses since that time, so that I have had something to do with finance, although, as the old darkey said, "my views are somewhat sad and reminiscent." Still, it is right that the depositors and the manufacturing interests who have so much to do with checks should be heard on this subject, so that I hope the time I will take may not be wholly amiss.

So that the real key to my thought may be understood from the beginning, I want to suggest what I would do with section 11 of the Aldrich bill if it is to be considered seriously. We are in something of the position of the fellow that was in jail. His lawyer came and told him that he could not be put in jail for the thing he was put in for, and he said, "Yes; I can, too." He says, "You can not possibly." "Well," the fellow says, "I'm here." There are certain things you can do and some things you can not do. To undertake the impossible is not the way we practical fellows go at it. While I had a sad time of it back in 1892 and 1893, we have had no difficulty during the panic of 1907, and have been able to help a great many others. I am president of one manufacturing industry, and my oldest son is president of another. But it is not fair for me, perhaps, to suggesting banking, inasmuch as 90 per cent, or even as high as 96 per cent, as your honored chairman says, is done through checks. With us 99 per cent of the affairs of a concern that does a business of about $250,000 a year is done by checks, and if absolutely pushed to it, I assure the Congress and this committee we would probably find a way to handle that other 1 per cent, and it is my guess that that is the spirit of the American people to-day. We are all kings over here. I do not believe in central banking systems, and I do not believe in clearing-house checks, but the clearing-house people have thrown down a suggestion, and rest assured if the Congress and the banks do not find the way to relieve these miserable panics, which are practically a financial disease, the manufacturers and the merchants will pick up the clearing-house racket and proceed to issue, in times of this sort, their own money. I do not believe we are going to contend long with panics. We will find a way.

Yet, addressing myself to the best that can be obtained and what is reasonably safe, let me suggest this amendment to section 11. In the middle of the paragraph, line 15, on page 12, after the word "association," I would add "except upon a duly recorded vote of a sufficient number of disinterested directors." With that amendment I do not think there is any objection to section 11. I have talked with a number of bankers, and they have said there is none. The trouble is that directors do business with themselves. Any director who is a director in a large corporation I think would be willing to submit to his fellow directors a question whether the bank should loan to his corporation. That eliminates entirely the objection as I have heard it raised to section 11.

Mr. GILLESPIE. What do you call a sufficient number?

Mr. WILDER. A legal number, I assume that would mean. There is a quorum usually provided in a bank of which a majority would suffice. I thought it clear to call it a "sufficient number."

Mr. SLOPER. Suppose you should get a bank all the directors of which are in the same concern?

Mr. WILDER. I think my amendment would eliminate nine-tenths of all the objection to that section. But never mind; it is the spirit I am talking about now, in which I wish we might address this financial problem.

It is too bad to say anything about the Aldrich bill, because everybody has ripped it up the back and torn it to pieces so much that it has become almost a mania to say anything about it. I want to say a word with reference to all bond-secured currency, that the man who owns the bonds, or knows where he can put his hands on them, is a little apt to be biased in favor of the issue of bonds. Of course the members of the honorable institution from which this bill came all have plenty of bonds. But the author of this bill, I am afraid, is biased. You know he has a lot of bonds, plenty of them, and he has a two-step brother that I suppose has more than anybody else in the world, and it would be an easy matter to facilitate these affairs, unwittingly. [Laughter.] Now, there is some joke in this apparently, but certainly I do not intend it with any disrespect to those gentlemen; but I know how hard it is for me to see through myself, and for this reason I am just a little bit skittish about these bonds. While I am on this (because I will jump across lots as much as I can to get through), I want to say that I do not believe Government currency should be under any circumstances tied to anything but Government bonds. Railroad bonds should not come within sight any more than State bonds or municipal bonds. I do not believe the Government should facilitate the sale of anyone's bonds. My friend Stevens—every word of whose paper I approve of—made a remark that national banks took out circulation or took it in when they could, wholly along the lines of whether or not there was a profit in it. I did not wholly take this just as he said it, for I do not believe the banks are that narrow that they would devote entirely their action to taking out currency or taking it in as there might or might not be a profit connected with it.

Now, I have something for the bankers who have preceded, with all the eloquence that anyone could wish, certainly, and with a great deal of sound wisdom. When the Congress is in session the wool growers come up and the clothing manufacturers come up, one asking for a tariff on wool and the others for free wool. The leather men come up in the same way, the producers asking for a tariff and the tanners asking for free hides. I need not go through the category; you can think of many other examples as well as I. What they say is taken as from interested parties, and properly so. They do not pretend to represent anything but interested parties. Now, I would not say that there is no philanthropy whatever to the bankers who present these various matters, but it does seem to me that this great committee should take what they say as from interested parties, and realize that the committee are the real umpires who must take care of the goats as well as the others; for surely, was I here as represent-

ing a bankers' association or a clearing house, I would call myself derelict, almost, if I did not support the things that were necessary to facilitate the affairs of that association. So that what we hear from these people in reference to these affairs, I think, should be somewhat salted, and when I say anything that you see pertains to my business, you, of course, want to salt it accordingly, and I will try to keep well within bounds.

The Aldrich bill has one correct feature, in my estimation; it is amendatory, that is it builds on our present structure. I admire the courage and pluck of the chairman of this great committee more than any words of mine can express; I have been rated an optimist in my experience, but he goes so far beyond any courage that I ever had or dreamed of with this American people, brilliant and magnificent as they are, that I have no hopes of the passage of his bill at this or any future time, and I believe we must amend that which we have, and the less we amend it the more likely it is to be accepted and adopted. I do not believe any system of finance can be called science. A science can be demonstrated. It ought to be possible, if this can be a science, for it to be demonstrated around this table, or somewhere. I do not think it can be demonstrated any more than a manufacturing proposition or a banking proposition itself can be demonstrated. But the banker has certain rules that he depends on in judging men. He looks at the man's face and his manner and the way he draws his checks. All those little things are significant and go toward making up an estimate of a man. It has been said at one of our offices that Mr. Wilder can smell a poor credit. That is not so, but we lose less than one-half of 1 per cent of our credits that we put out in the general manufacturing business. But we can not call this thing a science. I have no expectation of ever seeing it worked down to a science. If the animals had a financial system that we could work on, like the vivisectionists, who take sheep or guinea pigs to experiment with, that would be all right, but we must use something like transfusion of blood and work it out among ourselves, and hence we should go very carefully. I have already expressed the sentiment of others, including many bankers, in saying that we must go carefully and amend what we have.

In manufacturing institutions we do not dare to change one iota of our system without the utmost care. I know when they bring any little thing to me that we have to change in a machine, for instance, I tremble when I think of the possible results. I have seen things on paper that looked all right, and I have said "That must be right," but when you put them into practice you could not do anything with them at all. We must go along by the bridges that have carried us safely over. Furthermore, we can not get this problem into a science because the depositors are not pupils, and you can not make them pupils. When the pioneers went out on the prairies and began fishing up gold, they came in with their gold and they put it down and they said there was their deposit, and they put it there, and when they wanted it they proposed to have it, and that is all many of the fellows who have bank accounts know anything about or care anything about. We must take things the way they have worked. It is a business proposition to find how much we dare change this time and see how it works. We must learn something by this time in order that we may change it a little more next time.

The CHAIRMAN. We tried credit currency last fall to the extent of 250 millions. That was a fair test, was it not?

Mr. WILDER. Well, the clearing house made credit last fall, or said they did. But it is a mere farce, the clearing-house certificate is. My esteemed friend, Mr. Weeks, who is in one of the very finest banks in the country, with which I am somewhat acquainted, will differ with me. But it is a perfect farce. We are making ourselves believe we have some money that we do not have. The banks have bills receivable which they swap between each other in the form of clearing-house certificates.

Mr. WEEKS. The clearing-house certificates in Boston were used to pay balances between banks, and for no other purpose.

Mr. WILDER. They swap them between each other, and call it that they maintain reserves, but they do not any more than as if they did not issue any clearing-house certificates at all.

Mr. WEEKS. Let me suggest that we issued no clearing-house checks. Some of the banks in the West did that, and they went into the hands of the public.

Mr. WALDO. Pittsburg issued about 50 millions.

Mr. WILDER. But supposing you did not issue the clearing-house certificates. You would simply go into your reserves for the balances. It is a mere farce. I would allow the banks to go into their reserves.

Mr. WALDO. But the trouble was that they did not have reserves enough to go into.

Mr. WILDER. They went into them in effect as far as they issued clearing-house certificates, did they not?

Mr. WALDO. No; they did not have as much reserves as they issued clearing-house certificates.

Mr. WILDER. They could not effectively issue more than that.

Mr. WALDO. Certainly they did.

Mr. WILDER. Oh, they could not issue more clearing-house certificates than they had reserves with any real benefit.

The CHAIRMAN. Why?

Mr. WILDER. Because the reserves are all they have.

The CHAIRMAN. Their reserves?

Mr. WILDER. Surely; their reserves are all they hold in their banks. If they could effectively issue more clearing-house certificates than that, they would have to put their clearing-house certificates out to the public.

The CHAIRMAN. The clearing-house certificates have absolutely nothing to do with the cash.

Mr. WILDER. They do; they have gone into their reserves to just that extent, and they swap those between themselves, and they represent the cash and the reserves ultimately.

Mr. WALDO. In Pittsburg they issued 50 millions. They were issued, a large part of them, in one and two dollars.

Mr. WILDER. The public and manufacturers will do the same thing the next panic if we not look out.

Mr. WALDO. Suppose you do that?

Mr. WILDER. I am not arguing for reserves. The savings banks of Massachusetts are the finest and strongest banks in this country, and they do not carry large reserves at all.

The CHAIRMAN. Do you think they are strong without cash?

Mr. WILDER. A bank is strong as it is solvent, not as it has cash in hand. We are doing 99 per cent of our business with credit. It is only an incidental amount that we need in cash. But do not let us get confused; do not let us get the idea that clearing-house certificates can effectively be more in amount than the total reserves of the banks.

The CHAIRMAN. I do not see why they should not be ten times as much. But I think we had better go on. Get right to the thing you want to consider.

Mr. WILDER. I can get to the thing I want to consider and drop out all my reasoning, but I do not think it would stand for much.

The CHAIRMAN. What would you suggest?

Mr. WILDER. I would suggest using a part of the features of the Aldrich bill, and putting onto the end of it what, as I understand it, is called credit currency. I can read this thing in five minutes.

The CHAIRMAN. The Aldrich bill? We do not want to hear the Aldrich bill read.

Mr. WILDER. As I would recommend it to be changed. There are 12 pages in the bill, and I have cut out 7 of them and added 100 words.

Mr. WALDO. Just read that 100 words you have added.

The CHAIRMAN. Can you not put what you would suggest in just a word?

Mr. WILDER. In the fewest words. I have taken the front part of this Aldrich bill, where it provides for such banks as have outstanding 50 per cent of their capital in bond-secured notes and 20 per cent reserves. That is the starting point of the Aldrich bill, and then provide that such banks shall have the privilege, with the consent of the Comptroller, under the direction of the Secretary of the Treasury, of issuing credit notes, and those credit notes shall have no specific security of their own other than the security of the bank, which is greater in many instances than to put up 125 per cent collateral; the banks to issue credit notes only up to a limited amount.

The CHAIRMAN. What is that amount?

Mr. WILDER. Two times the capital and once the surplus of the banks for the bond-secured notes and the credit notes.

The CHAIRMAN. Yes.

Mr. WILDER. Not to exceed in any event 25 per cent of the bank's deposits, 500 millions in all. I would make those notes receivable——

The CHAIRMAN. How is that?

Mr. WILDER. I would make those credit notes receivable in national banking associations for the period of one year, unless earlier called by the Comptroller of the Currency, as credit only, and let them pay one-half of 1 per cent per month for the first four months and three-quarters of 1 per cent per month thereafter.

I would then allow a national bank to go into its reserves by reporting monthly and remitting monthly a tax at the rate of 7.3 per cent per annum on whatever the bank went under its reserve. This would provide a real credit currency for an emergency. And when the banks can go into their reserves they are not going to need a credit currency, in my guess. There would have been no need for credit currency in October could the banks have used their reserves. They did not put out their reserves; they never will until they can get something else to do business on when they are gone. The moment you put a bank into that place where it can go into its reserves to the bottom and not close its doors it will do so and panics

will cease. This is based on common sense and on conversations with bankers, as well as my knowledge of the business.

The CHAIRMAN. That is the statement of your proposition?

Mr. WILDER. That is the statement of my proposition.

The CHAIRMAN. Does anybody want to ask any questions?

Mr. WILDER. Of course it is a pretty difficult matter, gentlemen, to simply state the bald proposition which you have to make without any occasion to say why you hold for it or your reasons for it; and inasmuch as the whole day has been taken up by the banking interests, I feel that a little more time might perhaps be given to the depositors. On the other hand, I do not want to take your time unless you have it to spare.

Mr. WEEKS. Do not be cut off in anything you have to say.

The CHAIRMAN. No, no; we want to hear you, but we do not want to give you such a wide range of discussion. We have had so many arguments about the necessities of the case and what these things stand for that I think we will understand you if you go right to what you want done. If you have anything further, proceed.

Mr. WILDER. I think I have given concisely what I would suggest. Let me read you the amended text of this bill and see if there is anything I have omitted.

The CHAIRMAN. What you have there may go into your remarks as your recommendations, expressed in an amended bill.

Mr. WILDER. I would not quite say that.

The CHAIRMAN. Why?

Mr. WILDER. I would not recommend exactly that. I simply believe that it is all that can be gotten and I believe it will generally satisfy the people.

The CHAIRMAN. That is your opinion under all the circumstances, or do you want to change it and let us have it later?

Mr. WILDER. I believe this is the best that can be done now under the circumstances with the Aldrich bill.

The CHAIRMAN. That is what I said.

Mr. WILDER. This is the best that stands any show of passing. It will test out the question of credit currency, too.

Mr. PRINCE. When the reporter gets this written out you can use such language as you choose, saying that in view of the conditions you believe that is the best obtainable.

The CHAIRMAN. You are willing to be made responsible for the consequences if we enact it?

Mr. WILDER. If you will allow me to construct it, surely I am.

Mr. PRINCE. The manuscript will be handed to you and that bill will be handed to you, and then you can put in it the shape that you see fit.

Mr. GILLESPIE. You can revise your remarks and suggest exactly what you see fit.

Mr. WILDER. You mean on the basis of the Congressional Record, to print a speech that I did not deliver?

Mr. GILLESPIE. Yes.

Mr. WILDER. I will accept that.

The CHAIRMAN. We will grant you leave to print.

Mr. PRINCE. That is all right. That will save time. We do not want to cut you off.

Mr. WEEKS. The clerk of the committee will send this to you, and if you want to make any changes or additions it will be all right.

Mr. WILDER. There are a few other reasons for my views, but I will be just as well satisfied to put them into the revision, if I may be allowed to do so.

Mr. PRINCE. You are up in the air there—the way you are now—and it is not fair to leave you in that situation.

Mr. WILDER. I had that feeling myself.

(On motion of Mr. Weeks, by unanimous vote, the committee extended its thanks to Mr. Wilder for his address.)

Mr. WILDER. I thank you very much, gentlemen, for this opportunity and for the further privilege you have granted me.

At 5 o'clock p. m. the committee adjourned until to-morrow, Wednesday, April 15, 1908, at 10.30 o'clock a. m.

ADDITIONAL STATEMENT OF MR. WILLIAM H. WILDER, OF GARDNER, MASS.

Mr. WILDER. I wanted to say more as to why a financial system could not be a science and why our own system was good; and, if so, it should be amended gently here and there instead of revolutionizing it. The Government may some time need to use the banks again to gather gold, the same as in the sixties, or gold may become so scarce that we must make a change or vice versa. In short, we can no more make a science of our currency system than we can of our tariff system, hence it must be built up. Now, if we say our present financial system is bad, we must by the same tokens say that the financiering of our large modern corporation is likewise bad, for our great railroad and industrial companies have outstanding long-time notes, demand notes, collateral notes, current liabilities, cash, and bank credits. I have worked it out in detail, but will not repeat it here, but one will be surprised to find how similar—indeed, almost identical—these modern financial giants have patterned their finances after the Government plan.

If one is still not convinced, let him take our various financial institutions and see how closely these confine their securities to a variety of lines, from which they do not deviate materially, run the whole gantlet from a savings bank through the trust company to a national bank, and the various kinds and maturities have the same principle involved; and so bank runs may continue and panics threaten, but it is a disease, not health, which may be safeguarded, but can not be wholly prevented so long as goats, Indians, giants, get rich quick, and the ignorant are depositors and there is no law, nor can there be, to make them go to a financial school, even if the system itself could be reduced to a science. This has been many times proven in history. The common law of England, which was developed largely from the Roman civil law, and came down through the codes, institutes, and pandects of Justinian, came to be very exacting, like that of the Scribes and Pharisees in the time of Christ and equally as unjust and vicious. So against the most vigorous opposition and almost assaults of Lord Coke and many other great jurists there came

the King's chancellor, who was sneeringly referred to as the King's conscience, but he righted the wrongs that the law refused to mend, and from this came our magnificent equity system, which, with the march of intelligence and justice, has become superior even to the law, for it took up the action of the person by acting "in personum," where the law could only dispose of the property or thing by acting "in rem." Even more to the point is the "law merchant," fought at first by the law, but the merchants or business men didn't care. They proceeded to act between themselves as they pleased and the law had to yield, so much so that the books record an eminent English judge, who was sitting on a case, remarking that the verdict would not be announced till the morning, as he wished to first consult two of three of London's principal merchants as to the practice. And so it is no different whether it is the Aldrich bill or something else, the clearing houses set the die, but it was left to Pittsburg to put them into effective operation, and about the next time the large concerns all over will follow suit. Then the truth will become known and the nothingness of the clearing-house certificates will appear, and panics will be called in when conditions are sound by the business world taking things into their own hands temporarily.

What I mean by the nothingness of clearing-house certificates becomes apparent when you imagine the banks in any clearing-house association, whether there be three or thirty, consolidating overnight into one bank, for in that case all of the certificates would merge and cancel themselves. It is merely a process of paying the debts of one bank to another by securities instead of cash, and any bank is as likely to have to take them as to give them, and while literally they can be issued as long as the clearing house will take what the banks have, still it is only a byplay, and they could just as well pay cash and then let the stronger banks rediscount for the weaker; for, as I said before, the banks have no strength in time of panic beyond the cash in their vaults, which would not be lessened on the whole by paying balances in cash, and any other view is confusing and demoralizing. If it were otherwise, the clearing-house certificates would be financial perpetual motion. Of course, if they are to be put out to the public they become currency and an entirely different matter.

Now, a single reason for a strictly emergency currency: The quick depletion of bank deposits when a panic strikes—I have not seen in print. True, hoarding counts; but it is caused principally by lessened business clearings, by which I mean the difference between the deposits as shown by the bank's books and the depositors' books. To illustrate: Jones keeps an average balance on his books of $1,000; he receives on an average and deposits $1,000 per day, and, of course, draws on an average an equal amount. Say he averages to send all checks to points where they will arrive for banking purposes the next day, reserve cities excluded. The fact would be as follows:

The first day they would arrive at some place, the second at some reserve or central reserve city, the third day at the home bank. So on the morning of the third day Jones's account would stand on the bank's books at $1,000 plus three days' deposits at $1,000 each, total, $4,000, on which day $1,000 of checks would be deposited and an equal amount charged up. Now, it is not much of a panic that stops

checks coming by one-half, and often almost wholly, but if they drop one-half the deposits will be on an average $500, which for three days would be only $1,500; allow that he would draw only $500 per day and his balance would appear to drop at once to $1,000; that is, his balance on his books, plus three days at $500, or to $2,500—in other words, 37½ per cent. This working anyone will see is absolutely certain. Now, no one need have lessened their deposits, and yet the bank's deposits disappear; but this is not all, for these very deposits with the bank are still checks which will shrink still more before they get home. These checks count at once as deposits, and if the bank sends them to its reserve agent they count, even while in the mail, as legal reserve. Think of it! These checks in the mail, their open account with their reserve agent, may count as reserve but not regular national-bank notes, which are a debt of the bank plus a United States Government bond for an equal amount, plus the guaranty of the United States Government.

Again, the Aldrich bill provides that certain State, county, and municipal bonds may be held by the banks to the extent of 4 per cent as reserves, but can not when the note of the bank is issued against them with an additional obligation of the bank and the guaranty of the United States Government to redeem in lawful money, which did not go with them before; it can not be counted as reserve, even after being cut 10 per cent. Such nonsense insults the intelligence of anyone who thinks. Furthermore, the original reason why the national-bank bills were not allowed as reserves has passed long ago, which was that the Government needed gold and so induced the banks to gather it by excluding bank bills from bank reserves.

Finally, the Congress must not lay violent hands on our currency system, for it is the greatest in the world. For proof I offer the statement of the honorable chairman of this great committee, that it is carrying the load of two-fifths, or about 40 per cent, of the transactions of the world; but we must have a panic medicine, and if the Congress does not furnish it it will be furnished by the people, a la Pittsburg and otherwise. I submit and recommend as a safe and effective bill the following amended Aldrich bill—admitting, of course, that there is little left of the original structure, together with the fact that I have not tried to polish it up any, but following largely the technic of the original bill. True, no panic is imminent, and yet no one can tell when one may come or be manufactured, of which it is the duty of the Congress to take due notice. I further recommend a currency commission to thoroughly consider our currency system and exhaust every means to determine its defects, with provisions for a remedy. Such commission should be composed of about one-sixth each from the Senate and House, one-third each from bankers and depositors and business interests other than banks, thus balancing the banks and the depositors with a full bench of judges from the Congress. Such a commission should work with a view to having a system such as will be cooperative in its nature between Government, depositors, and banks, so that any class can not harm it without harming themselves. Such only would be worthy of the greatest nation on earth.

WILLIAM H. WILDER.

SUGGESTED AMENDMENT TO THE ALDRICH BILL BY WILLIAM H. WILDER.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any national banking association which has a surplus of not less than twenty per centum of its capital stock may make application to the Comptroller of the Currency for authority to issue circulating credit notes to an amount equal to its bond-secured notes in circulation, together with such percentage of its surplus as its bond-secured notes in circulation hold to its capital stock. The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same, and shall determine the time of issue and fix the amount, within the limitations of twenty-five per centum of its deposits, for the circulating credit notes to be issued. It shall then be entitled to receive, upon the order of the Comptroller of the Currency such amount of circulating credit notes in blank, registered and countersigned as provided by law for bond-secured notes, such notes to be treated by the bank as a deposit, otherwise to be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes, except as herein specified: *Provided*, That the total amount of circulating notes outstanding of any national banking association, including notes secured by United States bonds as now provided by law, and the credit notes provided by this act, shall not at any time exceed two times the amount of its unimpaired capital and once its surplus.

National banking associations having their circulating notes outstanding, other than those secured by bonds of the United States, shall pay for the first four months a monthly tax of one-half of one per centum upon the average amount of such notes in circulation, and afterwards a monthly tax of three-fourths of one per centum upon the average amount of said notes. Every national banking association having outstanding circulating notes other than those secured by bonds of the United States, shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of such notes, together with the tax thereon; and it shall be the duty of the Comptroller of the Currency to cause such reports of credit notes in circulation to be verified by examination of the banks' records, and any officer of any banking association falsely reporting the amount of its credit notes in circulation shall, upon conviction thereof in any circuit or district court of the United States, be punished by a fine of not less than one thousand dollars nor more than five thousand dollars, or by imprisonment for not less than one year and not more than five years, or by both such fine and imprisonment. The taxes received on circulating notes other than those secured by bonds of the United States shall be paid into the Division of Redemption of the Treasury and credited to the reserve fund held for redemption of United States and other notes.

Any national banking association desiring to withdraw any portion of its circulating credit notes may make such withdrawal at any time by the deposit of an equal amount of lawful money or national-bank notes with the Treasurer of the United States: *Provided*, That the deposits under this section to retire notes other than those secured by bonds of the United States shall not be covered into the Treasury, as required by section six of an act entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes," approved July fourteenth, eighteen hundred and ninety, but shall be retained in the Treasury for the purpose of redeeming the credit notes of the bank making such deposit.

In order to furnish suitable notes for such circulation, the Comptroller of the Currency shall, under direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating credit notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall be marked "Credit Currency," otherwise have a like appearance to bond-secured national-bank notes, and with the same standing and privilege of redemption

after one year from issue, unless sooner called by the Comptroller of the Currency under the direction of the Secretary of the Treasury, but until such time or call they may be limited by all national banking associations to a credit currency. The Comptroller of the Currency, acting under the direction of the Secretary of the Treasury, shall as soon as practicable cause to be prepared circulating credit notes in blank, registered and countersigned, as provided herein, to an amount equal to one hundred per centum of the capital stock of each national banking association; such notes to be deposited in the Treasury or in the subtreasury of the United States nearest the place of business of each association, and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery, as provided herein.

That after January first, nineteen hundred and nine, national banking associations which are now required by law to keep certain specific reserves shall not hereafter be required to keep such reserves, but shall in lieu thereof pay a tax at the rate of seven and three-tenths per centum per annum on whatever their reserves fall short of said specified requirements, and shall make monthly report and remittance thereon the same, and for the same fund, as provided for credit currency, and after said date bond-secured national-bank notes may be included in said reserves.

If Aldrich bill, section 11, is needed, let it read something as follows:

No national banking association shall invest any part of its funds or deposits in the stocks or other securities of any corporation or association any of the officers or directors of which are officers or directors of such banking association, except upon a duly recorded vote of a sufficient number of disinterested directors. Any officer or director of any national banking association who knowingly violates or consents to the violation of the foregoing provision shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any circuit or district court of the United States, be imprisoned not less than one year and not more than five years.

Wednesday, April 15, 1908.

The committee met at 10.30 o'clock a. m., Hon. Charles N. Fowler (chairman) presiding.

STATEMENT OF MR. JAMES B. FORGAN, OF CHICAGO, ILL., REPRESENTING THE AMERICAN BANKERS' ASSOCIATION.

Mr. FORGAN. Mr. Chairman and gentlemen of the committee, the currency commission of the American Bankers' Association at a meeting held in Chicago on January 18, 1908, placed itself on record as opposed to the Aldrich bill as it had then been introduced in the Senate, giving its reasons therefor in a report which was placed before this honorable committee at the time. The bill was stated to be impracticable, unwise, and financially unsound.

The bill as it was finally passed in the Senate varies but little from the original bill, so far as the proposed issue of emergency currency is concerned. Railroad bonds have been eliminated, and State, municipal, governments of Porto Rico and the Philippine Islands, and city of Manila bonds can alone be used as security for the proposed additional bank issue. Banks can take out notes for 90 per cent of the market value of such bonds instead of 75 per cent as originally proposed, and the tax on such notes after they have been in circulation four months is raised from one-half of 1 per cent per month to three-fourths of 1 per cent. These and the other slight changes affecting the working and administration of the measure make no difference in the principle on which the proposed emergency circulation is based, and the measure itself is as futile as it was before from a practical standpoint.

After mature deliberation, and having given careful consideration to the arguments in favor of the bill brought out in the debate in the Senate and in current literature on the subject, the commission still adheres unanimously to the adverse conclusions formerly arrived at and fully expressed and embodied in the report above mentioned.

It is a matter of surprise to this commission which represents the American Bankers' Association that the author of the bill should force it through the Senate, admitting as he did in debate that he "knows of no bank or bank man who is in favor of the bill," and "that the banks throughout the country are against it."

We are at a loss to know what the bankers of the country have done, that their advice should be set aside, their judgment ignored,

and their wishes opposed in connection with legislation directly affecting the business in which they are engaged. Especially so as they regard themselves as servants of the public, and are fully assured that in any legislation affecting the circulating medium their interests and those of the public are identical, for what is ultimately best for the community is beyond all question best for the banks.

An effort seems to be made in political circles to hold bankers responsible for the failure of the banks to meet the recent business emergency of the country without resorting to clearing-house certificates and curtailing cash payments. It would be as just and as sensible to send a captain to sea in charge of a vessel known to be unseaworthy and which he himself had condemned as such, and hold him responsible for its almost foundering in a heavy storm. Had the recommendations of the currency commission of the American Bankers' Association, approved by the association itself, adopted and with but slight variation reduced to a bill and introduced into the House of Representatives by the chairman of this honorable committee a year ago, been then enacted into law it is our belief that the banks of this country would have withstood the financial pressure as similar pressure was withstood at the same time by the banks of other countries without resorting to the humiliating methods which were forced upon them entirely in consequence of the defects of the banking and currency system under which they were obliged to conduct their business.

As bankers we claim a practical knowledge of our business which experience alone can give. We think that with such knowledge and experience we should be consulted and our advice heeded in connection with any legislation affecting the banking and currency laws of the country. We protest against the passage of such a law as the Aldrich bill, when the judgment of the bankers of the country is admittedly opposed to it.

Since our consideration of the bill as it was originally introduced into the Senate two very dangerous propositions have been added to it by way of amendment.

One is in section 8, which deals with the location and disposition of the legal reserves of the banks and completely upsets existing relations between the banks through the country and their legal reserve agents.

Under our present law for every $100,000 of deposits banks outside of reserve cities must keep $15,000 as legal reserve, and may keep it as follows:

Two-fifths in their vaults in lawful money	$6,000.00
Three-fifths with their legal reserve agents	9,000.00
	15,000.00

Under the Aldrich bill, as passed by the Senate, they will be required to—

Keep in their vaults in lawful money	$8,000.00
And may invest in approved bonds	4,000.00
And with their legal reserve agents	3,000.00
	15,000.00

Under existing law for every $100,000 of deposits the banks in the reserve cities must keep $25,000 as legal reserve, and may keep it as follows:

One-half in their vaults in lawful money	$12,500.00
One-half with their legal reserve agents in central reserve cities	12,500.00
	25,000.00

Under the Aldrich bill they must—

Keep in their vaults in lawful money	13,888.90
May invest in approved bonds	2,777.77
And with their central reserve agents	8,333.33
	25,000.00

Should the bill become effective the banks outside of reserve cities would therefore have to withdraw from their reserve agents two-thirds of their legal reserve deposits, which, according to the February report of the Comptroller of the Currency, would amount to $140,418,208, and the banks in the reserve cities would be required to withdraw one-third of their legal reserve deposits from the central reserve cities, which, according to the same report, would amount to $50,913,694.

The proposal that a portion of the banks' legal reserve may be invested in bonds is an absurdity on the face of it, for as soon as a bank's money is invested in any sort of security it can no longer be counted on as part of its reserve available to meet its obligations. Even Government bonds have not been considered adequate for the legal reserves of the banks. The effect of the measure under consideration is to reduce the available reserves of the banks outside of reserve cities 26⅔ per cent, as they can invest that portion of their present reserves in bonds, which amounts to $98,490,210.80, and to reduce the available reserves of the banks in reserve cities 11.11 per cent, as they may invest that portion of their present reserves in bonds, which amounts to $36,577,726.30; so that together the available reserves of the banks would be reduced by over $135,000,000. That portion of legal reserves carried by the banks, which under the present law they can keep on deposit with their reserve agents, has always been available even in a stringency or panic for the purpose of enabling their customers to continue to pay their debts by the use of drafts drawn by the banks on their reserve agents, which are paid through the clearing house, even when the banks have been restricting currency payments. A medium of exchange is thus created that is available for all practical purposes.

It is of course intended that in an emergency the banks should take out circulation against the bonds, but it is self-evident that in so doing when they send the bonds to Washington for this purpose they would have to deplete their legal reserves by the amount of the bonds which they had previously counted as reserve, and the circulation they would receive would not count as reserve. In order, therefore, to secure the circulation they would have to deplete their legal reserves by the amount of the bonds surrendered; and if their circulation were exchanged for gold or legal-tender money they would be exactly in the position they were before they took it out, except that they would have reduced their legal reserves by 10 per cent of the

amount of the bonds pledged, as they could only receive 90 per cent of their value in circulating notes.

The withdrawal of money from the reserve and central reserve cities by the country banks to increase their lawful money on hand to meet the requirements of this measure would cause such a drain on the centers as would necessitate very heavy curtailment of credits and reduction of loans. In our judgment, were the banks in the reserve cities and central reserve cities compelled to put themselves in condition to meet the requirements of the proposed law on January 1 next and to meet the demands upon them of the country banks at that time it would be impossible for them to do so without holding onto their money through the fall, preventing the regular and natural expansion of credits for the movement of the crops which always takes place at that time. The result of this might produce a condition of affairs not dissimilar to those which we experienced last fall. Further, in our judgment, it would weaken the cash reserves of the banking system as a whole by distributing instead of concentrating them. The distribution of them at present is not only extravagantly wasteful, but is one of the chief sources of weakness in our system. In no other banking system known to us does such a wasteful and demoralizing use of cash reserves exist. In all other systems when, owing to business expansion, money becomes scarce the cash reserves of the banks are concentrated at the financial centers for a display of strength, which inspires confidence and prevents panic. With us, every bank by withdrawing its cash reserves from the centers and hoarding them in its own vault weakens the system at the centers and dissipates its strength. What we require is concentration of cash reserves and not a wider distribution of them, because the strength of the entire system is always measured by the reserves carried at the centers.

Section 11 of the Aldrich bill provides that "no national banking association shall invest any part of its funds or deposits in the stocks or other securities of any corporation or association, any of the officers or directors of which are officers or directors of such banking association." So far as investing in the stocks of such corporations is concerned national banks are under the existing law prohibited from making such investments. The courts have repeatedly defined the word "securities" as used in this section of the bill to include promissory notes and bills of exchange, and this interpretation would practically prohibit a bank from doing business with any company in which any of its directors were officers or directors. No objection can be raised to preventing the executive officers of banks borrowing money from the banks that employ them. This has been a great source of evil and loss and should be prohibited. But to prevent loans to directors or to corporations in which they are interested is to deprive the banks of the direction and counsel of the principal men of affairs in every community—the very men who from the knowledge their position gives them are best fitted to direct the affairs of the banks and give sound advice to their executive officers. The directorate of every national bank in the country has been formed with a view to securing the business controlled by its individual members as well as that of the corporations with which they are connected. The business of the national banks has been built up in this way. Such men, and no others, can direct and advise bank management.

They can not be expected to subordinate all their other interests to acting as bank directors. The shareholders elect them in order to secure their influence, their direction, and their advice. They act practically without remuneration, and if they are to be barred, as the proposed law would bar them, the standing of the directorates of our national banks will be reduced to that of utter incompetency, or to what would be equally as bad, to a set of "dummies," who would be put on the boards in all probability to represent the interests of the very men of affairs whom the law would thus prevent acting for themselves.

The Aldrich bill being avowedly for temporary use only to bridge over until a comprehensive banking and currency system is determined upon, and there being such a wide divergence of opinion in Congress respecting the measures to be adopted, we would strongly recommend that the whole subject should now be referred to a competent commission for inquiry and report to the next Congress. Such a commission should be composed of members of the Senate and the House of Representatives, business men and bankers, economists, and a constitutional lawyer, all of recognized ability and national reputation.

Mr. PRINCE. Mr. Forgan, you have called attention to the Aldrich bill. Suppose that section 8, which refers to reserves, and section 11, which refers to limitations as to loaning to bank officers and bank directors, should be stricken from the measure, and the bill would remain without those. What have you to say to that?

Mr. FORGAN. I think that the bill would be from a practical standpoint useless. I think the principle on which it is based is utterly wrong, and I think that the further we get away from correct principles the harder it would be to get back to first principles and correct principles. You can not conceive of anything that would be further from being economically or practically what we want. We are already suffering from a bond-secured currency. It is one of our greatest evils. It is the cause of the wildest expansion, has been in the past, and will continue to be in the future, and the more we have of it the worse we will always be off. Until we can get a currency that will automatically adjust itself to the requirements of business we will never be able to face emergencies, to face stringent times caused by the expansion of business. We have the same kind of expansion in every other country. They had it in Canada last year. Of course Canada is a much smaller country and it is easier sized up, but anyone who was at all familiar with the conditions that existed in Canada last year knows that the banks there, as compared with the banks of the United States as a whole, were poverty stricken to such a degree that ours was not a comparison to it, and I know what I am talking about. They were absolutely so hard up there just from the expansion that had taken place in their country. It was greater than ours had been, comparatively, and they went through last fall without a ripple, not a run on a bank, not a single question about a bank, except one young bank, the Sovereign Bank of Canada, that had been started and managed in a most deplorable manner by a young man who did not know anything about the business; and that had nothing to do with the conditions existing, because the bank had not been long enough in existence to get over the ordinary ills that childhood is heir to, such as the measles and the

mumps, that every bank has to go through before it is solidly on its feet.

That bank really had nothing to do with the thing at all. But the other banks that had been established and doing business for years were all harder up in comparison as regards legal reserves, as regards extension of credit, and as regards actual convertible resources, than we were, and there was no such thing as suspension of payment; no, they went on paying their depositors their checks over the counter, and everything went on. Why? Because they simply put out some more currency. They were not up to the limit. They exchanged their deposits for further credit notes. That is to say, they paid off their depositors with their notes, and the notes went into circulation and out again, and the thing went through and the public never had a flutter. There could not be any better example of the conditions that we are working under and the condition that a bank that has the proper banking and currency system is working under than existed last fall in the contrast between our neighbors the Canadians and ourselves.

Mr. PRINCE. Do you think there is now need of emergency currency legislation?

Mr. FORGAN. I do not; and I do not think that a condition can ever exist in this country or any other country that will warrant the use or the issue of anything that could bear such an infernal name as "emergency currency," because as soon as you use it and you say that a single bank has issued emergency currency you have got the whole of your depositors on your back. Now, suppose that emergency does exist; if they believe an emergency exists, they will do as they have always done, and run on the banks. A proper currency prevents anything of the kind of an emergency ever getting into the minds of the public. They never know that an emergency exists. The banks may, but if the banks have the proper tools of their trade, the proper implements that will enable them to carry on their functions as bankers, they will serve the public in such a way that the public will never know that an emergency exists. But just as soon as you name a currency "emergency," just as soon as you use that word you invite distrust, you invite runs on your banks. You tell the public, "Get excited, now; rush on us; emergency is here;" because they will never do it unless they believe there is an emergency, and if you advertise there is an emergency, they will go for you.

Mr. PRINCE. On page 9 of the Aldrich bill, under section 6, which would remain if the two sections to which I refer were stricken out, we find this language:

> Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury. This pledge shall be certified by the written or engraved signatures of the Treasurer and Register and by the imprint of the seal of the Treasury.

Assume that this bill is in operation and 500 millions of circulating notes are issued thereunder and the country is in a panicky condition, what would be the effect upon the Public Treasury if these 500 millions were presented for payment—presented by the banks other than banks of issue or by the holder of the note not connected with the bank—for redemption in lawful money, which means gold? What would the Government have to do?

Mr. FORGAN. The Government under such circumstances would probably go to the limit in disposing of their available funds and would likely not be in a position to meet the demand.

Mr. PRINCE. There is a way, is there not?

Mr. FORGAN. They could raise money the same as anybody else does, by issuing their obligations.

The CHAIRMAN. Is not that where they would be driven?

Mr. FORGAN. They would be driven to raise the money by the issuing of bonds.

Mr. PRINCE. To maintain our present gold basis and to maintain our money at a parity?

Mr. FORGAN. Yes.

Mr. PRINCE. And in view of the fact of the Government guaranteeing the payment of these notes, it makes it an additional obligation to maintain these notes at a parity with gold, does it not?

Mr. FORGAN. Yes; the notes are outstanding.

Mr. PRINCE. Have you found any provision in this bill where the banks agree to redeem these notes in lawful money?

Mr. FORGAN. I do not remember that I have seen any special mention of it, but I have taken it for granted that they will have to redeem them the same as any other obligations.

Mr. PRINCE. On page 9 there is this language:

> They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier.

There is nothing said there as to how they shall pay, whether by note of another bank issued, of the same kind, or how. Then when they are presented, so far as this bill is concerned, if they have a circulating note issued by another bank they can hand out the promise to pay of another bank to take the place of their own note, and a person who wanted the gold for reserve or for holding could call upon the Government to make good the value of that note in redemption—not ultimate redemption, but to pay out for it gold or lawful money.

Mr. FORGAN. Of course the Government would have to carry on the redemption, it actually does carry it on now, and the Government would have to keep itself in position to meet these requirements.

Mr. PRINCE. Yes; but have we not had a little difficulty in the years that are past in maintaining a gold reserve and keeping our money at a parity?

Mr. FORGAN. Yes; we had some years ago when President Cleveland was in the White House.

Mr. PRINCE. Does not this rather accentuate and make it possible to do that same thing again?

Mr. FORGAN. You mean it would introduce what President Cleveland called an endless chain in regard to greenbacks?

Mr. PRINCE. Yes. Now, do you see any immediate signs of a panic?

Mr. FORGAN. No; on the reverse, I see signs of money accumulating in the banks that it is going to be very difficult to find use for. I will say this, as the most practical evidence of the fact, that I have been trying to get away from my own institution for the last five years for a little rest, to go across the Atlantic, and I have made up my mind that I will never get a better chance to do it than this summer, and I am going to do it. If I was afraid there was going to

be any panic I would not be going there. That is just as practical a way as I could put it to you.

Mr. PRINCE. As I understand the closing remarks of the statement that you read, you favor turning this matter over to a commission?

Mr. FORGAN. We do now, under the present conditions.

Mr. PRINCE. Do you believe that this committee would be justified in favoring only a commission bill rather than in favoring the present Aldrich bill, or the Aldrich bill amended by striking out sections 8 and 11?

Mr. FORGAN. I think, from my standpoint—that is only my opinion—the committee would receive the support of the entire business community of the country if they stopped right where they are now and said, as it is generally believed in the country, that this is a very serious matter; this is no matter to tamper with, and we have been tampering long enough and we have been temporizing long enough. Now, this country is suffering to-day for want of a proper banking and currency system, so much so that the finger of scorn was pointed to us last fall by the other nations of the world and we were held to be nothing short of a menace to the world—not to ourselves, but to the world—in international commerce, because we have not got a proper banking system that will enable us to provide for our own requirements whenever we have overdone business to a certain extent.

Mr. PRINCE. I have no further questions to ask Mr. Forgan.

The CHAIRMAN. I just want to ask one question. Will you state to the committee what effect section 11 would have on your bank, as an illustration, for the information of the committee?

Mr. FORGAN. Well, Mr. Fowler happens to know that I have had the facts in connection with that prepared by the auditor of the bank, and I am quite willing to give you the result; but in doing so I want the privilege of making an explanation in connection with the figures. This now, of course, is myself talking as the president of the First National Bank of Chicago, and not as representing the American Bankers' Commission. Inasmuch as Senator La Follette in his address before the Senate in opposition to this bill made some remarks which left the inference that the bank which I represent and myself were under the control of a combination of men, 100 men—he put me in at first and then he took mo out and said I was a mere tool in their hands, afterwards [laughter]—and there were four of my directors on that list of 100 men who could control the affairs of the country; when I give the figures in that connection I want to be allowed to give an explanation of them that will show that Senator La Follette in throwing that imputation on us was absolutely wrong. The figures will probably surprise you. With that understanding I will give you the figures.

I hold in my hand the statement, as made by the auditor of the bank, and I would say that in going over this I find that he did not get the full information. He gives a list of our directors, of whom there are 21. This shows the number of shares that the directors hold and shows the capital of the corporations in which they are interested and act as directors, besides acting as directors of the bank. He shows the surplus and profits of these corporations. Then he shows the line of credit granted to these corporations, the line of credit these corporations had from us at the time the statement was

made last week. Then he shows the deposits we have from these corporations, and he takes each director and he puts down the companies that each director is a director in and their capital, and he never duplicates, and it is all correct and it is carefully made out. The bank has 21 directors, who own among them 18,550 shares out of 80,000 shares of the bank stock, or a little less than 22 per cent of its paid-up capital. These directors are also directors in other corporations having an aggregate capital of $3,728,927,869, with surplus and undivided profits of $395,142,471, showing an aggregate of invested capital belonging to the corporation in which they are directors of $4,124,070,340. The bank is carrying securities or the obligations of some of these corporations aggregating $8,497,614, and has deposits from some of them which aggregate $3,739,293. It would seem that this statement shows very clearly the radical nature of the legislation proposed. It means that this bank would have to get rid of its present board of directors, or stop doing business with corporations having an aggregate of invested capital of over $4,000,000,000.

This is my explanation. In order that these figures may not be used as an argument in favor of the ideas expressed by Senator La Follette in his speech against the Aldrich bill it seems necessary to add this further explanation of them. Four of the bank's directors were named by Senator La Follette in a list of 100 men who he claimed controlled the industries of the country. Not a single loan now on the bank's books has been made directly to any corporation in which any one of the four gentlemen referred to is a director, with the exception of the National Safe Deposit Company, which owns the bank building and is controlled by the bank itself. The bank holds bonds or other securities of some of the corporations in which the four gentlemen referred to are directors to the amount of $1,879,730, but in every case these securities have been bought for investment in the open market through brokers, and in not a single case have such investments been made at the personal solicitation or suggestion of any of these gentlemen.

That is the effect that it would have, and if you multiply that by the number of banks in the country you will find the same conditions right down to the $25,000 bank. There is not any doubt about it. Their boards are all made up in that way. That is the way the national banks have secured their business, and the whole business fabric is based on it; and if that was to be passed and become law it would upset the whole business of the country so that we would not know where we stood. What could the directors do? What would my directors do? They would have to retire. We could not stop doing business with all these corporations. And whom would they put in their places? Probably their private secretaries, or their stenographers, or some clerks out of their offices, who would come down and attend the meetings, with instructions as to what they were to do when they came down, because they would still own their interests in the corporations and their stock, and it would be necessary for them to have banking facilities; and they would get what they needed indirectly, and you would have a lot of dummies.

Mr. WEEKS. You spoke of an emergency currency as a means of alarming the country if it were issued. Do you not consider clearing-

house certificates as not an emergency currency, but an emergency measure?

Mr. FORGAN. Most decidedly; and that is where all the trouble comes. Whenever we issue them we have the devil to pay.

Mr. WEEKS. Did you ever know them to be issued when they did not, instead of soothing the public, excite it? Has not the time when they were issued been the time when there was a turn in the panic?

Mr. FORGAN. I think not. I think all you can say of the clearing-house certificates is that when a panic comes on the banks are forced to resort to them to protect themselves because they have not any other facilities for doing it. There are no legal facilities for doing it. There is nothing in the banking system of the country to enable them to go on, and for their own protection in each individual place they have to issue these certificates, and of course they do not go into circulation, and they do not help the public; they only help the banks themselves.

Mr. WEEKS. I understand that.

Mr. FORGAN. Last fall at the end of October, during the week before the 28th of October, when the banks through the country generally went onto clearing-house certificates, the necessity for doing it was the fear that New York would go on clearing-house certificates, and during that week the First National Bank of Chicago alone shipped $7,000,000 out of a legal reserve of $15,000,000 on hand, and reduced its reserve to eight millions, for the purpose of taking care of the country banks who were frightened that there was going to be a panic, and which made a drive at the nearest reserve city they had, or the nearest reserve agent, and got their money while they could.

Mr. WEEKS. But if New York had gone onto a clearing-house basis three or four days sooner than it did, as it should have done, would you not immediately have followed by issuing clearing-house certificates, and would not that have soothed conditions rather than irritated them?

Mr. FORGAN. I am sure that it would. I think if New York had gone on a clearing-house basis probably ten days before, it would have helped matters. We ourselves would have tried to have gone on, because the western banks were all strong in reserves at the time, and they would have tried to weather the storm as they had done before, without clearing-house certificates; but by the delay in New York our reserves were decreased before they took any action, and we had no other course left to protect ourselves. Let us talk plain language. It is scary to talk about, but another week similar to what we had previous to the 28th of October would have closed every national bank in Chicago. I do not think there is a doubt about that. What we did was for self-protection.

The CHAIRMAN. You were forced to it for the want of currency?

Mr. FORGAN. For the want of currency. It was self-protection.

Mr. WEEKS. That is a point I am getting at. I think the New York clearing house delayed issuing clearing-house certificates too long. If they had issued them sooner it would have enabled you and those in other cities to have done the same thing, and you could have maintained your reserve and saved the shipping of money into the country where banks did not need it at all, except that they were frightened. Now, if some kind of emergency currency could be de-

vised that could be promptly issued, would it not prevent that condition?

Mr. FORGAN. I do not think so. It would have exactly the reverse effect. I think it would scare the people out of their wits, and this is what would happen; this is the way I would look at it. They would say, "Now, we are going to be pretty hard up." It would always happen in the fall of the year, just about the time when business is most active and currency in circulation should be at its maximum and is at its maximum, out of the banks' hands—and I mean by circulation not the circulation issued to the banks but issued by the banks; issued and in the hands of the public and taken out of the banks. That circulation is always at its maximum at that time of year; and I believe that if when that occurs any individual bank should say, "Well, we are getting hard up; let us go to the clearing house and take out clearing-house certificates," they would hang back, and there are none of them who would like to be the first to say, "We have got to a position where we have got to do it." They would be afraid of it being known, and they would always allow the emergency to be actually in existence before they did it, so that they would all feel it and all act together. It is quite conceivable that a few banks in a city might need assistance such as clearing-house certificates give to the banks when they all would not. They might not all want it, and the ones that actually needed it would be afraid to act, and they would go on, things getting worse and worse, until there would be an emergency there before they would act.

Mr. WEEKS. Quite likely you are right. My opinion is that people are frightened when they want something and can not get it, but if they can get it, that satisfies their fears.

Mr. FORGAN. But they can not get anything but clearing-house certificates, and they are only between the banks.

Mr. WALDO. That is the very reason that you advise credit currency, because they get more of what they had before, instead of getting something that is a notice that the bank is in trouble?

Mr. FORGAN. Yes.

The CHAIRMAN. In other words, it prevents the very thing?

Mr. FORGAN. It prevents the very thing. I have often put it this way, that until we get currency that is issued by the banks to the public and not to the banks by the Government or anybody else, we will never get the proper adjustment, and for this reason, that when you issue clearing-house certificates or our present national-bank currency to the banks, the banks have parted with more of their assets than they get of currency, and as soon as they get it they count it as something that belongs to them, that they have paid for, and there is the difference between credit or asset currency and a bond-secured currency. They count it as so much cash on hand as soon as they get it. Mr. Dawes, who I understand appeared before you yesterday, recently in the Chicago papers, in an argument between him and Mr. Roberts, of the Commercial National Bank, on this Aldrich bill, explained, or tried to explain, the whole thing away by saying that as soon as the banks took out the currency against the bonds that they had previously been counting as legal reserves, according to the bill, they would get it home, and they would go over to a bank like his, a State bank, and exchange their notes for legal-tender money, for gold or legal-tender money, and he stopped right there and

thought that settled it. But what benefit was that to them? As the commission has said, they are in just the same position they were in before.

The CHAIRMAN. Less the difference?

Mr. FORGAN. Less the 10 per cent that they do not get out. They have reduced their legal reserve by 10 per cent of the amount of the bonds that they put out, because they only get 90 per cent. It does not help them a bit. It is about the same way with the national currency now. Last fall all the banks in Chicago increased their circulation very largely, and all through the country they did the same thing. We increased our circulation $3,000,000, and I am free to say that I used as much of it as I could, selling it to State banks, iniquitous as the system is; and we should not be permitted to do it, and the State banks should not take it. It is a bolstering up, a most unwarranted expansion of credits, because it is basing credits on a false reserve. Bank notes are promises to pay, and they can not be reserves for State banks or anybody else without a most unwarranted expansion; but expansion at the time was what we wanted, and I am free to say that I exchanged a couple of millions of them for gold as soon as I could lay my hands on them, because you get in a corner and you have got to do anything you can to scramble out, and we were scrambling, because we did not have the proper facilities to come out coolly and collectedly as bankers do in other countries, and we had to do everything we could and take the chance of breaking the law, even though we had to take the chance of being held almost criminally liable. It would not have affected me even if it had been criminal; I would have saved the bank and saved my own customers—because by saving the bank I did save the customers—even though it had been a criminal offense.

Mr. WEEKS. We are not going to get any credit-currency legislation at this session of Congress. We will either get the best form of an emergency bill that can be put together, or get nothing, or a commission. Which, in your judgment, ought to be done?

Mr. FORGAN. We should have a commission. Emergency currency would be a step in the wrong direction. The only direction I know that the emergency currency comes from is the German practice. It has been said over and over again that Germany has an emergency currency. I deny it. It has nothing of the kind. The German currency comes out up to a certain limit. I forget what it is, but that makes no difference. It comes out up to a certain limit at a low taxation. After that limit is reached the same kind of notes are simply issued by the banks, and the public does not know until thirty days after they are issued that they have been issued. Who can count them? The bank simply has to pay a high tax on them; but the public does not know that there is an emergency. They do not know how much is issued. They are told after it is all over how much it was, and they simply settle with the Government on the high tax, as they have always settled. There is no difference in the public mind between the amount that the banks issue that is high taxed and that which is low taxed. It is all the same kind of currency, and the banks themselves simply slip over the line without any notice to the public that an emergency has occurred, and this will simply prevent an emergency.

The CHAIRMAN. It prevents what men in this country would call an emergency?

Mr. FORGAN. Yes; the emergency is always in the minds of the people. Let them believe that an emergency exists, and naturally they go wild.

Mr. PRINCE. In order to enable a bank to avail itself of this provision under this bill it has to go through a machinery and give certain notice, so that the public knows all about it.

Mr. FORGAN. Yes.

Mr. PRINCE. And the announcement is made that there is need of an emeregncy currency?

Mr. FORGAN. Yes; and then the machinery of the Government, unless it is very much improved over what it has been, will be inadequate. In order to get $3,000,000 of our present currency secured on Government bonds we kept a man in Washington for six weeks last fall, busy every day with the Treasury Department getting bonds passed upon that could be used for deposits, and Government bonds released that we could use for circulation, and we kept a man here all that time. I am talking now of our own bank. We kept a man here for six weeks—and he was a very busy man, too—in order to get them to pass upon $3,000,000 worth of bonds.

Mr. PUJO. I understand from the trend of your remarks that you are opposed to any legislation on a currency bill being passed by this committee that would carry with it a reduction of the reserve of country banks in reserve cities. It seems to be the well-defined view of some members of this committee and many Members of Congress that this currency panic was largely brought on by the fact that the country banks kept 9 per cent of their legal reserves in the reserve cities, which was in turn loaned out under the law, and that they could not get it when they wanted it; and the view is to make the country bank keep all of its reserve at home, and if it wants to carry any money in New York at 2 per cent let it take that out of its deposits, so that the reserve intended by law for the protection of the depositors will be there to meet the obligations of the bank when it is necessary. Now, what is the real objection to that? What is the argument in favor of that, that when the law says ostensibly we should keep 15 per cent, we should wind up with only 8¼ per cent really as an actual fact against the deposits?

Mr. FORGAN. The argument against that is that it is an entire misconception of the whole matter to think that the banks last fall suffered because they could not get enough money to make their reserves good. The trouble was that a great majority of the banks had in their vaults not only the 6 per cent they were required to keep by law, but they had increased it by three or four times that amount. They had put themselves, before this panic arose, in a position very much in excess of what this Aldrich bill would require them to do. They had got their money home and they had reduced their balances in the centers so that they could not do business, and exchange on the centers got to be a great deal more scarce with the country banker than cash, because his vaults were full of cash, and he had not anything to do business with, and when one of his customers went in and said "I want exchange on Chicago or New York," he had reduced his balance so that he could not sell them the exchange, and there was a high premium on it; and there never was a time when his drafts

drawn on New York and Chicago were not good at the clearing house.

Mr. PUJO. That does not answer the question. Would it not be better that the reserve required by law should be kept in the vaults of the home bank?

Mr. FORGAN. Talking in a practical way, it does not make any difference whether the bank keeps 15 per cent or 50 per cent in its vaults. In ordinary times it does not need more than the 6 per cent, and when it comes to exceptional times 15 per cent is not anything. It does not make any difference whether you have 15 or 25. I have had bankers come in and tell me that they had over 50 per cent of their deposits in this vaults and ask me to lend them money when my reserves were down below the legal limit. They wanted me to lend them money because they did not know but what they were going to have to liquidate the whole bank, when, as a matter of fact, there was no danger of liquidation, and they were simply nervous and frightened. And that is one of the weaknesses of our system, that reserves can be distributed. You take the other countries. You will find in Canada there are no reserves outside of Montreal and Toronto. You go to England, and there is no reserve except in London. Whenever there an emergency arises, they raise the rate of interest. We distribute our reserves all over the country in consequence of a panic and the fears of our own bankers, and we add, every week, in New York to the weakness at the center, and the weaker we get the more excited and the more freightened we get.

I am not going to try to solve this question of reserves for you. This is only to show you the absolute necessity of a commission to be appointed to consider that thing. How are we going to handle our reserves so that when we come to an emergency, when we fear an emergency through the expansion of business and the stringency of money, we can concentrate them and make a display of strength at the centers, and advertise it to the country, and say, "Look at that big pile of money lying there belonging to us in Chicago and New York"—it makes no difference where it is—"that is to protect us." But if you distribute it into 12,000 little piles, and out of that 12,000 there are only about 20 piles that anybody pays any attention to, and the other 11,980 piles nobody cares a straw about except the frightened banker who is sitting ahold of the combination of his vault for fear that somebody will get away from him what he has got, what result can you expect? That is the problem; and I am not going to attempt to solve it. That is the weakness. I do not know whether you have seen it, but if you want to get it put to you in the most forcible language that has ever been used, read a letter by Mr. A. B. Stickney, of St. Paul, on that subject, in which he draws attention to the fact that in an army, a well-regulated army, when there is trouble feared, the forces of the army are massed for the purpose of demonstrating the strength that they have got, and every part of the army is under proper control.

In our banking system we are just like an army, but we have got 12,000 presidents of 12,000 banks, every one of them a captain without any superior officer over him, in charge of a little quantity of the reserves, which are the same to the business of the country that the Army and Navy are reserves of strength to the country, to protect us

internationally; and these 12,000 bankers are all sitting watching their own little pile, without any power above them, without anybody to say, "Why, you have got 50 per cent of your reserves in your vault; what are you worrying about?" The answer will be, "Well, it does not make any difference; I couldn't sleep last night, and I want 55 per cent to-day." That is all the answer there is to it. As I say, I am not going to try to suggest anything here, but it is a problem that has got to be worked out in this country, and until it is worked out we will never be able to weather the financial storms that come along.

The CHAIRMAN. What is the so-called money in the reserve centers, generally?

Mr. FORGAN. Gold and legal-tender notes, you mean?

The CHAIRMAN. Yes; actual reserves.

Mr. FORGAN. Actual reserves made up of gold and legal-tender notes. You take a bank like the First National Bank of Chicago, or any other bank—I always refer to my own bank because I remember its figures—or take all the banks in Chicago; the law requires them to keep 25 per cent of their reserves in their vaults, which means gold and legal-tender money. There is not a bank in Chicago that can do business unless it has 15 per cent in addition to the 25 per cent, in the shape of eastern exchange deposits in New York, for the purpose of supplying the wants of its customers for the purpose of paying bills. The country banks are the same way. They can not do business without money at the centers simply to supply the exchange that is necessary to pay for the goods they get at the centers, because they get the goods there; and any bank in Chicago that gets below 40 per cent of reserve is hard up, and that is why the Chicago and St. Louis banks have always been stronger. The same thing applies to St. Louis. They have got to keep 40 per cent—25 per cent in their vaults and 15 per cent to do business on. That is why Chicago and St. Louis are always stronger in reserves than New York, and New York being the center, the absolute financial center of the country, does not have to have these bank balances.

Mr. WALDO. The banks outside of the central reserve cities send this money to the central reserve city banks and they can loan 75 per cent, can they not, under the present law, and that becomes an ordinary deposit as soon as it gets in the central reserve bank?

Mr. FORGAN. They can according to law, but practically they can not, because they must keep 40 per cent. They can not get along without the other 15 per cent on which they get 2 per cent interest.

Mr. WALDO. Is not that what is done in New York? Do they not loan practically 75 per cent?

Mr. FORGAN. Sometimes more and sometimes less.

Mr. WALDO. That, it seems to me, is the reason, or is not that the reason, why the accumulation of reserves in a central reserve city, and especially in New York, does not strengthen the financial system?

Mr. FORGAN. I think you are wrong there. I think the more they have the stronger they are.

Mr. WALDO. How can it strengthen the financial system if the 15 per cent which ought to be kept in the country banks all around, 9 per cent of it drifts to New York, and at once 75 per cent of it is loaned, so that when the country banks want it it is not in existence:

they have loaned it out on call? It disappears, as a permanent investment, does it not, largely?

Mr. FORGAN. Not a permanent investment.

Mr. WALDO. It may be?

Mr. FORGAN. All country banks have enough so that they can pay the drafts of their customers on them.

Of course they have been forced to clearing-house certificates to enable them to do so, but they would not have been forced to clearing-house certificates if they had had proper facilities for doing business, which they do not have. If the New York banks, instead of having every fall to pay the country banks' demands on them for the withdrawal of their deposits, had the power to charge these liabilities to the country banks——

The CHAIRMAN. That is, the book liabilities?

Mr. FORGAN. The book liabilities, the deposit liabilities of the banks, and credit-note liabilities, which would be, so far as the bank is concerned, practically the same thing; there is where the little tight times that come on us every fall can be bridged over without any alarm or any difficulty and without any panic or any fear.

Mr. WALDO. Do you not think it would strengthen the reserves if the central reserve banks were forbidden to loan that reserve and compelled to keep it in the vault? Then I can see how your argument to keep reserves, let them come to the center, is true. But if they are allowed to loan, how does it strengthen the reserve?

Mr. FORGAN. They do not lend it at all; they do not lend the gold out; they keep the gold that is shipped in to them as a reserve, and on the basis of that they can expand their credits, of course, but they can not contract their credits.

Mr. WALDO. That is just what makes the trouble, is it not?

Mr. FORGAN. I know.

Mr. WALDO. The theory is, I know, the bankers think, that about two or three hundred million drifts into New York during the last of the winter, spring, and early summer, and that then in the fall the West and South need it to move the crops. In the meantime New York has been paying 2 per cent on it, and it has loaned out 75 per cent of that, or as near that as it could. Then when the West wants it it does not exist; there is not any currency, it is gone. Do you not think that there ought to be some provision, either that the central reserve banks ought to keep their reserves in the fall——

Mr. FORGAN. They make every effort to do that.

Mr. WALDO. Then they need not pay interest. The result would be they would not pay interest to the country bank in order to do business with it.

Mr. WEXLER. What is the objection to its being loaned out? The gold might just as well remain in the bowels of the earth if you are going to bury it in the banks of the country. You can not carry the business on unless the wheels of commerce are greased. These reserves do not all find their way to New York. These reserves of the smaller banks find their way to the central reserve cities, and finally into the reserve cities. This money is available to them by check whenever they want to draw it. They may not be able to get the currency, which is what we suffered from last year, simply because there is no bank in the United States which has the means of creating that currency when the time comes. Take an instance in the agricultural

section. For instance, we are approaching the crop-producing period, when the demand is going to be enormous. We have a contract to take care of that demand. We draw the money down from New York and from various other places, and, like a card house, this contraction goes on all over the United States. The merchants are compelled to pay an enormous rate of interest for their business.

Mr. WALDO. That brings you, however, to the question, which is, ought not the reserves of the country to be strengthened—that is, ought there not to be a strong gold reserve bond or deposit, or whatever you choose, put in the form of a credit currency?

Mr. WEXLER. There is a reserve.

Mr. WALDO. We have a pretended gold reserve of 15 per cent all the way throughout the country banks. As a matter of fact, we have only 6 per cent and the 25 per cent of the 9 per cent. Eight and one-quarter per cent is the only actual reserve we have.

Mr. FORGAN. Do you know any other country that has as much?

Mr. WALDO. No; I do not.

Mr. FORGAN. There is none; there is no country that has as much. That is the reason I can not solve it for you.

Mr. WALDO. It may be, Mr. Forgan, that the whole trouble will be met when you get credit currency; but if we need any such reserve as the statute now provides, we certainly ought to have it and not have what is merely a pretense.

Mr. FORGAN. Yes; but you know the reserve is for sentimental effect. It is for creating an impression on the public mind; it is for demonstrating the strength of the banks. You have a certain amount of it, and you ought to have that certain amount of it where it will be in sight, where the people of the country will see it, and the trouble with us now is this, that in the fall of the year our lawful money, which is largely made up of Government notes and greenbacks, is all shipped out into the country and gets in active use and is taken out bodily; the actual reserve, you understand. We should have a credit placed on that reserve so that we could do our work with currency.

Mr. WALDO. I am assuming that is true. I believe in credit currency as much as you do, but what I am talking about is the fact that on the statute books we pretend to have a reserve of 15 per cent of the deposits of the national banks, not saying anything about the 25 per cent in the central cities, while, as a matter of fact, 75 per cent of that 9 per cent, or 7¾ per cent, is out on call, or otherwise.

Mr. FORGAN. Yes; but if on the 31st day of August each year the central reserve banks have their 25 per cent on hand and comply with the law, and all that is required of them to-day is to exchange their book credits or deposits into circulating note credits, and they have the power to do it, the reserve would remain untouched, whereas now we have to ship the actual reserve, and every shipment we make reduces our power to lend by four times.

Mr. WALDO. Then you come back to the same point where I started; that is, if you had a credit currency, you would expect to keep this reserve. If you do, we agree.

Mr. FORGAN. I certainly would never think of having a credit currency without the same reserve for it as we have for the deposits.

STATEMENT OF MR. A. B. HEPBURN, PRESIDENT OF THE CHASE NATIONAL BANK, NEW YORK CITY.

Mr. HEPBURN. In relation to the question that the gentleman asked, as to this money going into New York and being loaned out, I want to extend, in that connection, a little, the remarks Mr. Forgan made, when he said that the banks of St. Louis and Chicago were so much stronger than New York because of their having a demand on New York in addition to their cash reserve. New York has the same credit abroad, and instead of this disappearing it acts to the credit of the New York banks abroad, and they brought in $100,000,000 of gold and relieved the situation, but they could not bring it quick enough. It does go down there and is loaned, but it is loaned where it can be reached in the regular course of business, in season to answer any ordinary business demand.

Mr. WALDO. That is an ordinary year.

MR. HEPBURN. In a crisis like this they could not get it quickly enough, but they did get over $100,000,000 of gold in, and every dollar of it came at the end of a commodity bill; there was not any of it bought. One word further as to the money in central reserve cities that these country banks are unable to get out. What do you mean by money? The exchanges in New York City averaged $327,000,000 a day for last year. These banks have not any money in New York at all. Every month in the year 1907 the currency shipments from New York exceeded the receipts, except one. The great and growing West, with all its wealth, is absorbing millions and millions every year, and last year, with the industry going on, nothing came back, excepting one month there was a slight excess. The credits to the country banks in New York are made up by taking their exchanges all over the world. Our exports last year were $14,000,000, or whatever it was, every day, and that was followed by a bank draft, by a draft which found its way into the banks, and over a billion of it went to the New York banks and largely came from the interior.

Mr. WALDO. The trouble there is that you are mixing up the exchanges and allowing these western banks to do business, not on a balance they can afford to keep somewhere else, but on a reserve which the law says they must keep for their deposits. That is the real trouble, is it not?

Mr. HEPBURN. No; when these banks claimed that they could not get money out of these central banks, they meant that they could not send their exchanges there every day and have them cashed. There are three billions of currency in this country and thirteen billions of deposits.

The CHAIRMAN. Which they, however, could have done if you had a proper currency system?

Mr. HEPBURN. Yes, sir; if you had a proper currency system. As to the question of reserves, I did not rise to discuss that, but you say that this money which goes to New York disappears. It is not money at all, it is credit and it does disappear.

Mr. WALDO. I understand that practically that is so; but notwithstanding that, the law requires that the banks should have actually 15 per cent reserve. As a matter of fact, they do not have it. That is the reason, and it has not, as Mr. Forgan suggested, been accumulated in New York City, because you never got it, and if you did, you have loaned 75 per cent of it.

Mr. HEPBURN. Nine per cent of it accumulated in New York City, but there never was a moment during all the experience last year that any bank in the interior could not have settled its New York exchange at a premium, nor was there a moment that they could not have gotten an instrument there that would have paid a debt in any place in the world. You say it has disappeared. When banks withdraw money, when depositors withdraw money from the banks, they do not all go to the counter; as a rule, they do it by drawing on their balances. Nine per cent of the reserves of banks, generally, and the 12½ per cent of the reserve required by central reserve banks, are available every minute and were all the while during the past year.

The CHAIRMAN. For purposes of exchange?

Mr. HEPBURN. For purposes of exchange.

Mr. PUJO. It has been charged, and generally reported, that there was on deposit, reserve and otherwise, in the New York banks, due to country banks, in the neighborhood of $400,000,000 or $500,000,000.

Mr. HEPBURN. No, the total reserve——

Mr. PUJO. Not including balances, bank deposits, and reserves.

Mr. HEPBURN. All bank deposits?

Mr. PUJO. Due by the New York banks to the country banks.

Mr. HEPBURN. You mean that the amount due——

Mr. PUJO. By the New York banks to the country banks, including reserves and general balances to their credit.

Mr. HEPBURN. There is no distinction between a reserve balance and any other balance.

Mr. PUJO. General balances?

Mr. HEPBURN. Very likely.

Mr. PUJO. Then, was that money subject to check or express? It was subject to check for exchanges, was it not?

Mr. HEPBURN. It was subject to check for exchange all the while.

Mr. PUJO. But it was never subject to check to be paid in kind, was it, or to be transmitted by express?

Mr. HEPBURN. Oh, yes, all the while, except for a very brief period, and all of the banks received more or less currency by express all over the country. And the banks were generally satisfied with their treatment. Chicago is a great currency-distributing point in the country; we transfer through the subtreasury in Chicago, and they distribute that, and the banks get their currency, where they can do it, in one day, and lose only one day's interest instead of two. We transfer to New Orleans, San Francisco, St. Louis, and Chicago through the Treasury,

and they do the shipping of currency. The individual currency shipments have fallen off remarkably in the last few years. Last year we had calls from small banks all over California and Oregon, and they all got it; a small bank that asked for a reasonable shipment of currency got it. My bank paid a large amount of currency, $78,000, in premiums in gold to ship to our customers. I simply wanted to make clear here the relations to the country banks generally, and to their reserve correspondents.

Mr. WALDO. I was not discussing that at all. I do not find any fault with the New York banks. I think that their acts during this last trouble were very admirable. The only thing I am discussing is the question as to whether it is any strength to the banking system here to allow the country banks to keep their reserves in New York, when New York is entitled to hold 75 per cent of it. I say it is mere pretense to do that. It does not strengthen the reserves of the country at all, but on the contrary it weakens them, as long as that process is allowed to continue.

Mr. HEPBURN. To the proposition of increasing the amount of cash to be reserved I have no objection.

Mr. WALDO. That is the only point I was discussing.

Mr. CLARK, of Baltimore. You have stated that the New York banks imported $100,000,000 or more of gold from Europe last fall. May I ask what was the relative power, as to a banker, of that gold in Europe, as compared with what it was when it came to this country, to a banker?

Mr. HEPBURN. I do not know that I clearly understand; "the relative power?"

Mr. CLARK. As to a banker.

Mr. HEPBURN. When it was in Europe it was simply to our credit, subject to ordinary checks.

Mr. CLARK. But in the banks of Europe it had a power there by which they issued currency against it. When it came to the United States and was converted into the Treasury, what was its power here as compared to what it was there?

Mr. HEPBURN. It was very much less.

The CHAIRMAN. How much less?

Mr. HEPBURN. In Germany $1 of gold would count as reserve for $3 of currency, which they could issue without limit, and I would like to say here that there is no tax on German currency up to $4,000,000 or $5,000,000. When it exceeds that amount, then it is 5 per cent.

Mr. CLARK. Then the power of the gold was reduced as one to three by coming into the United States under our present laws?

Mr. HEPBURN. Comparing those two countries; yes.

Mr. GILLESPIE. That only means its currency power?

Mr. HEPBURN. Currency power; yes.

Mr. GILLESPIE. If it comes over here as foundation for deposit reserves, it would have about the same power here it had over there?

Mr. CLARK. No: it does not.

Mr. GILLESPIE. What would be the difference?

Mr. HEPBURN. It is frequently stated that a deposit of $10,000,000 in gold of money in the banks would be the basis of $40,000,000 of loans, which is perfectly absurd. It is the basis of $11,500,000 of loans, and no more. Supposing you deposit $1,000,000 in my bank;

can I loan $4,000,000, and if so, when the checks come against me through the clearing house, what will I pay it with? I could only loan $1,000,000 and pay it with the money you gave me, but if I keep my loans I could only pay $750,000. Reserve money does not count in the ratio of three to one.

The CHAIRMAN. If I deposit $1,000,000 in gold with your bank, if I understand it, your bank could keep 25 per cent of that as a reserve against my deposit, and then use the 75 per cent as a reserve for other deposits?

Mr. HEPBURN. How would I use it?

The CHAIRMAN. Your loaning capacity would be three times the amount of gold I put in.

Mr. HEPBURN. How could I use it? Lend it to somebody else? Suppose you deposit $1,000,000 and I loan $3,000,000?

The CHAIRMAN. If I put $1,000,000 in your bank, $250,000 of the gold there would be a sufficient reserve against my deposit?

Mr. HEPBURN. Yes; we can loan $750,000.

The CHAIRMAN. Now, you have $750,000 of my gold which you can use as a basis for extending your credits to other deposits, so if they deposit money with you, you would not have to keep a part of their money as a reserve against their deposits; but you would keep a part of the money I put in with you?

Mr. HEPBURN. If I had a dozen men paying in deposits, you mean keep the deposit of one man as a reserve for the others. But you have to keep it just the same. You deposit $1,000,000 in my bank, or any bank, that does not enable that bank to extend its credit except $750,000, and you can not figure it out any way at all. That statement is made broadcast throughout the land, and it is altogether erroneous, and if you will take a concrete case, you will see it so. You extend your credit and you have to meet it or go to protest.

Mr. WALDO. That would be true, Mr. Hepburn, if you had to pay it the next day, but supposing that the man who makes the deposit does not draw it out for three or four months; do you not have a continuous balance there in that way in which you increase your credit very much beyond the amount of the actual cash deposits?

Mr. HEPBURN. Certainly not; it stands there, if you do not draw it out, for a year, and I am obliged to keep the $250,000, and I may use the $750,000, and no more. There is no expansion beyond that. If there is, you have to draw on your other resources to do it.

Mr. GILLESPIE. There are two ways to extend that; you keep that or pay other loans.

Mr. FORGAN. What will you pay them with?

Mr. GILLESPIE. With other credits.

Mr. FORGAN. We have no credits to pay them with.

Mr. GILLESPIE. You do not have to pay out a dollar in gold every time a check is presented at your bank; these checks offset each other.

Mr. HEPBURN. That statement is literally true. You deposit money in a bank, no matter what it is, gold, silver, any form of reserve money, and you enable that bank to extend its credit 75 per cent of the deposits in a central reserve city.

Mr. PRINCE. Mr. Fowler, Mr. Weeks, Mr. Pujo, and Mr. Gillespie, all four, come to your bank at once. Mr. Fowler puts in $1,000,000 in gold. Can you lend to each of these $1,000,000 based upon that? Each one gets a credit account, they give you security, and they

deposit; each makes a deposit of $1,000,000, and you give them credit; you give them check notes of some kind that warrants them in giving you a deposit of $1,000,000.

Mr. HEPBURN. You mean give them a credit balance?

Mr. PRINCE. Of a million, yes. Four men get that credit account, which you regard as a deposit. Mr. Fowler alone has put in a million. Have you multiplied that four times?

Mr. HEPBURN. No, but I put myself in the embarrassing position of having to take $3,000,000 of my other resources to pay that extended credit.

Mr. FORGAN. To pay your checks for the clearing house the next morning.

Mr. PRINCE. You have the notes of the four men.

Mr. HEPBURN. But I have given them a credit and they draw checks against it, and I have to pay those checks at the exchanges.

Mr. FORGAN. These gentlemen are not going to be so foolish as to borrow $1,000,000 if they do not want it. If they borrow it, they are going to use it, and Mr. Hepburn has to pay these checks through the clearing house.

Mr. GILLESPIE. But the checks we draw against our notes on deposit in the bank will be used to pay other obligations to the bank. The bank does not have to pay the money on our checks.

Mr. FORGAN. Decidedly they do.

Mr. HEPBURN. There is no getting away from that statement of mine, and I am glad to make it here, because I have seen people who professed to be economists repeating and making statements of that kind, and it is absurd. You run a bank a few minutes and see. [Great laughter.]

Mr. WEEKS. Mr. Chairman, I think I can clear this confusion up a little.

Mr. GILLESPIE. I wish you would.

Mr. WEEKS. I would like to have Mr. Hepburn listen to what I say now. If four men deposit $1,000,000 each in your bank, and one of those four men happens to deposit $1,000,000 in gold you have $4,000,000 of deposits, and you can loan $3,000,000 of it, and your million gold that you may get from one of those men is the reserve for the deposits of all four. In other words, you have your reserve, which you have obtained from one man, and you can lend three-quarters of all the deposits of the $3,000,000, and that is all. In other words, in that transaction you have your reserve and can loan three-quarters of your deposits. That is all there is to it, is it not?

Mr. FORGAN. But you have to pay your deposits, though.

Mr. ALFRED O. CROZIER. Will Mr. Hepburn please explain how it is that the deposits of all the banks in the country aggregate some five or six times as much as all the money in the country?

Mr. HEPBURN. That is very easy. A man borrows money at a bank, and he receives credit. He may receive a check, which, if he has not any account at the bank, that amounts to a credit, or he may have the amount credited to his account, and these checks that are floating about here offset each other and are paid by each other. Take the city of New York, the average exchanges last year were $323,000,000, and the average cash balances were from $12,000,000 to $18,000,000 that were paid into the clearing house by the debtor banks and received by the creditor banks, and they offset each other and settled matters in that way. But that $5,000,000 or $6,000,000

of deposits has got to have, if it is $6,000,000, $1,500,000 of real money somewhere to reserve it.

Mr. WALDO. Now, Mr. Hepburn, supposing a concrete example, again, take Mr. Prince's example here, of a deposit of $4,000,000, $1,000,000 being in gold, which would, of course, be a reserve against the whole deposit of the $4,000,000, and also the loans of $3,000,000 of credits that you would get on those deposits. That would be an additional loan. Then you would have made a loan of $3,000,000, for which we will suppose, instead of taking your cashier's draft, they took credits on your books; then your books would show a deposit, not of $4,000,000, but $7,000,000. When the next man came in to borrow from you, supposing you had proper reserve from other deposits or otherwise, would you add that $3,000,000 to the amount of the resources of your bank in estimating whether you could make a loan or not, or would that be deducted and your estimate made from the actual credits you had received from others? In other words, would you count this credit, which is founded, of course, on the commercial paper of the three men who got $1,000,000 loan from you? Would you count that as the credit of the bank which you could lend?

Mr. HEPBURN. Certainly not.

Mr. WALDO. How, then, do you keep a separate account of your deposits so that you can tell what part of your deposits is based on the promissory notes and what part of your credits is made on the deposits of an actual asset?

Mr. HEPBURN. The deposit and the promissory note have nothing to do with each other: one is an asset on this side of the ledger and the other is a liability over there, and we have our aggregate liabilities, all that we owe, for which we are to keep a reserve, and we know what that is, and if we have a reserve on that, and some fund comes in, we can lend it and the case you present would never, in that form, present itself to the mind of the banker at all. If a man deposits $1,000,000 and three men come in and borrow $3,000,000, we simply look at the aggregate to see whether we are in a position to lend the funds, whether the people are entitled to it.

Mr. WALDO. Your deposit ledger would show that a deposit of $7,000,000 instead of $4,000,000 had been made; you would receive in actual assets $4,000,000; you have loaned—that is, you have taken promisory notes that take the place of those assets.

Mr. HEPBURN. Those assets have nothing to do with the deposits; they are on the other side of the ledger.

Mr. WALDO. I understand that. Your ledger shows you have a deposit of $7,000,000.

Mr. HEPBURN. It would not in the case you mention.

Mr. WALDO. Certainly it would, if they took a book credit with you; each one took a credit of $1,000,000, you have your deposit ledger, and it would show you had deposits of $7,000,000, when, as a matter of fact, you only had $4,000,000. What I want to get at is whether, assuming that you had a reserve that you could hold against additional loans, would you count that $7,000,000 deposit as a deposit that you could loan against, as you did the $4,000,000 which was an actual deposit or asset?

Mr. HEPBURN. Will you not explain how you get the $7,000,000 deposit?

Mr. WALDO. Yes, I will.

Mr. CROZIER. I see clearly that the depositor would get credit on the loan and it is entered on the books as a discount and not a deposit.

Mr. WEXLER. You propose to discount three notes of $1,000,000 each and give the parties credit on your books for the amounts?

Mr. WALDO. Yes, sir.

Mr. WEXLER. And on the same day you expect to take in a cash deposit of $1,000,000 in gold?

Mr. WALDO. Four million actual deposits; one of them puts in $1,000,000 in gold and the others are in checks, so that the total deposit is $4,000,000. Then you have to keep that gold as a reserve, over in New York, against a loan of $3,000,000.

Mr. HEPBURN. Let me answer that question. The deposits of those three men would offset the loans in exchanges of New York, so that you have to pay no attention to that.

Mr. WALDO. That would be if they drew it out, but suppose they did not draw it out. Do you average that in as to how much they will draw out and count that part which you have already agreed to part with?

Mr. HEPBURN. Let us stick to banking and see what would happen. Three men deposit $3,000,000 and at the same time borrow $3,000,000.

Mr. WALDO. But he does not draw it; he takes credit.

Mr. HEPBURN. Another man deposits $1,000,000 in gold. Instead of drawing out that money, which is to their credit, they leave it there. The next day through the exchanges we get $3,000,000 of gold representing that; then we would have $4,000,000 of gold instead of $1,000,000. Now, go on with your question.

Mr. WALDO. That is not the case. Where would you get the money?

Mr. HEPBURN. Through the clearing house.

Mr. WALDO. Yes, that is right.

Mr. HEPBURN. If you will just stick to concrete cases you will get away from the confusion.

Mr. WALDO. Yes, sir; but when there is $3,000,000 of exchanges, he will have $4,000,000 of gold, but your deposit account will show that you had $7,000,000 deposited, but in fact you would have $4,000,000 in actual assets, but as soon as you got that $4,000,000 ——

Mr. HEPBURN. Then we would have the real thing.

The CHAIRMAN. Just a moment on that. You have a thing in there that does not belong to Mr. Waldo's proposition or Mr. Prince's proposition. Take your bank at the end of any day; you have $50,000,000 of loans out, and you have enough reserve, just even. The next morning a man comes in and deposits $1,000,000 in gold, and that gives you a reserve that is equivalent to 25 per cent of $4,000,000 of loans, does it not?

Mr. HEPBURN. Yes, sir.

The CHAIRMAN. Supposing Mr. Prince comes in and says, "I want to borrow $1,000,000," and you say, "Very well." He says, "I do not want to draw it now, I want to draw a little the next six months; I want to make arrangements for it now," and he makes his note and you take his note and give him a deposit account for $1,000,000, and so three men, one after the other, do the same thing. Here $1,000,000 of gold subject to check is actually reserved for four such loans, would it not be?

Mr. HEPBURN. It would be reserved for four times that amount, but it would not be reserved for four such loans, because these things have to be exchanged.

The CHAIRMAN. Hold on a minute. There is a six months' loan; each man makes a six months' loan for $1,000,000, and agrees that he will take it out currently in the six months.

Mr. HEPBURN. That does not make any difference.

The CHAIRMAN. I know, but you have a big bank and an average statement of $50,000,000, and you are doing business, not upon the supposition that this man is going to check that out the next day, but upon the law of averages. A man comes in and deposits $1,000,000 in gold; four men walk in and make loans with you for $1,000,000 each, that they agree not to check out, and they say, "Mr. Hepburn, we are not going to check those out for six months," and all of them agree to pay their loans within six months. You have your $1,000,000 of gold against those $4,000,000.

Mr. WEXLER. You do not carry the reserve against the loans, you carry it against the deposits.

The CHAIRMAN. That is against the deposits. The men make the deposits and turn right around and borrow the money.

Mr. WEXLER. Here is what would happen. A bank has $10,000,000 deposits. A gentlemen comes in and deposits $1,000,000 in gold, then three other gentlemen come in and borrow $1,000,000 each, and the deposit is increased to $14,000,000 if they leave it there. The deposit is there, $14,000,000, $10,000,000 increased by $4,000,000. When it was $10,000,000 they had to carry $2,500,000; when they had $14,000,000 they had to carry $3,500,000. They have increased their cash by the $1,000,000 of cash deposits. That is all right. This money has been loaned out, and the banker must expect checks to come in all along, you see, through the six months, against this deposit, and all he has to do is to preserve his reserve to the extent that the amount has not been withdrawn. If, the next morning, all of it would be withdrawn, he would have to close up the shop and go out and borrow some money.

The CHAIRMAN. That is just the thing. I have been providing against that.

Mr. WEXLER. The $1,000,000 cash does not provide against it a bit. Then he has only to contract his loans in the same proportion that the amount of his deposits is withdrawn. That is all there is to the proposition. It happens every day in the banking business.

Mr. MCMORRAN. I want to ask Mr. Hepburn a question, more immediately bearing on what we are here to consider. If it should seem, Mr. Hepburn, that Congress at this session must either do nothing or pass an emergency currency bill based upon bonds, what would you advise?

Mr. HEPBURN. I would advise doing nothing. I am totally opposed to any currency predicated upon bonds as unscientific and most expensive in practice. It is the bane of our currency system, but let me write an emergency currency bill, and perhaps I might favor it. [Laughter.]

Mr. PRINCE. Now, Mr. Hepburn, you have spoken for yourself; do you think you could speak for the industrial and commercial business of this country as well?

Mr. HEPBURN. I think so; I think the people are awakening to a realization of the fact of what asset currency means, and that all this proposed bond legislation is a discrimination against the commercial business of the country. I think they are getting to realize that very

rapidly. It is equivalent to saying that the normal assets of a bank are not good and safe to predicate credit upon, and it is a reflection upon any merchant or mechanic in the country who has his notes in the banks.

Mr. PRINCE. We hear rumors and see from the public press that it is likely that a bill may be presented in some form, somewhere, stripping the present bill of section 8 and section 11, and inserting a provision legalizing clearing houses and authorizing the Secretary of the Treasury or the Comptroller of the Currency to issue currency upon commercial paper, approved and guaranteed in some form or other, of the clearing-house association of which the bank desiring this kind of money is a member. What do you say to that kind of an amendment, inserted or made a part of the bond provision of the present Aldrich bill? I do not know whether I have made myself clear.

Mr. HEPBURN. Yes; perfectly clear, and so far as predicating credit upon commercial paper as a proper asset of the commercial banking, it would be all right. So far as the proposition is concerned, it is so cumbersome, involves so much delay in effecting the relief, and is so pronounced an advertisement of trouble all over the country that it would do more harm than good.

Mr. PRINCE. Then you would advise us, speaking as you do, having in view the entire country, its business interests, situated as you are at the chief center of commercial interests, that it is better for us to do nothing than accept this kind of a bill, amended as I have suggested?

Mr. HEPBURN. If everything is to be predicated upon the assets, let it be predicated upon the assets of the bank, and let the bank apply to the Secretary or the Comptroller to get the currency in the ordinary course of business.

Mr. PRINCE. What have you to suggest to the idea, do you concur in it or oppose it, of this committee recommending to the Congress, and through that to the country, of a currency commission to take up and consider this question?

Mr. HEPBURN. In default of satisfactory legislation, I should think it would be very desirable to have a commission.

Mr. PRINCE. Is that, in your judgment, the best highway out of this tangle and trouble in which we are, apparently?

Mr. HEPBURN. It does not seem to me that any condition of affairs could possibly have been created that would have shown the defects in our currency more poignantly and prominently than the experience we have just passed through, and with this long session, it is very disappointing that comprehensive and proper currency legislation is not enacted. But we are assured, and I think there is no doubt of the truthfulness of the assurance, that nothing of that kind is possible, and predicating my answer upon that assumption, I think I would say yes.

Mr. PRINCE. I want you to give us light on this subject in your own way now.

Mr. HEPBURN. This bill that is pending here does not seem to have been very closely scrutinized. They start off by providing that any bank that is maintaining a bond-secured circulation equal to 50 per cent of its capital, may, under those conditions, avail itself of the conditions of this act. A bank can not keep its circulation out. They can put it out. The New York banks, in fact, put it out unless

there are demands for it, but they can not keep it out; it comes back east. Thirty million dollars in 1906 was transferred to the New York banks for that reason, $20,000,000 by Chicago, and $10,000,000 or $12,000,000 by Baltimore and Boston. They could not keep it out. You make the banks responsible for something that is not within their control, and if this had been a law last year, no New York bank could have issued any circulation under its provisions.

The CHAIRMAN. That is in the first section?

Mr. HEPBURN. Yes, sir. Until this crisis was all over, taking the clearing house national banks as a whole, they did not have a bond-secured circulation equal to their capital until long after the 1st of December.

The CHAIRMAN. Because of those facts.

Mr. HEPBURN. Boston has $25,650,000 of bank captial, and the highest amount they have had circulated in the last six months has been $10,808,000, and it is less now. So they could not have issued any circulation at all if this had been a law. Philadelphia is a little different. Philadelphia has $22,000,000, in round numbers, of of capital, and they have had more than 50 per cent of their capital represented by bond-secured circulation during the last six months, and they could have availed themselves of it on that account, but Boston could not, and I understand that Chicago could not, although I do not know. The gentlemen here from Chicago can speak as to that. But this bill has not been tried onto conditions that exist to see what the practical effect would be.

The CHAIRMAN. So that the first section of it is utterly impractical, from your point of view?

Mr. HEPBURN. The first section.

Mr. PRINCE. Mr. Hepburn, can you take up each section in your argument and show wherein it is faulty and wherein it could not be operative?

Mr. HEPBURN. The first section I have made a criticism upon, that it could not be complied with. The other sections have the general objection that they take time, and a good deal of time. First, the application is to be made to the Comptroller, and then it goes to the Secretary of the Treasury, in order for him to exercise his judgment. If the application came from Seattle or Maine or Texas, it might take some time to pass upon it. Then they notify the bank that the matter is approved, and then the bank applies for the currency and they get it and register it.

The CHAIRMAN. Seven thousand of them.

Mr. HEPBURN. Yes, sir; and how many clerks would it take in Washington to handle that, and what else could the cashier of the bank do except sign bank notes? It would take him a good while to sign $1,000,000 in $5 notes. The trouble would either be passed or become chronic before the relief could be available. That is the second criticism.

These other sections, 8 and 11, have been so generally criticised that I do not think it is necessary to discuss them at all. I think I could write an emergency currency measure that I might be in favor of.

The CHAIRMAN. But it would be one that would prevent an emergency from arising.

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

AFTER RECESS.

The committee met at the expiration of the recess, Hon. Charles N. Fowler in the chair.

The CHAIRMAN. Now, gentlemen, we would like to hear from others with regard to this Aldrich bill who come here with the American Bankers' Association. We would like to have you gentlemen heard first, and I would like to call you up one after another and have you direct your remarks, if you will, to the measure, and as concisely as possible, since we have so many here who must be heard.

STATEMENT OF JOHN L. HAMILTON, OF HAMILTON & CUNNINGHAM, HOOPESTOWN, ILL., FORMER PRESIDENT OF THE AMERICAN BANKERS' ASSOCIATION.

Mr. PRINCE. Let the record show that you are a banker and that you were formerly president of the American Bankers' Association, if such be the facts.

Mr. HAMILTON. Yes. I am a private banker, and the only member of this commission who does not come from a reserve city, and I am also a member of the currency commission of the American Bankers' Association.

I do not know that there is much that I can say in opposition to this measure more than what has already been said by Mr. Forgan and Mr. Hepburn and others. This bill, as we view it, is of absolutely no benefit to the country banking institutions. It works as great a hardship on the officers and directors of those institutions as it will on those of the commercial centers, and in many instances I believe it works a greater hardship, for the principal officers of the country banks are usually interested in other industries, and must, of necessity, do business with the institutions with which they are connected as officers, and the statement made by Mr. Forgan as to the amount of capital belonging to industries of directors and officers of his bank would apply about in the same proportion to the capital of institutions controlled by the smaller banks of the country. This bill, if enacted into law, would, in Illinois, take about three-fourths of the directors from the national banking institutions of that State. The reason that I happen to know of this is that during the last session of the legislature in Illinois a similar measure was introduced in that State relative to the State banking institutions, in which a clause very similar to this was proposed. I had occasion thus to look up the statistics on the matter and we found it would practically take a majority of the directors of the State institutions from those boards and leave them without the best men on their boards to conduct the business of those State institutions. The same rule will apply to both classes of banks

There is an objection to this measure, in my mind, that has not been brought up, and that is that it is within the power of the Secretary of the Treasury to discriminate against the country banking institutions and give to the commercial centers the benefit of the note issue. Under the provisions of this bill it provides that the Secretary of the Treasury may permit these notes to be issued if in his

judgment an emergency exists. The failure of any national bank to apply for its pro rata share of such notes takes from it the possibility of securing these notes unless applied for within such period as may be directed by the Secretary of the Treasury, and he has the authority, under the provisions of the bill, to give this note-issuing privilege to centers applying for it within the immediate vicinity.

I believe the sentiment is universally against the Aldrich bill; and, in fact, I know it is, for the reason that I have taken the matter up by correspondence with thousands of bankers throughout the United States, and have been doing that end of the work, and received on an average of 100 letters a day from all sections of the country, from every class and description of bankers, and they have universally opposed this measure and believe, and so state, that it would be a menace to the financial interests of the country should it be enacted; and with your permission I would like to call your attention to the Vreeland bill.

Mr. PRINCE. That, Mr. Hamilton, in effect, is really the Aldrich bill, except as to sections 8 and 11.

Mr. HAMILTON. Yes, sir.

Mr. PRINCE. And a new section numbered 4.

Mr. HAMILTON. Yes; there is practically no change in the bill from the Aldrich bill with the exception that sections 8 and 11 have been omitted from the bill and these other sections have been added. The tax on circulation, and so forth, is the same in both measures. The notes to be issued under this bill are a distinctive note, differing from the present national-bank note issued, and one of the serious objections to the measure is this: That it provides that a clearing-house association may be organized by 10 national banks. If it is the intention of this bill to confine it to the cities having 10 national banks, then it eliminates all but 7 cities in the United States from the possibility of issuing such notes. Those 7 cities are Baltimore, Boston, Cincinnati, Chicago, Philadelphia, Pittsburg, and New York. St. Louis and San Francisco could not come in in this list for the reason that they have not a sufficient number of banks. The city of Washington, D. C., can not come in under this provision. There is not a single city in the South that can come in under this list. If it is the intent of the bill that it shall be confined to such commercial cities, then that is limiting its scope to too few cities to be of any great benefit to the commercial interests of the country. It means that in case of such emergencies as we had recently, in which it was necessary to supply something like $296,000,000, that those institutions would have to put up from their securities something like $375,000,000 of securities in order to procure the necessary funds to meet the emergency, the necessary bills to meet the emergency.

Mr. PRINCE. In connection with that, on page 5 of section 4, which you are reading from, the language is as follows:

> National banks not less than ten in number and having an aggregate capital and surplus of at least ten million dollars may form voluntary associations known as national clearing-house associations.

The number can not be less than 10, but suppose it takes 500 or 50 to form a capital and surplus of $10,000,000, could they not, under the provisions of this bill, organize a clearing-house association?

Mr. HAMILTON. Yes, sir; I think they could do so, and there is nothing in this bill to prevent a bank in New York, a bank in Chicago,

a bank in San Francisco, and a bank in each of the commercial centers from getting together as 10 banks and forming a combination as a clearing-house center. In other words, it is the possibility of a combination of capital controlled by any corporation or body of men with sufficient strength to do so, the possibility of organizing a clearing-house center and controlling the financial destiny of the country, practically; and that, I think, is one of the great dangers in this measure. Now, the only provision in this bill that I find as to the use of the securities of the banks other than the bonds prescribed in the Aldrich bill is in connection with the organization of such a clearing-house association. Nowhere do I find where the local bank, the ordinary banking institution, can avail itself of such privilege. This privilege alone is granted to the clearing-house association organized under the provisions of this act. It seems to me, and, in fact, I know, that the people of the country and the country institutions at large would bitterly and justly oppose such a measure, as I do not believe it will give to them any particular protection, and it is a very difficult matter to get any considerable number of small institutions to organize into a clearing-house association. The result would be that if this bill became a law it would be controlled by the great money interests of the country to the detriment of the small institutions.

Mr. WEEKS. Why would it be to the detriment of the small institutions? You would go to your reserve agency and get your currency, would you not?

Mr. HAMILTON. Yes, sir.

Mr. WEEKS. Well, how is it going to harm you?

Mr. HAMILTON. It puts it within the power of the central agencies, of the combination of capital, to control the situation. It puts it within their power, with the right kind of man as the Secretary of the Treasury favorable to those institutions, to compel every banking institution in the United States to go to those centers for their relief.

Mr. SLOPER. Do you find in this bill any provision for the retirement of those notes or any tax fund?

Mr. HAMILTON. I have found absolutely no provision for the retirement of the notes.

Mr. SLOPER. You can do it if you choose and you are not compelled to, and there is no tax upon it.

Mr. HAMILTON. I did not notice as to the tax on the circulation.

Mr. SLOPER. It is the biggest inflation scheme I have ever seen.

Mr. HAMILTON. There is no provision for redemption in the bill that I can find.

Mr. SLOPER. For this particular class of circulation, or character of circulation, there is neither a tax to compel or to assist in the retirement of the bill, and there is no provision made for its absolute retirement. So that you have a possibility of an inflation here that is beyond anything we have ever had.

Mr. PRINCE. Is not this the answer to that, Mr. Sloper, on page 3, line 18:

And provided further, that there shall not be outstanding at any time circulating notes issued under the provisions of this act to an amount of more than five hundred million dollars.

Mr. SLOPER. That is in addition to all the rest provided here, outside of these clearing-house associations, as I read it.

Mr. HAMILTON. The clearing-house notes are issued in addition to these.

Mr. PRINCE. No; the act applies as well to one section as to another, and the act does not allow the issue of notes under it in excess of $500,000,000.

Mr. GLASS. That means the whole amount of $500,000,000, and they can stay out as long as the banks wish to circulate them.

Mr. PRINCE. There is just one question I would like to ask Mr. Hamilton. Do you think it would be wise, Mr. Hamilton, to pass the Vreeland bill.

Mr. HAMILTON. I do not.

Mr. PRINCE. Would you prefer, speaking to this committee, representing the interests you do, and with the knowledge you have acquired by correspondence with the banks throughout the country, that we refuse to pass this bill?

Mr. HAMILTON. Yes, sir.

Mr. PRINCE. Then, what would you suggest that we do, if we do anything, other than refuse to pass this Vreeland bill or the Aldrich bill?

Mr. HAMILTON. I think that, under the existing circumstances, it would be better to have no legislation whatever than to have the passage of the measure, either the Aldrich or the Vreeland bill, and I very strongly favor the appointment of a commission, as suggested by Mr. Forgan and these other gentlemen.

Mr. LEVERING. May I ask whether, on principle, you are opposed to the idea of the clearing house as the medium through which this currency is to get into the country, or is your objection only as to the lack of proper measures surrounding the issue? Are you opposed to the principle of the clearing house as a basis for the issuance of the circulation?

Mr. HAMILTON. I am not opposed to clearing houses issuing circulation in time of an emergency, but I believe that the credit currency note really is a better one for the banks of the country to adopt.

Mr. LEVERING. You prefer the clearing house to the bond issue, though?

Mr. HAMILTON. Absolutely.

Mr. LEVERING. If it was between the two?

Mr. HAMILTON. Yes.

STATEMENT OF E. F. SWINNEY, PRESIDENT OF THE FIRST NATIONAL BANK, OF KANSAS CITY, AND MEMBER OF THE CURRENCY COMMISSION OF THE AMERICAN BANKERS' ASSOCIATION.

Mr. SWINNEY. Mr. Chairman, and gentlemen of the committee, I only care to mention one section of this bill which we have under consideration and to show you to my mind the utter fallacy of the proposition of bonds for reserve, and in order to do so I will have to be a little bit personal, but I believe that we are here to take up these questions and discuss them to the point. The largest bank west of St. Louis, in the way of deposits, is in Kansas City. The president of that institution always went on the ground that he would keep a secondary reserve in the way of high-grade bonds, such as we have called

for in this bill, as a part of the reserve; and he carried some $5,000,000 of bonds of that class on hand at all times and advertised them. As representing the First National Bank, I had a number of discussions with him regarding the subject, and always told him that I was not in favor of the proposition; that I believed that the banks should have their assets in a more liquid state. Last fall, when the trouble came on, or when it was coming on, about the middle of October, he had these bonds on hand. We had about $1,500,000 of commercial paper on hand falling due between that time and the 10th day of December. The National Bank of Commerce in Kansas City was compelled to sell their bonds. On the 10th day of December, Doctor Woods told me that they had sold $3,000,000 of those bonds at a loss of $300,000. On the 10th day of December, the First National Bank had collected every dollar of this commercial paper without one dollar of loss.

The CHAIRMAN. That was to the amount of $1,500,000?

Mr. SWINNEY. A million and a half, yes, sir, of bought paper. I simply mention that for the purpose of showing that the reserve which this bill proposes to put on the banks and force them to take is not a reserve, but is something they can not realize on except at a big loss. One thing in particular which that demonstrated to me was that whenever you bought those bonds, and whenever you were in a position to buy them, you had to pay a big price for them, and when you go to sell them you have got to sell them at a low price.

I am thoroughly in accord with everything that has been said here in the way of starting and getting up a currency that we can use, which will go up and down with the needs of the country and the commercial interests.

STATEMENT OF SOL. WEXLER, VICE-PRESIDENT OF THE WHITNEY CENTRAL NATIONAL BANK, OF NEW ORLEANS, LA.

Mr. WEXLER. Mr. Chairman and gentlemen: Nearly every point in the Aldrich bill has been discussed. In a careful consideration of the Aldrich bill and the proposed Vreeland bill, which is practically an amendment to it, I find that there are five very glaring defects in the bill.

The first, of course, is the fact that it provides for a bond-secured circulation. The argument which Mr. Swinney has just made against the carrying of bonds as reserve is a still more potent argument against the issuing of circulation against bonds. He has shown very clearly that commercial paper is much easier converted into cash than bonds, which in times of panic are subject to an active reduction, in times of panic or trouble when note holders might want to convert their money back into cash.

Every country that has a currency system on the face of the globe at present is not using a bond-secured circulation, except the United States. Japan, in its progressive spirit and in its imitation of our methods, first adopted our system of bond-secured circulation, and after trying it for one year, dropped it, and patterned after some of the more practical European methods; and to-day has an infinitely better system of currency than we have in this country. I believe that this Committee on Currency and Banking should lay down, in whatever steps it may take, the fundamental principle that bond-

secured circulation is a menace to the commercial interests of the country; that it does not meet the demand for currency, and that it stimulates inflation, because what is a bond after all but a loan to some corporation, secured on its assets? It is just as much an inflation to loan excessively to corporations, however well secured, as it is inflation to loan too much money among your own immediate customers. There are two distinct kinds of banks and the bank of deposit and discount has no more right to fill up its coffers with bonds of various corporations than an individual has a right to withdraw the money needed in his own commercial business and invest it in outside matters, which, as we very well know, has brought a great many firms and corporations into trouble.

Now, I desire to say that if this committee wants to perform a real service to this country and wants to bring about a system of finance upon which we can expand our vast facilities; upon which we can conduct our business with some degree of certainty; upon which a banker can look forward from month to month to a safe protection for the business which is likely to come to him, it is necessary to lay down the fundamental principle that the time for a bond-secured circulation has passed, and that a currency secured upon the liquid assets of a bank, with proper reserve deposited with the Secretary of the Treasury, amply sufficient to redeem the notes of a failing bank, is the only currency that will answer our purposes in the future.

Proceeding to the next question, the question of reserve, the idea generally prevails that if a bank has locked in its vaults a vast amount of currency, retaining it there through all times, whether good or bad, that that bank is in an infinitely safer position than if those reserves were in the hands of reserve agents throughout the country.

The CHAIRMAN. Mr. Wexler, we do not want to get into a theoretical discussion of the subject, because we have not very much time.

Mr. WEXLER. I am on the question of reserve. I maintain that the carrying of reserves throughout the banks of the country in excessive amounts, and withdrawing them from the centers, will cause the locking up of just that much money and taking it out of the channels of commerce. That is simply a practical proposition that may be open to discussion. As Mr. Forgan has just said, the question of regulation of reserve in a great country like this is one that requires very careful consideration, and it is probable that it will only be by means of a committee or a commission to consider that question from all of its various sides that it can be solved to the satisfaction of all the interests concerned.

On the question of the right to lend to directors interested in other corporations, I think the arguments used on that point have been so full and conclusive that it is almost useless to dwell upon that at the present time at all.

Now, the question will naturally be asked as to whether or not it would be better to pass nothing than to pass the Aldrich or the Vreeland bill. I will anticipate the question by saying that the clearing house of New Orleans passed a resolution in which they stated that it would be infinitely better to have no legislation at all than to have legislation passed based upon a bond-secured currency, or to pass the Aldrich bill. In representing my section of the country, I concur fully

in that view, that it would be infinitely better to have no legislation—no legislation for all time to come—than to pass the Aldrich bill. It would undoubtedly be better, however, to have a commission composed of intelligent men who have made a study of this question to thrash it out thoroughly and draw up a bill which will thoroughly cover all the points which it is necessary to have solved.

STATEMENT OF MR. JOSEPH T. TALBERT, VICE-PRESIDENT OF THE COMMERCIAL NATIONAL BANK AND PRESIDENT OF THE CHICAGO CLEARING HOUSE ASSOCIATION.

Mr. TALBERT. Mr. Chairman, the views that I entertain on this subject have been so well expressed in the agreed statement made on behalf of the bankers this morning and presented by Mr. Forgan, that it is really useless for me to go into detail and argue it over again. There are many men here representing the commercial interests of this country whom it is more important to hear from than it is to hear from the bankers. I can only say, for my part, that I have not been able to find one economic, sound principle in connection with the Aldrich bill, not a single one.

STATEMENT OF JOSEPH A. McCORD, VICE-PRESIDENT OF THE THIRD NATIONAL BANK, ATLANTA, GA., AND VICE-PRESIDENT OF THE GEORGIA SAVINGS BANK AND TRUST COMPANY.

Mr. McCORD. Mr. Chairman and gentlemen, I have a telegram from my clearing-house association this morning asking me to vigorously oppose, with all the argument possible, the passage of the Aldrich bill. I refer to the Atlanta Clearing-House Association. The chamber of commerce joins them in that request.

I can find nothing in the bill that could meet the approbation of men engaged in banking. I think it is unnecessary to discuss these same things that have been gone over, because the argument has been so conclusive that the bill is out of all harmony with banking in any form that it is unnecessary to repeat those different things. There is one point, however, I would like to address myself to which has not been brought out, because all of these gentlemen, except Mr. Hamilton, are from reserve cities. Mr. Hamilton being a private banker, the provision as to reserve does not affect him or his line of banking; but it does affect the country banker, the country national bank. Speaking for them—and I believe I have consulted enough of them in my section to know that they agree with me—we do not want any such provision. The fact is that these legal requirements about reserve ought not to probably exist at all. The banker that has got any sense in running his business is going to run enough reserve to come within the law, but this particular bill here provides that part of our legal reserve may be held in bonds. Now, I am unalterably opposed to that, because we have the gold money as a reserve, and whenever you tamper with the reserve and put in something else you cheapen the reserve of the country, and thereby drive the gold from the United States, or make it possible for it to leave you. The bank reserve ought to be kept in gold, or its equivalent, and nothing else. A national-bank note is not worthy of that position.

There is one other point which, while it will not be germane directly, it is indirectly, and that is this: We have to-day six hundred millions of national bank notes that bear no relation to gold. It is inflation pure and simple. Now this bill proposes to add onto that same class of money and to increase the inflation and to bring into this country from other countries $150,000,000 of gold to sustain with a reserve these national bank notes in order to save the country from a continuing panic.

Now, as to the bonds that are proposed here, or the bonds that are admitted by the bill. I read it very carefully, and it will admit a bond of almost any municipality that has been in existence for a period of ten years without default and to an amount not exceeding ten per cent valuation of the property. Now, I know that in my adjoining States there are bonds that would come within that scope, that we would not have in the assets of our banks. Why? Because there is no rider put on as to how you can levy to get the principal of the bonds, and there is a rider put on as to the annual taxation for the payment of the interest or the redemption of the bonds, and that is limited to 5 mills, and that is for general purposes. So that the town or the city will use that 5 mills in running its business and have nothing left to redeem the bonds, and yet those bonds would be admitted under this bill. I refer now to bonds in the State of Alabama. If you doubt it, consult the law.

Another feature, and that is this: That while the railroad bonds were eliminated the railroad companies have discounted the future to a great extent, and this bill will put the towns and cities and counties of the United States in the same position of discounting the future and saddling a debt on the future generations to pay, just simply because they are admitted for currency's sake, and it will work against the farming and agricultural interests of the country and develop up the towns and cities beyond the reasonable amount which they should develop; and for that reason I oppose such legislation.

I am thoroughly in accord with our commission. I am absolutely opposed to any bond-secured currency. It is impracticable. It is out of all reason from any banking standpoint, and we ought to stop right now and not go any further in the wrong direction. We ought to stop right now and have no legislation at all until we get on the right track, and I think the best way to do that is to submit this whole matter to a commission composed of men of ability who know how to handle it, and who will bring in something that is reasonable and just, something that will be to the interest of the commercial and agricultural interests, as well as the bankers.

Mr. PRINCE. There is one question I would like to ask you, Mr. McCord. Do you see any immediate and urgent necessity for the passing of this kind of currency legislation?

Mr. MCCORD. I do not.

Mr. PRINCE. Do you think that the business interests of your section of the country would justify this committee in refusing to pass this kind of legislation?

Mr. MCCORD. I think it would, sir. I think it does.

Mr. PRINCE. Do you believe that the business interests of this country would hold up our hands and sustain this committee in refusing to pass this kind of emergency legislation?

Mr. McCORD. I do.

Mr. PUJO. Mr. McCord, is it or not a fact that we are confronted with an industrial panic?

Mr. McCORD. You mean confronted in the sense that it is coming?

Mr. PUJO. Now. Existing. What are industrial conditions in your State?

Mr. McCORD. No, sir. If it is possible for me to answer that in my own language, I would like to do so. I believe that we overproduced——

Mr. PUJO. Mr. McCord, I do not want an argument, but I want a fact. What are industrial conditions in your State with reference to labor and production?

Mr. McCORD. The conditions have been very bad, but the conditions are improving.

Mr. PUJO. Are they not bad likewise in Mississippi, Louisiana, Alabama, and Texas, particularly in the lumber districts?

Mr. McCORD. I could not say about the lumber business because that does not enter into our proposition at all.

Mr. GLASS. There is not any currency panic down there?

Mr. McCORD. Not now, sir. There has been.

Mr. PUJO. What I wanted to ascertain was whether industrial conditions are extremely bad all through the South.

Mr. McCORD. They have been, I will grant you; but there are wonderful improvements along all lines. Within the last thirty days in the State of Georgia the improvement has been so marked that it is causing comment from everybody. They say that we are getting back to old times again.

Mr. CRAWFORD. I saw in a paper a few days ago that the Southern Cotton Manufacturers' Association had agreed to suspend operations for sixty days.

Mr. McCORD. The Manufacturers' Association?

Mr. CRAWFORD. Yes, sir.

Mr. McCORD. Well, I do not know about that. I am a director in a cotton mill and am interested in it and we are running four days in the week.

Mr. CRAWFORD. That was at their meeting at Charlotte, N. C.; you remember that?

Mr. McCORD. Yes, sir.

Mr. CRAWFORD. What was the effect of that?

Mr. McCORD. Simply this, just as I answered Mr. Pujo, there had been an overproduction of certain lines of goods, and that production had to be sold before it was necessary to commence manufacturing again.

Mr. CRAWFORD. Did that include any mills outside of yarns?

Mr. McCORD. Yes, sir; cloth. There is another thing which I would like to mention in that connection and that is that a man can not buy cotton to-day at the present prices and manufacture it and get out within 2 cents of its cost.

Mr. CRAWFORD. On account of overproduction? Largely on account of overproduction and underbuying?

Mr. McCORD. Yes, sir; which produces the same effect.

Mr. CRAWFORD. There is not the normal sale.

Mr. McCORD. No, sir.

The CHAIRMAN. Let us get to the business we have before us.

Mr. MCCORD. The steel industry is improving wonderfully. The mills in Atlanta are running day and night and have all the orders they can fill.

Mr. MCMORRAN. I would like to ask Mr. Wexler whether he thinks there are any signs of another panic next fall in his part of the country?

Mr. WEXLER. None whatever. There will be no panic in our section of the country unless we are compelled to shrink our loans by the passage of a bill of this kind.

Mr. PUJO. Is it not a fact, Mr. Wexler, that industrial conditions are very bad in Louisiana to-day? You live in New Orleans.

Mr. WEXLER. I am in close touch with affairs in the State and with industrial conditions, and at the present time they are bad. Most of the sawmills are not operating because there is very little demand for lumber.

Mr. PUJO. The railroads are not doing any construction?

Mr. WEXLER. The railroads are only taking care of the work already started. There is no new work under way, and that about covers the industrial development that goes on in our State.

Mr. GLASS. Mr. Wexler, is that state of affairs due to any lack of currency now or to any likelihood of there being any lack of currency in the immediate future?

Mr. WEXLER. No, sir; it is not. It is not due to that cause at all.

Mr. PUJO. Mr. Glass, in order to explain my question, I claim that the financial panic last fall was due to industrial conditions on account of the actions of the banks in the East in lending out their money in overspeculation. That is what I wanted to show, that the industrial conditions led up to the whole situation and that they are bad now and will be for the coming year.

Mr. MCMORRAN. Is there any improvement?

Mr. WEXLER. Yes, sir; there is a slight improvement. I think it is going to be a slow, gradual, steady improvement. It will necessarily be slow. The point you raise, Mr. Pujo, if you will pardon me—to illustrate, take the lumber industry, which is an important one. We had a tremendous increase in building all over the United States, which created an enormous demand for this class of goods. These things go by waves, and after there has been a tremendous expansion in building, there is usually a reaction from that; and people are more conservative now. They have been worried to death, and the man who would have built prior to this time now says, "I am going to wait until conditions change," and that is about the frame of mind that the people are in throughout the country. All we require is a restoration of confidence; all we require is to have everybody believe that our currency is in some such shape that we need not be afraid of the future; that the banks can help the people out and help themselves out. When that is done, you will find that everybody will go to building again, just as heretofore, and we will have no trouble.

STATEMENT OF W. V. COX, PRESIDENT OF THE SECOND NATIONAL BANK OF WASHINGTON, D. C.

Mr. COX. Mr. Chairman, I think that nearly every phase of the Aldrich bill has been covered. My principal objection to it is the prolongation of the elastic-currency system. I think the sooner we get away from that and establish a scientific money system the better it will be for the merchants, citizens, and manufacturers of the country. This measure would do more harm to the trade of the country, or as much at least, as to the banks themselves. I have nothing further to say, Mr. Chairman.

STATEMENT OF ARTHUR REYNOLDS, PRESIDENT OF THE DES MOINES NATIONAL BANK, DES MOINES, IOWA.

Mr. REYNOLDS. Mr. Chairman, I take it that it is not so much a question of what I personally think about this bill as it is a question of how the bankers generally of the State of Iowa regard the measure. Located as I am in Des Moines, in the center of our State, and in the leading city of the State, and being connected with this commission, I have taken considerable pains to inquire generally throughout the State as to the feeling of the bankers in our State regarding this measure, and I find without a single exception that the bankers of the State are opposed to any bond-secured circulation, such as is contemplated by the Aldrich bill; and just before leaving home our local bankers' club, composed of all of the officers and directors of the banks of the city of Des Moines, 19 in number, had a meeting, and they called upon me to make a few remarks regarding the Aldrich bill, both in favor of it and against it, showing the strong as well as the weak points of the bill, and I was compelled to reiterate what Mr. Talbert has already said, that I was unable to find a single good point in the bill, and so far as the bill itself is concerned I do not think at this time it is necessary for me to go into any sort of discussion of it, as it would only be a repetition of the thing you have heard so frequently.

I want to go on record, however, both for myself and my State and the bankers of my State as being unalterably opposed to the Aldrich bill, or to any other bill such as the Vreeland bill. I believe that the bankers of our State agree with me in thinking that the whole subject should be referred to a commission, a broad commission, composed not only of bankers, but of business men, lawyers, and merchants, to represent the general business interests of the country. I do not know of anything further that I have to say upon the question. Mr. Chairman, I thank you.

STATEMENT OF ROBERT WARDROP, PRESIDENT OF THE PEOPLES NATIONAL BANK OF PITTSBURG, PA.

Mr. WARDROP. Mr. Chairman, I am a member of the currency commission of the American Bankers' Association. I indorse that report which was made this morning and I indorse the statements made by our members to-day. I think it unnecessary for me to take

up any more time, because there are others to be heard. I want to say that the Pittsburg Clearing House Association passed a resolution a few days ago opposing any legislation at present and recommending the appointment of a currency commission to take up this matter. To sum up this whole matter, it seems to me it is a good deal like going back to the Scriptures. The old national bond secured circulation represents that old garment, and the Aldrich bill putting the new piece of cloth into the old garment. I think that is about the situation.

STATEMENT OF JOHN PERRY, PRESIDENT OF THE AMERICAN NATIONAL BANK OF INDIANAPOLIS, IND.

Mr. PERRY. Mr. Chairman and gentlemen, a currency based upon miscellaneous bonds or bills receivable, coupled with a high tax, is, I believe, absolutely without precedent in the history of the world. A currency based upon miscellaneous bonds has many precedents. So far as I have been able to ascertain, there is, however, no instance of a successful currency of that kind. If my assertion is true, it certainly warrants hesitation in adopting a bill such as is now under consideration. The pressure for the adoption of such a measure would seem to be justified only by a very urgent need. A drowning man grasps at a straw. A year ago much might have been said in defense of any kind of a measure of relief, whether sound or unsound. The man thrown into the water does not discriminate as to whether the plank upon which he puts himself is a seaworthy vessel or not. Congress did not see fit to enact a law at the time when the emergency existed. Now that that emergency has passed, I believe that it is the history of all panics that the period immediately following is one in which a panic does not occur. I do not believe it is like the repeated shock of an earthquake. If this proposed legislation is absolutely experimental, as I believe it to be, why rush with this haste to adopt a measure which is purely to meet a supposed emergency which does not exist. Why is it not the part of wisdom to avail ourselves at this time to carefully consider what should be done, and adopt a law which is not to meet emergencies, but to prevent their arising.

The Clearing-House Association of Indianapolis has adopted a resolution adverse to the Aldrich bill. The board of trade, made up of 1,000 members, the Commercial Club, made up of about 1,200 members, have each gone on record against the principles of this bill. I believe that is a fair index of the feeling of the intelligent business men of the territory in which I live. I believe that the demand of the people is that this bill should not pass, and that the whole matter should be taken up for thorough consideration by a competent commission. I thank you.

Mr. PUJO. Might I ask you one question? Is it not a fact that in the action of all these organized bodies it is only a committee that offers a resolution and the membership votes for it without any special investigation, just the same as in political conventions?

Mr. PERRY. I believe that it would possibly be a reflection on any intelligent man to say that he would vote for that in which he does not believe.

Mr. PUJO. I asked the question with every due respect. I mean that when you are considering a resolution in your body is there not a committee appointed that investigates it and reports on it to the board of trade, or does each man investigate it, as a matter of actual operation? When your board of trade indorses or opposes a measure, is not that the result of the action of some committee?

Mr. PERRY. I suppose it is frequently the fact that a committee makes a report, but surely the intelligence of every man must guide him as to whether he should vote in favor of the recommendation or not.

Mr. PUJO. But it is likewise a fact that the entire membership is not there?

Mr. PERRY. That is very true.

Mr. PUJO. That is all I wanted to know.

Mr. PERRY. With reference to the Commercial Club of Indianapolis, Mr. Forgan was present at a meeting when there were more than 300 of the members present, and their votes were along different lines entirely—different from the Aldrich bill.

STATEMENT OF F. J. WADE, PRESIDENT OF THE MERCANTILE TRUST COMPANY, ST. LOUIS, MO.

Mr. WADE. Mr. Chairman and gentlemen, I approach this question from a different point of view than any of the other gentlemen. I can see some personal good in it; some good in it for the corporation which I represent. But I believe that I can see ruination and damnation for the national banking system in its adoption. Why? You must deal with this question, and in its consideration you must realize that you have other banking institutions who are in competition with your national-bank system, and if you put on your statute books a law that is economically unsound and almost insane, you are going to hurt your national system to the benefit of your State institutions, theoretically. Theoretically in the sense that you can not benefit your State institutions and injure your national system, and therefore we all lose if you adopt a bond-secured circulation. Why? Let me take you back twenty years. Who in this room would have said, twenty years ago, that a British consol would sell below par? and yet 50,000 Dutch put the British consol down from 107 to 81.

What would be the result to-day in your national banking system, if perchance you were forced to issue five hundred or a thousand million bonds and sell them? Every national bank that has its bonds put up to secure circulation would be injured, and the loss would be something fabulous, and many of the national banks would be put out of business through that operation. The present administration of the United States Government is committed to asset currency. The President of the United States has approved asset currency over his signature. They have it in the Philippine Islands. The Bank Espanola Filipino has authority to issue 100 cents on the dollar against its assets, and the Government that was in the Philippine Islands prior to that, gave that same bank, which had existed for fifty years, the right to issue three times the amount of its capital on its assets, and still that bank is prosperous and successful, and there is no bond issue behind it.

As a member of the currency commission, I am the strongest kind of an advocate, gentlemen, that you should ask for a commission to deliberately consider this financial question, not only for all the reasons that have been given here, but for another reason, which is extremely important at this time, in our weakened commercial condition, and that is to keep the financial issue out of politics in the next campaign.

Mr. PUJO. Would you permit an interruption right there? Are you aware that it is suggested in the press that the dominant party in the present session are going to caucus on the financial measure next Tuesday, and determine without referring to this committee, the question of financial legislation to be enacted at this Congress?

Mr. WADE. I heard that stated, and I have great confidence in the ability of this committee to take care of that when it gets into the caucus.

Mr. PUJO. But we will not all be there.

Mr. WADE. Gentlemen, the danger that I see in this present bill, or for that matter in any other bill that you now have up before you for consideration that it is possible to pass, would be that you would be getting back to a campaign such as you had in 1896, on a financial proposition, when the agricultural industries and manufacturing resources of this country are now practically idle, waiting for us to have confidence restored which is gradually going on. And if you will just simply quietly put these bills to sleep and appoint an intelligent commission to consider a measure and submit it to the next Congress, then you will have done your country good service and you will meet with the plaudits of all your auditors.

STATEMENT OF EDWARD D. PAGE, REPRESENTING THE MERCHANTS' ASSOCIATION OF NEW YORK.

Mr. PAGE. Mr. Chairman, and gentlemen: We approach the subject from a little different standpoint from any of the gentlemen who have presented it to you this morning. We are merchants, and we are the depositors and customers of the banks and not their managers, or interested in their management. On the committee which I have the honor to represent, out of fourteen members, there is but one banker, the rest all being interested in various phases of merchandise or manufacturing. Our committee has taken considerable pains to ascertain throughout the country the position of the mercantile bodies on this question, and I have here a list of the mercantile organizations who have condemned the Aldrich bill, which I will read to you:

National Association of Credit Men, with branches in Chicago, New York, St. Louis, Cincinnati, Milwaukee, Detroit, Baltimore, Philadelphia, Boston, and 57 other leading cities.
National Association of Clothiers and its branches in New York, Boston, Philadelphia, Baltimore, Rochester, Buffalo, Cincinnati, St. Louis, Milwaukee, and Chicago.
Chicago Association of Commerce, Chicago, Ill.
National League of Commission Merchants of the United States.
Board of Trade, St. Paul, Minn.
Indianapolis Board of Trade, Indianapolis, Ind.
Trades League of Philadelphia, Philadelphia, Pa.
Boston Chamber of Commerce, Boston, Mass.
Chamber of Commerce, Richmond, Va.
Portland Board of Trade, Portland, Oreg.
Red Wing Merchants' Association, Red Wing, Minn.

Dallas Commercial Club, Dallas, Tex.
Danbury Business Men's Association, Danbury, Conn.
South Side Business and Improvement Association, Columbus, Ohio.
Henderson Commercial Club, Henderson, Ky.
Battle Creek Industrial Association, Battle Creek, Mich.
The Board of Trade and Transportation of New York.
Erie Chamber of Commerce, Erie, Pa.
Evansville Business Association, Evansville, Ind.
Hartford Board of Trade, Hartford, Conn.
Haverhill Board of Trade, Haverhill, Mass.
Manufacturers' Association, York, Pa.
Stationers' Board of Trade, New York City.
Ozone Park Board of Trade, Ozone Park, N. Y.
Travelers' and Merchants' Association, Baltimore, Md.
Wallabout Market Merchants' Association, Brooklyn, N. Y.
Auburn Business Men's Association, Auburn, N. Y
Merchants' and Manufacturers' Association, Baltimore, Md.
Grand Street Board of Trade, Brooklyn, N. Y.
Chamber of Commerce (currency commission), Cleveland, Ohio.
Council Bluffs Commercial Club, Council Bluffs, Iowa.
Dallas Commercial Club, Dallas, Tex.
Fort Worth Board of Trade, Fort Worth, Tex.
Board of Trade, Little Rock, Ark.
Louisville Commercial Club, Louisville, Ky.
Retail Grocers' and Merchants' Association, Nashville, Tenn.
Oklahoma City Chamber of Commerce, Oklahoma.
The Richmond Chamber of Commerce, Richmond, Va.
Rochester Chamber of Commerce, Rochester, N. Y.
The Merchants' Exchange, San Francisco, Cal.
Chamber of Commerce, Santa Barbara, Cal.
Chamber of Commerce, Seattle, Wash.
The Business League of St. Paul, St. Paul.
Board of Trade and Business Men's Association, Norfolk.

We submit that this shows that there is a very widespread opposition to this Aldrich measure among business men generally.

We base our objections to Senate bill now before you on these considerations:

First. Upon the fact that it is based upon a radically wrong principle, the basing of bank-note issues upon a deposit in the United States Treasury of Government bonds, a continuation of the system which has hampered the trade and industry of this country for forty-two years, and which by reason of the rapidly increasing volume of our agricultural production and of the increasing proportion of the bond secured currency in circulation has at last created a business situation which is intolerable, excessively costly and financially perilous, and must be relieved.

Now the reason why this condition is perilous financially is this: This country is the largest producer of agricultural products in the world. There is this peculiarity about agricultural products, that they come to market, generally speaking, at one time in the year, or at most, at two times in the year. The crops that are sown in the winter come to market in June and July. That, however, is the lesser production. The great agricultural production comes to market in September, October, and November of every year. That forces a very large amount of money to be used, a very large amount of actual cash money to be used, in paying for those products, because the people who produce them, as a rule, do not have bank accounts. They expect to get their payments in money and they are not accustomed to taking checks. Therefore, there is a very large demand

every year at that time for currency. Now a currency like ours which is so difficult to take out, and get when it is wanted, there being a necessity for the ownership of bonds in order to get it out, and when once got out is so difficult to redeem as our currency is, has an unelasticity about it which prevents it from responding to the demands of trade. Now that puts a deficiency of currency in peril once a year, and this bill perpetuates that method.

Second. Hazardous as are the effects of basing a note issue upon Government bonds, upon which so small a rate of interest is paid that they are useful for no purpose and therefore unsalable in time of panic or national peril except at a grave and disastrous sacrifice of the principal, the bill now under consideration proposes to extend the privilege of bond deposit to State and municipal issues, of which there is an enormous number in existence, and, while possessing instrinsic value, very few are quoted upon the exchange, and next to none are capable of being sold at any price during times of financial pressure. In so extending the basis it tends to supply a palliative which in our judgment helps to fasten the present system upon the trade and industry of this country for a still longer period by deluding the public with the idea that some substantial relief has been afforded, and to indefinitely postpone that measure of real relief to which we are entitled.

I wonder sometimes whether the distinguished Senator who got up this bill realizes how many issues there were of State, municipal, and county bonds, on which the Secretary of the Treasury is supposed to pass as to their legality—as to the legality of the incorporation of the various municipalities and other bodies which issue them and as to their market value. There are probably not less than 50,000 of such issues, and I think that the probability is that there are nearer 100,000 of them, all of which would have to be passed upon separately, and all of which would have to be separately valued in order to become available in case of necessity for the purpose of issuing currency on them. Now, I think that the bankers who endeavored to get out currency on securities during the last panic will realize that it took several weeks, at all events, to obtain the currency on securities which they put up then. How much worse would be the case in case 50,000 of such issues had to be passed upon by the Secretary of the Treasury, in order to supply the necessary security for the new species of bond secured circulation.

Third. It is not too much to say that every year, owing to the inelastic quality of the present currency system, the country is burdened from that cause alone with an average increment in the rate of interest of not less than one-half per cent on $10,000,000,000 of bank loans and of a similar increment on not less than $20,000,000,000 of mortgages and of the funded debt of railway, public service, and industrial corporations, or $150,000,000 annually which is paid by the consumer to the lender for no other reason than to compensate for the friction caused by this maladjustment of our currency plan to our current business needs. This tremendous and unnecessary tax upon our competitive power in foreign trade offsets in a large measure the benefits of other steps taken by the Government to protect and promote American interests abroad. Add to this a sudden and destructive depreciation in one year out of every ten of $1,500,000,000 or more in the market value of our securities and products, with the

attendant distress suffered by nearly every class in the community, and you get a clear picture of the disaster largely due to the adoption of that wrong principle which this bill extends, supports, and tends to fasten upon us for another term of years.

Fourth. A currency founded upon this unsound principle of bond security prevailed in many States of the Union prior to the civil war, and was the cause and support of that variety of inflation which we still recognize and vaguely remember under the name of "wild-cat currency." It is a principle which has been rejected, in fact, by every people on the face of the globe except ourselves; for the reason that it stands in the way of that automatic expansion and contraction proportioned to business needs which is demanded by agricultural production on a large scale.

Fifth. Deposits and note issues are repayable on demand, and the assets representing them should not be invested in securities based upon fixed capital of any description.

And this is really at the base of all of our greatest objections to the bill: We are merchants. We make our deposits in the banks. What do we deposit with them? We deposit money with them. Now that money is repayable to us on demand. We do not consider it a fair investment of our money, which is repayable on demand, to put it into twenty-year bonds which may be sold at a discount, if they are sold at all, and which may not be available. We believe that the assets held against the bank's liabilities to us for prompt payment of our deposits should be liquid; that they should be, at least, not invested in long-term securities of any sort, and we believe that that is a fair principle. As depositors, and as the dealers with the banks, we believe that it is absolutely due to us to keep the bank's assets in shape so it can repay our deposits on demand.

Mr. PUJO. Would you permit a question there? As a matter of actual practice, is it not true that the merchant generally has a certain line represented by his note in the bank upon which he gets credit?

Mr. PAGE. Do you mean that every man——

Mr. PUJO. Well, as a rule all over this country, does not practically every man in business have a certain line which does not represent anything but his credit in business?

Mr. PAGE. You mean that he has a certain——

Mr. PUJO. Line of credit.

Mr. PAGE. When you say a line of credit you mean there is a certain amount——

Mr. PUJO. A certain amount which he is entitled to keep indebted to the bank.

Mr. PAGE. The banks do not like that kind of an account, and as a rule solvent merchants generally do not keep their business in that kind of shape.

Mr. PUJO. Then there are very few solvent merchants in my State.

Mr. MCCORD. Is it not true that those merchants that ask for those accommodations keep a deposit in the bank that justifies the bank in extending them that line of credit?

Mr. PAGE. That is practically always the case, as I understand——

Mr. MCCORD. And is not that deposit a legal reserve, so to speak, from that firm to do business on; that is, it has that deposit at that bank and that entitles it to a line of credit and is really a legal reserve so far as the granting of the credit is concerned?

Mr. PAGE. I do not know that I am sufficiently informed as to banking to pass on the question as to whether it is a legal reserve or not; but in order to have a line of credit the depositor has got to keep a balance at the bank so as to make the business profitable to the bank, because unless we make our accounts profitable to the bank we can not expect to call upon the bank for assistance to make our business profitable to us through them.

Mr. PUJO. You are voicing the New York point of view entirely, are you not?

Mr. PAGE. I think I am voicing the point of view of correct banking in every part of the country, so far as I know it.

Mr. PUJO. Is it not true that in all small commercial centers that question is based on the ability of the borrower to pay and not upon the fact that he keeps a balance; and as a general rule, do not all local merchants keep very close to their line of credit?

Mr. PAGE. I do not think they do.

Mr. PUJO. I happen to know otherwise.

Mr. WEXLER. That might be the case in very small places where the balance is large in one season of the year only; but banks figure the safety of the loans first and the balance second.

Mr. WEEKS. You refer to depositing money with your banks. You mean credits?

Mr. PAGE. Credits; yes, sir. I don't suppose in a business of $8,000,000 a year we handle $3,000,000 currency in the year, that we receive that. It is all bank checks.

Mr. MCCORD. But what you handle is gold reserve in banks?

Mr. PAGE. But we use a great deal more currency than we receive.

No currency requiring the pledge and deposit of specific securities can be of avail in preventing the disasters of public panic, because the damage is done and has made headway during the period, however short, needed for their examination and appraisal and their exchange into bank notes. Only fools put off cheering their fire extinguishers until after the fire has broken out. And we believe that is one of the vicious principles of any bill which even bases a bond-note issue upon clearing-house securities. Clearing-house securities have to be examined, and by the time they are examined and appraised the damage is done. The only day that a supply of currency is any good in a panic, so far as our experience goes, is the day the panic begins or the day before. It is of no use a few days after.

Mr. WEEKS. Do you not know that clearing houses examine securities and issue certificates inside of twenty-four hours?

Mr. PAGE. Sometimes they are able to do so.

Mr. WEEKS. I do not think they ever fail to do it, do they?

Mr. PAGE. I want to ask how long it would take the Secretary of the Treasury to pass upon the notes.

Mr. WEEKS. That is very different.

Mr. PAGE. Seventh. The commercial interests of this country believe that a measure dealing with the currency should be immediately taken in hand by the present Congress and Administration, and that it should be based upon the following principles:

(A) Bank-note circulation should be issued by banks and secured by the general credit of their assets, representing commodities in process of production and sale, and should be based upon adequate

reserves of gold or its equivalent—the only commodity which in time of panic or national peril is worth more and not less than it is at other times.

I believe that can be said of all classes of securities and all classes of commodities, that they are worth less in times of panics than any other time, whereas, as bankers know, and as merchants know, gold or its equivalent is always at a premium. That, therefore, a currency based on something which goes to a premium in time of panic is very much better than one based on something which goes to a discount in time of panic.

(B) A government is not organized and can not be organized to do an efficient banking business. Every attempt in history to do so has been an expensive failure. Our legal-tender notes should be retired at the earliest possible date, and their place in the circulation supplied by gold or its equivalent.

(C) The nation should evince its faith in the credit of its banks by depositing its moneys with them on the same terms that it expects its citizens to do so.

It has seemed to us an absurdity that the Government should insist upon having security for its deposits in a bank and then expect the merchants to trust those banks without security.

Mr. CRAWFORD. In the case of the merchants they are handling their own money, but Congress is handling the money of the people as trustees for the people, and when we put it out ought we not to be absolutely sure of getting it back? There is some difference between the two cases.

Mr. PAGE. Well, I do not know that your interest is any greater. We are the people, sir, or a part of them.

Mr. CRAWFORD. And we are your trustees here to administer that trust, and it is not like you handling your own money.

Mr. PAGE. I can not see any radical difference about it, excepting that you are a little more free with our money than we are with our own.

(D) A better system of bank regulation for the protection of all depositors can and should be devised, to fulfill the requirements embodied in the foregoing principles.

Gentlemen, I am not going to take up any more of your time except to present a letter from Mr. Marcus M. Marks, the president of the National Association of Clothiers, which he requested me to present here on behalf of his association. He writes as follows:

NATIONAL ASSOCIATON OF CLOTHIERS,
13 ASTOR PLACE,
New York, April 13, 1908.

MY DEAR MR. FOWLER: The members of our national association at the convention last month unanimously voted to disapprove the Aldrich bill for the following reasons:

First. No emergency measure is needed at this time, nor have we any expectations of its need for several years.

Second. It adds a fifth kind of currency, thus further complicating our already unscientific currency.

Third. It is inelastic.

Fourth. Too expensive for the merchant. The issue at such a rate would accentuate a scare.

Fifth. Merchants' notes, not long-time bonds, should be the basis, as they are the index of the country's need and are liquid assets.

For these and other reasons our association, representing the largest manufacturing industry in the United States, exclusive of breadstuffs and iron and steel, voted against the Aldrich bill.

Sincerely,

MARCUS M. MARKS,
President.

Congressman FOWLER, *Chairman.*

I think that is all we have to say, Mr. Chairman.

The CHAIRMAN. Now we will hear from the gentleman from Baltimore.

STATEMENT OF EUGENE LEVERING, PRESIDENT NATIONAL BANK OF COMMERCE OF BALTIMORE.

Mr. LEVERING. Mr. Chairman, on behalf of the Baltimore clearing house we desire to lay before you the resolutions passed by that body on April 8, duly signed by all the members of the clearing house, in opposition to the Aldrich bill. The protest of these resolutions deals primarily with two main factors or features of that bill, one being the question of the reserve, and the other being the question of the La Follette amendment prohibiting loans to officers, etc.

These two items have been so thoroughly discussed here to-day that surely no one needs any further remarks on the part of anyone. It is so absolutely inconceivable that anybody would for a moment prohibit and drive out from all our banks such a valuable addition to the management and the success of the institution as our directors that that must fall to the ground with the very mention of it.

Regarding the reserve, that has also been very thoroughly discussed. Instead of creating additional money by the system provided here it simply ties up money, as has so often been stated here to-day.

In addition to that the report closes with this request or comment:

It is further confidently suggested that better results than a temporary measure will be accomplished if the subject of an amendment to the national banking laws were submitted to an intelligent committee for inquiry and report.

So that our Baltimore Clearing House Association stands opposed to the Aldrich bill. I might mention in passing that the amendment called the Vreeland amendment, I believe, had not been before our clearing house at that time, and therefore it is not mentioned in this report.

We thus advocate most earnestly the appointment of a commission for investigation and report.

Now, just a word or two personally, and in this perhaps I do not represent the association officially, but it seems to me and I think our members present will agree with me that this bill is fundamentally wrong, both in principle and theory, and that it is absolutely impracticable in operation. Any kind of a study of the bill, as has been brought out so often to-day, shows how that must be true. In the first place it was to protect us against a panic in the future, but before the bill gets out of the Senate it deals with matters of the present. Thus combining two things which are not exactly opposite, but set against each other.

Then when we come down to the method proposed. Just let me read you two or three clauses to see the modus provided here. We will assume that panics are approaching, and theoretical people are beginning to feel a little nervous. The question will be who will be

the first man to put into operation the method provided here. Suppose a State in the South or a State in the West begins to think it needs a little currency. The moment it applies to Washington, that very moment the alarm signal is run up and the rest of the country will begin to eye with suspicion that section. It will want to know what is the matter. I will take my own State of Maryland, for example. The bank balances which are there will be immediately withdrawn and the condition of that man's bank will be worse than ever before. In other words, you create a condition by the very attempt to protect yourselves against a condition that may or may not exist. Then after that has happened, you come down to Washington and see what has got to be done. Let us take the first person that has to be consulted.

The Comptroller of the Currency shall transmit immediately the application, with his recommendation to the Secretary of the Treasury * * *.

He has got to pass on it. So a discretionary power is located in those offices. It is creating a discretion which no set of men of that number would want to assume, and putting upon them a discretion which ought not to be put upon them. The Comptroller has got to answer the question:

Shall I indorse this request as being a sufficient emergency condition to justify me in passing it on to the Secretary of the Treasury with my recommendation to issue this currency?

This currency is only provided for in emergencies, and the Comptroller has got to decide that question first. Then he goes to the Secretary of the Treasury, and he has got to take it up with that officer, and then the Secretary of the Treasury determines whether, in his judgment, business conditions in that locality demand additional circulation.

Now, with the multitudinous duties of the Secretary of the Treasury, here comes the delegation from Maryland to the Secretary of the Treasury and we try to demonstrate to him that the conditions in Maryland require such additional circulation. He may say, "Gentlemen, the conditions in Maryland do not represent the conditions of the country," or, "I will have to find out," and that brings in the new process of having the Secretary of the Treasury pass upon the question as to whether the conditions in Maryland would justify invoking this method when he knows that just as soon as he yields to Maryland's request, he might just as well say, "Gentlemen, there is an emergency on you. There is a panic. Come on, and we will give you the currency."

Then the question was raised just a few moments ago in regard to the Secretary of the Treasury having to pass upon the quality of this enormous issue of bonds, county, State, and city. Then in addition to that the very use of such bonds stimulates most tremendously the issuance of them. It creates a speculation. Already, I received a few days ago a letter from a very prominent banking house stating that this bill would probably pass and calling attention to a certain number of bonds which he would advise me to invest in in advance. It will lead to speculation rank, and it will lead to speculation on the part of the banks, and would create a regular boom on the part of every city, county, and State in the country.

So that you have in all these conditions, it seems to us in Baltimore, radical reasons which justify me in saying that in our opinion this bill is fundamentally wrong, both in its principle and theory, and absolutely impracticable in its operation.

There is just one feature of that bill that has not been referred to. There have been remarks by two or three gentlemen that this bill has been examined and that there is not a single thing it it that anyone can commend. There is one feature that I want to commend, and that is the section which provides that the provisions of section 5191 of the Revised Statutes, with reference to the reserve of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries. We all know that the law says, and the oath of the officers of the bank is required to the fact that the national bank deposits shall be subject to the usual reserve of 25 per cent. Under a construction of the Department, the banks of the country are privileged to do that without the penalty being attached, but that does not relieve the banks from the burden of their oath to keep that, and as long as that condition exists Congress is legalizing a lawless transaction and is putting upon the banks at large the question of whether they shall live up to their oath or not, and it gave me very great satisfaction to see that Congress proposed to legalize that which by implication was a suspension of the law, although at the same time every time you made your statement to the Comptroller of the Currency you are required to swear that you have lived up to the laws under which you are operating. So I wanted to say that that particular feature of the bill was most agreeable to me.

Mr. PRINCE. That is in the nature of permanent legislation and not panic legislation.

Mr. LEVERING. Yes, sir; it simply legalizes that which has been in practice.

STATEMENT OF JAMES CLARK, PRESIDENT OF THE DROVERS AND MECHANICS' NATIONAL BANK, OF BALTIMORE, AND REPRESENTING THE CLEARING HOUSE.

Mr. CLARK. Mr. Chairman, we desire to make our protest against the passage of the Aldrich bill for the reason that it is a continuation of the present national banking system based upon bond-secured circulation, which is not economic in any way, and by passing this Aldrich bill you will continue that in effect; and, while it has been very useful in the last forty years and has raised the credit of the bonds of this country from a seven and a half per cent basis to a one and three-quarter basis, which is double their intrinsic value, we do not think it proper that the national banks of this country should continue to be taxed and burdened by making them selling agents for the municipal bonds of the country as proposed in this bill. We feel that you are on the wrong road and that you will always be on the wrong road as long as you continue to have a currency based upon bond securities, and for that reason we feel it is proper that our legislators should realize as soon as possible that the best thing for them to do when they are on the wrong road is to stop and get on the right road, and in order to do that we submit they should do that by taking a little time and referring this matter to a commission who can consider the

question thoroughly, and thereby accord to the people engaged in banking the same degree of consideration that you accord to people engaged in other interests.

In other interests the Congress and legislature of this country has sought to protect them and to protect their tools and machinery and their material and products of every kind. How is it with the banker? Gold is his tool upon which he is to base his operations, and as soon as you bring in a dollar in gold in this country, what do you do? You reduce its banking power as to a banker by the difference between the currency that can be issued on it in France or Germany to what you can issue here; you divide it by three or four. This is not right; and by postponing the consideration of this question and referring it to a proper commission, we believe that you will get before the people and get before this commission a fair consideration of this question, and thereby have a proper currency based upon what is fair and right both to the banker and to the people. Gentlemen, I thank you.

(The committee thereupon took an informal recess.)

STATEMENT OF MR. FINLEY ACKER, CHAIRMAN OF THE BANKING AND CURRENCY COMMITTEE OF THE TRADES LEAGUE OF PHILADELPHIA.

Mr. ACKER. Mr. Chairman and gentlemen of the committee, in representing the Trades League of Philadelphia, whose membership includes over 2,000 commercial, manufacturing, and financial firms and institutions, I shall not plead for legislation which would favor special interest, nor which would be detrimental to any interest.

On the contrary, I hold that financial legislation affects so vitally the prosperity of the entire country, and is so vital a part of the business machinery of the whole nation, that it should ensure not only the safest system in the world, but should also ensure equal benefit to all legitimate interests, including those of investments, banking, manufactures, commerce, agriculture, and wage-earners. And I believe that most men share this view—even though they honestly differ as to methods. I therefore feel free to frankly discuss the causes and conditions which led to the unanimous adoption of the resolutions which I have been authorized to submit for your consideration.

Last fall the manufacturing and commercial interests received a shock from which they have not yet recovered. And it may be some years before they fully recover. Because of the great era of prosperity with which this country had been favored, and which excited the admiration and envy of the world, transportation companies had planned for increased facilities, manufacturers had contracted for larger works, merchants were prepared to handle increased volumes of business, and labor was fully employed at high wages.

All these interest were forging rapidly ahead upon the assumption that the banking and currency system of this country was essentially sound and in keeping with the progressiveness of the times, when, with the suddenness of a lightning bolt from a clear sky, they made the alarming discovery that the foundation of our currency system was so faulty that it required only a few incidents in a single city to break down the entire national banking and currency system and, by the total or partial suspension of cash payments, to advertise "calamity," with its resulting destruction of confidence, in nearly every city and hamlet in the land.

I feel safe in saying that never before in the history of the world was there a parallel instance in which unprecedented prosperity and universal activity were penalized by such a catastrophe—a catastrophe which, because of its logical sequence of forced liquidations, of canceled contracts, of abandonment of extensions, and of

idleness of labor, has cost this country up to the present time billions and billions of dollars; and no one can accurately compute its contingent loss in the future.

I will not enter into details, for you are familiar with many of them. But at this point I wish to direct serious attention to a feature which thus far has not received the publicity which its importance warrants.

When the Canadian bridge suddenly collapsed, with its great loss of life and property, an investigation was promptly instituted to determine who was responsible for the faulty plans of construction which resulted in that great loss; and the same course of procedure follows every great calamity. It is eminently fitting that the question should be asked and fairly answered, "Who is responsible for the faulty currency structure which resulted in last fall's calamity?" The responsibility can not be justly charged to the manufacturing and commercial interests, for they were doing their full part in keeping pace with the progressive spirit of the age, and were leading the world in labor-saving inventions and twentieth century methods and devices. It seems to me that the primary responsibility for the great loss resulting from the operation of our faulty currency system logically and fairly rests upon Congress, because it alone has the power to determine the banking and currency system of the nation; and Congress not only neglected to protect its commerce with the currency safeguards which are enjoyed by foreign competitors, but it enforced the continuance of an antiquated currency system which at all times was fundamentally unsound and unscientific, and which Mr. Andrew Carnegie declares "is the worst system in the civilized world."

Let us look at this question from a strictly practical standpoint. Had Congress one year ago adopted a sound, scientific, and equitable system of currency the great national calamity of last fall, with its loss of billions of dollars, would not have occurred, even though gradual and orderly business retrenchment might have taken place at a later period, as has since been done in other countries.

In saying what I have I trust I will not be misunderstood as intending any disrepect for the highest legislative body of this great nation. Far from it. I fully appreciate the wide and honest diversity of opinion among the many Members of Congress upon important public questions, and the difficulty of harmonizing such differences, particularly in the absence of public pressure.

But I allude to this subject now in order that the responsibility for this national calamity will be placed where it rightly belongs, and that this committee will constantly bear in mind the staggering blow which was given to the prosperity of this nation because of the failure by Congress to correct our faulty currency system, and should you agree with my contention I trust that you will have the courage of your convictions to boldly call upon Congress to no longer shirk its duty by countenancing any ineffective or deceptive makeshift, but to assure the country at large that our present bond-secured currency system, which is the laughing stock of the world, will be supplanted by a sound, scientific, and equitable system at the earliest practicable moment.

The Aldrich bill which has been referred to your committee has been so thoroughly dissected by those who have preceded me that I will not burden you with a repetition of the same details, but will briefly treat a few of its main features from a practical standpoint.

Without intending any unkind reflection I can not help recalling in this connection Mr. Carnegie's declaration that a certain system was the "worst that any body of sane men could devise."

The peculiarity of this bill is that in practice it would work out exactly opposite to what the framer claimed, and to what the country demands. Its purpose is claimed to be a preventive of financial panics, but in practice it would prove a breeder of panics. This is a serious charge, but I expect to fully substantiate it. What causes a panic? Is it not fear upon the part of the depositor that he may lose his money? Fear upon the part of the bank that a run may be made upon its resources? Fear upon the part of the merchant or manufacturer that he may be unable to meet or renew his financial obligations? How would the Aldrich bill meet such contingencies? The superficial answer would be, by permitting $500,000,000 emergency currency to be issued upon approved collateral bonds owned by the banks. But if the national banks of the country invested $500,000,000 or $550,000,000 of their funds in such bonds, would not their loanable funds be depleted to exactly the same amount—and would not this depletion be the very cause of a financial stringency and possible panic just that much earlier?

I assume that it was the discovery of the above fallacy that led to the amendment that a percentage of the banks' legal reserve could be invested in such bonds. But does this change the situation? Suppose the bank held such bonds in its legal reserve and utilized them to secure emergency currency, would it not be required to immediately replace the value of those bonds with lawful money in order to maintain its legal reserve? And how many bankers would consider it profitable to furnish $100,000 of bonds to secure $90,000 of emergency currency at a tax rate of 6 per cent or 9 per cent when they would be obliged to first add $100,000 of lawful money to their reserves to take the place of the bonds?

More than this. The amendment which permits the investment of part of the legal reserve in bonds, also requires, outside of central reserve cities, that a larger reserve than at present be kept in the vaults of the banks.

As this requirement would reduce the amount of loanable funds of national banks, even where they did not invest in bonds, would not the bill thereby directly hasten, at least to the extent of the unloanable funds, a financial stringency and possible panic?

Before leaving the subject of panics permit me to ask another question: If $500,000,000 of additional currency were to be floated without requiring the addition of a single dollar in gold or lawful money to protect it, when the Treasury now holds but $150,000,000 in gold to protect more than a billion and a half of treasury notes, bank notes, and silver certificates, is it not at least possible that war or other circumstances might arise which would create a "currency panic" and a raid upon our comparatively small gold reserve, as was done in 1895?

Another practical point of view: Does not a reasonable and uniform rate of interest tend to develop legitimate enterprise by encouraging the employment of loanable capital? And should not the farmer, the cotton grower, and all other actual wealth producers receive the benefit of a reasonable interest rate, as is always assured in France? But what effect would the Aldrich bill have upon interest rates? With the loanable funds of the banks seriously curtailed and

with a tax upon additional currency of 6 per cent or 9 per cent, I will allow you to answer the question for yourself.

One more practical feature: It is claimed that the Aldrich bill would prevent the loaning of bank funds to any corporation in which a director of said bank was an officer or director. I need not discuss this. I am sure the framer of the bill never intended the above. I merely cite it as another instance to show that the Aldrich bill in practice would do just the opposite of what the framer claimed and the public demands. From a practical standpoint it would appear, in my humble judgment, that while the Aldrich bill contains many dangerous features it possesses but one that has any merit, and that is that national banks should pay interest upon public moneys of not less than 1 per cent, but this feature is too trifling a detail upon which to construct a financial measure.

You have listened to many arguments upon this bill. Have you yet heard one in its favor that would withstand rational criticism? You have received copies of resolutions adopted by commercial and financial organizations all over this country. Have you yet received one in its favor? In view of the above and in view of what can now be safely predicated of the practical operation of the measure, would it not be to the lasting discredit of its distinguished author and of the dominant party, which controls national legislation, if the Aldrich bill were enacted into law?

Has the bill a single redeeming feature except the trifling detail which I have mentioned? Is it capable of amendment whereby credit instead of discredit will redound to its title? I think it is, but only in one way, and that is to eliminate all after the second line and substitute the Fowler bill in its entirety. And this suggestion removes the discussion from an atmosphere of doubt, uncertainty, apprehension, and complexities into the clear light of scientific reasoning, based upon universal business principles and verified by long experience in other nations. I wish to say at this juncture that this committee may justly be proud that it has for its chairman one whose patriotism has led him to devote years of patient study to the currency and banking problems of this and other countries; one who was able to free himself from currency fallacies, from class prejudices, and from partisan interests, and to take a broad, national view of this subject, so that every interest would be safeguarded. Congress may feel proud that it has such a man in its membership, and the country at large may feel grateful that this man possessed the rare courage and perseverance to bravely face popular prejudice until his solution of the problem commanded favorable consideration by thoughtful men in every section of the country.

I need not go into the merits of the Fowler bill, because you are all familiar with it. As to the basic principle of its currency feature, which is that a "bank-note credit" is identical in principle with a "bank-book credit" and should be protected by exactly the same reserve, I have yet to hear the first rational objection. As to the other feature of the bill, you are doubtless aware that opinions are still divided. To avoid any misunderstanding, I would say that the organization I have the honor to represent, although heartily indorsing the currency feature of the Fowler bill, neither favored nor condemned at the time the remaining features. As for myself, I feel free to say that after considering every adverse criticism which has been

brought to my notice, I am more and more firmly convinced that the Fowler bill, substantially in its entirety, would, in actual practice, prove a sound, scientific, and permanent solution of our currency problem, and would be absolutely equitable to all interests.

Some time ago I had the privilege of reading an adverse criticism upon the Fowler bill by a distinguished member of your committee, and I smiled when I read it. But it was not a smile of derision, but a smile of fellow-sympathy, for when I first read the bill I also thought it was too radical and revolutionary. Then I began to analyze it and asked myself the question: Is it too radical for Americans to abandon a bond-secured currency system when they know that its volume bears no relation to the normal demands of trade, and that it encourages speculation and creates panics, when a sound and scientific system can be substituted without disturbance and without alarm to the public?

Is it too radical for Americans to have their fiat Treasury notes retired and converted into sound gold certificates so gradually that the public would not know it?

Is it too radical for Americans to have their bank deposits guaranteed when the losses for forty years have averaged less than one-thirteenth of 1 per cent of the deposits—even under the present inefficient Federal supervision; and when such guaranty would prevent future runs upon banks, with all their collateral evils?

Is it too radical for Americans to permit national banks to exercise the functions of trust companies, when these two lines of financial business are now being successfully operated by the same officers in many cities, and when such a combination would insure greater protection to depositors?

Is it too radical for the Government to pay its bills by check upon bank depositories, as is done by States and municipalities, when it would thereby keep the people's funds in the healthful channels of active trade?

When I reduced the apparent radical and revolutionary ideas to concrete propositions I had to smile at my former fears; and when I looked further into the bill and saw how skillfully and successfully the danger of depreciation in United States bonds was met; when I saw how effectually the prompt redemption of bank notes was assured through the payment by the Government of all expenses attached to the transmission of bank notes to their redemption agency, coupled with the desire of all national banks to exchange the notes of their competitors into lawful money as soon as possible; when I realized how certain it was that the contingent liability for loss by reason of the failure of other banks would result in a degree of supervision and unification, which would make wild-cat banking and failure a rarity in the future; and when I comprehended how coordinated each feature in the bill was to the others, I felt assured that it would be only a question of time when nearly every one who shared the apprehension that the Fowler bill is too radical would be among its most earnest champions, because the more thoroughly the measure is rationally criticised the more perfect and scientific does it appear as a whole.

Should the House and the Senate agree at this time upon the Fowler bill I have not the slightest doubt that the country at large would be prepared to accept it—just as they accepted the resump-

tion of specie payments and the adoption of the single gold standard. But I fully appreciate the improbability of such an agreement being reached at this time, and if this be the case, would it not be wise to refer the entire subject to a competent commission to report at a reasonably early date, rather than to adopt any hasty or ill-advised patchwork or makeshift, such as has been referred to your committee, and whose adoption would not only be followed by serious financial consequences, but would also delay the enactment of a sound and comprehensive measure?

These are the reasons and conditions which led to the unanimous adoption of the following resolutions:

Resolved by the Trades League of Philadelphia, That while certain amendments to the Aldrich bill have eliminated some of its dangerous features, other amendments have been introduced which make it still more objectionable, and the bill is inimical to the interests of the country at large because it encourages the investment of banking funds in fixed instead of liquid securities, and because it gives further indorsement to our faulty system of bond-secured currency and provides for its extension.

Resolved, That we heartily renew our indorsement of the plan of national-bank notes, secured by the assets of the banks and based upon the same reserve which is now required against deposits, as formulated in the Fowler bill, and respectfully recommend to the House Committee on Banking and Currency that the Aldrich bill be amended by the substitution of the Fowler bill, in order that all its details may be fully debated in the House for the educational benefit of the country at large.

Resolved, That in view of the improbability of Congress agreeing at this time upon any financial measure which would prove satisfactory to all interests, we recommend the appointment of a joint commission to consist of all the members of the Finance Committee of the Senate and the Banking and Currency Committee of the House, to which commission should be referred the Fowler bill, together with all other currency measures, and which commission should present prior to January 1, 1909, a comprehensive, scientific, and permanent banking and currency measure which will be equitable to the varied interests of this country.

[SEAL.] M. N. KLINE, *President*.
N. B. KELLY, *Secretary*.

STATEMENT OF MR. FRED W. UPHAM, PRESIDENT OF THE ILLINOIS MANUFACTURERS' ASSOCIATION, OF CHICAGO, ILL.

Mr. UPHAM. Mr. Chairman. the Illinois Manufacturers' Association represents more than 6,000 of the manufacturers of the State of Illinois. The board of directors of the association, made up of men drawn from the manufacturing centers of the State, not all from Chicago, but from the different parts of the State, thought it important enough to come down here as a body to appear before your committee, and we asked our counsel, Mr. Levy Mayer, to accompany us, and he will represent us in this discussion.

STATEMENT OF LEVY MAYER, ESQ., ATTORNEY FOR THE ILLINOIS MANUFACTURERS' ASSOCIATION, CHICAGO, ILL.

Mr. MAYER. Mr. Chairman and gentlemen of the committee, I am not a manufacturer nor a merchant, but I am a plain lawyer, but the views I am going to express are the views—and this suggestion I particularly make to the gentleman from Indiana—not merely of a handful of men, but of a body of men who have studied, with a great deal of care and exhaustive consideration, some of the defects in the Aldrich bill that they consider vital. Probably no measure has come before your body which has been regarded as of more intense importance to the manufacturing interests of Illinois, which

means the West, than the pending measure, and that acute interest is attested by the fact the president and the secretary of the association are here, accompanied by two-thirds of the members of the board of directors, who come from Chicago for this particular purpose. The names of the members of that board are synonymous with the great manufacturing interests of Illinois. The figures of the business they speak for are appalling; they represent nearly $2,000,000,000 annual output. The gentlemen appearing before your committee are Fred W. Upham, president, Upham & Agler, Chicago; W. B. Conkey, W. B. Conkey Company, Chicago; C. H. Smith, Western Wheeled Scraper Company., Aurora, Ill.; U. G. Orendorff, Parlin & Orendorff, Canton, Ill.; F. G. Allen, Moline Plow Company, Moline, Ill.; W. B. Brinton, Grand Detour Plow Company, Dixon, Ill.; John C. Spry, Southern Oak Lumber Company, Chicago; John T. Stockton, Joseph Stockton Company, Chicago; C. F. Wiehe, Edward Hines Lumber Company, Chicago; Charles Piez, Link-Belt Machinery Company, Chicago; John M. Glenn, secretary, Chicago, and myself, the general counsel of the Illinois Manufacturers' Association, Chicago.

They are concerned in the measure, not from the standpoint at all of the banker. The interests of the banker affect them only indirectly in the same measure that American citizens are interested in the welfare of other American citizens, and they come not in a spirit of destructive criticism; they come to submit a few salient suggestions, a part of which, at least, will be peculiarly effective with your body, eleven of whom, as I understand, are also lawyers, and who more particularly and peculiarly will appreciate one of the very vital objections that exists to that bill.

I am prompted to digress, not in the spirit of constructiveness, but merely by way of suggestiveness, to bring to your attention a matter which, no doubt, has been thought of, but I fear not legislated on, but which is particularly pertinent to currency legislation. A striking illustration of what I am about to refer to comes home particularly to the newspapers of this country. Beginning with October of last year and running to the end of the year, the Government of the United States refused to accept of the newspapers payment of the postage on the newspapers that were sent through the mails unless that payment was made in currency.

Now, the newspapers illustrate but one of the large revenues that come to the Government for postage stamps, for duties, and for internal revenue. Approximately one-quarter of a billion dollars is the revenue of the Government during the last three months of the year. If you will reflect for a minute that the United States Government refused to accept payment of dues to the Government, whether for postage stamps or for a duty or other internal-revenue payments, you will appreciate what the situation was in the sense of practically destroying the credit, not only of the Government, but of the mercantile interests of this country during that period. Bear in mind that you have a law which gives the Government a prior lien, a prior claim, against every bankrupt concern, whether it be a bank, a manufacturer, or a merchant, so that in case of insolvency, no matter in what diversified line the bankrupt may be engaged, the Government has a prior lien, a prior claim, on the assets. So that if the Government took checks in payment of its bills for postage stamps of the Chicago Tribune or the Record-Herald, or any of the newspapers

using the mails, and the paper itself, which was the drawer of the check, and, of course, was legally liable if the check was not paid, if the drawer of the check was to become bankrupt, the check being drawn on a bank would entitle the Government to a first lien on all the assets of the bank. In the entire history of commercial failures in this country the Government has never lost one penny, and in a case which I had the honor of arguing, Mr. Chairman, for your State, associated with Robert McCarthy, the attorney-general, in the United States Supreme Court, where the question was the right of the government of the State of New Jersey to collect its franchise tax from a corporation, and its right of priority was discussed, the United States Supreme Court upheld the validity of the statute of New Jersey, and when it is applied to the Government, as such, its right of priority exists, and never has been and never can be questioned. In addition to that, the Government has a national-bank depository against losses in which direction it is further secured by indemnity.

The United States Government refused to accept a draft, a cashier's check, of a United States depository in payment of dues owing to the Government. First, such a cashier's check or draft was of a Government depository, which is closer to the Government than a mere national bank; second, the Government was secured by indemnity before a bank can become a depository; third, the Government stood as a preferred creditor; fourth, it had a lien on all the assets of the bank, if it should have failed, and yet, to the extent, roughly estimated, of a one-quarter of a billion dollars, 250 millions, the United States Government demanded that every debtor to the Government, whether it was the postage-stamp buyer or the brewer who bought his stamps for a dollar for every barrel of beer, or the distiller, or any other debtor, should pay his debt in actual money. Now, stop to consider what that meant.

You expect merchants and manufacturers to take checks on banks, and they took them, and they took clearing-house certificates, secured by the assets deposited in the clearing house-committee, and yet the United States Government refused checks and compelled the payment to it in money, thus withdrawing from circulation 250 million dollars.

Mr. GILLESPIE. Did not the Government counterbalance that by depositing it in the banks?

Mr. MAYER. That went into the banks, and the banks did not pay it out. For instance, I used the illustration of the Chicago Tribune because I happen to be its counsel and know about the fact; they would go to the post-office, and we will say their mailing list required $1,000. I am not going to give you the exact figures. They pay $1,000 in currency to the postmaster for stamps. He will not take a check on a national depository or the check of a national depositary or of a cashier or cashier's draft. I am not saying what he will do now; I am speaking now of the time during the panic. Now, the Government gets that money, it puts it in the subtreasury, and the subtreasury into the Treasury Department, and then, as you well put it, the Government puts 100 millions or 150 millions into the banks in New York and elsewhere. But when I went to the bank to have my check cashed I could not get any money on it; there was not a dollar of money paid out in the United States from the 26th of October to the 1st of January by any bank; I mean the large banks.

Mr. WEEKS. That certainly is not so.

Mr. MAYER. Tell me where they did.

Mr. WEEKS. In Boston, and everywhere else.

Mr. MAYER. I do not mean that the banks, for the purposes of meeting pay rolls, did not pay to a small extent; but you mean that a depositor in Boston or anywhere else could get his deposit?

Mr. WEEKS. Oh, he could not get all of his money.

Mr. MAYER. I will say to you that I myself undertook to get $3,000 of my money in Boston, and they said to me: "Have you a pay roll to meet?" I told them that I did not have. I wanted the money to use in the development of some commercial purpose, and they said: "You will not be able to draw the money out; you will have to take clearing-house certificates."

Mr. WEEKS. Let me call your attention to what you said. You said that the banks did not pay out any.

Mr. MAYER. The committee understands what I mean.

Mr. WEEKS. I am one of the committee, and I did not understand.

Mr. MAYER. I am speaking now in a general way. I do not mean $2 or $200 or $2,000, but in the city of Chicago there was paid out one-eightieth of 1 per cent in currency—one-eightieth of 1 per cent. You may say that that is paying out money.

Mr. PUJO. Was it not virtually a suspension?

Mr. MAYER. Yes, sir; and if you or I had done it they would have put us in bankruptcy. I am not criticising; I am simply giving you an illustration of what can be cured, and what, we submit, should be cured without making it necessary, in that particular, to revolutionize or reconstruct the whole currency system of the country; but I do not say it does not need reconstruction, and I am not using that as an illustration of why there are things which can not be legislated on by your committee—by Congress—which would avoid all this almost inexhaustible contrariety and conflict of opinions that prevail among banking experts and merchants and lawyers and legislators.

To that proposition we think there is no answer, that the Government should itself furnish the best example of taking checks of national banks in payment of dues owing to it, particularly when it can not lose, because it is protected as a creditor, and if it refuses to do so, how do you expect to inspire confidence in the national banks in cases of panic or ask the merchant or the manufacturer to accept the check of a national bank when the Government declines to do it. I had the matter up with Secretary Cortelyou in New York, and he did all in his power, but, gentlemen, you are aware that the collectors and the postmasters are all bonded to the Government, and if they accept payment of anything that is not absolute cash, the loss falls upon the collector and the receiver and his sureties, but the Government could not lose by accepting the checks of its own depositaries, drawn by the cashiers of those banks. That is one of the suggestions we wish to make.

There are two parts of the Aldrich bill that, no doubt, have been very carefully discussed. Whether they have been discussed from a legal standpoint I do not know; probably they have, but a suggestion or two in that direction will not be out of place. I notice that section 11 was tacked on to that bill in the Senate without very careful investigation or consideration.

Mr. PUJO. What is known as the "La Follette amendment."

Mr. MAYER. I can not imagine that any Senator or any Congressman would, if he realized the meaning of that section, have endeavored to incorporate it into law. I confess that when the proposition was first put to me at a meeting of the board of directors that my impression was the contrary of what I am about to tell you is my conclusion, my conclusion being based upon investigation, and my impression a mere offhand statement at a board meeting. The thing is investments, deposits, or funds in stocks or other securities. I am omitting the question of directors or officers. My first impression was that an investment meant something that was permanent, and probably that was the impression of the learned Senator who incorporated that into the Aldrich bill. Ordinarily, if you speak of an investment, the first impression would be, probably, as it was mine, that meant some kind of a permanent security, a bond, or possibly a stock. Now, as a matter of fact, it does not mean anything of the kind. The word "invest" and the word "investment" have been construed in only one way by every court which has had the question up for consideration, and its meaning is this, it is the conversion or putting of money into that which bears interest. That is the definition of it, and no better definition, Mr. Chairman, is given in all the books than by one of your chancelors in one of the New Jersey cases. In other words, it includes promissory notes, bills of exchange, drafts, due bills; it includes every evidence of indebtedness, so that you have in section 11, if it becomes a law, that no deposits and no funds of a national bank can be loaned to any customer on a bill of exchange, on a promissory note, either direct or by way of discount.

I am eliminating the question of corporations. I will get to that in a moment. So that if I went to the First National Bank of Chicago and either gave it my note or your note with my name on it, and wanted to borrow money on my notes, or borrow money on your notes for discount, I could not do it under this section if I happened to be an officer or the director of a corporation and any officer or director of that corporation was a director of the bank. I have gathered statistics which I think are going to be interesting to you, though they are usually not. There are in Chicago 16 national banks. They have 173 directors; 130 of those 173 are directors or officers of some corporation or corporations, or nearly 80 per cent. There are in the United States, to be exact, 6,698 national banks. The city of Chicago represents a little over 5 per cent of the national-bank loans and discounts of the national-bank resources. To be exact, the resources of the 16 national banks of Chicago are 421 million dollars; the resources of all the national banks of the United States are $4,422,000,000. The loans and discounts of the Chicago national banks are $221,000,000; the loans and discounts of all of the national banks of the United States are $4,422,000,000, or the Chicago loans and discounts about 5 per cent of all the loans and discounts of all the national banks. There are in the United States 400,000 corporations, in round numbers; there are in the city of Chicago about 17,000 to 18,000 corporations. Section 11 annihilates from the directory of every national bank every person who is an officer or a director of a corporation, if that corporation wants to do business with the bank, and you know, gentlemen, that ordinarily no customer does business with a bank merely on the debit side, but is occasionally a depositor and gets a credit. You would destroy the capacity—and I am not speaking now of the ability—but you

would destroy the capacity of the officers and the directors of 400,000 corporations, and counting only two and a half to a corporation, and we all, as lawyers, know that the lowest number of directors is three in any corporation, you make 1,000,000 men in this country unable, legally, to be officers or directors of a national bank, without running the risk of one to five years in the penitentiary, which is the penalty provided by section 11 for borrowing money knowingly. We can not conceive, gentlemen, that a committee of the Congress, or a committee of the United States Senate, when merely listening to the bald statement, without any frills to it whatever, can countenance, much less advise or encourage, the enactment of such a section into law.

Mr. PUJO. You are aware that the United States Senate has adopted that provision already, are you not?

Mr. MAYER. I am aware of it.

Mr. PUJO. Two Senators from your State were in that body.

The CHAIRMAN. One of them was a very earnest advocate of the bill.

Mr. MAYER. I know both of the Senators, and know them very pleasantly.

Mr. PUJO. Of course, I meant no reflection at all.

Mr. MAYER. What I mean is that that question never was debated, I think it never was debated. I can not imagine how it could have been debated or analyzed and how it got into that Aldrich bill. Let me make a further suggestion. There are 6,698 national banks in the country. I do not suppose there has been over one-tenth of 1 per cent of the national banks whose officers or directors have looted those banks by means of forging stocks or bonds of their corporations. That may, perhaps, be a little underestimated, but I do not think you can count ten during all this agonizing financial panic—you can not count ten. I tried to count them, and the biggest amount I could get to was six national banks whose treasuries were looted, or whose funds and deposits were misapplied by their being invested or loaned to their corporations. I am not going to mention any names, but they are all located, with probably one exception, in the city of Greater New York. I say that less than one-tenth of 1 per cent of the national banks of the United States possibly would have been protected if section 11 had been the law. I do not believe that would protect a national bank against a criminal, and, gentlemen, you might just as well undertake to destroy by criminal statute the right to manufacture and to use matches because one match was used to light a fuse that exploded a bomb in Madison Square, New York. Or you might just as well, by criminal law, prohibit the manufacture of gunpowder, because powder was used in one gun for feloniously taking the life of a citizen of this country. It is not conceivable that a body of legislators, I mean after they have reflected and studied, could countenance this section. My opinion is that when that section was adopted it was enacted for the purpose of meeting those few cases in New York, with the understanding that the word "invest" did not mean what it does mean.

My statement is not a mere dogmatic assertion of the meaning, gentlemen, and I do not know whether it would be of any service to you or not, but I have prepared a little brief in which I have collated the authorities, and I have not, unlawyer-like or lawyer-like, simply presented the authorities that supported one side of it, and sup-

pressed the authorities to support the other side. But there is an unbroken uniformity in the States in which the question has been decided; there is New York, Connecticut, Indiana, New Jersey, Maryland, Minnesota, Nebraska, Missouri, and California, and perhaps some other States that have escaped me. We think that when that is submitted to you, as we have endeavored to submit it, that there is not very much to be apprehended about section 11 remaining in the Aldrich bill, either in your body or in conference.

As to section 8, the manufacturers' association, the manufacturers, are very vigorously opposed to that. I am not going into statistics, first, because I do not know the statistics, and, second, they will not enlighten the suggestion I am about to make. If section 8 remains as a part of the law, it is going to destroy the borrowing capacity of the merchants and manufacturers to the extent, it is calculated, of about 600 to 800 millions of dollars that their credit is going to be curtailed, or nearly 20 per cent of the total loans and discounts of the national banks of the United States will be obliterated. Such a possibility, even if it were not a certainty, is of so appalling a character that to tinker with it is like handling dynamite, and we urge that that section be utterly eliminated.

As to the question of section 2, or the section which has to do with the nature of the securities, we do not pretend that the manufacturers' association are scientific bankers or scientific legislators, or that they can scientifically draft a measure, either in two days, two weeks, or two months, but they do believe, and they urge upon the committee, that if there is to be legislation at this session, that that section be enlarged so as to include all classes of securities regardless of whether they be municipal bonds, Government bonds, railroad bonds, or commercial paper, because if they are of approved value, they constitute just as adequate and altogether a readier and more realizing value—I speak now of commercial paper—than do long-time bonds, and we urge upon your committee that if this bill is to be reported from them, that section 2 be amended so as to embrace other securities than mere municipal and Government bonds.

There is one further thing we want to bring to your attenti[illegible], and perhaps when I have concluded you may say, "Mayer and his clients are good destroyers, but not constructors;" but I think that those who can point out the real faults are just as valuable to the committee as those who come here with a prepared bill. My suggestion is this, that if this Aldrich bill becomes a law with section 8 and section 11 eliminated, as we believe we will eliminate them, and section 2 enlarged so as to include other securities, you will very much have bettered the Aldrich bill; but we really fear, and we must confess that after has it become a law with these not only desired but, we think, imperative changes, that it is going to be a dead letter; it is going to be another statute in the Revised Statutes or in the session laws of Congress that never will be available, and our fear is this, and we hope that the committee will put questions to me or other members of the association so as to enlighten us if we are wrong in our fears. Any bank which undertakes to avail itself of the Aldrich law in its amended form comes before the public with the letter "A" branded on its forehead; the brand of Cain is there before they can get any help, and the very necessity for the bill, of this emergency currency, will be absolutely destructive of the institution that avails

itself of the opportunity, and our reason is this, any bank which applies for help, whether rightly or wrongly, will be regarded by the public—and after all it is the public which makes or destroys the credit of a financial institution—that any bank which applies for emergency currency comes into the public forum with a confession of financial guilt, either of real or what would be interpreted to be actual insolvency. There is no way suggested in this law, and there is no way in which if you did provide by law for it, by which you can prevent publicity.

Mr. PUJO. Could not that be done in this way, by adding the increased tax on any amount in excess of the present authorized circulation, and providing that these additional notes should be secured by this security suggested by you, without any change as to name on the note or anything else?

Mr. MAYER. Here is the difficulty about that: I have been trying to figure out in that statute, and so have the members of the board, but perhaps we are wrong, but as near as I can figure out that currency is going to be somewhat different from the circulating notes secured by bonds, because one is redeemable in a different way from the other, and one the Government undertakes to pay in lawful money and the other it does not. If you take a national-bank note, if you have one in your pocket—we tried to find one on the train and we found only one among 16—there is nothing on that note which makes the Government liable; it is the national bank which promises to pay so many dollars, and you write your emergency appropriation in this law, and it contains an entirely different provision; it is payable in lawful money of the United States.

Did you ever know of a bank that applied to a clearing house for assistance when it was not known within twenty-four hours? Those are the bankers in their own exclusive financial clubs. Suppose that a bank applies to the Government for emergency currency, it would be known immediately. The officers of the Government would know it, and not merely one officer of the Government, but the Comptroller and the Secretary of the Treasury, and of course the numerous aids and clerks and assistants that they must have to help them in carrying out this law, and how long would it take Mr. Johnson or Mr. Curtis here in Washington to know that such an application has been made? Immediately it becomes known, immediately that bank is stamped with the mark of Cain and it is destroyed. That is what we fear, gentlemen.

Mr. PRINCE. Would it not affect all other banks because the signal of distress had been given?

Mr. MAYER. Probably; I think it would, Mr. Prince. In other words, suppose that a bank in Chicago applied for this emergency currency. As we all know, it becomes known; it is known in the mercantile and manufacturing centers instantly. The other banks talk about it; it is known out of Chicago. How long is it going to take the banks down in your town to withdraw their deposits from Chicago, because there is some weak bank there, and particularly if the name is not disclosed? It is like saying, "My watch has been stolen by one of you gentlemen." If I do not designate the name, everyone of you will be suspected, and if you do not give the name of the bank that has applied for emergency currency, every bank in the community will be suspected.

Mr. GILLESPIE. The author of the bill claims, however, that this is simply an emergency measure, and not to be applied until the panic is on, so everybody knows that the emergency is here.

Mr. MAYER. When that happens, then those who are in the midst of a panic are immediately confessing that they are damned. The purpose of the law is to preserve the banks in case of a panic, to preserve the financial volume. Suppose only one bank applied for that assistance?

Mr. GILLESPIE. Suppose at the time it does apply it is known there is an emergency situation and all the banks have suspended cash payment?

Mr. MAYER. Let us argue that a bit. Suppose there is an emergency in Kansas City or in Chicago, and we know, all of us, that there have been emergencies in certain spots that have not affected the rest of the Government.

Mr. GILLESPIE. And it is known there is an emergency there—there generally known.

Mr. MAYER. Just as soon as they resort to the issue of this emergency currency it is a confession.

Mr. GILLESPIE. And it is already known. The proposition is that it is already known in Chicago that the banks are up against this proposition.

Mr. MAYER. And it is too late.

Mr. GILLESPIE. The author of the bill only claims that after you are up against the wall, here is a possibility of escape, by taking the securities and going and getting the notes.

Mr. MAYER. You create a situation there which we think is curable. The author of this bill says the law is for the purpose of meeting the disease after the disease has broken out, because if he does not—if you can not use that before the disease has broken out—the effect is to accelerate the disease, is it not?

Mr. GILLESPIE. Yes.

Mr. MAYER. Now, we think, and we hope that you gentlemen can, in your wisdom, devise a law which will make that unnecessary. What I am about to say please do not regard as the experience of the manufacturer's association, but this has been suggested, and it is old, and yet will apply to this discussion. You go to a bank; I am the banker. You say: "Mayer, I want to borrow $10,000." I say: "All right; what is your collateral?" If your collateral is good, I will give you the money; if it is bad, I will not take the loan. Why should not every bank in the United States be in a position to go to some other bank, some institution, and say: "We want to borrow $10,000?" "You can have it; is your collateral good?" "Yes, here it is." You would have no different kinds of currency, would you? The lending bank would simply pay it out over its counter, and I am not calling it a central-reserve bank or a central bank. We all know that every deposit that is made in a bank makes the bank our debtor; every time you put $100 into the bank you are lending it to the bank. Why should not the bank be permitted to go to some bank, or some institution where it can borrow and not give any collateral, and say: "I want to borrow $1,000,000. I am borrowing from 5,000 depositors and giving no collateral."

The CHAIRMAN. What is the use of putting the bank to that trouble? Why should not the bank exchange its credit for that currency?

Mr. MAYER. Now you are getting to the point which you so eloquently and ably discussed in Chicago, but we are here, as I am saying, not to propose a bill.

Mr. GILLESPIE. I agree with you, but here is the proposition you folks are up against with the Aldrich bill. The authors of that bill do not pretend that it is any permanent relief or any change in the system of banking and currency; they only offer it to the country as a solution when the emergency is on, when the panic is here. That is the proposition you have before you. Will it fit that situation?

Mr. MAYER. My answer to that is, if it be an answer, there can be no answer as to what has not yet happened, because none of us can analyze in advance—we do not think the law will ever be availed of.

Mr. PUJO. That is what the strongest advocates of the measure say, the knowledge that you can take out emergency currency will prevent in the future a panic. In this connection I do not want to be put in the position as favoring the Aldrich bill either.

The CHAIRMAN. Mr. Mayer, you will notice it is becoming to be a dangerous thing for a man to seem to be its friend.

Mr. MAYER. We are not its enemies or its friends; we are simply here just as you sit down in a lawyer's office and consider the meaning of any contract or how a contract should be drawn, and I think you will agree that I have indicated no bias one way or the other. I have been just as judicious as I could be. Our purpose is to help to get, either at this session or at some other session, the right kind of legislation.

Now, here is what we fear, if I can add another fear, that if you pass this Aldrich bill with these changes, some of the Members of Congress and of the Senate may think "we have done our duty, we have legislated," and then wait until another panic shall come, and then we shall not have the legislation which the people want, and all agree are entitled to, that will grapple with, if not prevent, another panic of the character of the one we have just gone through. I am very much indebted for your extreme indulgence.

Mr. HILL. As a representative of the Manufacturers' Association, have you considered at all the effect of the high tax on this circulation upon them in their efforts to compete in foreign trade with countries where there has been no tax on circulation?

Mr. MAYER. Yes, sir; but that is absolutely prohibitive, because it would raise the interest to so excessive an amount as to, in part, destroy the avenues for their output.

The CHAIRMAN. And will it not be absolutely settled that any such condition with reference to a part of the credit will affect all credit?

Mr. MAYER. We have no doubt about it, that the water will reach its level, and if you run the interest up to where it will be 10 or 12 per cent, of course a bank is not going to say: "We will let you have emergency currency at 12 per cent, but if you want to take the regular kind of currency you can have it at 5 per cent."

Mr. GILLESPIE. What is the opinion of your information on this proposition, that we are liable to have another one of these panics immediately, or any time within the next two or three years?

Mr. MAYER. I am incompetent to give you an opinion on that, because that is a business matter.

Mr. GILLESPIE. Have your association ever discussed that?

Mr. MAYER. They have, and there are men here of the association who, as I have said, are at the head of the greatest concerns in the country, and they can talk better on that than I can. My own personal judgment is that we are not in danger of any immediate panic. I think the people are so drawing their agreements that there is not any immediate danger. But as to whether one is in sight or not, although I can say that I have talked it over with the directors on the train, I think every one of them said business was better, slightly; that they were lightening up a bit.

Mr. MCMORRAN. I listened with a great deal of attention to your argument in your criticism of the Government. Do you not think, under the circumstances, considering the conditions that we had last year, that the Government, instead of being criticised, should rather be commended for impressing upon the people of this country the weakness of their financial system?

Mr. MAYER. That is answerable in two ways. The Government, of course, is to be commended for what it tried to do.

Mr. MCMORRAN. Could they have done anything more than to impress upon the people the great weakness of our present financial system?

Mr. MAYER. Yes; I think Congress could have immediately——

Mr. MCMORRAN. Congress could not have done it; it was needed immediately.

Mr. MAYER. Congress convened in January. Congress could have immediately, at least, legislated so that the Government would not have demanded what it was urging and advising everybody else not to. Here was the Government insisting upon payment of dues to it in money.

Mr. GILLESPIE. Was that in December, when we first met?

Mr. MAYER. Yes, sir. This was brought to the attention of Secretary Cortelyou in New York. He is not to be blamed; he did everything he could.

Mr. GILLESPIE. I thought that feature of the panic was over before we met.

Mr. MAYER. No, sir. I speak from actual knowledge, because I can give you figures and statistics on that. Take, for instance, the alcohol production, which you can verify by the figures in the Internal Revenue Department, the revenue of which pays $1.10 for proof and $2.20 for high proof per gallon, and we find that the business fell off from 65 per cent, which was the total of their capacity, to 55 per cent output, or 10 units of their capacity, or 20 per cent of their output. Do you know what 20 per cent meant? It meant $1.10 a gallon. So 20 per cent, if it went through the year, would mean a loss of revenue to the United States Government alone of $30,000,000. I am not speaking now of the malt liquors, and so on. The Government said to the man who wanted to buy alcohol, the wholesale druggist—I am not speaking of the saloon keeper or the compounder—the blender who wanted alcohol for drugs: "You will have to pay at the rate of $2.20 high proof for alcohol in money, and we will not take from you a cashier's check or a national depositary check.

The CHAIRMAN. And that was true in the little country post-offices all over the country, until they staggered the small towns by collecting the cash out of the towns, virtually beating them to death, and shipping the money to this city.

Mr. MAYER. There is a gentleman on our board who can tell you what he did in order to help a few of those to pay the Government tax, and he is not in that line of business, but he is in a line of business where, in their corporation, they receive a good deal of their pay in currency. The currency premium, gentlemen, in certain portions of this country ran as high as 7 per cent, and you all know that gold ran as high as 4¼ per cent, exclusive of the cost of conveyance from New York to Chicago or Omaha or San Francisco. That was the situation.

Mr. CRAWFORD. I would like to ask Mr. Mayer one question. Have you the bill there?

Mr. MAYER. Yes, sir.

Mr. CRAWFORD. Turn to section 10. I would like to have your opinion, as an attorney, whether that requires the interest paid on all deposits in the depositary by the Government on additional and special deposits in certain events?

Mr. MAYER. I do not know, Mr. Congressman, because I am not conversant with whether the Government makes deposits other than regular deposits in its depositaries.

Mr. CRAWFORD. It made special deposits when this panic came.

Mr. MAYER. "Special and additional deposits," that is used there; whether the regular deposits, or what we always understand as a special deposit, I do not know. If they are special deposits, if I may get a little bit technical, special deposits, of course, we all know as lawyers, are deposits that are kept separate and intact as a trust fund. If the Government's deposits are made, all of them, as special deposits, then it is my opinion that there would be interest on all special and additional deposits, but if the deposits made in the national bank depositaries are regular, there would be no interest paid on those at all.

Mr. WEEKS. I think the distinction is that the Government makes two kinds of deposits, one for the benefit of disbursing officers, and all others are special. I do not think it is intended to charge any interest on deposits that are made for disbursing officers, but it is intended on all other kinds.

(Thereupon, at 6 o'clock p. m., the committee adjourned until to-morrow, Thursday, April 16, 1908, at 10.30 o'clock a. m.)

THURSDAY, *April 16, 1908.*

The committee met at 11 o'clock a. m., Hon. Charles N. Fowler (chairman) in the chair.

STATEMENT OF MR. ALFRED O. CROZIER, OF WILMINGTON, DEL.

Mr. CROZIER. Mr. Chairman and gentlemen of the committee, yesterday in this room we listened to the distinguished members of the currency commission of the American Bankers' Association. With one voice they opposed the Aldrich bill, also the Vreeland bill, the proposed substitute for the Aldrich bill, which practically is the same measure. They were vehement; they were eloquent; they said any emergency currency was wrong in principle; that in practice it would be dangerous; that it would alarm depositors and cause panic; that it would be a makeshift and defer obtaining a scientific banking and currency system; that better no legislation at all than such measures; that there was no need of an emergency currency. They said they controlled 1,000,000 votes and surely would defeat the Republican party at the coming national election if it passed the bill.

Incidentally, it cropped out that with the tax on the currency at 6 per cent there would be no profit in it for the bank. That, of course, was only incidental. They fought it on principle, they said. Their talk sounded so earnest in opposition we thought surely they would stand without being hitched.

But, lo, and behold! Last evening some of our distinguished banking friends held a conference. To-day they are having another, with the wicked promoters of the wicked Aldrich and Vreeland bills. What for? They are talking about agreeing on a compromise. On what basis? Just a simple little amendment reducing the tax to 3 per cent, and some other minor changes. Why should this convert any distinguished fighters for principle and make them willing to brave the dangers of the panics they solemnly told you the passage of any emergency-currency bill would cause? Profit! Just simply profit. Only about 1 per cent—but that is profit. What a nose for profit some even great bankers have. What will they not do for it?

Nineteen hundred years ago the price was thirty pieces of silver. Now it is 1 per cent. This sale of loudly advertised virtue and principle, if consummated, will be alike discreditable to the banking interests favoring the same and to the political agents of Wall street who may buy them for 1 per cent. If they were public officials, it would be called bribery. I have great respect for the honest bankers who

serve the people faithfully and use their trust positions for the good of their several communities, and I believe the great rank and file of the bankers of the country will repudiate such a compromise. It would make them all a laughingstock and ridiculous in the eyes of the entire country, after the virtuous resolutions they have passed and the thousands of no compromise—fight-it-to-the-last-ditch—letters they have written and scattered broadcast. It should be said that all of the bankers who appeared here have not joined in this scheme for compromise. The distinguished leader of the bankers' delegation repudiated the proposed compromise.

But Wall street seems to have known its quarry and how to get it for the pet measure of that paradise of gamblers. A law that will give Wall street power to cause panics any day at will, and therewith terrorize and plunder, with usurious interest rates and suddenly wrecked prices and credit, every business in the United States.

For 1 per cent some of these great leaders of the bankers of the United States seem to have deserted the business interests of the country with whom they were united and working in opposition on principle to any kind of emergency-currency scheme. The commercial interests of the entire country are arrayed against any emergency currency because there is not a redeeming feature in it. Commercial and business bodies everywhere have opposed it by resolutions and delegations sent here to address you. Absolutely no such organization in the United States has favored the measure.

It was announced that these public hearings would close last night. They wait until they suppose the last opportunity to be heard had gone, and their business allies—their borrowers—have departed, believing the offensive and defensive alliance will stick to the end. Then these distinguished financiers promptly enter into a secret conspiracy with the common enemy. How fickle—when profit comes within reach. How cheap—only 1 per cent.

If this committee had not honored me with this opportunity to speak at this postscript to the public hearing, and if one of the distinguished bankers who addressed you yesterday had not mistaken me last evening for one of their fraternity and unreservedly told me the whole programme, the trick would have been turned quickly and suddenly. The business interests of the country might never have known that they had been sold out by their banking partners. Even this committee might not in time have become aware that the great men who appeared here against the bill openly were, in fact, favoring it privately, all for the price of 1 per cent.

The New York Tribune three days ago editorially said that the emergency-currency bill might as well be killed for it did not have a friend in the United States. Your public hearings have lasted a week. Representatives of most of the important commercial and business interests of the United States have appeared and strongly opposed the measure. Almost the entire banking interests of the United States have adopted resolutions or sent delegations to these hearings strongly opposing any kind of an emergency-currency scheme. The laboring interests are against it. A large portion of the public press of the country now oppose the measure. In fact, the entire country seems to be against it. Almost no one has appeared before you in support of the bill. Just two persons, I believe,

have spoken in its favor. One of these is president of a Standard Oil bank. Who, then, is for the Aldrich and Vreeland bills?

On February 10, 1908, I sat in the gallery of the United States Senate and listened to Senator Aldrich's speech for his measure. At my right hand sat Perry Belmont. In the next seat in front of me, in the section reserved for the Vice-President of the Republic, sat J. Pierpont Morgan. With him was Mr. Charles Glover, president of Riggs National Bank, said to be Standard Oil's Washington institution, who came before you day before yesterday and virtually threatened the country with another panic if Congress should refuse to pass the Aldrich emergency-currency measure.

As the distinguished Senator spoke for his bill it was very apparent to the other occupants of the gallery the manifestations of approval by these influential representatives of the two great parties of Wall street, namely, the Morgan party and the Standard Oil party, now united in vigorous demand upon the Congress of the people for the passage of currency measures demanded by Wall street. I doubt if there is anyone in the United States now who does not fully understand that the Aldrich bill and the Vreeland bill were created by and for the benefit of Wall street. For this reason the entire country is against it, for it realizes that these bills confer upon Wall street a dangerous power that will enable it to create panics at will against the business and welfare of everyone else in the United States.

No one is opposed to Wall street's legitimate business, but everyone outside should be against its dangerous and lawless practices. The financier who would be successful must understand the scheme and methods of Wall street. The statesman seeking to devise wise and effective legislative currency policies can do so only by first mastering a thorough and intimate knowledge of the practices of that speculative center. In fact, to a large and increasing degree the business welfare of every American is at the mercy of the will and pleasure of the few powerful operators of the great gambling machine, through which is being rapidly run all railroads, industries, banks, commerce, and the wealth and welfare of the nation. This is not the expression of an alarmist. It is a conservative statement of the stupendous evolution going on openly and daily under the very eyes of the dazed and dazzled citizenship of the Republic. The movements are so rapid and masterful the people stand hesitating, alternately moved by admiration and by fear. While we can admire the genius and audacity of those accomplishing these word-consuming evolutions, we must feel great concern as to what will happen at that rapidly approaching day when the masses of the American people will come fully to realize that their wealth, welfare, happiness, and even their liberties have been converted into mere chips, to be dealt and played without their consent in the great gambling game of Wall street.

The problem is more difficult because men of the greatest intellect and craft after years of effort have constructed a system that even some courts have pronounced legitimate, and yet which every man in Wall street and every person outside positively knows is fictitious, as much gambling as faro, roulette, betting pools on horse races, and withal that it is a crooked gambling game. Take "short" sales, for example. The customer "sells" 1,000 shares. He does not deliver any stock or intend to. His broker goes on the exchange and "sells"

it. He does not deliver any stock or intend to. He goes to another broker and goes through the pretense of borrowing the stock. But he does not get it or intend to. The other broker had none to loan. All that is done is to make an entry on the balance sheet of the clearing house of the stock exchange falsely stating that one broker borrowed and the other loaned the 1,000 shares of such stock. The second broker in like manner "borrows" of the third, and he of the fourth, and so on until a dozen or forty have dealt in that phantom 1,000 shares, the last actually borrowing it from the first broker, whose customer now has decided to "cover" his "short" sale by "purchasing" 1,000 shares to balance his account.

No certificate of stock has been handled by anybody and no one intended or wanted to handle any. Yet some customer behind each of the forty brokers has paid two commissions of one-eighth of 1 per cent each, not on his $10,000 up as margin, but on $100,000, and also 6 per cent interest on the $90,000 while the "deal" was on. The only money ever up or involved was the $10,000 put up by each customer as "margin," to secure his broker in event of the quotation figures bet on going the wrong way.

If the deal was thus carried along one year and then closed out at the very same quotation price, the broker would retain $250 as commission and $5,400 as "interest" on $90,000, deducting same from his customer's $10,000 of margin money. Similar methods are employed when the customer "buys" on margin, not intending or desiring actually to own the stock.

If the deal is thus carried for about two years, the broker in this way would appropriate his customer's entire $10,000 of capital. But Wall street people are a nervous lot. They like to do things—or people—quickly. Delay might lose them the chance. Two effective ways have been invented for getting that $10,000 with dispatch as well as neatness. One is artificially to drop or raise the quotation prices 10 per cent and confiscate the $10,000 margin money. This is done by common impulse and cooperation whenever the public generally are in the market and playing the game. The other way is to advance rates on call loans. With rates at 50 per cent the customer's money all would be eaten up in three months. At 100 per cent in a little over thirty days. At 200 per cent in about two weeks. Once interest rates were bid up to 1,000 per cent. At that rate they would get his entire $10,000 as interest in less than four days, even if prices remained the same.

Mr. PRINCE. Would it be of interest to us, this emergency currency, in times like these?

Mr. CROZIER. I will show you, Mr. Prince, just what Wall street wants to do with this $500,000,000 currency and show where it fits in.

Mr. PRINCE. That is why I asked that question, to see if your discussion connected this with it.

Mr. CROZIER. I will show directly where this originated and what it is for. As I said, at that rate they would get his entire $10,000 as interest in less than four days, even if prices remained the same. And this without his receiving for it anything but experience and the vague sense that he also has made the trip from Jerusalem to Jericho.

The CHAIRMAN. What would these men do with these notes in Wall street?

Mr. CROZIER. What do you mean by "notes?"

The CHAIRMAN. That they would get.

Mr. CROZIER. They would have an armful of bonds.

The CHAIRMAN. No; they have their notes. Let us go through it. What would they get? Supposing a combination of banks from Wall street came down here, five banks with 100 million apiece, and they get $500,000,000 worth of notes, what would they do with them in Wall street?

Mr. CROZIER. It depends on what they are trying to do. If they are trying to force the United States to issue bonds it will make a raid on the gold reserves in the Treasury, and it will not take them fifteen minutes to do it all up.

Mr. PRINCE. The Government has agreed to pay these.

Mr. CROZIER. The Government has, and I tell you, gentlemen, that we are skating on thin ice with the gold standard, which we are all in favor of, when we rig up any such scheme as this, because you know that in the past they have raided the gold reserve in the Treasury for no other purpose than to issue bonds, and it was Dan Manning, honest, rugged Democrat that he was—though I am a Republican—who, I am told, met those men face to face and said, "Gentlemen, I will pay you gold this time, and if you come again I will pay you 50 per cent in silver, but if you come the third time I will pay you all in silver," and it stopped the raid; but when you put out a scheme of this kind, where the Government has pledged itself by the act of 1900 to pay everything in gold, it is repudiated in the eyes of the world.

The CHAIRMAN. This could all be done in a week.

Mr. CROZIER. Yes, sir.

The CHAIRMAN. Because they have the money.

Mr. CROZIER. I will say this; it is perfectly proper to say it——

Mr. GILLESPIE. Senator Lodge said in eight hours this could all be put out.

Mr. CROZIER. It is perfectly proper, I think, to say this, that when the bill was put into the Senate, at the instance of Wall street—and I am sure I can speak advisedly, although I would not care to use names, for I have some information that satisfies me, or I would not be talking so plainly as to the origin of this thing—when that bill was put in the Senate it contained a clause, very cleverly worded, that not only made it possible to contract $500,000,000 of emergency currency instantly, but also about $300,000,000 of bank-note currency, without any restriction, because it struck out of the present bank act the limitation of $9,000,000 a month, and I drew the amendment and put that back in, only I put it that they should not contract more than 9 millions of both kinds of currency, and Mr. Aldrich changed it and made it apply only to the regular bank currency; so that it is possible to contract now, after you have fed it out among the people, $500,000,000 of money, because the people accept it as money, although it is not lawful money, but is mere optional currency, not a legal tender, I believe. They feed it out among the people and allow them to build a structure of credit on top of it several times its size, and then contract it in a day or a week, and you know what happens to the credit built on top of it. I tell you, gentlemen, it is a gambling game from start to finish, brought here by gamblers and

promoted by gamblers for gambling purposes, and against the legitimate business interests of the whole United States.

And this is called business. We are told it is a legal delivery and transfer of the title of the actual property in each instance. Years ago certain courts were induced to sustain these transactions. But even those decided that there must be an intention actually to deliver the stock itself. It is difficult to read a man's thoughts to prove his unspoken intentions. Therefore, to correct this growing evil, laws must be enacted to expressly make such gambling deals unlawful. It would seem that Congress can prohibit such transactions in the securities of corporations engaged in interstate commerce. The State of New York has full power to destroy the wrong. Will it do so? That State collects a fee on each gambling transaction as its price for the immunity and indulgence granted. Last year it received from stamp taxes on purely gambling deals over $4,000,000, and the comptroller in his official report accuses the State's accomplices, who are actually operating the game in Wall street, with cheating the State out of $2,000,000 each year of its share of the common plunder taken by crooked means from the duped and fleeced speculating public.

For several months I have begged Governor Hughes to move for legislation correcting these evils. A few weeks ago I went to Albany and suggested that the legislature create a commission to investigate margin gambling and the harmful practices of Wall street, that intelligent legislation may be devised to correct the abuses without harm to legitimate business. The governor in his recent message to the legislature favored this plan. Whether the powerful financial and political influence of the master gamblers of Wall street will be able to block such legislation we soon will know. If so, the people of the other States should retaliate. The business interests of everybody in all States must not permanently be destroyed or injured by a gambling institution harbored by the laws of one State. The United States as a whole is greater than any one State. The people will find a way to protect themselves and their interests against the dangers thus wrought by Wall street.

This is all germane to the currency question under consideration, because the pending Aldrich emergency currency measure or the Vreeland bill would vastly increase the dangerous power already possessed by the few powerful masters of Wall street, who are seeking and rapidly obtaining a selfish and dominating grip on the interests and welfare of all of the 80,000,000 inhabitants of this Republic.

Margin gambling is dangerous, because its volume is now said to exceed $30,000,000,000 annually, four times the value of all the crops in the United States. It is dangerous, because the duped speculating public, in addition ultimately to losing all of their margin money, are charged by the brokers as commissions and interest nearly $200,000,000 every year for the privilege of being deliberately fleeced in the most crooked, soulless, colossal, and merciless gambling game of all human history. It is dangerous, because with it they have the power arbitrarily to change prices of securities in one day to an amount aggregating more than the total of all the money in the United States. An average change of but 10 per cent would do this, and yet we have seen the market of late decline about 50 per cent.

Of what use is it to create $500,000,000 of emergency currency and place it within the reach of these gamblers? They would seize it and

erect thereon a frail and flimsy structure of five to ten billion dollars of gambling credit with which to inflate to high figures the prices of securities until they could unload the same upon the public. Then, with a mere breath, they could destroy this structure, wrecking prices, credit, and prosperity, that they may buy back from the wronged and frightened public these same securities cheap.

The present prices of railroad and industrial stocks are above their intrinsic value, yet two years ago they were 40 to 150 per cent higher than present quotations. They were forced up to those ridiculous figures by gambling manipulations. "Wash sales" is a well-known and favorite method. Of course, prices had to come down. The panic followed. It is dangerous to let Wall street have the power to thus inflate prices of securities $10,000,000,000 beyond their intrinsic value for the purpose of deceiving and cheating the investing and speculating public. It is dangerous because this takes the money of the country away from legitimate business to be used as loans or for speculation in these crooked operations.

Why do not Congress and the States legislate to correct the causes instead only the effects of panics? These well-known Wall street conditions are certain to cause them, and yet we come here, as yesterday, and listen all day to the great bankers and business men of the country discussing what can be done to bind up the wounds inflicted by these unnecessary panics. They bitterly complain because of the amendment put into the Aldrich bill requiring the banks to hold a larger cash reserve. They say it will take away from the business of the country and will deprive them of loaning at a profit hundreds of millions of additional money. Gentlemen, unless we curb or abolish the wild and reckless gambling features of Wall street, it soon will become necessary for the banks of the country to keep 100 per cent of their deposits always in their vaults ready to meet the demands of their uneasy and frightened depositors. If we can correct this great evil, thereby removing the greatest cause of panics, it will be possible for the banks of the country safely to keep on hand even smaller reserves. It is dangerous to put into the sinister hands of such men the power thus to rob the people of the United States of their money supply. New York prohibits charging more than 6 per cent on time loans, but it permits lawfully charging 1,000 per cent on call loans. This is the great magnet with which the deposits, savings of the people all over the country, are enticed away from local business and industry to be plunged headlong seeking usury in the deadly quicksands of Wall street. This deranges the nation's currency supply, and it must be remedied, because while these practices are allowed by law it will be dangerous for anyone anywhere in the United States to expand his business or take up enterprises that could be destroyed by the occurrence of a sudden panic. Why must all the banks in the United States and all commerce and business play second fiddle to this great American Monte Carlo? If this proposed emergency currency was made $5,000,000,000, Wall street in a week would absorb it all by plunging it into gambling inflation, for it is well known that the public buys only on a rising market and usually at the top.

Every large issue of listed securities is sustained and manipulated by a huge pool composed of a few powerful men. These suspend the natural laws of supply and demand and artificially mark quotation prices up and down at will, profiting both ways at the expense of the

duped, speculating public. Prices are easily manipulated simply by contracting and expanding the volume of bank loans. An average movement of the entire market either way but 10 per cent means a profit of over $2,000,000,000 to some and an equal loss to others. Dividends are unlawfully raised or unjustly lowered, wihout regard to the rights of stockholders, to manipulate quotation prices for the speculative profit of the instigators. It is said that the combined individual wealth of the few men who comprise these market pools exceeds a billion dollars. They also dominate financial institutions with $4,000,000,000 of resources and railroads and trusts with nearly twenty billion of issued securities. They are more dangerous and reckless and soulless because the stock exchange hides their identity and their transactions. Against this impregnable fortress of giant financial strength every man blindly plays who buys even one share of listed stock or one bond either on margin or for investment. Final loss is as certain as death to one who stays in the game.

These are the few men who desire to have Congress provide five hundred million of emergency currency, all printed and ready for their use. In their frequent and frenzied gambling struggles, at the height of the game, they will borrow this money through their banks of the Public Treasury and win the contest by hurling its crushing weight against the speculating public. And they will get it at 6 per cent, and as long as they want it, while they cause their banks to charge the deluded public 10 to 200 per cent for money loaned only on call. Will Congress thus make the Government of the Republic a willing and effective instrument for the spoliation of the people through crooked stock gambling? The Aldrich bill will make it a servile annex of Wall street.

Another serious thing. It is dangerous when one bank dominated by these men can instantly wreck a trust company having over $60,000,000 of deposits by suddenly throwing back $8,000,000 worth of checks in one day and then allowing the fact to be immediately emblazoned in the papers, in a way that would wreck any bank or trust company in the United States and cause runs on many banks. And I was told by the editor of a large daily paper that the information came to the paper direct from a member of the clearing-house committee. It was the publication of this fact that really precipitated the serious panic.

Mr. HORACE WHITE. Unsolicited?

Mr. CROZIER. Yes, sir; there are many things under the surface that the great public does not know.

The CHAIRMAN. We supposed they knew everything that is going on in Wall street.

Mr. CROZIER. That the public did?

The CHAIRMAN. Yes. [Laughter.]

Mr. CROZIER. I have been studying it for years intimately, and I do not know much about it yet, and I have some very good friends in the game who gave me the information on the subject. I am not guessing at a great many of these things, and I want to say to you, Mr. Chairman, in that connection, that the information that set me to work fighting the Aldrich bill came to me some time ago, and I began opposing he Aldrich bill a year and a half ago, long before it was born, because I was told in Wall street that that legislation was to be brought before this Congress and that a panic would precede it; and

that was the information, Mr. Chairman, if you will pardon me, and personal information, that started me to work to write the Magnet in order to expose that thing. I did not do it to write a book; I hoped to render the public a service, and you will find a complete detailed history of the recent panic, almost in every particular, written a year before it happened, and it was in the hands of the publishers two or three months. They certify that it was in their hands two or three months before the panic occurred. I only speak of that to show you that this is not a thing that was hatched as the result of the panic, but that the panic was created for a purpose, and that was to help force the country to drive you gentlemen into forcing through Congress currency legislation that they want, and among that legislation is the Central Government bank scheme wanted by one of the great banks of Wall street.

Mr. PRINCE. That is a very essential thing for the country to know. If you state upon your honor that you knew that this panic was coming in advance of its coming, and you have told those things that were told to you, and subsequent development demonstrated, beyond the possibility of a doubt, that your information was correct, and you correctly detail it it looks as if there has been a conspiracy, and if there is a conspiracy it is a pretty dangerous thing. You are using language that is pretty strong. I am not approving of what you say nor am I condemning what you say, but as a public man occupying a public position if what you say is so and it is grounded upon the facts, I want to tell you it is a dangerous condition in this country.

Mr. CROZIER. It surely is.

Mr. PRINCE. And the public should know it. I do not want any rant; I want facts.

Mr. CROZIER. Yes, sir. Now, Mr. Prince and gentlemen of the committee, it is because I believe in my soul that this panic was as much created as that table that I am anxious to get an investigation, and I am anxious to have Congress appoint this currency commission with power to swear witnesses, and call for books and papers, with a broad enough ground so that the men of Wall street can be put on oath to tell the facts; and I tell you gentlemen that there are some things that I do not like to talk about here that I will say to the counsel of that commission when it comes that may bring out the way panics are caused and the way conditions are created that logically result in panics, which is just as bad, in order that we American people and you Congressmen, not responsible to Wall street and not responsible to the financial interests alone, but to the whole country, can find some way to head off these panics before they occur. I tell you somebody will have to go on and state whether it is true that one of the most powerful men in Wall street said, the year before the panic occurred, in a directors' meeting of one of the leading railroad systems of this country: "We will have a panic before Congress convenes; get yourself ready;" and that railroad, it is said, borrowed $30,000,000 and put it in the bank and had it ready.

Mr. WEEKS. What railroad was that?

Mr. CROZIER. The New York, New Haven and Hartford Railroad, if I must state.

Mr. WEEKS. Who was the man?

Mr. CROZIER. Now, I have no objection to telling, but I do not want to indulge in personalities unless I must.

Mr. PRINCE. I do not think it is proper. If there is a commission appointed he will tell it.

Mr. WEEKS. I do not think that mere assertions of that kind ought to be made unless there is a real basis for it, and I want to know whether there is a real basis for it. Did that man say "We will have a panic," or that he thought we would have a panic?

Mr. CROZIER. He said that "We will have a panic."

Mr. WEEKS. Most men who were in touch with financial conditions would have said a year ago that they thought we would have a panic. Any man of any judgment would have said, "Conditions are ripe to bring about a panic," but did he say, "We will have a panic," or did he say, "I think we will have a panic?"

Mr. CROZIER. I would prefer to let him tell that under oath. I will say this, seeing that you have insisted upon my naming the railroad, I will call attention to one salient thing: I do not know whether that road borrowed 30 millions or not, but I have been told so by people who pretend to know.

Mr. WEEKS. I will tell you that they did; they had contracted for equipment to be delivered within the next year, to use that 30 millions.

Mr. CROZIER. Now, then, what is the result of the panic, which I believe was precipitated? The people wanted another line to Boston. The competing railroad, the Port Chester Railroad, got a good start for another competing line to Boston, but it was thrown on the financial rocks by the panic, and the New Haven road controls it now. Here is the competing line along the Atlantic coast. No one sympathizes with Mr. Morse; his methods were reprehensible, we all agree; but the fact remains the same that the road was wrecked by the panic, and no one will be a formidable competitor of the New Haven railroad in the way of cheap water transportation rates, and the people have to suffer for it—the people of New England.

Another thing. I will just make a prediction, and I will not make it any stronger than that: I will predict that when the clouds roll away, inside of two years, and we get a commission that will put people on oath, we will find that a few strong men in Wall street, who dominated the major portion of the great financial institutions of New York City, have practically seized the rest of them, and at bargain prices, under the stress of the panic, which they were claiming to relieve. It has simply resulted in the further consolidation of the control of the financial and banking capital of the United States, which I consider dangerous, when we have to borrow of one man, or one set of men, all have to go to one pool to get any money in the United States, directly or indirectly.

It is dangerous when men can use such instruments for precipitating a panic that immediately will force every bank and trust company in the United States to begin immediately calling loans against business and industry and hoarding money to be prepared to meet the demands of frightened depositors. It is dangerous when it is possible for such conditions to cause the whole banking system of the country to default and refuse to pay their demand obligations. It is dangerous when in this way great prosperous industries crowded with profitable orders can thus be forced to shut down simply because the banks are thus forced to refuse to honor checks on demand

deposits representing money belonging to such industries. It is dangerous when such unsound conditions are permitted to exist, that will without warning force out of employment 1,000,000 honest American workingmen, throwing 5,000,000 dependent wives and children into distress to face the terrors and fear of want and hunger and perhaps the bitterness of private or public charity.

It is dangerous when these things can happen out of a clear sky in a land of plenty, in the very midst of prosperity, when there are abundant crops and high prices and a demand for the products of industry that the busy mills and factories can not supply. It is dangerous when that great structure of credit, on which the vast volume of the business of the country necessarily must be transacted, can thus be suddenly destroyed.

I say these things are dangerous, gentlemen, because hungry men whose families are thus treated will become enraged beyond control when they discover that their misfortune and the sufferings of their families are due to the wicked machinations of a coterie of gamblers, whose insatiable appetite for greed of gain leads them deliberately to create conditions which they know will bring on such results.

It is dangerous, this power to use panics to destroy competition by enabling big trusts to seize their weaker competitors, thus forced upon the financial rocks. The steel trust so acquired the Tennessee Coal and Iron Company. Now, the lives of millions of people must continue to be put in jeopardy because railroads will be forced to use unsafe and brittle Bessemer steel rails instead of safe, open-hearth rails, solely to enable that amazing trust to go on enjoying the inordinate profits of its strengthened monopoly. It is dangerous when the public welfare can ruthlessly be destroyed by being deprived of the benefits of a competing short line, which the Port Chester Railroad was building from New York to Boston, and of competitive rates by coastwise boat lines, solely to add to the already excessive profits of the New York, New Haven and Hartford Railroad.

Wall street is dangerous because it not only dominates the railroads and industries of the country, but has seized upon the vast accumulated savings of the people of the United States by getting control of the large insurance and trust companies and banks, using these trust funds for selfish purposes and to promote the wild and reckless gambling game always in progress, as though the money was their individual property. And it will be found later that the recent panic enabled the seizure and further concentration of the great financial institutions in the hands of the favored few.

It is dangerous for the country and for honest investors when the control of great railroads and industries employing millions of workmen can be ping-ponged back and forth, the playthings of gamblers who know nothing of railroading or managing industries. It is dangerous when such men, by craft and deceit, have won from their rightful owners such enterprises, and now are able to make the great railroad and industrial managers their mere errand boys, to be discharged like menial servants whenever they refuse to conduct such properties with primary regard to the gambling speculations constantly under way, conducted in the interests of those who have seized control. It is dangerous to have such men in position to dictate a policy that may precipitate a strike on a great railway system, wronging the traveling and shipping public as well as their faithful em-

ployees and their families, in order to further some scheme of gambling speculation or further concentration of ownership. It is dangerous that they should have the power to increase and lower dividends without regard to the rights of stockholders, solely to help the gambling masters win bets they have made as to the future quotation prices of the securities.

It is dangerous when the mere nod of one or two men in times like these can arbitrarily increase the price of meat throughout the country to 80,000,000 people. It is dangerous when the speculators in wheat and other crops of the soil have the power to gamble the prices down until the producers have sold to them, and then gamble the prices up until they have closed out to the consumers of the country.

It is dangerous to permit these conditions to breed panics when we know that the natural, logical, and inevitable result will be embezzlement, larceny, suicide, murder, and other crimes almost wholesale. A recent report shows that the sudden increase of insanity among the citizens of New York, the State that gets $4,000,000 a year for its gambling privilege, is so appalling and alarming, due to the conditions created by the recent panic, that all the asylums of that State are unequal to the extra demand, and new institutions must at once be erected.

Gentlemen, these things are dangerous, for you know they develop a demand for socialism. Yes; they incite anarchy. For this reason they are crimes.

Margin gambling benefits no honest interest. It is dangerous because it demoralizes business integrity. It creates a false basis and wrong ideals. It unsteadies men for business and paralyzes their moral sense and habits of honesty. It teaches the boys and the girls—our children—through the example of financiers whose gambling successes are constantly paraded, that the great aim in life is inordinate riches and that the methods of obtaining the same are entirely immaterial if only you are clever enough to keep out of jail.

Can you not see that this sickening saturnalia of fraud, corruption, and crime, if allowed to go on unchecked, surely will wreck the race in disgrace and shame? I am not speaking of strange things with which you are unfamiliar. You see it all about you. The American people are playing with fire. Either they must put it out, or they will be consumed by it. Margin gambling and usurious interest rates must be stopped by law. The great institutions must be brought under the control of law and management provided that will respect the rights of the people. The dangerous powers of Wall street must be taken away. The searchlight of investigation must be turned full upon all its practices. Congress should not grant it greater power, for such power surely would be used against public welfare.

Control of national banks is gradually getting into fewer hands. The capital and surplus of the 38 national banks of New York City aggregates $226,873,500. This is more than the total capital stock of two-thirds in number of all the national banks in the United States.

Mr. WEEKS. I suppose that is needed to do the business, is it not?

Mr. CROZIER. I do not think so.

Mr. WEEKS. Men would not put their capital into enterprises if it was not needed.

Mr. CROZIER. It is needed to do the business, if everybody is to be forced to go to New York and do his business.

Mr. WEEKS. You mean everybody in the country.

Mr. CROZIER. Everybody in the country.

Mr. WEEKS. That is the financial heart of the country, is it not?

Mr. CROZIER. Yes, sir.

Mr. WEEKS. And necessarily practically every bank in the United States carries an account there, does it not?

Mr. CROZIER. I will answer that by personal experience, which can be multiplied in your own experience and your own knowledge of conditions all over the country. During the last two years I have financed an institution, raised several hundred thousand dollars at a time when it was difficult, as you know, to do it. Repeatedly I was invited to meet bankers to consider the subject of bonds that we were placing. Two or three times, after being so invited and going there, as soon as I got there conveniently, I was met with the statement that interest in Wall street had gone to 16 per cent, and before I got there they had gathered up all the surplus they could spare and sent it down there to get some of those big rates. It stood in the way of the development of legitimate industry that employs large numbers of men. Those experiences of mine were duplicated all over the country thousands of times.

Mr. WEEKS. Were those banks in your own town?

Mr. CROZIER. One or two of them were near the industry in question; yes, sir.

Mr. WEEKS. Is that the way banks in your community look after local industries?

Mr. CROZIER. It is the way some banks are doing, not all of them; I am not characterizing all of them, for most banks are honest. Some of my best friends are bankers, but I tell you that all over this country these men are enticed with the idea of bigger interest rates, and they think nobody will know it, and they take the money there because they consider the money their own property, subject only to the agreement to return it to the depositor on demand.

Mr. WEEKS. What would you say, Mr. Crozier, to this proposition? In the city of Boston, for instance, the banks took out 15 or 20 millions of clearing-house certificates and paid 7⅛ per cent for money and turned around and loaned it to their customers at 6, and paid many hundreds of thousands of dollars premium on currency.

Mr. CROZIER. I have not a bit of doubt, because there are patriotic men in the banking business in Boston.

Mr. WEEKS. Is that not generally the case?

Mr. CROZIER. No, sir; I can not say that it is, because I have seen so many things, and I have been told by other bankers that they do it. They send the deposits that belong to the people of the community away, seeking these higher rates, and then, when the industry comes in, they say, "We are short;" they do not go any further and say where it has gone, but they say, "We are short." It is a growing tendency and will be as long as high rates on call money, ranging up to 10, 50, 100, and 200 per cent, continue, as you know; as long as that inducement is there, you hear financial authorities say that money follows the interest rate all over the world; in fact, to Europe.

Mr. WEEKS. We had a bank man here the other day who testified—and I know the man, and I am quite sure that the fact was correctly

stated—that these banks called home money that was in Europe, and loaned it at 6 per cent, simply to take care of the customers.

Mr. CROZIER. I have no doubt he is a patriotic and honest man.

Mr. WEEKS. And it was only the surplus money that was not recalled home that was loaned at high rates.

Mr. CROZIER. I would have asked that man what right he had to take the trust deposits of that bank and send them down to the gambling center to loan at 60 per cent, because none but a gambling business can loan money at 60 per cent.

Mr. WEEKS. He had good security, and protected his principal and his stockholders.

Mr. CROZIER. I am protesting against the principle. That principle is neither moral nor lawful. That is one of the reasons I am here. We have to stop 60 per cent interest in this country or the business institutions in this land will never know whether they are afoot or horseback, because the gamblers any day can put the interest up to 10, 50, 100, or 200 per cent, and you know it is human nature to take money that is loaned at 4 or 6 per cent and send it where they can get 60 per cent, and that is what I am objecting to, and that is why Wall street is so dangerous to the business interests of the United States, because it has the power, under the laws of New York, to offer money for use, only for gambling purposes, at those rates that a legitimate industry can not afford to pay, and that is where our money supply is going, that is where our currency is going, all over the country, and that is what makes it necessary to do something, that is what Mr. Fowler is working for, to get some kind of a currency scheme that will allow expansion and take the money away. I am studying his scheme; it is an honest attempt to get some kind of a genuine currency system for the country, and I am studying it hard; I do not know whether I can approve it and can not tell until I get through it. It probably will not make any difference whether I do or not. [Laughter.]

Mr. WEEKS. We would not have any 60 per cent money rates if Mr. Fowler's bill was a law.

Mr. CROZIER. I believe that is true; I honestly believe that is true, but I will tell you what you would have. You pass the Aldrich bill and you will have 10, 50, 60, or 100 per cent money all the time, because they want to use that money at a profit, and they will take it out and pay the Government 6 per cent, and, of course, they have to make the interest rates high in order to make a profit on that money. It will result in the raising of the interest rate all over the United States to the industrial borrowers. In fact, taking the smaller institutions, the combined capital stock of half of all the national banks in the country, 3,325, only about equals $117,923,112 joint capital and surplus of just three Wall street banks.

Now, you gentlemen here think, maybe, if you have not looked into it, that you are voting this to 6,650 national banks, but I show you the figures from the official records, and you are voting most of it to Wall street banks, three of them, which are not banks at all, but they are annexes of the gambling game of Wall street, for less than one-third of their resources is loaned for commercial purposes, and one of the biggest of them has now organized an adjunct for speculative purposes so that they can have a Hyde and Jekyll institution, Mr.

Jekyll, the virtuous banker, and Mr. Hyde to do the speculating for the bank on the side.

Mr. CRAWFORD. The bill provides in section 1, under the proviso:

That the total amount of circulating notes outstanding of any national banking association, including notes secured by United States bonds as now provided by law, and notes secured by other bonds as provided by this act, shall not at any time exceed the amount of its unimpaired capital and surplus.

Will not that be a limit on its power?

Mr. CROZIER. It will be a limit to that extent, but I object to an emergency currency, if we are to have it, that is supposed to be for the benefit of the people of the country, being distributed over the country on the basis of the capital and surplus of the banks, because of this very concentration here, which will make the most of it go to the banking institutions of one city.

Mr. CRAWFORD. I understood you to say that they would get control of the 500 millions and surrender it immediately.

Mr. CROZIER. No; those banks will get possession of about $100,000,000 in currency, including the bank currency. These are National Bank of Commerce, First National Bank, and National City Bank, said to be all dominated by three men, Mr. Morgan, Mr. Rockefeller, and Mr. Ryan. The total cash resources handled by these banks is $557,211,400, an amount equal to about 65 per cent of the entire bonded debt of the United States, which now is $894,834,280.

Still more significant, the capital and surplus of the National City Bank, commonly called the "Standard Oil bank," is now $48,582,022. This is nearly equal to the aggregate capital of the 2,063 national banks handling less than $50,000 capital, which is $54,322,000. The cash resources handled by this bank alone are $233,233,400. Further concentration of banking control, deposits, and power will not be for the common good. It will not be a good thing for agricultural, commercial, and industrial borrowers to all be absolutely dependent for the money they must have upon the will of the small coterie of powerful gamesters who, in increasing measure, are coming to dominate most of the great financial institutions controlling the deposits and insurance savings of the American people. This financial concentration necessarily carries with it railroad and industrial consolidation, destruction of competition, and loss of opportunity and independence of the individual citizen. There is a dead line beyond which this development can not go without endangering republican institutions, and we are in sight of the warning signal. The Aldrich measure, more than any law ever put through Congress, will increase this centralization. It will tend to create a huge money trust. It will oppress labor. With it a political machine may be built up that nothing but literal revolution could destroy.

The few Wall street banks will be the chief beneficiaries of the Aldrich and Vreeland bills. These will wield the terrific power conferred, a power that vastly increases their grip on the other banks of the country; a power that will be employed to take away their deposits and further concentrate the capital and wealth of the land. Only these New York banks are situated to borrow this $500,000,000 of emergency currency from the Government at 6 per cent, and loan it for stock-gambling purposes at 10 to 200 per cent. This will tempt them to keep call-loan rates bid high. It will result in imposing upon

the commerce, industry, and labor of the entire country the burden of unjust interest rates. If the Aldrich or Vreeland bills become law, the three big banks I have mentioned can legally obtain from the Federal Treasury and retain, loan, and manipulate more than $100,000,000 of public currency. They alone will have the tremendous power to inflate and contract the public currency to that extent. For the use of half of this they will pay 6 per cent, and for the balance they pay only one-half of 1 per cent annually. If they average a profit of but 6 per cent on this money, and some of the time they can get 100 per cent on call loans, these three banks, dominated by three powerful men, through the use of this money belonging to the Treasury of the Republic, will make an extra net profit of $6,000,000 every year. The 678 mutual savings banks of the country owned by their 7,000,000 depositors will get none of these rich governmental favors.

This may explain why it is that the few men dominating these three Wall street banks are the real promoters of the Aldrich and Vreeland bills, and so far as these public hearings show, seem to be about the only people in the United States really in favor of these measures.

Senator Aldrich stated that his bill was to protect national banks in case of panics. That it was for no other purpose. Why allow national banks to monopolize the benefits? According to the report of the Comptroller of the Currency there are 23,937 banks and trust companies of all kinds in the United States. Each is menaced as much as any other by the danger of runs in a panic. Yet the Aldrich bill and the Vreeland bill would have the Congress of the whole people fix it so that only the 6,650 national banks can get any of this $500,000,000 emergency currency under any circumstances. The other 17,287 banks and trust companies must remain helplessly exposed to the perils of panics.

Mr. WEEKS. Why do you suppose, then, there is a relative increase of those outside banks over national banks? Why are they increasing in deposits and number and capital faster than national banks if the national banks have such privileges or are likely to have such privileges accorded them?

Mr. CROZIER. Those are questions that may be possibly controlled by the great issue that is now on before the people as to the State control or the national control of business enterprises. I do not claim to be able to give, offhand, a final opinion on that subject. There are lots of men who are very much against the Government of the United States having anything to do with their business enterprises. I must say that I am not one of those men, provided it is within reasonable limits.

Mr. CRAWFORD. Is it not true that the people can not get the bonds on which to organize the banks? They can get the capital, but they can not get the bonds—the State banks and trust companies?

Mr. WEEKS. I do not know of any State bank or trust company that has tried to and has failed. They are advertised every day in the market by brokers.

Mr. CROZIER. The national banks are making enough money. The Comptroller's report shows that for thirty years the average profit of all the banks in the United States—those well managed and those poorly managed—is almost 9 per cent per annum.

The CHAIRMAN. The question is not whether they are getting enough; if they are getting 9 and the other fellows are getting 19, the capital is going where it gets 19.

Mr. CROZIER. Of course you know a great many national banks get very large profits, but those things are mere details. What I am showing is this, that here is Congress representing the whole people—you are supposed to represent the people who have their money in State banks and in trust companies and in private banks and loan associations. You are supposed to represent them just as much as the depositors in a national bank, about 418,000 in number.

Mr. WEEKS. We represent them, but we can not legislate for all of them.

Mr. CROZIER. Let us see about that. There is no reason why, that I know of, Congress could not pass this law in such shape that any bank, any trust company, anybody else in the United States could not take the same bond security and deposit it with the United States and take out the same money to be used for their emergency.

The CHAIRMAN. How would you supervise the banks if they are not national banks?

Mr. GILLESPIE. You do not care to supervise if you have the security.

Mr. CROZIER. No; you do not lend the money on the credit of the bank, but on the credit of the Government bonds.

Mr. WALDO. The main objection to these Aldrich and Vreeland bills is that they provide for bond security. In other words, you have to part with your capital before you start any business.

Mr. CROZIER. I am taking them on their own ground, and I will refer to that very briefly just a little later.

These banks and trust companies will have no right to apply for one dollar, even if national banks do not need the money. Yet these ignored financial institutions have about ten times as many depositors. No protection is given to the 7,071,219 men and women who own the 678 mutual savings banks. Only the 418,057 stockholders of the national banks are favored.

Mr. WEEKS. Are not those mutual bank deposits well protected by State laws?

Mr. CROZIER. They are not, except in case of a sixty-day loan, and you know what that means. If they get a panic on, it may last six months or a year. They are protected by a sixty-day clause, but it is nominal protection. If this is going to be what all these gentlemen who are asking for it say, a bluff to keep the people from starting on a run, and that is all Mr. Aldrich claims for it—he does not claim it will ever be used for any other purpose—if it is going to be a bluff, why not authorize the savings banks to chloroform their depositors in the same way? The other savings and State banks and trust companies of the United States are also ignored. Yet they have more stockholders, depositors, and deposits.

The average deposits in national banks is larger. One man withdrew a million and another $700,000 in the recent panic. Wealthy men of influence may have knowledge and act first, leaving the burden of loss to fall upon the smaller and less alert depositors. Banks of the humble people most need from Congress emergency help to protect them against panics. The Aldrich and Vreeland bills give

them none. The number of citizens affected, rather than the size of their fortunes, should be considered in making laws. In fact, those of slender means, who can not afford the loss, should be considered first. It is the individual and not his bank account who is terrified with fear when panic threatens to wreck the bank and sweep away the savings of a lifetime of toil. Congress should legislate for people rather than for money.

Could any legislation be more unfair, partial, un-American? What just reason can be given why the emergency currency should not be issued to any bank or trust company depositing the required bonds and paying the high tax? The Aldrich and the Vreeland bills would make the people think national banks safer than other banks. Is it the clever purpose to use this law of Congress to entice into national banks the deposits of all State, savings, and private banks, loan associations and trust companies? It would tend to do so. This was the case when the trust company system of New York City was recently discredited when the Knickerbocker Trust Company was wrecked.

The Secretary of the Treasury, in his report on January 29, 1908, to the resolution of the Senate, says that because of this distrust the deposits of the New York trust companies decreased $267,875,926, but the deposits of the New York banks actually increased $53,280,936, notwithstanding the withdrawing and hoarding of $290,000,000.

I might say right here that it is a very significant fact, gentlemen, and it speaks eloquently for the ability and skill of Wall street, when we know that instead of contracting their loans, as everybody else in the United States did, to the injury of the business people all over the country and the industries, the loans of Wall street banks actually increased.

Mr. WEEKS. Do you not know that those loans were not made to brokers or on collateral, but were made to commercial institutions and to corporations who needed the money?

Mr. CROZIER. We will bring that out when we get this commission, I think.

Mr. WEEKS. I will explain to you that the very banks which you are denouncing refused to loan their own depositors, who were brokers, on collateral, because they wanted the money for commercial interests, and did loan it to commercial interests.

Mr. CROZIER. No doubt they loaned a great deal to commercial institutions.

Mr. WEEKS. They made their entire loans, practically, to such.

Mr. CROZIER. The theory on which the Government of the United States took its money out of the Federal Treasury and put it into those banks was to strengthen the cash reserves of those banks for the benefit of the depositors of those banks, and for them to take that money, instead of holding it to honor contracts, to actually lower their resources and increase their loans, I say they were not treating the Government of the United States fairly when they did it.

Mr. WEEKS. Yes; but they were loaning to outside interests of large importance for pay-roll purposes and for commercial purposes, helping out the situation all over the country, and as a matter of fact they lost instead of gained in reserve money, notwithstanding the deposits of the Government and the gold that was brought from abroad. That you could not find out by simply looking at the bank statements. Speaking of brokers, you know that one of the New York courts has

recently decided that buying stocks on margin is not gambling, do you not?

Mr. CROZIER. I know that the New York courts have several times decided it, and I have already stated that. The fact is that all those decisions are based on the question of the intention of the man actually to deliver the stock. How are you going to prove what the intention is, if both of them, when they go into the game, know that they have to keep their mouths shut and not express their intentions?

Mr. WEEKS. All the stocks on the New York Stock Exchange are actually delivered.

Mr. CROZIER. How is it with short sales?

Mr. WEEKS. They are all delivered. A, who is a broker, sells for his customer B a thousand shares of Atchison stock at par.

Mr. CROZIER. That is on a short sale, and he puts up $10,000.

Mr. WEEKS. B has not the stock; A sells that stock to C, who is another broker. He must deliver that stock before 2 o'clock the next day under the rules of the stock exchange. But does he do it? He goes to D, who has the stock, and borrows the stock and pays him the $100,000 for it and takes the stock from D and delivers it to C, to whom he sold it, so that the delivery is actually made as if D, who is the seller and the principal, actually owned the stock.

Mr. WALDO. How many of those transactions do you know are run out on the New York Exchange?

Mr. WEEKS. In all short sales the delivery is actually made.

Mr. CROZIER. I have just made the statement, Mr. Weeks, before you came in, that the broker who sells goes to another broker and borrows, but he does not get the stock; he merely gets a statement on the clearing house showing that he has borrowed 1,000 shares, and that the other man has delivered to him. There is no actual delivery of the certificates.

Mr. WEEKS. Now, let me tell you where you are mistaken. Your idea is all right. Very frequently that thousand shares of stock might be sold two or three times during the day.

Mr. CROZIER. Say forty times.

Mr. WEEKS. The first seller delivers to the last buyer, which prevents the necessity of the passing of all those checks, and the reason for that is, that it was found that it was pretty nearly impossible to make the deliveries during the day, the number of deliveries that had to be made, and for that reason the stock exchange clearing-house system was instituted, so that the first seller delivers to the last buyer, and the others simply passed checks.

Mr. CROZIER. Now, then, there are forty brokers, each one handling a short deal for a customer, and it makes forty transactions. Take the thing back here to the two first parties who actually settled by the delivery of the certificates. Each one of those brokers represents some customer.

Mr. WEEKS. Yes.

Mr. CROZIER. And he has put up $10,000 in the hands of that broker.

Mr. WEEKS. Yes.

Mr. CROZIER. And he is carrying that stock and he is paying commission on it and he is paying interest on $90,000.

Mr. WEEKS. No; he does not pay any interest if it is a short sale. He receives interest on his $10,000.

Mr. CROZIER. It is the same thing.

Mr. WEEKS. It is the reverse of the same thing; he does not pay any interest.

Mr. CROZIER. You mean if he short sales it.

Mr. WEEKS. If he is selling short, he does not pay any.

Mr. PUJO. If he buys, does he not pay interest?

Mr. WEEKS. Oh, yes.

Mr. CROZIER. He does not pay on the $10,000; he pays on the $90,000.

Mr. WEEKS. On the $90,000 if he buys, but if he sells he does not pay any.

Mr. CROZIER. Then the settlement is made between the brokers on the interest basis they have agreed upon?

Mr. WEEKS. No; it is made on the prices. If it sells at par, and then somebody sells at 90, the check goes to the man who sold at par. The man who buys the stock finally buys it for somebody, and that man pays the interest to the broker who buys it for him. Then, taking it on long sales all the way around, there are forty deals. Does not each man pay interest?

Mr. WEEKS. If they are short sales, no.

Mr. CROZIER. Long sales.

Mr. WEEKS. Oh, yes.

Mr. CROZIER. Those are the details that I want an investigation to bring out. I want those gentlemen to go on the stand and let us find out about those things. I am not taking a money statement of these things. I am citing people who are on the stock exchange and people who are editors of newspapers and prominent men in New York. They say that the mere fiction that is rigged up to mislead the public into believing that these are actual, genuine transactions deceives nobody, because we all know they are fictitious sales.

Mr. WEEKS. I believe there is nothing of that sort going on. Brokers are occasionally suspended by the New York Stock Exchange for doing something you are charging now.

Mr. CROZIER. For wash sales?

Mr. WEEKS. The man who indulges in wash sales is suspended for a year on the first offense.

Mr. CROZIER. One of the most prominent members of the New York Stock Exchange told me that approximately half, some days, of all the transactions on the New York Stock Exchange were wash sales, and he is one of the most prominent bankers.

Mr. WALDO. They are announced between the parties to be all right.

Mr. CROZIER. I tell one broker to sell and I tell another to buy. The brokers may be innocent of it, but the evil to the country is the same if you can boost the market up 10 or 15 per cent. If the shrewd operators of Wall street keep the brokers in ignorance that they are dealing in wash sales, I am not blaming the brokers; they are good men.

Mr. WEEKS. I hope that you will get your testimony in some time, and I think you will be surprised.

Mr. CROZIER. I have asked the legislature to investigate, and Governor Hughes has recommended it in a special message.

Going back, now, I had stated that the Secretary of the Treasury, in his report on January 29, 1908, to the resolution of the Senate, says

that because of this distrust the deposits of the New York trust companies decreased $267,875,926, but the deposits of the New York banks actually increased $53,280,936, notwithstanding the withdrawal and hoarding of $290,000,000.

Will these institutions remain quiet and let Congress thus legislate their deposits out of their hands and into national banks? The total resources of the 23,937 banks and trust companies are $19,645,000,000. Of this vast amount the national banks already have secured $8,390,328,402.80. If the Aldrich or Vreeland laws transfer the balance, the 418,057 stockholders of 6,650 national banks will own absolute control over the entire deposits of 80,000,000 people.

The experiences of the recent panic prove that the industries of the country are in greater need of an emergency currency that they can get at direct, independent of the banks, than are the banks to protect themselves against frightened depositors. If industries could have borrowed bonds and deposited them with the Treasury and obtained emergency currency, we would not have seen the spectacle of great, prosperous, and solvent industries, crowded with profitable business, shutting down and almost being forced into bankruptcy courts, discharging thousands of workingmen, solely because frightened banks would not give up of the money belonging to the industries on deposit, even enough to meet current pay rolls. If we are to have an emergency currency, why not let the Treasury issue it to any bank or trust company, corporation, or individual willing to deposit the same securities and pay the high tax? Why give national banks only the monopoly?

I will not stop to discuss the central Government bank scheme further than to say that it is being promoted by the same Wall street interests and for the same purposes. They seek to take from the Government and put into the hands of a privately-owned central bank, to be called a Government bank, the power to issue all of the currency and to contract and expand its volume at will. With this power to contract and inflate the money supply, those dominating such a bank could work the prices of listed securities up and down like a pump handle, profiting both ways.

The president of the American Bankers' Association told this committee day before yesterday that the passage of this bill will cause a panic. A few days ago the president of the Standard Oil Bank, in an address before you, stated that if the Aldrich bill was not passed the country would have another panic this fall. If these men are correct, we are left simply the choice of death with a pistol or a shotgun. But both are not correct. Let us see who is. Wall street, in asking for the Aldrich bill, says the $500,000,000 emergency currency never will be used. That its very existence will work a charm that will keep the depositors from making runs on banks. It is to be a huge bluff.

It should be understood that the bill is not designed to prevent panics. It is only to prevent panics causing runs on Wall street's precious banks. Panics possess no terrors for the gamblers. They are enriched by a panic. It enables them to buy railroads and industries cheap, or at sheriff's sale, and to wreck prices of securities that they may buy back at low prices those they have sold to the public at high figures. Panics are among the most useful instruments of speculative and predatory Wall street in its struggle for the finan-

cial and industrial conquest of the Republic. But runs on banks and withdrawal by the people owning them of the bank deposits used to sustain the whole fictitious structure of Wall street's gambling game subjects the powerful operators to the tortures of fear and terror. It is like what is experienced by the poor widow whose little savings of a lifetime are in danger of being swept away by a panic-inspired run on the savings bank which the Aldrich bill does not propose to protect. So Wall street demands that Congress protect its steady enjoyment of the deposits of national banks, and by making people think such banks more safe entice away from other banks and into their own the balance of the savings of the people of the United States.

But the Aldrich and the Vreeland bills will incite panics. The only reason Wall street does not create more speculative panics is because of fear of inciting runs on its banks. If it was certain that depositors would withdraw and hoard money in every panic, such panics would be less frequent. If this $500,000,000 emergency currency provided by the Government is able to so chloroform bank depositors into a feeling of such security that they will leave their money in the banks for the speculators to borrow and use during panics, we can be sure Wall street will cause panics for its sinister purposes with greater frequency. The Aldrich bill is intended to be Wall street's insurance policy, guaranteeing the profitable employment of panics and insuring it against loss of the steady use of the deposits of the people. But the balance of the country does not want panics, because they are destructive of credit, values, business, and prosperity. Which will Congress serve, Wall street or the people of the United States?

Before closing I desire to refer to one very significant fact. At the height of the recent panic, when J. Pierpont Morgan assumed command, it is said that his first peremptory order to Wall street was that all margin gambling must absolutely cease at once. The intimation was given that any one of the 1,100 brokers of the stock exchange who should accept any margin trade would be punished financially. The order was obeyed, and the pressure on the money market was instantly relieved. Could there be higher or more eloquent testimony to the baneful effects of margin speculation upon the currency supply of the country? Could anything better establish that Wall street margin gambling is the deadly enemy of every legitimate business and industry in the United States? If this is true, it must be utterly destroyed, and until that is done the people of the United States must expect occasional and sudden panics, and it will be necessary for them to keep near shore all the time with their business enterprises.

Gentlemen, I am a Republican. As a member of the party now in control of every branch of the Federal Government, I claim the right to express my views as to the political effect of the passage of either the Aldrich or the Vreeland bills. The people of the entire country believe these are Wall-street measures. The people of the entire country are against Wall street because they believe its practices caused the recent unnecessary panic, and that it profited from the financial misfortunes of the balance of the country. The people of the United States surely will hold the party in power responsible if this bill is passed. The Vreeland bill cuts out some of the best

features of the Aldrich bill and is equally vicious. About the only change is to give greater advantages and more profits to national banks. When it is understood that these favors are issued on the basis of capital and surplus, respectively, the figures I have given showing the concentration of bank control clearly proves that most of the benefits will be voted by Congress to Wall street direct.

As I said, the New York Tribune states that the bill has no friends in the United States. Other Republican papers are making similar statements. Your hearings indicate that almost every business interest and banking interest throughout the whole country is against any emergency currency measure. Only Wall street is known to be in favor and actively promoting these bills. Why, then, should the Republican party undertake to force these bills through Congress under the spur of the party whip? If it is done, our leaders are riding to a fall. Every consideration of political expediency dictates that these bills should be defeated and the currency commission appointed to study these grave and complex questions with deliberation and wide research, that the country may be provided with a currency and banking system adequate to its expanding business. Such a commission, with power to swear witnesses and call for the production of papers and documents, could easily discover the true causes of panics, and thus pave the way for the enactment of effectual legislation to make their recurrence impossible. This would prove a great national blessing, and the party adopting this course would receive and deserve the commendation and support of the American people.

It is impossible to understand any reason for thus forcing this universally obnoxious legislation through Congress unless some persons high in the council of our party have made some secret pledge to the masters of Wall street to put this legislation through and give its dangerous powers to the special interests in exchange for the support of the malefactors in the coming national campaign. If this is what has been done, and it is persisted in to the extent of fastening this dangerous legislation upon the country, our party will deserve the defeat which that course will bring upon it. Every patriotic citizen will hope that no such unholy and discreditable bargain has been made, and that in the final test the Members of the majority party in Congress will listen to the all but universal demand of the people of the entire United States and will defeat both the Aldrich and the Vreeland bills overwhelmingly.

I thank you.

(Thereupon, at 12.45 p. m., the committee adjourned.)

FIRST PRINT.

[S. 3023, Sixtieth Congress, first session.]

IN THE SENATE OF THE UNITED STATES.

JANUARY 7, 1908.

Mr. ALDRICH introduced the following bill; which was read twice and referred to the Committee on Finance.

A BILL To amend the national banking laws.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any national banking association which has circulating notes outstanding, secured by the deposit of United States bonds to an amount of not less than fifty per centum of its capital stock, and which has a surplus of not less than twenty per centum, may make application to the Comptroller of the Currency for authority to issue additional circulating notes to be secured by the deposit of bonds other than bonds of the United States. The Comptroller of the Currency, if in his judgment business conditions demand such additional circulation and the condition of the association making the application warrants the issue, may approve such application, and shall determine the time of issue and shall fix the amount, within the limitations hereinafter imposed, of such additional circulating notes to be issued. Whenever after receiving notice of such approval any such association shall deposit with the Treasurer or any assistant treasurer of the United States such of the bonds described in section two of this act as shall be approved in character and amount by the Treasurer of the United States and the Secretary of the Treasury, it shall be entitled to receive, upon the order of the Comptroller of the Currency, circulating notes in blank, registered and countersigned as provided by law, equal in amount to seventy-five per centum of the market value, as fixed by the Treasurer of the United States, of the bonds so deposited, such additional circulating notes to be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes: *Provided*, That the amount of such additional circulating notes delivered at any time to any association shall not in any case exceed the limit fixed for such issue by the Comptroller of the Currency: *And provided further*, That the total amount of circulating notes outstanding of any national banking association, secured by United States bonds or otherwise, shall not at any time exceed the amount of its unimpaired capital and surplus: *And provided further*, That there shall not be outstanding at any time circulating notes issued under the provisions of this act to an amount of more than two hundred and fifty million dollars: *And provided further*, That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this section shall have the approval of the Secretary of the Treasury.

SEC. 2. That the Treasurer of the United States, with the approval of the Secretary of the Treasury, may accept as security for the additional circulating notes provided for in the preceding section, bonds or other interest-bearing obligations of any State of the United States, or any legally authorized bonds issued for municipal purposes by any city or county in the United States which has been in existence as a city or county for a period of fifteen years, and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, and which has at such date more than twenty thousand inhabitants as established by the last national census, and whose net indebtedness does not exceed ten per centum of the valuation of the taxable property therein, to be ascertained by the last preceding valuation of property for the assessment of taxes; or the first-mortgage bonds of any railroad company, not including street-railway bonds, which has paid dividends of not less than four per centum per annum regularly and continuously on its entire capital stock for a period of not less than five years previous to the deposit of the bonds. The Treasurer of the United States, with the approval of the Secretary of the Treasury, may accept, for the purposes of this Act, securities herein enumerated in such proportions as he may

from time to time determine, and he may at any time require the deposit of additional securities, or require any association to change the character of the securities already on deposit.

SEC. 3. That all bonds deposited to secure circulating notes issued in accordance with the terms of this Act shall be transferred to the Treasurer of the United States in trust for the association depositing them, with a memorandum to that effect attached to or written or printed on each bond, and signed by the cashier or some other officer of the association making the deposit. A receipt shall be given to the association by the Comptroller of the Currency, or by a clerk appointed by him for that purpose stating that such bond is held in trust for the association on whose behalf the transfer is made, and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency. The provisions of sections fifty-one hundred and sixty-three, fifty-one hundred and sixty-four, fifty-one hundred and sixty-five, fifty-one hundred and sixty-six, and fifty-one hundred and sixty-seven of the Revised Statutes respecting United States bonds deposite ' .o secure circulating notes shall, except as herein modified, be applicable to all bonds deposited under the terms of this Act.

SEC. 4. That section fifty-two hundred and fourteen of the Revised Statutes, as amended, be further amended to read as follows:

"SEC. 5214. National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per anum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of 'An act to provide for the construction of a canal connecting the waters of the Atlantic and Pacific oceans,' approved June twenty-eighth, nineteen hundred and two, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds bearing interest at a rate higher than two per centum per annum shall pay a tax of one-half per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds. National banking associations having on deposit bonds to secure their circulating notes other than bonds of the United States shall pay a monthly tax of one-half of one per centum upon the average amount of such of their notes in circulation as are based upon the deposit of such bonds. Every national banking association having outstanding circulating notes secured by a deposit of bonds other than bonds of the United States shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of its notes so secured in circulation. The taxes received on circulating notes secured by bonds other than bonds of the United States shall be paid into the Division of Redemption of the Treasury and credited to the reserve fund held for the redemption of United States and other notes."

SEC. 5. That section nine of the act approved July twelfth, eighteen hundred and eighty-two, as amended by the act approved March fourth, nineteen hundred and seven, be further amended to read as follows:

"SEC. 9. That any national banking association desiring to withdraw its circulating notes, secured by deposit of United States bonds in the manner provided in section four of the act approved June twentieth, eighteen hundred and seventy-four, is hereby authorized for that purpose to deposit lawful money with the Treasurer of the United States and, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, to withdraw a proportionate amount of bonds held as security for its circulating notes in the order of such deposits; and in like manner and effect any such association desiring to withdraw any of its circulating notes, secured by the deposit of bonds other than bonds of the United States, may make such withdrawal at any time by the deposit of lawful money or national bank notes with the Treasurer of the United States, and upon such deposit a proportionate share of the bonds so deposited may be withdrawn: *Provided*, That the provisions of this section shall not apply to United States bonds called for redemption by the Secretary of the Treasury, nor to withdrawal of circulating notes in consequence thereof."

SEC. 6. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows:

"SEC. 5172. In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of five dollars, ten dollars,

twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury. This pledge shall be certified by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier. Upon request of any national banking association the Comptroller of the Currency, under the direction of the Secretary of the Treasury, shall cause to be prepared circulating notes in blank, registered and countersigned, as provided by law, to an amount equal to fifty per centum of the capital stock of such association; such notes to be deposited in the Treasury or the subtreasury of the United States nearest the place of business of the association making the request, and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery as provided by law."

SEC. 7. That circulating notes of national banking associations, when presented to the Treasury for redemption, as provided in section three of the act approved June twentieth, eighteen hundred and seventy-four, shall be redeemed in lawful money of the United States.

SEC. 8. That national banking associations located outside of reserve or central reserve cities, which are now required by law to keep a reserve equal to fifteen per centum of their deposit liabilities, shall hereafter hold at all times at least two-thirds of such reserve in lawful money. The provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries.

SECOND PRINT.

[S. 3023. Sixtieth Congress, first session. Calendar No. 159.]

IN THE SENATE OF THE UNITED STATES.

JANUARY 7, 1908.

Mr. ALDRICH introduced the following bill; which was read twice and referred to the Committee on Finance.

JANUARY 30, 1908.

Reported by Mr. ALDRICH, with amendments.

[Omit the part in brackets and insert the part printed in italics.]

A BILL To amend the national banking laws.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any national banking association which has circulating notes outstanding, secured by the deposit of the United States bonds to an amount of not less than fifty per centum of its capital stock, and which has a surplus of not less than twenty per centum, may make application to the Comptroller of the Currency for authority to issue additional circulating notes to be secured by the deposit of bonds other than bonds of the United States. [The Comptroller of the Currency, if in his judgment business conditions demand such additional circulation and the condition of the association making the application warrants the issue, may approve such application, and shall determine the time of issue and shall fix the amount, within the limitations hereinafter imposed, of such additional circulating notes to be issued.] *The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same, and shall determine the time of issue and fix the amount, within the limitations hereinafter imposed, of the additional circulating notes to be issued. In order that the distribution of notes to be issued under the provisions of this act shall be made as equitable as practicable between the various sections of the country, the Secretary of the Treasury shall not approve applications from associations in any State in excess of the amount to which such State would be entitled of the additional notes herein authorized on the basis of the proportion which the unimpaired*

capital and surplus of the national banking associations in such State bears to the total amount of unimpaired capital and surplus of the national banking associations of the United States: Provided, however, That in case the applications from associations in any State shall not be equal to the amount which the associations of such State would be entitled to under this method of distribution, the Secretary of the Treasury may, in his discretion, to meet an emergency, assign the amount not thus applied for to any applying association or associations in States in the same section of the country.

Whenever after receiving notice of such approval any such association shall deposit with the Treasurer or any assistant treasurer of the United States such of the bonds described in section two of this act as shall be approved in character and amount by the Treasurer of the United States and the Secretary of the Treasury, it shall be entitled to receive, upon the order of the Comptroller of the Currency, circulating notes in blank, registered and countersigned as provided by law, equal in amount to [seventy-five per centum of the market value, as fixed by the Treasurer of the United States, of the bonds so deposited] *seventy-five per centum of the market value of any railroad bonds and ninety per centum of the market value of any other bonds so deposited, such market value to be ascertained and determined under the direction of the Secretary of the Treasury*, such additional circulating notes to be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes: [*Provided*, That the amount of such additional circulating notes delivered at any time to any association shall not in any case exceed the limit fixed for such issue by the Comptroller of the Currency: *And provided further*,] *Provided*, That the total amount of circulating notes outstanding of any national banking association, *including notes* secured by United States bonds [or otherwise,] *as now provided by law, and notes secured by other bonds as provided by this act*, shall not at any time exceed the amount of its unimpaired capital and surplus: *And provided further*, That there shall not be outstanding at any time circulating notes issued under the provisions of this act to an amount of more than [two hundred and fifty] *five hundred* million dollars[: *And provided further*, That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this section shall have the approval of the Secretary of the Treasury].

SEC. 2. That the Treasurer of the United States, with the approval of the Secretary of the Treasury [*may*] *shall* accept as security for the additional circulating notes provided for in the preceding section, bonds or other interest-bearing obligations of any State of the United States, or any legally authorized bonds issued [for municipal purposes] by any city, *town*, [or] county, *or other legally constituted municipality or district* in the United States which has been in existence [as a city or county] for a period of [fifteen] *ten* years, and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, [and which has at such date more than twenty thousand inhabitants as established by the last national census,] and whose net *funded* indebtedness does not exceed ten per centum of the valuation of [the] *its* taxable property [therein], to be ascertained by the last preceding valuation of property for the assessment of taxes; or the first-mortgage bonds of any railroad company, [not including street railway bonds,] *which, in compliance with existing law, reports regularly to the Interstate Commerce Commission a statement of its condition and earnings, and* which has paid dividends of not less than four per centum per annum regularly and continuously on its entire capital stock for a period of not less than five years previous to the deposit of the bonds. The Treasurer of the United States, with the approval of the Secretary of the Treasury, [may] *shall* accept, for the purposes of this act, securities herein enumerated in such proportions as he may from time to time determine, and he may *with such approval* at any time require the deposit of additional securities, or require any association to change the character of the securities already on deposit. *It shall be the duty of the Secretary of the Treasury to obtain information with reference to the value and character of the municipal and railroad securities authorized to be accepted under the provisions of this section, and he shall from time to time furnish information to national banking associations as to such bonds as would be acceptable as security under the provisions of this act.*

SEC. 3. That *the legal title of* all bonds, *whether coupon or registered*, deposited to secure circulating notes issued in accordance with the terms of this act shall be transferred to the Treasurer of the United States in trust for the association depositing them, [with a memorandum to that effect attached to or written or printed on each bond, and signed by the cashier or some other officer of the association making the deposit] *under regulations to be prescribed by the Secretary of the Treasury*. A receipt shall be given to the association by the [Comptroller of the Currency, or by a clerk appointed by him for that purpose] *Treasurer or any assistant treasurer of the United States*, stating that such bond is held in trust for the association on whose behalf the transfer is made,

and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency. The provisions of sections fifty-one hundred and sixty-three, fifty-one hundred and sixty-four, fifty-one hundred and sixty-five, fifty-one hundred and sixty-six, and fifty-one hundred and sixty-seven *and sections fifty-two hundred and twenty-four to fifty-two hundred and thirty-four, inclusive*, of the Revised Statutes respecting United States bonds deposited to secure circulating notes shall, except as herein modified, be applicable to all bonds deposited under the terms of this act.

SEC. 4. That section fifty-two hundred and fourteen of the Revised Statutes, as amended, be further amended to read as follows:

"SEC. 5214. National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per annum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of 'An act to provide for the construction of a canal connecting the waters of the Atlantic and Pacific oceans,' approved June twenty-eighth, nineteen hundred and two, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds *of the United States* bearing interest at a rate higher than two per centum per annum shall pay a tax of one-half per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds. National banking associations having on deposit bonds to secure their circulating notes other than bonds of the United States shall pay a monthly tax of one-half of one per centum upon the average amount of such of their notes in circulation as are based upon the deposit of such bonds. Every national banking association having outstanding circulating notes secured by a deposit of bonds other than bonds of the United States shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of its notes so secured in circulation. The taxes received on circulating notes secured by bonds other than bonds of the United States shall be paid into the Division of Redemption of the Treasury and credited to the reserve fund held for the redemption of United States and other notes."

SEC. 5. That section nine of the act approved July twelfth, eighteen hundred and eighty-two, as amended by the act approved March fourth, nineteen hundred and seven, be further amended to read as follows:

"SEC. 9. That any national banking association desiring to withdraw its circulating notes, secured by deposit of United States bonds in the manner provided in section four of the act approved June twentieth, eighteen hundred and seventy-four, is hereby authorized for that purpose to deposit lawful money with the Treasurer of the United States and, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, to withdraw a proportionate amount of bonds held as security for its circulating notes in the order of such deposits; and in like manner and effect any such association desiring to withdraw any of its circulating notes, secured by the deposit of bonds other than bonds of the United States, may make such withdrawal at any time by the deposit of lawful money or national bank notes with the Treasurer of the United States, and upon such deposit a proportionate share of the bonds so deposited may be withdrawn[: *Provided*, That the provisions of this section shall not apply to United States bonds called for redemption by the Secretary of the Treasury, nor to withdrawal of circulating notes in consequence thereof]."

SEC. 6. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows:

"SEC. 5172. In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury. This pledge shall be certified by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier. [Upon request of any national banking association the] *The* Comptroller of the Currency, *acting* under the direction of the Secretary of the Treasury, shall *as soon as practicable* cause to be prepared circulating

notes in blank, registered and countersigned, as provided by law, to an amount equal to fifty per centum of the capital stock of [such association] *the national banking associations*; such notes to be deposited in the Treasury or *in* the subtreasury of the United States nearest the place of business of [the] *each* association [making the request,] and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery as provided by law."

SEC. 7. That circulating notes of national banking associations, when presented to the Treasury for redemption, as provided in section three of the act approved June twentieth, eighteen hundred and seventy-four, shall be redeemed in lawful money of the United States.

SEC. 8. [That national banking associations located outside of reserve or central reserve cities, which are now required by law to keep a reserve equal to fifteen per centum of their deposit liabilities, shall hereafter hold at all times at least two-thirds of such reserve in lawful money. The] *That the* provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries.

Sec. 9. That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this act shall have the approval of the Secretary of the Treasury.

THIRD PRINT.

[S. 3023. Sixtieth Congress, first session. Calendar No. 150.]

IN THE SENATE OF THE UNITED STATES.

JANUARY 7, 1908.

Mr. ALDRICH introduced the following bill; which was read twice and referred to the Committee on Finance.

JANUARY 30, 1908.

Reported by Mr. ALDRICH, with amendments.

MARCH 7, 1908.

Ordered reprinted all in roman as far as amended in Committee of the Whole, with amendments reported to-day, but not agreed to.

[Omit the part in SMALL CAPS and insert the part printed in italics in the amendments not agreed to.]

A BILL To amend the national banking laws.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any national banking association which has circulating notes outstanding, secured by the deposit of United States bonds to an amount of not less than fifty per centum of its capital stock, and which has a surplus of not less than twenty per centum, may make application to the Comptroller of the Currency for authority to issue additional circulating notes to be secured by the deposit of bonds other than bonds of the United States. The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same, and shall determine the time of issue and fix the amount, within the limitations hereinafter imposed, of the additional circulating notes to be issued. In order that the distribution of notes to be issued under the provisions of this Act shall be made as equitable as practicable between the various sections of the country, the Secretary of the Treasury shall not approve applications from associations in any State in excess of the amount to which such State would be entitled of the additional notes herein authorized on the basis of the proportion which the unimpaired capital and surplus of the national banking associations in such State bears to the total amount of unimpaired capital and surplus of the national banking associations of the United States: *Provided, however,* That in case the applications from associations in any State shall not be equal to the amount which the associations of such State would be entitled to under this method of distribution, the Secretary

of the Treasury may, in his discretion, to meet an emergency, assign the amount not thus applied for to any applying association or associations in States in the same section of the country. Whenever after receiving notice of such approval any such association shall deposit with the Treasurer or any assistant treasurer of the United States such of the bonds described in section two of this Act as shall be approved in character and amount by the Treasurer of the United States and the Secretary of the Treasury, it shall be entitled to receive, upon the order of the Comptroller of the Currency, circulating notes in blank, registered and countersigned as provided by law, equal in amount to SEVENTY-FIVE PER CENTUM OF THE MARKET VALUE, AS FIXED BY THE TREASURER OF THE UNITED STATES, OF THE BONDS SO DEPOSITED *ninety per centum of the market value, but not in excess of the par value of any bonds so deposited, such market value to be ascertained and determined under the direction of the Secretary of the Treasury*, [Passed over.] such additional circulating notes to be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes: *Provided*, That the total amount of circulating notes outstanding of any national banking association, including notes secured by United States bonds as now provided by law, and notes secured by other bonds as provided by this act, shall not at any time exceed the amount of its unimpaired capital and surplus: *And provided further*, That there shall not be outstanding at any time circulating notes issued under the provisions of this act to an amount of more than five hundred million dollars.

SEC. 2. That the Treasurer of the United States with the approval of the Secretary of the Treasury, shall accept as security for the additional circulating notes provided for in the preceding section, bonds or other interest-bearing obligations of any State of the United States, or any legally authorized bonds issued by any city, town, county, or other legally constituted municipality or district in the United States which has been in existence for a period of ten years, and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either the principal or interest of any funded debt authorized to be contracted by it, and whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes; OR THE FIRST MORTGAGE BONDS OF ANY RAILROAD COMPANY, NOT INCLUDING STREET RAILWAY BONDS, WHICH HAS PAID DIVIDENDS OF NOT LESS THAN FOUR PER CENTUM PER ANNUM REGULARLY AND CONTINUOUSLY ON ITS ENTIRE CAPITAL STOCK FOR A PERIOD OF NOT LESS THAN FIVE YEARS PREVIOUS TO THE DEPOSIT OF THE BONDS. [Passed over.] The Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept, for the purposes of this act, securities herein enumerated in such proportions as he may from time to time determine, and he may with such approval at any time require the deposit of additional securities, or require any association to change the character of the securities already on deposit. It shall be the duty of the Secretary of the Treasury to obtain information with reference to the value and character of the MUNICIPAL AND RAILROAD [Passed over.] securities authorized to be accepted under the provisions of this section, and he shall from time to time furnish information to national banking associations as to such bonds as would be acceptable as security under the provisions of this act.

SEC. 3. That the legal title of all bonds, whether coupon or registered, deposited to secure circulating notes issued in accordance with the terms of this act shall be transferred to the Treasurer of the United States in trust for the association depositing them, under regulations to be prescribed by the Secretary of the Treasury. A receipt shall be given to the association by the Treasurer or any assistant treasurer of the United States, stating that such bond is held in trust for the association on whose behalf the transfer is made and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency. The provisions of sections fifty-one hundred and sixty-three fifty-one hundred and sixty-four, fifty-one hundred and sixty-five, fifty-one hundred and sixty-six, and fifty-one hundred and sixty-seven and sections fifty-two hundred and twenty-four to fifty-two hundred and thirty-four, inclusive, of the Revised Statutes respecting United States bonds deposited to secure circulating notes shall except as herein modified, be applicable to all bonds deposited under the terms of this act.

SEC. 4. That section fifty-two hundred and fourteen of the Revised Statutes, as amended, be further amended to read as follows:

"SEC. 5214. National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per annum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of 'An act to provide for the construction of a canal connecting the waters of the

Atlantic and Pacific oceans,' approved June twenty-eighth, nineteen hundred and two, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds of the United States bearing interest at a rate higher than two per centum per annum shall pay a tax of one-half per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds. National banking associations having on deposit bonds to secure their circulating notes other than bonds of the United States shall pay a monthly tax of one-half of one per centum upon the average amount of such of their notes in circulation as are based upon the deposit of such bonds. Every national banking association having outstanding circulating notes secured by a deposit of bonds other than bonds of the United States shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of its notes so secured in circulation. The taxes received on circulating notes secured by bonds other than bonds of the United States shall be paid into the division of redemption of the Treasury and credited to the reserve fund held for the redemption of United States and other notes."

SEC. 5. That section nine of the act approved July twelfth, eighteen hundred and eighty-two, as amended by the act approved March fourth, nineteen hundred and seven, be further amended to read as follows:

"SEC. 9. That any national banking association desiring to withdraw its circulating notes, secured by deposit of United States bonds in the manner provided in section four of the act approved June twentieth, eighteen hundred and seventy-four, is hereby authorized for that purpose to deposit lawful money with the Treasurer of the United States and, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, to withdraw a proportionate amount of bonds held as security for its circulating notes in the order of such deposits: *Provided, That not more than nine millions of dollars of lawful money shall be deposited during any calendar month for this purpose*; [Passed over.] and in like manner and effect any such association desiring to withdraw any of its circulating notes, secured by the deposit of bonds other than bonds of the United States may make such withdrawal at any time by the deposit of lawful money or national bank notes with the Treasurer of the United States, and upon such deposit a proportionate share of the bonds so deposited may be withdrawn."

SEC. 6. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows:

"SEC. 5172. In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denomination of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury. This pledge shall be certified by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier. The Comptroller of the Currency, acting under the direction of the Secretary of the Treasury, shall as soon as practicable cause to be prepared circulating notes in blank, registered and countersigned, as provided by law, to an amount equal to fifty per centum of the capital stock of the national banking association; such notes to be deposited in the Treasury or in the subtreasury of the United States nearest the place of business of each association, and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery as provided by law."

SEC. 7. That circulating notes of national banking associations, when presented to the Treasury for redemption, as provided in section three of the act approved June twentieth, eighteen hundred and seventy-four, shall be redeemed in lawful money of the United States.

SEC. 8. THAT NATIONAL BANKING ASSOCIATIONS LOCATED OUTSIDE OF RESERVE OR CENTRAL RESERVE CITIES, WHICH ARE NOW REQUIRED BY LAW TO KEEP A RESERVE EQUAL TO FIFTEEN PER CENTUM OF THEIR DEPOSIT LIABILITIES, SHALL HEREAFTER HOLD AT ALL TIMES AT LEAST TWO-THIRDS OF SUCH RESERVE IN LAWFUL MONEY. THE *That the* [Passed over.] provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations,

shall not apply to deposits of public moneys by the United States in designated depositaries.

SEC. 9. That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this act shall have the approval of the Secretary of the Treasury.

FOURTH PRINT.

[S. 3023, Sixtieth Congress, first session.]

IN THE HOUSE OF REPRESENTATIVES.

MARCH 30, 1908.

Referred to the Committee on Banking and Currency.

AN ACT To amend the national banking laws.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any national banking association which has circulating notes outstanding, secured by the deposit of United States bonds to an amount of not less than fifty per centum of its capital stock, and which has a surplus of not less than twenty per centum, may make application to the Comptroller of the Currency for authority to issue additional circulating notes to be secured by the deposit of bonds other than bonds of the United States. The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same, and shall determine the time of issue and fix the amount, within the limitations hereinafter imposed, of the additional circulating notes to be issued. In order that the distribution of notes to be issued under the provisions of this act shall be made as equitable as practicable between the various sections of the country, the Secretary of the Treasury shall not approve applications from associations in any State in excess of the amount to which such State would be entitled of the additional notes herein authorized on the basis of the proportion which the unimpaired capital and surplus of the national banking associations in such State bear to the total amount of unimpaired capital and surplus of the national banking associations of the United States: *Provided, however*, That in case the applications from associations in any State shall not be equal to the amount which the associations of such State would be entitled to under this method of distribution, the Secretary of the Treasury may, in his discretion, to meet an emergency, assign the amount not thus applied for to any applying association or associations in States in the same section of the country. Whenever, after receiving notice of such approval any such association shall deposit with the Treasurer or any assistant treasurer of the United States such of the bonds described in section two of this act as shall be approved in character and amount by the Treasurer of the United States and the Secretary of the Treasury, it shall be entitled to receive, upon the order of the Comptroller of the Currency, circulating notes in blank, registered and countersigned as provided by law, equal in amount to ninety per centum of the market value, but not in excess of the par value of any bonds so deposited, such market value to be ascertained and determined under the direction of the Secretary of the Treasury, such additional circulating notes to be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes: *Provided*, That the total amount of circulating notes outstanding of any national banking association, including notes secured by United States bonds as now provided by law, and notes secured by other bonds as provided by this act, shall not at any time exceed the amount of its unimpaired capital and surplus: *And provided further*, That there shall not be outstanding at any time circulating notes issued under the provisions of this act to an amount of more than five hundred million dollars.

SEC. 2. That the Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept as security for the additional circulating notes provided for in the preceding section, bonds or other interest-bearing obligations of any State of the United States, or any legally authorized bonds issued by any city, town, county, or other legally constituted municipality or district in the United States which has been in existence for a period of ten years, and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, and whose

net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes; bonds of the insular government of Porto Rico; bonds of the government of the Philippine Islands, and bonds of the city of Manila. The Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept, for the purposes of this act, securities herein enumerated in such proportions as he may from time to time determine, and he may with such approval at any time require the deposit of additional securities, or require any association to change the character of the securities already on deposit. It shall be the duty of the Secretary of the Treasury to obtain information with reference to the value and character of the securities authorized to be accepted under the provisions of this section, and he shall from time to time furnish information to national banking associations as to such bonds as would be acceptable as security under the provisions of this act.

SEC. 3. That the legal title of all bonds, whether coupon or registered, deposited to secure circulating notes issued in accordance with the terms of this act shall be transferred to the Treasurer of the United States in trust for the association depositing them, under regulations to be prescribed by the Secretary of the Treasury. A receipt shall be given to the association by the Treasurer or any assistant treasurer of the United States, stating that such bond is held in trust for the association on whose behalf the transfer is made, and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency. The provisions of sections fifty-one hundred and sixty-three, fifty-one hundred and sixty-four, fifty-one hundred and sixty-five, fifty-one hundred and sixty-six, and fifty-one hundred and sixty-seven and sections fifty-two hundred and twenty-four to fifty-two hundred and thirty-four, inclusive, of the Revised Statutes respecting United States bonds deposited to secure circulating notes shall, except as herein modified, be applicable to all bonds deposited under the terms of this act.

SEC. 4. That section fifty-two hundred and fourteen of the Revised Statutes, as ameneded, be further amended to read as follows:

"SEC. 5214. National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per annum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of 'An Act to provide for the construction of a canal connecting the waters of the Atlantic and Pacific oceans,' approved June twenty-eighth, nineteen hundred and two, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds of the United States bearing interest at a rate higher than two per centum per annum shall pay a tax of one-half per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds. National banking associations having on deposit bonds to secure their circulating notes other than bonds of the United States shall pay for the first four months a monthly tax of one-half of one per centum upon the average amount of such of their notes in circulation as are based upon the deposit of such bonds, and afterwards a monthly tax of three-quarters of one per centum upon the average amount of said notes. Every national banking association having outstanding circulating notes secured by a deposit of bonds other than bonds of the United States shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of its notes so secured in circulation; and it shall be the duty of the Comptroller of the Currency to cause such reports of notes in circulation to be verified by examination of the banks' records, and any officer of any banking association falsely reporting the amount of its notes in circulation shall, upon conviction thereof in any circuit or district court of the United States, be punished by a fine of not less than one thousand dollars nor more than five thousand dollars, or by imprisonment for not less than one year and not more than five years, or by both such fine and imprisonment. The taxes received on circulating notes secured by bonds other than bonds of the United States shall be paid into the Division of Redemption of the Treasury and credited to the reserve fund held for the redemption of United States and other notes."

SEC. 5. That section nine of the act approved July twelfth, eighteen hundred and eighty-two, as amended by the act approved March fourth, nineteen hundred and seven, be further amended to read as follows:

"SEC. 9. That any national banking association desiring to withdraw its circulating notes, secured by deposit of United States bonds in the manner provided in section

four of the act approved June twentieth, eighteen hundred and seventy-four, is hereby authorized for that purpose to deposit lawful money with the Treasurer of the United States and, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, to withdraw a proportionate amount of bonds held as security for its circulating notes in the order of such deposits: *Provided*, That not more than nine millions of dollars of lawful money shall be deposited during any calendar month for this purpose; and in like manner and effect any such association desiring to withdraw any of its circulating notes, secured by the deposit of bonds other than bonds of the United States, may make such withdrawal at any time by the deposit of lawful money or national bank notes with the Treasurer of the United States, and upon such deposit a proportionate share of the bonds so deposited may be withdrawn: *Provided*, That the deposits under this section to retire notes secured by the deposit of bonds other than bonds of the United States shall not be covered into the Treasury, as required by section six of an act entitled 'An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes,' approved July fourteenth, eighteen hundred and ninety, but shall be retained in the Treasury for the purpose of redeeming the notes of the bank making such deposit."

SEC. 6. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows:

"SEC. 5172. In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall state upon their face that they will be redeemed by the United States in lawful money upon presentation at the Treasury. This pledge shall be certified by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier. The Comptroller of the Currency, acting under the direction of the Secretary of the Treasury, shall as soon as practicable cause to be prepared circulating notes in blank, registered and countersigned, as provided by law, to an amount equal to fifty per centum of the capital stock of each national banking association; such notes to be deposited in the Treasury or in the subtreasury of the United States nearest the place of business of each association, and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery as provided by law."

SEC. 7. That circulating notes of national banking associations, when presented to the Treasury for redemption, as provided in section three of the act approved June twentieth, eighteen hundred and seventy-four, shall be redeemed in lawful money of the United States.

SEC. 8. That after January first, nineteen hundred and nine, national banking associations located outside of reserve or central reserve cities, which are now required by law to keep a reserve equal to fifteen per centum of their deposit liabilities, shall hereafter hold in their own vaults four-fifths of such reserves, either in lawful money as now required by law, or in the securities enumerated in section two of this act, which shall have been approved by the Secretary of the Treasury: *Provided, however*, That not more than one-third of the reserves required to be kept in the vaults of such associations shall be held in such securities; and that after the first day of January, nineteen hundred and nine, all national banking associations, located in reserve cities, shall at all times have on hand in their own safes or vaults, in lawful money of the United States, or in the securities enumerated in section two of this act, not less than two-thirds of the amount of reserves of lawful money required to be held under existing law: *Provided*, That not more than one-sixth of the reserves required to be kept in the vaults of such association shall be held in such securities.

That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries.

SEC. 9. That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this act shall have the approval of the Secretary of the Treasury.

SEC. 10. That all national banking associations designated as regular depositaries of public money shall pay upon all special and additional deposits made by the Secretary of the Treasury in such depositaries, and all such associations designated as temporary depositaries of public money shall pay upon all sums of public money

deposited in such associations interest at such rate as the Secretary of the Treasury may prescribe, not less, however, than one per centum per annum upon the average monthly amount of such deposits: *Provided, however*, That nothing contained in this act shall be construed to change or modify the obligation of any association or any of its officers for the safe-keeping of public money: *Provided further*, That the rate of interest charged shall be equal and uniform throughout the United States.

SEC. 11. That no national banking association shall invest any part of its funds or deposits in the stocks or other securities of any corporation or association, any of the officers or directors of which are officers or directors of such banking association. Any officer or director of any national banking association who knowingly violates or consents to the violation of the foregoing provision, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any circuit or district court of the United States, be imprisoned not less than one year and not more than five years.

Passed the Senate March 27, 1908.

Attest:

CHARLES G. BENNETT, *Secretary*,
By H. M. ROSE, *Assistant Secretary*.

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