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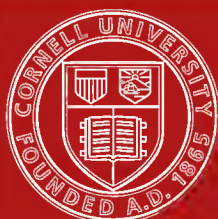
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# The Banking System of Mexico

BY

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Author of "A History of Modern Banks of Issue," "The Principles  
of Money and Banking," etc.



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# THE BANKING SYSTEM OF MEXICO.

## CHAPTER I.—*General scope of the system.*

The banking system of Mexico is based upon a plurality of banks of issue, with a single institution at the center without numerous branches, but maintaining a large metallic reserve and supporting the local banks by rediscount. The system thus combines some of the features of the central bank system, which is all but universal in Europe, with the system of isolated independent banks of issue which prevails in the United States.

While there are several banking institutions of importance which date back more than a generation, the Mexican system as now constituted is the result of a complete reorganization by Mr. Limantour, the Minister of Finance, in 1897. It was then that a sharp line was drawn between banks of issue, dealing with commercial credits, and banks for mortgage loans and for promotion, authorized to deal with their respective classes of business. In the reorganization the National Bank of Mexico, which had for a time a practical monopoly of note issue, was left in a position of influence at the center of the new system, but banks of issue were permitted in the different states under conditions which, without establishing an absolute monopoly, tended to encourage the creation of one strong bank in each state. An auxiliary organ of the state banks, not contemplated by the law, has arisen in the form of the Banco

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Central, or central bank, which acts as clearing agent in the City of Mexico for the state banks and affords a bond of union among them which permits cooperation in critical situations.

When the law of 1897 was enacted, it was supposed to restrict banks of issue to commercial business. Some abuses of the privileges of these banks, however, led to still further restrictions upon their field of operations by a law of 1908. The tendencies which developed in Mexico, as well as in the United States, to participate in syndicate operations and to loan too large a proportion of the assets of the bank to a single institution were checked by new prohibitions, which carried out in greater detail the purpose of the original law. To remove assets which were valuable, but not readily convertible, from the banks of issue, a new institution was created for loans to irrigation works and for the encouragement of agriculture.

### CHAPTER II.—*Banking development prior to 1897.*

The history of banking in Mexico prior to the steps taken in 1896 to bring about unity of system was that of a few banks, largely financed from abroad, having special concessions and acting according to no uniform requirements as to circulation, reserves, and other obligations of sound banking. Up to 1864 the banking business was done by large mercantile houses having foreign relations. Advances were made in connection with commercial operations, such as are still made by sugar refiners to growers and by distillers to producers of the materials for alcohol. These houses in some cases issued certificates of deposit in the form of bills, but they were filled in for the uneven



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amounts deposited, as with the notes issued in England by the goldsmiths in the seventeenth century, instead of being issued for fixed sums.

The first real banking office established in Mexico was a branch of the London Bank of Mexico and South America, which became later the Bank of London and Mexico (Banco de Londrès y Mexico). This branch was established in 1864, without any special concession or authority, and was subjected to violent opposition by the old commercial houses, which gained support from the fact that it did not make public its accounts. It nevertheless attained a considerable degree of success, thanks to its skillful management, scrupulous fulfillment of its obligations, and absence of speculative loans to the Government, and introduced to some extent the use of bank notes.<sup>a</sup>

This bank was for some time without a serious competitor except among the commercial houses. About 1875 two or three small banks were founded in the state of Chihuahua under authority of the local government, which issued notes to bearer, payable in copper or silver. At about the same time (in 1879) the oldest institution of credit in Mexico, the Monte de Piedad, whose foundation extended back to the eighteenth century, obtained authority to carry on banking operations and to issue certificates of deposit payable to bearer on demand. The use which was made of this authority did not, however, prove profitable, and it was ultimately allowed to fall into disuse.

It was about the time of the first administration of President Diaz that the serious economic development of

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<sup>a</sup> Favre, *Les Banques au Mexique*, p. 9.

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Mexico began and foreign capital poured into the country for the construction of railways. An important banking foundation naturally followed. A special concession was granted by Congress in 1881 to the Franco-Egyptian Bank, which afterwards became the International Bank of Paris, to establish a bank of issue in Mexico. The conditions of the concession were that the circulation should always be covered by readily negotiable securities, and should not exceed in amount three times the cash reserve. No monopoly was granted by this concession, but the charter was in the nature of an official indorsement, in order to produce a favorable impression upon the public. The bank was, however, given the functions of cashier for the State.

The new institution was named the National Bank of Mexico. The capital was fixed at \$8,000,000, divided into 8,000 shares of \$100 each, and was paid up in the proportion of 40 per cent.<sup>a</sup> Another institution, the Mexican Mercantile Bank, sprang into existence without any special concessions, and continued in business until 1884, when it was absorbed by the National Bank. Deficient as was the banking equipment of Mexico, the creation of such banking facilities brought down the current rate of interest from above 12 per cent to 9 and 8, and ultimately in some cases to 6 per cent.

The first attempt to introduce uniform legislation in regard to banks was made in the Code of Commerce pre-

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<sup>a</sup> The dollar sign is used in this paper for the peso, which has continued for several centuries to be the name of the Mexican monetary unit. The value of the peso, or dollar, was \$1.012 in the present standard of the United States, while gold and silver remained at 16 to 1. As the value of silver bullion declined, the gold value of the peso declined, approximately *pari passu*, until the monetary reform of 1905.

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pared in 1884. In the spring of that year Mexico was taught the lesson which Belgium had learned thirty years earlier and which other countries have learned at various times which have sought to base the issue of demand liabilities upon long-term loans. The Monte de Piedad, although it held a cash reserve of \$2,480,000 against a circulation of \$4,327,000, found its position threatened. The fact was suddenly realized that the reserve constituted the only available resource for the redemption of the notes, because the remainder of the assets were locked up in mortgages for long terms. Political disorders completed the distrust which was produced by these conditions, a run was made for the redemption of notes, and the institution was compelled to suspend. Outside aid was obtained, and the bank was kept upon its feet, but its experience brought home in a striking manner to the legislators as well as to the financial world the inadequacy of long-term investments for meeting liabilities payable on demand.

It was undertaken in the Code of Commerce to lay down general rules for the incorporation of banks. Existing concessions were recognized, but the right to grant new concessions was taken from the local authorities and vested exclusively in the Federal Government. The issue of notes without a concession was prohibited, and the limit of circulation was fixed at three times the metallic reserve. One-third of the circulation might be secured by a deposit of money or securities of the public debt. The amount of notes outstanding was subject to a tax of 5 per cent, and banks were required to make monthly publication of

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the state of their reserve. No attempt was made to prescribe the character of paper to be discounted or even to forbid mortgage loans, such as had wrecked the Monte de Piedad.

Under this general law many local banks were projected and some were established, but many projects proved abortive, and the thorough organization of the banking system awaited the installation of Mr. Limantour as Minister of Finance in 1893. He saw at once the danger of a situation in which there was no real uniformity of system or effectiveness of regulation and decided to grant no further concessions until these conditions had been modified. After laying down a few fundamental principles in the law of June 3, 1896, he appointed a special committee to prepare a new project to work out these principles in detail, constituting the committee of representatives of the National Bank of Mexico, the Bank of London and Mexico, the Mortgage Bank, and several prominent financiers, including Señor Joaquin D. Casaus, afterwards ambassador to the United States. A careful and exhaustive report on the principles of sound banking and the system best adapted to conditions in Mexico was prepared by this committee, approving the fundamental principles which the minister laid down and authorizing him to prepare the definitive project, which became the law of March 19, 1897.

### CHAPTER III.—*The banking law of 1897.*

The essential feature of the law of March 19, 1897, so far as it related to banks of issue, was the abandonment of the system of monopoly of note issue, but the extension of regulations conforming to the rules of sound banking



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over all banks to be in future established. The federal banking system was in future to recognize three classes of institutions—banks of issue, issuing notes payable to bearer on demand; mortgage banks, issuing mortgage bonds to cover loans on real estate; and banks of finance or promotion, issuing treasury bonds to cover loans to industry and agriculture for short terms, but longer than the term of the usual commercial loan.

The mortgage banks of Mexico are of the usual type existing in Europe—issuing bonds for even amounts and for long terms, capable of easy transfer in the open market. The object of the so-called banks of promotion, or finance banks, was to extend credit to agricultural and to mining enterprises. The essential difference between them and the mortgage banks was the term of their obligations, which was limited in 1897 to a maximum of two years, extended in 1908 to three years. The funds thus obtained are loaned to mining and agricultural enterprises for a corresponding period, not exceeding three years. This term was adopted in order to afford sufficient time for the completion of the transactions for which the money was advanced, and in case of a bad year to permit the enterprise to recoup in the year following. The security for such loans is the tools, machinery, etc., employed and the fruits of the enterprise. The instability of mining operations made it necessary for the banks to require reports from experts that the proceeds of operation would be sufficient to repay the loan. In cases where advances were made, the bank was invested with the right of supervising closely the management of the enterprise and

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especially to note if the funds advanced found the employment for which they were destined. Moreover, the products of the enterprise were remitted to the bank as they were realized.<sup>a</sup>

These restrictions were so severe that the finance banks were availed of only to a very limited extent. Apart from the unwillingness of the borrower to make a loan under such restrictions, the demand from the investor for short-term bonds proved very limited, since they constituted neither a permanent investment nor a resource immediately realizable.<sup>b</sup> The new form of banking charter did not, however, prove entirely futile. It afforded an opportunity for the creation of at least one important institution of a special character which contributed much to the banking development of the country. This was the Banco Central, which became a sort of clearing agent for the state banks, and did much in binding them together in effective cooperation.<sup>c</sup>

The abandonment of the system of monopoly of note issue required negotiations with the National Bank, with a view to modifying its existing privileges, the regulation of other existing banks, and provisions which should attract capital into the proposed new banks. The new

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<sup>a</sup> Banking law of 1897, art. 90.

<sup>b</sup> Favre, pp. 51-54.

<sup>c</sup> As this monograph is concerned chiefly with commercial banking, it has not been deemed necessary to go into great detail in the text regarding the mortgage and finance banks, but their scope and purpose will be found set forth in the report of the Finance Minister, given in full as Appendix A, and in the text of the law, given as Appendix B.

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fabric did not involve restrictions upon private banks, several of which were well established in Mexico. In order to avoid confusion, however, the use of the term "bank" by institutions organized outside the statute was ultimately limited by a presidential decree of May 28, 1903. It was then provided that the word could not be used except by corporations legally constituted or by branches of foreign banks which satisfied the Minister of Finance of their standing and conformed to Mexican law. Existing corporations already using the name in Mexico might continue to do so by appending to their title the words, "sin concesión" (without franchise).<sup>a</sup> The fact was appreciated, however, that the forms of banking organization proposed by the law might not meet all the requirements of banking operations in the Republic. It was accordingly provided that an individual or a corporation might continue to receive concessions, but that in the case of joint-stock companies claiming limited liability, they should be organized according to the laws of the country. Institutions not falling within the scope of the three classes of banks recognized by the new law were to continue to be governed by the general laws of the Republic until such time as special laws might be enacted.<sup>b</sup> Foreign institutions issuing notes payable to bearer were forbidden to open agencies or branches in the Republic for the circulation or redemption of such notes.<sup>c</sup>

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<sup>a</sup> Decree of May 28, 1903. *Instituciones de Crédito: Leyes y Circulares Relativas*, pp. 41-42.

<sup>b</sup> Banking law, art. 1.

<sup>c</sup> Banking law, art. 13.

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The arrangements made with the National Bank of Mexico involved concessions satisfactory to both sides, which did not impair essentially the power of the bank or its position toward the Government, but required the abandonment of the pledge previously given by the Government, that it would not permit the creation of additional banks of issue.<sup>a</sup> It was the aim of Mr. Limantour to extend the advantages of credit institutions to all the productive parts of the Republic by the creation of a system of local banks, meeting the varied requirements of each state. It was not his desire, however, to throw the field open to promiscuous competition, like that invited by the national banking law of the United States. It was necessary, in order to carry out this programme and to afford a powerful attraction to the investment of capital, to offer special inducements to the first comers. With this object was adopted the system of a single bank of issue in each state, which should have a qualified monopoly in the local field. The new law did not prohibit the foundation of more than one bank in each state, but it accomplished this limitation practically by extending special privileges for a term of years to the first bank of issue to which a charter might be granted.

The granting of new charters, however, was not automatic, and was hedged about with careful restrictions. A bank of issue could not be founded with a less capital than \$500,000, which was raised by the law of June 19, 1908, to \$1,000,000 for banks which might thereafter be established. The express authorization of the Department of Finance was made necessary for the increase

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<sup>a</sup> The terms of this arrangement are set forth elsewhere.



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or diminution of banking capital, and no bank could be organized until the capital had been fully subscribed and at least 50 per cent in cash paid in. Those seeking a concession for any institution of credit organized under the law were required to deposit in the treasury or in the National Bank of Mexico government bonds of a nominal value equivalent to at least 20 per cent of the sum which the bank was required to have in hand in order to be incorporated. The preliminary concession might be granted to private individuals, not less than three in number, but they must show within four months that they had organized a joint stock company to operate the concession and had transferred the concession to such company.<sup>a</sup>

The duration of new bank charters was not in any case to exceed thirty years from the date of the enactment of the law for banks of issue and fifty years for the other classes of banks. By this provision the privilege was reserved to the Government of revising the general banking law at stated periods and making the new requirements applicable at once to all the banks.

The special privileges conferred upon the banks authorized by the law of 1897 consisted chiefly of exemptions from taxation. These exemptions were generous enough to afford to the bank, for a time at least, sufficient advantage to discourage competition under the federal law. They were in brief as follows:<sup>b</sup>

Capital, dividends, and issues of securities were exempted from all forms of taxation, federal, state, or

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<sup>a</sup> Banking law, arts. 8-11.

<sup>b</sup> Banking law, arts. 121-128.

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municipal, except the usual tax on buildings and certain stamp taxes.

Stamp duties were remitted on documents used by institutions of credit in their internal management or on documents passing between the head institution and its agencies or branches, provided such documents did not create rights in favor of the bank or of third parties foreign to the institution.

Stamp duties were not required on contracts entered into by institutions of credit with the Federal Government or with the governments of states and municipal corporations.

Stamp duties were not required on summaries of accounts, advices of payment for receipt, drafts, bills of exchange, promissory notes, telegraphic or other forms of transfer of money, in cases relating to business done with the federal, state, or municipal governments of Mexico.

In the case of bank notes, mortgage bonds, certificates of deposit, and treasury bonds put in circulation, checks drawn by or upon a bank, the amount of the stamp required, whatever the amount mentioned in the contract, was limited to 5 cents.

Notarial contracts and loans, sureties, pledges, or mortgages in favor of or against institutions of credit were limited to a stamp duty of two tenths per cent, except where the general laws imposed a lower rate. The same contracts when drawn up in private form were limited to a stamp rate of one tenth per cent.

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Fees of experts, notaries, and other persons whose remuneration was fixed by schedule by local laws were required to be reduced in the case of institutions of credit to two-thirds of the schedule rate. In no case was it permitted that local enactments should be observed which authorized higher charges because one of the contracting parties was a corporation.

It was provided that the States of the Federation should not impose any tax on banking business, properly so called, when transacted by institutions of credit, except on mortgage loans, where the rate should not exceed one-quarter of 1 per cent on the amount of the transaction. All these exemptions and special privileges were to run for twenty-five years from the date of the law. These provisions applied equally to mortgage banks as well as to banks of issue. The provision which protected the comparative monopoly of the first bank of issue in each State was that these regulations should benefit only the first bank established in each of the States or federal territories, and that concessions for other banks of issue could be granted only with the understanding that the new bank should be subject to all the taxes imposed by general law and to a special tax of 2 per cent per annum on paid-up capital. This tax was to be paid to the Federal Government at the end of each quarter.<sup>a</sup>

So rapidly did banks multiply under the provisions of the law of 1897 that it was deemed prudent as early as 1905 to check their further extension. It was accordingly provided that no further charter for a bank of issue should

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<sup>a</sup> Banking law of 1897, art. 129.

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be granted until after December 31, 1909, and that those granted after that date should not carry the exemptions from taxation accorded to the first banks.<sup>a</sup> After the disturbances of 1907 and 1908, it was deemed best to extend the limit of time, within which new charters would be refused, until March 19, 1922.<sup>b</sup> As this date was exactly coincident with the period for which the first banks were to enjoy their exemptions from taxation, it was tantamount to a decision by the Government that the latter should enjoy, without further competition, their qualified monopoly of the note circulation until the time arrived for a general revision of the privileges conferred by the banking law.

### CHAPTER IV.—*Motives of the new legislation.*

The motives actuating the Government in introducing the banking law of 1897, and the manner in which the new system was put in operation, were discussed at length by the Minister of Finance in a report to Congress on November 15, 1897. In recommending a radical revision of the banking system of Mexico, Mr. Limantour pointed out the need of introducing uniformity into the complex conditions which had arisen from the granting of special charters. It was necessary, he declared, to fix a common term for the charters, to reduce privileges to an equality, and to establish uniform regulations in regard to the issue of notes. The conditions existing when the minister began the reform were described by him as follows:<sup>c</sup>

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<sup>a</sup> Law of May 13, 1905, art. 5. *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 47.

<sup>b</sup> Law of June 19, 1908, art. 3.

<sup>c</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 117.

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“Seven banks were operating in the States when the decree of June 3, 1896, was promulgated, and no two of them had identical charters, but all differed in various points, more or less essential. Thus, for example, one charter terminated in 1904, the others at later dates up to 1939; the issue was regulated, in the case of some banks, by the amount of capital, in the case of others, by three times the capital; to guarantee the circulation, sureties were required of some banks, deposits of others, and of yet others neither sureties nor deposits, but a different kind of guaranty. The reserve funds differed greatly in amount with the different establishments; the right to establish branch banks was unlimited for some banks, while for others it was subject to various restrictions. The value of the notes which they were allowed to issue was, in some cases, 25 centavos as a minimum, while in others 1 peso was the smallest value authorized. There was one bank which was authorized to make loans subject to extension up to twelve months, while the operations of the others were not to exceed six months. Similar differences existed in the guaranties for loans and discounts, as well as in privileges and exemptions from taxation, and in other fundamental requirements of the charter.”

With a view to putting an end to this diversity in legislation, a term was fixed within which the banks established in the States were to submit to the provisions of the new law, in exchange for the character of first bank in each of the respective States, with the full rights and privileges granted to such first banks. This inducement proved

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insufficient to secure the desired object. Most of the institutions of credit that were in operation in the country when the law of March 19 was brought in agreed to subject their charters to the provisions of the law; but since the new charters bore the character only of a mere authorization, and the banks were obliged to accept the modifications which the law might undergo in future, some of them decided not to surrender the rights and obligations of their original charters, which could not be altered during the life of the franchise, except by the consent of both parties. Ultimately, however, agreements were reached by which the existing banks accepted the provisions of the new law, with the reservation that they should not be bound by subsequent modifications, during the life of their original charters, unless such modifications were acceptable to them.

According to this limitation any future legal enactments in the matter of banks will affect these establishments only in those matters which are not opposed to the provisions of the law of 1897 and to the express stipulations of the agreements; but it was also agreed that, if provisions of a general character or stipulations contained in subsequent charters should grant greater privileges to the banks as a whole, the older banks could claim the benefit of them, provided they made express application for the purpose to the Department of Finance, and that, if said privileges were associated with certain obligations or legal requirements, the benefit of the privileges should accrue to the banks only in case they accepted at the same time these obligations or legal requirements.

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In adopting the system of local banks having the power of issuing notes upon their assets Mr. Limantour assigned three principal reasons for rejecting the system of centering in one institution complete monopoly of note issue. He declared that it would be contrary, in the first place, to the rights acquired by the banks which had previously obtained concessions. In the second place, an establishment which should be invested with the exclusive privilege of note issue throughout Mexico would be fatally under the domination of the Government. The financial distress of the state was still too recent to be forgotten. If similar periods should occur in the future, the first idea of an embarrassed government would obviously be to appeal to the bank and its power of note issue to obtain the resources of which it had need. Clearly it would not require a long time under such conditions not merely to deteriorate the condition of the public finances but to bring the country under the régime of forced legal-tender paper.

The principal reason assigned, however, for the new system was that the system of monopoly would not meet the needs of the country. The economic organization of Mexico, it was declared, is still too simple for the need of a single bank playing the rôle of regulator of the money market, of rediscount, and of the ultimate banking reserve. On the contrary, the true rôle of a bank of issue should be to mingle intimately in the life of the country and to provide for the daily needs of commerce and of industry. These, it was argued, were not the same throughout the extent of Mexican territory. Physically and politically,

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Mexico is a country decentralized. Its variety of altitudes divides it into three climatic zones, having each its own character, resources, and different products. In the warm belt (*tierra caliente*), a low, humid, and hot country, flourish all forms of tropical vegetation, cacao, vanilla, pepper, coffee, sugar cane, and the hard woods utilized for ebony and ornament. The temperate zone (*tierra templada*), between 1,000 and 2,000 meters above the sea, and the cold zone (*tierra fria*), land high and cold, produce, according to elevation, rice, cotton, and all varieties of European plants—cereals, vegetables, the vine, fruits, and, on the summit, forests of firs. Mineral riches are not less varied. Apart from silver, which is found in all the States of the Confederation, the Mexican subsoil contains gold, copper, iron, lead, sulphur, mercury, and even petroleum and precious stones. This variety of resources, agricultural and mineral, is still further complicated by a great diversity in their distribution throughout the country. Certain States are almost exclusively mineral and others almost exclusively agricultural.<sup>a</sup>

Upon the economic merits of the conflict between monopoly and local banking, Mr. Limantour expressed himself as follows:<sup>b</sup>

“If we examine the subject from the standpoint of the development of public wealth, is it likely that the privilege granted to a single bank of issuing notes for the entire Republic would yield the best results? The examples of monopoly which might be cited in support of an affirma-

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<sup>a</sup> Favre, pp. 23-25.

<sup>b</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 91.



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tive reply are confined to nations of small territory, with climates and natural resources of no great variety, and whose population, generally dense, shows great homogeneity; or to countries with strong centralizing tendencies, for the most part absolute monarchies, a system which readily and naturally admits of the union of the two supreme powers—the civil power and the power which regulates credit.

“In the Republic of Mexico, with its vast territory, its sparse population, its imperfect means of communication, and its immense variety of products, each locality has as it were local interests, the development of which, so far as the use of credit is concerned, can not be confided to a single banking institution, which, no matter how many branches and dependencies it may establish, could never supply the needs nor remedy the ills of each part of the national territory.

“And it is not unreasonable to declare that branches of a central bank are incapable of exercising satisfactorily, in every corner of the country, the beneficent influence of establishments of this kind, because a branch bank can have neither the initiative nor the authority to provide for the exigencies of every economic situation; and, on the other hand, the general and permanent regulations to which every administration must be subject, especially one so complicated as that of a central bank, lack that flexibility which is necessary to meet the innumerable and unforeseen emergencies arising from interests so divergent as those of the various localities of the Republic

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“From this point of view, the creation of local banks evidently presents undeniable advantages. Managed by persons whose interests are centered in the same locality, who are acquainted with the people and the affairs of the community, and who are so situated as to be able to give personal attention to the business and to understand the peculiar needs of a given district, its resources and their chances of development, such banks will undoubtedly be better able to realize the objects of the credit circulation confided to banking establishments.

“Furthermore, the adoption of the system of a plurality of banks will, in the course of time, permit the development of specialization, the sphere of action of local banks being marked off from that of the great banks located in the Federal District, with their ramifications in the States. There can be no doubt that, through the very nature of both kinds of institutions, the general banks, which operate at many points in the Republic with large capital and extensive connections, will develop into banks of rediscount, and, by that very fact, become true protectors of the local banks, with which they neither should nor can come into conflict, because they complement each other and constitute, in brief, distinct organs of a homogeneous and well-balanced system.”

In order to obtain an accurate view of all the aspects of the problem, Mr. Limantour deemed it necessary, on the other hand, to examine carefully the consequences that might arise from liberty of banking, in order not to run the risk of inconveniences as grave, or even graver, than those that would have ensued from the system of entire

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monopoly of note issue. Upon this point he referred to the general banking law of the United States, but concluded that it was not entirely adapted to conditions in a country which had not had an extended banking experience. On this subject he declared:<sup>a</sup>

“On comparing the political and economic conditions of the nations whose legislation does not require banks to apply for a concession to issue notes, it appears at once that their citizens are familiar with the practice of individual liberty and by that very fact know how to guard against the grave consequences that might arise from the abuse, and sometimes even from the normal exercise, of that liberty. The degree of intellectual development which the masses have attained and their experience in business constitute the most effective counterweight possible to the reckless or even tortuous and mischievous tendencies of an ill-administered establishment. Finally, the well-understood interest of the banks themselves prompts them to enter into close relations of mutual support, whereby they are almost always shielded against economic crises and adverse incidents.

“Can it reasonably be maintained that Mexico is in this condition? The very recent introduction of banks properly so called; the lack of experience in the use of credit; the distrust still prevailing, especially in districts outside the great centers of population, of instruments of credit; and the pronounced spirit of imitation, which would assuredly lead to a multiplication of banks out of all proportion to the needs of the country, are some of the

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<sup>a</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 93.

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reasons that speak in favor of certain restrictions until the country shall have become accustomed to those ideas and practices without which absolute liberty of banking involves extreme dangers.

“If to these considerations we add the fear of a powerful reaction against bank notes, in case of the failure of any establishment, no matter of how little importance, there will be no disagreement with the conclusion that the Government has acted wisely in deciding that the number of local banks to be established must not exceed certain limits.

“In following this plan the new law will no doubt give birth, at least in the early years of its operation, to a sort of banking oligarchy, causing the distribution of institutions of credit at all convenient points throughout the Republic, while their number, nevertheless, will not be so small as to give color to the statement that the issuing power constitutes a privilege in favor of a few. In any case, in a matter so delicate as that of credit, it is more prudent that the nation shall be in a position later on to extend the scope of its legislation, in order to favor the multiplication of banks on a larger scale, than to be driven by the bad results of a first effort to the restriction of their number and powers.”

### CHAPTER V.—*Conditions governing note issue.*

The conditions laid down by the Mexican law for the issue of circulating notes are somewhat more liberal than those in the United States, but are nevertheless clear and definite. It is provided that the amount of such issues

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shall not exceed three times the paid-up capital of the bank and that a reserve of 50 per cent shall be held not against notes only, but also against deposits payable on demand or subject to withdrawal at not more than three days' notice. This requirement is not so exacting, however, as might appear, because the Mexican law does not count as deposits the privilege given to borrowers to draw upon the bank. Indeed, all such "current accounts," as they are called in Mexico as well as in Europe, even though the depositors have the privilege of checking against them, are specifically exempted from classification as deposits.

How considerably these qualifications reduce the proportion of liabilities against which a cash reserve must be held is disclosed by a glance at the balance sheets. Thus, on December 31, 1908, deposits payable at sight or in not more than three days stood at \$64,162,230; deposits payable in more than three days, at \$48,097,893; and creditor current accounts, at \$334,754,206. Only the first item was subject to the reserve requirements of 50 per cent, which, with outstanding notes of \$87,504,630, was amply covered by cash holdings of \$77,753,503.

In requiring a reserve of 50 per cent against demand liabilities, Mr. Limantour departed from the previous requirement of the law, which called for a metallic reserve of only one-third of the note issue. He admitted, in his report of 1897, that this provision might err from excess of caution, but declared that it was preferable to sin in this direction, since the requirement could ultimately be relaxed, rather than to expose the bank note, which had

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only begun with difficulty to penetrate among the mass of the people, to a disaster which would throw the country back a long way in the road which had led other nations to prosperity.<sup>a</sup>

The assets of the banks are left in their own custody, subject to certain requirements as to their character. In the revision of 1897 Mr. Limantour definitely rejected the principle which had been adopted from the American law in the Code of Commerce of 1884, that the primary reserve of one-third held against circulation might consist in whole or in part of bonds. He placed his advocacy of basing note issues upon assets partly upon political conditions in Mexico, but partly also upon the fundamental theory of a banking currency. He said on this subject: <sup>b</sup>

“So strong was the desire to guard the banks against all outside influences, and especially against political influence, that notwithstanding the precedents created by earlier charters, requiring that the circulation be guaranteed in part by a deposit of government bonds, it was deemed inadvisable to retain this requirement and to provide for a deposit, more or less substantial in amount, of evidences of the public debt as a guaranty for the redemption of the notes. What would be the influence of such a deposit upon the credit of a bank in case that, in consequence of the vicissitudes of foreign or domestic politics, the securities of the State should precipitately decline? Would not rather the intensity of the evil be enhanced by the decline in the value of the guaranty at

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<sup>a</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 104.

<sup>b</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 102.

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the very moment when business was paralyzed by the general crisis, cash was hoarded, and payments were delayed?"

Whenever the circulation exceeds the limits fixed by law, the bank is required to communicate the fact in writing to the government inspector and to abstain from making new loans until the circulation has been reduced within the legal limits. If the reduction has not been effected within five days, the Department of Finance is required to set a period not exceeding one month, within which the bank must bring its circulation within the legal limits or be subject to the forfeiture of its charter or to enforced liquidation.

Bank notes are not legal tender, but circulate only by voluntary acceptance on the part of the public. They are required to bear on their face the promise to pay the bearer in cash the amount of the face value of the note. Notes must be redeemed at the head office of the bank or its branches, but the branches are under legal obligations only to redeem the notes which they have issued. The failure of a bank to redeem one of its notes gives to the bearer the right of summary action against the institution, after summons to pay has been formulated by a notary.

Bank notes are a first lien on the assets of the bank with the exception of claims to property pledged to the bank, under the terms of the Civil Code and the Code of Commerce; mortgage debts, when such mortgage has been registered previous to the transaction, whereby the bank acquires the mortgage to the property; and debts to the

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federal, state, or municipal governments for taxes. Other claims of the public treasury take a different rank.

The denominations of Mexican bank notes are limited to \$5, \$10, \$20, \$50, \$100, \$500, and \$1,000. The smallest of these denominations, equivalent to \$2.50 in American gold, leaves a vacuum in the circulation for the use of the silver peso, which for many years was almost the only money of the Republic except the subsidiary coins.

The notes of Mexican banks are not printed exclusively at a government agency, but overissue is checked by a provision that no note shall be put in circulation without a proper stamp, engraved on the note by the stamp-printing department. Permission to engrave this stamp must be obtained from the Finance Department and is granted only upon satisfactory evidence that the proposed issue does not exceed the legal limit of the circulation. The banks are allowed to keep their own notes, which are not in use, in vaults with two keys, one in the custody of the government inspector. Such notes are not counted as a part of the legal issue outstanding, and reserve is not required against them until they are withdrawn from the vaults and put in circulation.<sup>a</sup>

Banks are not prohibited from reissuing the notes of other banks, but by an amendment of the law adopted in 1908 they are required to arrange for a periodical exchange of such notes and, in the absence of express agreement to the contrary, to pay balances in such exchanges in cash.<sup>b</sup> The purpose of this provision was explained by the Min-

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<sup>a</sup> Circular of February 25, 1898, *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 62.

<sup>b</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 12.



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ister of Finance to be not only to protect the public against any circulation which might be forced or artificial, but also to safeguard the banks against the pressure which might be brought to bear by rivals by the accumulation of a great quantity of notes for presentation at a given moment.<sup>a</sup> The Government was given authority to prescribe regulations for the interchange of notes.

The requirements made by the Government in regard to the metallic reserve have grown more exacting with the progress of time. The first circular issued under the law of 1897 simply required a statement of the metallic money at the close of business on the last day of the month, the amount of notes issued, the amount which had come into the bank during the month, and the average stock of notes in the bank and branches.<sup>b</sup> The exact manner of calculating the value of gold and silver bullion and foreign moneys was prescribed four months later by a circular of October 16, 1897. Details as to the denominations of outstanding notes were required in 1904.<sup>c</sup> The adoption of the monetary reform in 1905 called for several temporary regulations, and after the influx of gold, caused by the rise in the value of silver bullion, statements of cash holdings were required to give separately the amount held in gold, in silver pesos, and in fractional money.<sup>d</sup> Banks of issue were forbidden to count the old coinage as part of

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<sup>a</sup> Circular of July 8, 1908, *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 81.

<sup>b</sup> Circular of June 23, 1897, *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 59.

<sup>c</sup> Circular of October 24, 1904, *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 70.

<sup>d</sup> Circular of March 1, 1906, *ibid.*, p. 78.

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their reserve after August 28, 1906, and by a circular of June 10, 1907, were required to restrict the amount of fractional silver admitted as reserve to 5 per cent of the total reserve required. It was pointed out by the Minister of Finance that the amounts of fractional silver reported by the banks had been steadily increasing until they generally exceeded 10 per cent and in some cases attained 40 per cent of cash holdings.<sup>a</sup>

These requirements show that the security of the notes depends upon the solvency of the individual bank, and acceptance of the notes by the public depends upon belief in that solvency. The banks are under no obligation to contribute to a common fund for the redemption of the notes of failed banks, as in Canada, nor are they under any obligation to support each other, except such as they have assumed voluntarily through the mechanism of the Banco Central, to be hereafter described. Their notes, without forced legal-tender quality, hypothecated security, provision for a safety fund, or any form of government guaranty, circulate upon the merits of the issuing banks. In seeking to introduce them into circulation, moreover, the banks have not had the benefit of marked deficiency in the stock of metallic tools of exchange. Mexico, as one of the largest producers of silver, kept her mints open until 1905 to its free coinage, which enabled its producer to convert his product into money and turn it at once into the channels of circulation.

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<sup>a</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 79.

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## CHAPTER VI.—*The position of the National Bank.*

The National Bank of Mexico occupied a peculiar position at the time of the adoption of the general banking law of 1897. It was conducted under a charter which granted privileges in regard to note issue about which there was some difference of opinion between the bank and the Government. It was the contention of the bank that the Government was pledged to grant no charters, beyond those already in force, authorizing the issue of notes. Notwithstanding this contention such charters had been granted by the Federal Government or the States until the number of banks of issue stood, in January, 1897, at seven, exclusive of the National Bank and the Bank of London and Mexico, whose title to issue circulation was not disputed. Notwithstanding this competition, however, the National Bank and the Bank of London and Mexico possessed \$30,000,000 of the capital stock of banks of issue out of a total capital of \$35,550,000, and had in circulation \$33,256,145 of the total note circulation of \$38,497,367.<sup>a</sup>

It was obviously desirable if a new banking system was to be inaugurated that it should be with the consent and cooperation of the National Bank and not under conditions which might lead to litigation over the rights of the new banks. As expressed in the report made by Mr. Limantour to Congress on this branch of the subject:<sup>b</sup>

“The anomalous condition arising from the fact that provisions of a general character affecting outsiders,

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<sup>a</sup> Casaus, *Las Reformas a la Ley de Instituciones de Crédito*, p. 309.

<sup>b</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 90.

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which are properly a matter of common law, had been embodied in a charter which, even though sanctioned by Congress, still retains the character of a contract entered into between two parties; the fact that, despite the stipulations of said contract, and the protests founded on that contract, which were made by the National Bank, charters were granted for the establishment of banks of issue in various places in the Republic; lastly, the suppression in the new Commercial Code of 1889 of the provisions which the earlier code contained on the subject of banks—all these circumstances created a state of affairs replete with difficulties, which compelled the Government to adopt a definite attitude, based on a system which, while respecting all legitimate rights, should at the same time be adapted to the needs of the country.”

In order to meet these difficulties Mr. Limantour entered upon negotiations with the National Bank with a view to modifying its charter in such terms as to remove all doubt concerning the legality of the privileges of the local banks already in operation and those which it was proposed to establish. The National Bank was disposed to take a friendly and receptive attitude, which was not unnatural in view of the powers which might be invoked by the Government against an institution which should resolutely antagonize public policy. An arrangement was accordingly reached in the early months of 1896 which took the form of several agreements signed and sealed between the Executive, acting under authority of Congress, and the administrative council of the bank, acting under authority of the general assembly of the share-

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holders. The concessions made by the National Bank were summed up by Mr. Limantour as follows:“

“ 1. It declared its willingness to relinquish the rights granted in its charter relative to the creation of other banks, and it announced its unreserved assent to the principles of the law of June 3, 1896, which authorizes the establishment of banks of issue in the States and Territories of the Republic.

“ 2. It agreed that the maximum of the standing credit of the Government in current account which the bank is obliged to maintain in favor of the General Treasury of the Republic shall hereafter be 4,000,000 pesos instead of 2,000,000, which was the limit fixed by earlier agreements.

“ 3. It also agreed that the service of collection and distribution of government funds, which it has to perform in accordance with its charter, shall continue to be performed for the coming ten years at a commission of  $1\frac{3}{4}$  per cent, instead of the 2 per cent which it had been receiving, this commission including not only all expenses, but also the risks of said operations.

“ 4. It agreed that the commission of 2 per cent which the Government, in accordance with contract, was paying it for the service of the consolidated debt, should be reduced to 1 per cent.

“ 5. It assumed the obligation to open a credit, not to exceed 500,000 pesos in current account, in favor of the National Loan Office (Monte de Piedad), without special guaranty and with interest of only 3 per cent per annum.

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*a Instituciones de Crédito: Leyes y Circulares Relativas, p. 94.*

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“In return for these concessions the National Bank obtained two advantages—an addition of fifteen years to the term of its charter, and a guaranty that during ten years the National Loan Office shall not avail itself of nor grant to third parties the authority which it received from the Government to put in circulation certificates of deposit or notes payable at sight and to bearer.”

While it might appear from this enumeration of concessions that the bank yielded much more than it obtained, the concessions in regard to the loan to the treasury and the charge for the fiscal service of the Government were in harmony with the general tendency in recent years to increase such loans and reduce such charges among the banking institutions of other countries where a central bank exists. The cardinal privilege obtained by the bank was the extension of the charter, which would have expired in 1934 if the bank had taken an attitude hostile to the policy of the Government.

The increase in the credit accorded to the treasury—from \$2,000,000 to \$4,000,000—was a natural sequence of the growth in the volume of public receipts and expenditures. The result of such a growth was to require a larger working balance, and already, from 1892 to 1895, the balance of this current account in favor of the treasury had been allowed to exceed, sometimes by considerable amounts, the original limit of \$2,000,000. In view of the willingness of the bank to extend such credits in the past it was not, therefore, a great concession merely to give legal sanction to this extension.<sup>a</sup>

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<sup>a</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 95.

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Whatever might have been the apprehensions of the officers of the National Bank of Mexico in regard to the results of the competition to be expected from the new state banks of issue, events did not prove such competition to be seriously injurious. It was the obvious intention of the Government, indicated by continuing the fiscal functions of the National Bank on behalf of the treasury, that the National Bank should continue to occupy a distinctive position in the banking system. It was declared in the report submitted to Congress that under the new law there would be two great banks of issue (including the Bank of London and Mexico) in the Federal District, with authority to create branches throughout the country and a number of banks in the States and Territories, with special privileges for the first bank established in any one of them and with authority to establish branches, under fixed conditions, in any part of the Republic, except for the exchange of notes in the Federal District.

The history of the growth of the banking system under the law of 1897 indicated at first, as was naturally to be expected, considerable development of the state banks, as banks of circulation and of discount. The National Bank of Mexico had a circulation at the close of January, 1897, amounting to \$21,772,100, and the Bank of London and Mexico a circulation of \$11,529,045, leaving to the other banks only about \$5,000,000 of the total circulation of \$38,497,367. The next few years witnessed the creation of many new state banks and a corresponding expansion in the note circulation. The condition of all the

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banks on June 30, 1901, showed a total volume of notes outstanding of \$63,505,969, to which the National Bank contributed \$23,325,827. At this time the circulation of banks other than the National Bank was \$40,180,142, but this included the circulation of the Bank of London and Mexico, which was \$16,492,043.

This upward movement of the circulation of the state banks, while that of the National Bank remained comparatively stationary, continued until the summer of 1905. From that date different tendencies developed, and the National Bank became more than previously the reserve bank of the country and the source of note issues which were acceptable in all parts of Mexico. The aid given by the National Bank in the adoption of the monetary reform, by contributing the entire fund turned over to the exchange and currency commission and by substituting its notes for silver withdrawn from use, was undoubtedly a factor in this change in the proportion of notes in circulation. The panic of 1907 in the United States, with its reaction upon Mexico in the form of restricted credit, also tended to improve the position of the National Bank.

So far as there was a demand for the support of the market by the issue of additional notes, it seems to have been met by the expansion of the note issues of the National Bank of Mexico, while the circulation of the state banks was undergoing contraction. The table given below, showing the ratio of the circulation of the National Bank of Mexico and that of the state banks to the total circulation, throws an interesting light on this phase of the subject. It discloses the fact that while the National



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Bank issued only about 29 per cent of the total circulation at the close of 1905, its proportion had risen at the close of 1908 to more than 41 per cent. The details for the end of each quarter for several years appear in the table.

*Circulation of the National Bank and other banks.*

| Month ending— | National Bank. | Other banks. | Total.       |
|---------------|----------------|--------------|--------------|
| 1904.         |                |              |              |
| Dec. 31.....  | \$23,595,281   | \$59,935,595 | \$83,525,876 |
| 1905.         |                |              |              |
| Mar. 31.....  | 23,689,739     | 62,134,829   | 85,824,568   |
| June 30.....  | 26,439,982     | 63,014,273   | 89,454,255   |
| Sept. 30..... | 25,572,486     | 64,803,817   | 90,376,303   |
| Dec. 31.....  | 27,749,275     | 66,392,132   | 94,141,407   |
| 1906.         |                |              |              |
| Mar. 31.....  | 30,188,347     | 66,724,404   | 96,912,751   |
| June 30.....  | 31,608,695     | 65,526,281   | 97,134,976   |
| Sept. 30..... | 33,633,490     | 61,964,003   | 94,597,493   |
| Dec. 31.....  | 35,472,833     | 62,315,045   | 97,787,878   |
| 1907.         |                |              |              |
| Mar. 31.....  | 37,894,286     | 63,070,454   | 100,964,740  |
| June 30.....  | 37,566,398     | 60,904,130   | 98,470,528   |
| Sept. 30..... | 35,040,817     | 60,633,073   | 95,673,890   |
| Dec. 31.....  | 34,682,544     | 56,793,438   | 91,475,982   |
| 1908.         |                |              |              |
| Mar. 31.....  | 39,283,609     | 55,126,868   | 94,410,477   |
| June 30.....  | 39,479,934     | 52,773,359   | 92,253,293   |
| Sept. 30..... | 34,173,359     | 50,365,763   | 84,539,122   |
| Dec. 31.....  | 36,225,518     | 51,279,112   | 87,504,630   |

In so far as this relative movement of the circulation of the state banks and the National Bank can be considered as permanent, it would seem to indicate a tendency toward the evolution of a bank of rediscount, supporting the minor banking institutions of the country by the issue of notes to meet emergencies, even in the absence of any legal obligation to fulfill such a function. It was declared by Mr. Limantour, in his budget report in December, 1908, that "under the present trying conditions the bank

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in question has rendered vital service to the commercial and industrial interests and private individuals, thus giving another proof of its great usefulness to the community—a usefulness which time assuredly will only enhance.”<sup>a</sup>

Further evidence of this primacy of the National Bank is afforded by the movement of specie holdings and note issues during the interval of business contraction, between July 31, 1907, and June 30, 1908. During this period the total note circulation of the country diminished by nearly \$4,000,000, but the circulation of the National Bank increased by about \$3,750,000. The specie holdings of the National Bank, on the other hand, while declining in September, 1907, by about \$500,000 from the high point of July, recovered rapidly during the period of business relaxation in the spring of 1908, until they reached the unusual total of \$40,176,282, or considerably more than half of the total specie holdings of all the banks. The different manner in which note issues and specie holdings fluctuated during this period of stress, as between the National Bank and other institutions, appears in the table below:

*Movements of notes and specie, 1907-8.*

|                      | Notes in circulation. |                | Specie held.   |                |
|----------------------|-----------------------|----------------|----------------|----------------|
|                      | July 31, 1907.        | June 30, 1908. | July 31, 1907. | June 30, 1908. |
| National Bank .....  | \$35,766,709          | \$39,479,934   | \$30,197,977   | \$40,176,283   |
| Bank of London ..... | 15,587,928            | 12,977,776     | 11,135,265     | 10,597,532     |
| Central Bank .....   |                       |                | 1,140,348      | 1,160,994      |
| Other banks .....    | 44,792,790            | 39,795,583     | 27,219,311     | 24,762,084     |
| Total .....          | 96,147,427            | 92,253,293     | 69,692,901     | 76,696,893     |

<sup>a</sup> *Financial Documents, 1908, p. 21.*

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## CHAPTER VII.—*Functions of the Banco Central.*

The Banco Central Mexicano was an organ which grew logically out of the new order of things established in Mexico under the law of 1897, but was the conception of individual initiative rather than of the law. The Banco Central is not a bank of issue. It was organized nominally under that division of the law relating to banks of promotion (*Bancos Refaccionarios*), but its function differs in many respects from that contemplated for those institutions. Instead of devoting its energies primarily to loans for agriculture and industry for terms of two or three years, it has acted as a sort of clearing agent for the state banks. The obvious weakness of the system laid down by the law of 1897 was the lack of common support among the state banks. As the situation was stated by Favre:<sup>a</sup>

“The principle of local banks, excellent in itself for assuring to the entire country a distribution of credit appropriate to the varied needs of different regions, had one defect. The isolation of the banks was to a certain extent the price of their independence. Very flexible, but abandoned to their own resources, they were far from having the solidity of the branches of a great establishment which, supported by the central office, form a compact aggregate, capable of resisting attacks and crises. On the other hand, in spite of the close relations which they could not fail to establish among themselves, the need made itself felt of a common center, in the nature of a clearing house, which should facilitate the settlement of their operations and the exchange of their notes.”

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<sup>a</sup> *Les Banques au Mexique*, p. 62.

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It was to meet this need that the Banco Central came into being. The bank opened on February 15, 1899, with a capital of \$6,000,000, of which one-half was paid up. Originally 50 per cent of the stock belonged to a syndicate represented by the Deutschebank, Messrs. Bleichroeder & Co., and J. P. Morgan & Co. This syndicate had a majority of the board, but this arrangement was found to be a hindrance to the progress of the bank and a plan was devised by which the various state banks of the Mexican Republic took over these foreign shares and placed the control in Mexican hands.<sup>a</sup>

The new plan, which went into effect in 1902, provided that each of the state banks should possess a number of shares in the Banco Central which should be equal to at least 10 per cent of the nominal capital of the state bank on December 31, 1901. The shares of the Banco Central were divided into two series, one representing those subscribed by the shareholders and the other those belonging to the banks. The latter were registered in the names of the banks and can not be transferred. When a new establishment was founded, if the number of available shares set aside for the banks was insufficient, the new bank was compelled to go into the market and buy the general shares, which were deposited in the vaults of the Banco Central with a certificate setting forth that they were subject to the same conditions as the other shares owned by the banks. This method of pooling the stock was subject, however, to the condition that ten years after the

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<sup>a</sup> *New York Bankers' Magazine*, (October, 1908), LXXVII, p. 527.

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agreement, with the consent of the majority of the banking shareholders, the banks might convert their banking shares into general shares.<sup>a</sup>

The relations between the Banco Central and the state banks are regulated by a contract which is made for a year with each of them. The Banco Central grants to each local bank a current account, of which the debtor balance may reach 10 per cent of its paid-up capital. This current account is at a differential rate of interest—5 per cent in favor of the local bank when there is a balance in its favor,  $7\frac{1}{2}$  per cent in favor of the Banco Central when the balance is against the local bank. The account is balanced and the allotment of interest made every six months. When the balance in favor of the local bank rises above 10 per cent of its capital, the rate of interest allotted is increased by 3 per cent; on the contrary, when the balance against the bank exceeds 10 per cent, the interest paid is increased by 2 per cent.

The Banco Central buys the notes of the local banks to the amount of the credit which it has extended. These notes must be reimbursed at par. The Banco Central, however, in order to guard against emergencies, reserves the right to refuse notes which are presented in abnormal quantities or with suspicious intent. The Banco Central discounts the obligations remitted to it by the local banks, buys and sells exchange for their account at a commission of 4 per cent of the net profits, and undertakes to represent them in relations with the Government. Both parties

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<sup>a</sup> Favre, p. 64.

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agree mutually and gratuitously to make collections for each other.

Thus is established a community of interests and mutual support among the local banks which would otherwise be lacking. Still further strength is given to the system by the careful regulations which have been framed to secure prompt support for any bank which may be involved in difficulties. As soon as a bank considers itself threatened, it is authorized to notify the Banco Central. The latter telegraphs immediately to the other associated banks, who are under agreement to establish at once at the Banco Central a fund equal to 50 per cent of the capital of the threatened bank. Contributions to this fund are limited, however, to not more than 2 per cent of the capital of any contributing bank. The amount thus placed in the hands of the Banco Central is employed in redeeming at par the notes of the establishment which is threatened. If the bank itself is intrusted with the funds for redeeming the notes, it is required to remit them promptly to the central bank, where they are held in trust on account of the banks in the proportion in which they have contributed to the fund. For this service the bank receiving aid is required to pay 12 per cent on the sums paid and the costs of the operation.

The importance of the Banco Central as a part of the banking system was promptly recognized by the Minister of Finance and received his cordial support. He saw in it not only a means of cooperation, but a more efficient means than government inspection of keeping the operations of the state banks within sound limits.

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The operation of the Banco Central was so successful that its capital was several times increased after 1901. The later issues were taken by foreign syndicates, which did not, however, undertake to interfere with the local management of the bank. It was on the initiative of the Banco Central that a clearing house was established in the City of Mexico in 1905 for the banks of the capital.

The extent to which the Banco Central is availed of by the state banks is shown by the rapid growth of its transactions. The balance sheet of December 31, 1908, showed assets of \$84,141,461, of which the largest item was loans upon pledges, \$21,176,893. Discounts, however, stood at \$10,201,991; the balance of current accounts to the banks, \$12,633,153; and accounts of various classes, \$18,365,673. Several items of the balance sheet indicated the investment of the assets in securities and industrial loans. Among them were securities immediately realizable, \$3,593,862; investments in bonds and shares, \$5,656,399; and industrial loans, \$3,410,197. On the side of liabilities, the large capital of the bank, \$30,000,000, affords a guaranty which permits certain classes of operations which would be less secure with a small capital and a large deposit liability. The reserve fund and the profit and loss account add, respectively, \$6,186,605 and \$3,945,307 to this amount, making up with the capital not far from half of the liabilities of the bank. The deposits payable on demand with interest stood on December 31, 1908, at \$6,758,900; those payable after more than three days at \$5,917,893; and various

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liabilities at \$9,047,800.<sup>a</sup> The item of accounts of various classes, \$18,365,673, balances the corresponding item of the assets and is made up to a considerable extent of accounts in process of collection between the banks.

The benefits of the Banco Central to the state banks are disclosed, as much by the volume of operations as by the state of the balance sheet. The entry and outgo of cash, check accounts, and other items, a usual feature in European bank reports, although rarely kept by banks of the United States, show a very rapid inflow and outgo under nearly every head. The following figures show these movements under some of the principal items:

*Movement of accounts of Banco Central.*

| Year.     | State banks. | Current accounts. | Cash turnover. |
|-----------|--------------|-------------------|----------------|
| 1899----- | \$84,029,913 | \$47,510,675      | \$232,596,011  |
| 1900----- | 159,165,489  | 64,970,181        | 417,311,344    |
| 1901----- | 220,469,437  | 93,811,717        | 710,311,344    |
| 1902----- | 317,728,928  | 201,321,669       | 955,149,526    |
| 1903----- | 406,489,928  | 199,778,557       | 1,133,273,240  |
| 1904----- | 467,741,465  | 174,448,963       | 1,375,930,244  |
| 1905----- | 670,585,461  | 315,463,093       | 2,588,754,858  |
| 1906----- | 483,460,118  | 441,931,928       | 2,740,912,750  |
| 1907----- | 527,629,120  | 348,298,843       | 2,891,485,979  |
| 1908----- | 441,915,280  | -----             | 2,556,416,914  |

## CHAPTER VIII.—*Character of Mexican banking business.*

The method of extending accommodation to commerce by the banks of Mexico differs in several respects from the methods pursued in other countries. The comparatively small proportion of commercial operations of the type which afford suitable paper for discount compels

<sup>a</sup> These figures are from the official report of the bank, made to the shareholders April 14, 1909.



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the banks, with due regard to the encouragement of Mexican industry, to make loans for longer terms and in a different manner than the banks in Europe and the United States. The law regarding discounts requires that paper discounted shall bear at least two signatures and shall be payable in not more than six months. It is not through discounts, however, that the bulk of Mexican banking business is done.<sup>a</sup> The bulk of the assets of a commercial bank in Mexico consists of notes deposited as a pledge for advances made by the bank, but these notes are not indorsed over to the bank in the same manner as in Europe and America.

The client who has received an advance upon the deposit of a note as collateral is debtor to the bank to the amount of the advance if the paper is not paid at maturity. Banks in nearly all cases hold the paper until maturity, and the advances are usually for a period of not less than nine months, and sometimes for a year. This detracts from the convertibility of the assets, but the position of the local banks has been materially strengthened by the arrangement made with the Banco Central for discounting their own paper in case of need. The advances made upon commercial paper in this manner afford returns often running to 8 and 9 per cent. The paper is selected with considerable care, and Mexican debtors are usually punctilious in keeping their engagements.<sup>b</sup> The character of the paper carried is verified

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<sup>a</sup> It is declared by Favre that discount, as employed in Europe, is so little in use in Mexico that it is regarded as almost a disgrace to have a note discounted.—*Les Banques au Mexique*, p. 44.

<sup>b</sup> Favre, p. 73.

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by the commissioners of the Government, who are not tolerant toward obligations with signatures of doubtful value. In order to make loans under the conditions which exist in Mexico, a minute knowledge is required of the men to whom credit is granted and of the character of the business which they carry on.

Among the items which are required by law to appear in the monthly balance sheets of the banks are the amount of paper discounted, the amount of loans on collateral, and the amount of creditor current accounts. The creditor current accounts involve a certain amount of duplication between the banks, as in the case of the reserve deposits of banks in the United States. Thus, the creditor current accounts of the Banco Central represent credits opened in favor of the local banks. Such accounts at the local banks themselves represent the credits extended among themselves for the purpose of covering their exchanges. They also represent the credits extended to commercial and industrial houses against guaranties of a character approved by the representative of the Government. As these credits are not necessarily for any fixed term, they afford such means as the banks have at their command for extending aid to industrial and commercial enterprises. In this respect they play to a certain degree the part played by the cash credits of the Scotch banks in the eighteenth and nineteenth centuries.

Variations in the manner of classifying assets led to some reforms in 1908, which caused a considerable change in the amounts appearing under different items of the

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balance sheets. These changes were explained by the Minister of Finance in his report for 1908, as follows:<sup>a</sup>

“The considerable oscillation observable in the items of ‘notes discounted’ and ‘loans on collateral’ is due largely to the new classification of the constituent elements of the assets, for the increase in the item of ‘accounts current, debtors’ in the balance sheet of the banks of issue is undoubtedly due to the transfer thereto of accounts that had been improperly included under ‘notes discounted’ and ‘loans on collateral.’ The large reduction of the two last-named items is also partly due to the volume of accounts collected during the year.

“The magnitude of the items ‘accounts current, debtors’ and ‘accounts current, creditors’ is also due to the practice of including under them the balances of bookkeeping accounts, which do not represent credits or debits, properly so called, and which should balance exactly. These bookkeeping accounts amount on the side both of assets and liabilities to more than \$220,000,000. Impersonal accounts, such as ‘profit and loss,’ ‘dividends distributable,’ etc., are also included under the items of ‘accounts current, debtors’ and ‘accounts current, creditors.’”

The item of the assets designated as “securities and obligations immediately realizable or negotiable” is required by the Government to represent only what its title implies. Securities thus held are required to be government bonds or industrial securities enjoying a market sufficiently wide to permit their sale or negotiation within

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<sup>a</sup> *Financial Documents*, December, 1908, p. 21.

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a short time. The banks are not permitted under this head to carry shares in participations nor securities which are not quoted. As the situation is defined by M. Favre:<sup>a</sup>

“The banks are strangers to the issue of company securities. Mexico does not yet know the pompous flotations and guaranteeing syndicates, nor any of the necessary but dangerous methods of our modern banks. It is by new companies themselves that their securities are usually issued, with the support of private bankers or of banks without concessions which make a specialty of dealing in securities. But the establishments of credit are not permitted to participate, and there is no danger of finding among their assets certificates arising from issues which have failed or only partially succeeded.”

As required by the fundamental conditions of the law, the chief business of the banks of issue is limited to commercial loans and discounts of the character above set forth. A certain amount is permitted, however, to be advanced upon stocks and bonds. The law requires that such advances shall not exceed 90 per cent of market value and that in case of depreciation the deficiency shall be made good within three days or the securities immediately sold.

The lurking element of danger in loans of the last two types, by banks having large demand liabilities, which caused so much embarrassment to the trust companies of the United States in 1907, was revealed in Mexico at about the same time. Loans upon securities increased very rapidly after the impetus given to Mexican industry by

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<sup>a</sup> *Les Banques au Mexique*, p. 74.

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the monetary reform. The increase had, indeed, begun before the reform was put in execution and had already carried the amount of such loans from \$49,513,193 on December 31, 1902, to \$62,818,661 for 1903; whence, after the monetary reform, they rose to \$86,098,254 for 1905; \$102,240,713 for 1906; and to \$110,244,160 on June 30, 1907. The halt called in all speculative movements and the pressure in the money market caused a sharp contraction of such loans to \$64,609,118 on June 30, 1908, and a still further reduction at the close of the year 1908 to \$56,012,818.

Mortgage loans occupy only a subordinate place among the assets of the banks of issue. They represent ordinarily only the pledge of real estate as a supplementary guarantee where the value of the original pledge has declined and the borrower has not been able to substitute any other form of security. The tendency to the over-extension of credit immediately before the pressure of 1907 is indicated by the fact that these loans secured by mortgage multiplied several times during the period of liquidation which followed the pressure. They stood on June 30, 1906, at only \$1,680,224, to rise on June 30, 1907, to \$2,910,744. Then came the sudden shrinkage in the value of securities, the curtailment of loans, and demands by the banks for supplementary security, which carried the amount of loans on mortgage on December 31, 1907, to \$6,240,828; on June 30, 1908, to \$7,773,865; and on December 31, 1908, to \$10,504,677. It is to be expected that these amounts will be gradually reduced with the restoration of sound conditions, since they are contrary

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to the policy of the law which governs banks of issue and contrary to the condition of the banks themselves prior to the last few years, when loans on mortgage for all the banks were kept below \$1,000,000.

The original banking law of 1897 imposed four restrictions upon banks of issue in regard to classes of business allowed. Two of these restrictions were directed to limiting the character of paper discounted—that it should not run for more than six months and that it should be guaranteed by at least two responsible signatures, unless collateral security was given. It is under the latter exemption, as stated above, that a large share of Mexican banking business is done. The other two prohibitions were against loans secured by mortgage (with the usual exemptions for property taken in case of default) and the pledging of circulating notes or creating any lien upon them.

In spite of these restrictions, the rapid influx of capital into Mexico for investment in fixed forms after 1905 encouraged the employment of banking methods which did not meet the approval of the Minister of Finance. This became apparent after Mexico had felt the reaction of the crisis of 1907 in the United States. Hence resulted a circular letter, issued by Mr. Limantour to the banks under date of February 10, 1908, pointing out that certain reforms seemed to be called for in banking practice and proposing a conference of bankers in April for the discussion of the subject. One of the results of these conferences was that further restrictions were imposed upon the character of business permitted to the banks, much more minute and specific than those con-

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tained in the original act. It was deemed advisable to directly prohibit participation in industrial enterprises and to limit to 10 per cent of capital and reserve the amount invested in corporation securities. A leaf was taken also from the national banking law of the United States, by prohibiting loans to any one person or corporation exceeding 10 per cent of paid-up capital. The text of these restrictions was embodied in a new draft of article 29 of the law of 1897, which was made to read as follows:<sup>a</sup>

### “ARTICLE XXIX.

“It is prohibited to banks of issue:

“1. To make loans or discount notes or other paper running for more than six months.

“2. To discount notes or other commercial paper without at least two signatures of well-known solvency, unless collateral security is given.

“3. To make loans secured by mortgage except in the cases set forth in the following article.

“4. To make loans without sufficient collateral to persons or associations not domiciled nor having business of importance in the States or Territories wherein the home office, branches, or agencies expressly authorized by the Treasury Department may be located. From this provision are excepted operations between banks.

“5. To mortgage their real property or borrow on their credits.

“6. To pledge or pawn their bank notes or to contract obligations respecting them.

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<sup>a</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 13.

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'7. To accept uncovered bills of exchange or drafts, or to open credits not revocable at discretion by the bank.

"8. To hold corporation stocks or bonds exceeding 10 per cent of the amount of paid-up capital and reserve at the time. Securities representing the federal debt and others where the capital or revenues are guaranteed by the Government are not included in this limitation.

"9. To operate on their own account mines, metallurgical offices, mercantile establishments, industrial or agricultural enterprises, or to take part, either by general or silent partnership, in associations, except under circumstances analogous to those set out in article 100, in which case the provisions of article 101 shall be complied with.

"10. To engage in insurance operations.

"11. To accept responsibilities, whether direct, indirect, or associate, from any single person or association, which in the aggregate exceed 10 per cent of the paid-up capital of the establishment. Rediscounts between banks are excepted."

### CHAPTER IX.—*Movement of the circulation.*

The Mexican bank-note system has not been long enough in operation to justify final conclusions in regard to the character of its movements. Any tendency which might exist toward automatic expansion or contraction to meet seasonal requirements has been more or less obscured by a number of special circumstances, the most conspicuous of which have been the natural expansion of a new system to meet the requirements of a country going through a rapid process of development and the issues



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made to meet the changes which took place in the volume of metallic money during the initiation of the monetary reform. A further circumstance which tended to obscure any purely rythmical movement which might occur under stable conditions was the sharp contraction in the volume of business caused by the panic of 1907 in the United States and its after effects in Mexico.

It was almost inevitable that the creation of new banks of issue in a large number of the Mexican States should cause an increase in the note circulation. This tendency may be explained as the provision of an adequate medium of exchange where it did not before exist. This has been a common phenomenon in banking history, and also in the history of the distribution of the precious metals, that the new supply has gone largely to those localities where the means of circulation were scanty, instead of being superimposed upon the circulation in that part of the community where it was already adequate, or nearly adequate, for commercial operations.<sup>a</sup>

The net increase in circulation in Mexico has not been large, however, in proportion to the growth in banking facilities. The issue of notes has been accompanied by a more than corresponding increase in the metallic reserves of the banks, which has left the amount of notes only slightly in excess of reserves. The reason for the growth of the reserve is found in the requirement of the banking law that metallic money shall be held to the amount of 50 per cent of certain classes of demand liabilities in addition

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<sup>a</sup> This subject is discussed more fully in the author's "Principles of Money and Banking," Book II, Chap. VI, on "The Distribution of Money."

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to circulating notes. The relative increase in circulation and in metallic reserve for representative years since the enactment of the new banking law has been as follows:

*Increase of note issue and metallic reserve.*

| December 31—        | Circulation. | Metallic reserve. |
|---------------------|--------------|-------------------|
| 1898.....           | \$54,375,769 | \$39,197,024      |
| 1900.....           | 64,012,464   | 49,394,761        |
| 1903.....           | 84,202,709   | 61,564,982        |
| 1905.....           | 94,141,407   | 68,312,005        |
| 1906.....           | 97,787,878   | 64,909,345        |
| 1907.....           | 91,475,982   | 69,818,349        |
| 1908.....           | 87,504,630   | 77,753,503        |
| 1909 (June 30)..... | 92,221,477   | 84,352,541        |

The increase in note issues within ten years shown by the above figures is about 65 per cent, while the increase in reserves is 98 per cent. This increase in circulation is not in itself insignificant, but it is small compared with the increase in total banking assets, which was more than 300 per cent between 1898 and 1908. The rapidity of this growth over five-year periods is graphically shown by these figures:

*Growth in banking assets.*

|                    |               |
|--------------------|---------------|
| Dec. 31, 1898..... | \$170,650,776 |
| Dec. 31, 1903..... | 360,144,145   |
| Dec. 31, 1908..... | 704,522,244   |

The comparatively moderate increase in bank-note circulation is susceptible of several explanations having special reference to conditions in Mexico. In countries where the check system has been highly perfected, as in Great Britain and in the United States, it would be possible to attribute such a condition to the preference for

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checks over bank notes. To a limited extent, but to a limited extent only, this explanation would probably fit conditions in Mexico. The extensive operations carried on by American smelting and mining companies and by other large corporations, both domestic and foreign, have been facilitated by the extension of the banking system and are consummated largely by checks, drafts, and bills of exchange rather than by the employment of notes. A part of the reason for the slow increase in note circulation is to be found, however, in the preference of the mass of the community for "hard money," or for the physical possession of silver coin, which was for so long a time almost the only medium of exchange. The use of silver was a part of national economic policy for many years, in order to afford a market for the metal, and was promoted by limiting the minimum issue of bank notes to five pesos. For all transactions in smaller amounts a void was left for the use of the *peso duro* (or hard dollar), which so long enjoyed the monetary empire not only of Mexico, but of China, the Philippines, and other countries of the Orient. This and another cause for the limited circulation of notes are thus set forth by Favre:<sup>a</sup>

"For this state of things may be assigned two reasons, which, however, mutually supplement each other. It should not be forgotten, in the first place, that the Mexican bank note is not legal tender. Although it is received everywhere, even in the public offices, no one is compelled to accept it. In the second place, thanks to the large production of silver and to its free coinage, Mexico was

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<sup>a</sup> *Les Banques au Mexique*, p. 78.

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always abundantly supplied with metallic money, and as no one was compelled to receive notes, the employment of silver money, which had already entered so deeply into popular habits, was continued. It is probable that with the adoption of the gold standard and the suspension of the free coinage of silver this situation will be modified and the credit circulation will acquire a wider extension."

So far as it is possible to draw inferences in a guarded way from the fluctuations in the Mexican bank circulation, it would seem that the end of the quarter—in March, June, September, and December—is usually a period of expansion. Examination of the table given below, showing the changes in note circulation at the end of each month for the four years ending with 1908, shows that, with the single exception of December, 1907, the circulation at the close of these months was larger than that for the month preceding. In the spring the increase often extended over to the close of April, but in the summer showed usually a considerable contraction in July. The record of October is less uniform. The month of December, with the exception of the crisis period of 1907, shows the expansion at the end of the quarter in a rather more marked degree than in other cases. So far as any inference can be drawn from so limited a set of data, the spring months appear as those of active demand for notes, while the summer shows a considerable contraction.

The events attending the consummation of the monetary reform in 1905 and 1906 and those attending the business reaction at the close of 1907, disclose at least a

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considerable degree of responsiveness on the part of the note circulation to the demand for currency. The details regarding the action of the banks in supplying notes to cover the withdrawal of silver coin in carrying out the monetary reform are set forth elsewhere. It is sufficient to say in this connection that the banks met the requirement for currency by increasing their note issues to take up the coin withdrawn.

The movement of the note issue at the time of the crisis of 1907 was quite different from that of the note issue by the national banks of the United States. The note issue of Mexico showed a fall from a maximum of \$100,964,740 at the close of March, 1907, to \$95,673,890 at the close of September and to \$91,475,982 at the close of December. A still lower figure was reached in January, 1908, to be followed by an expansion in March of about \$4,750,000. Contraction then set in again in earnest, until the close of August, 1908, showed a circulation of only \$83,741,316, or more than 16 per cent below the maximum of the period of expansion. Some recovery took place during the autumn of 1908, but the circulation still remained at the close of December, in spite of the end-of-the-quarter demand, at \$87,504,630, or fully 12½ per cent below the maximum of 1907. The details of these movements of the circulation at the end of each month appear below.

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*Changes in note circulation at end of each month.*

| End of—        | 1905.        | 1906.        | 1907.        | 1908.        |
|----------------|--------------|--------------|--------------|--------------|
| January.....   | \$82,995,576 | \$93,597,868 | \$98,184,395 | \$89,659,571 |
| February.....  | 84,246,461   | 96,181,246   | 99,674,882   | 91,689,723   |
| March.....     | 85,824,568   | 96,912,751   | 100,964,740  | 94,410,477   |
| April.....     | 87,213,076   | 98,143,032   | 99,072,829   | 93,584,097   |
| May.....       | 87,054,131   | 95,985,238   | 98,297,088   | 91,770,812   |
| June.....      | 89,454,255   | 97,134,976   | 98,470,528   | 92,253,293   |
| July.....      | 92,002,194   | 95,487,247   | 96,147,427   | 85,930,980   |
| August.....    | 89,461,960   | 93,275,113   | 95,521,153   | 83,741,316   |
| September..... | 90,376,303   | 94,597,493   | 95,673,890   | 84,539,122   |
| October.....   | 92,933,798   | 95,108,751   | 94,577,098   | 84,662,267   |
| November.....  | 91,918,180   | 96,017,095   | 92,699,333   | 84,544,942   |
| December.....  | 94,141,407   | 97,787,878   | 91,475,982   | 87,504,630   |

Whether these figures indicate a healthy movement of the circulation or not, they at least indicate susceptibility to change in conformity with changes in commercial conditions. How widely this movement differs from that of the circulation in the United States, based upon United States bonds, may be judged by the brief summary of the movement of the American circulation contained in the following table:

*Movement of circulation in the United States.*

| Date.                | Secured by—   |               | Total.        |
|----------------------|---------------|---------------|---------------|
|                      | Bonds.        | Lawful money. |               |
| July 1, 1907.....    | \$555,570,881 | \$48,217,809  | \$603,788,690 |
| January 1, 1908..... | 643,459,898   | 46,670,997    | 690,130,895   |
| July 1, 1908.....    | 623,250,517   | 75,083,400    | 698,333,917   |
| January 1, 1909..... | 628,786,205   | 48,281,960    | 677,068,165   |
| July 1, 1909.....    | 659,673,408   | 30,246,666    | 689,920,074   |
| August 1, 1909.....  | 667,508,731   | 27,845,433    | 695,354,164   |

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The significance of these figures is found chiefly in the movement of the circulation secured by bonds. It appears that while there was an increase of about \$88,000,000, or less than 8 per cent, at the time of the panic, to meet the demand for currency, there was a subsequent contraction of only about \$20,250,000, or less than  $3\frac{1}{2}$  per cent, after money had become redundant, and rates for call loans in New York were for a long time continuously below 2 per cent. This trifling contraction, moreover, was offset more than twice over within about another year by the issue of notes upon bonds which had previously been used to protect deposits of public money with the banks.<sup>a</sup>

The criticism might perhaps be made against the movement of the Mexican circulation that it did not meet the requirements of an elastic currency by prompt expansion for tiding over the temporary demand for a medium of exchange at the height of the panic. It does not appear, however, that such a demand was acutely felt, and it is certain that there was no suspension of currency payments nor any abnormal increase in the discount rate for sound loans. There was considerable disturbance in the market for credit due to large investments in securities which could not be quickly realized, but the effect was felt upon the credit situation rather than upon the demand for currency. Such demand as arose for the support of the market by the issue of additional notes was met chiefly by the National Bank rather than by the state banks, as

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<sup>a</sup>Cf. Wall Street Journal, August 10, 1909, from which the above figures are taken.

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has been set forth in the chapter devoted to that institution.

### CHAPTER X.—*Adoption of the gold exchange standard.*<sup>a</sup>

The work of putting the banking system upon a modern basis had hardly been achieved when Mr. Limantour turned his attention to the subject of the metallic standard. Mexico had been a large producer of silver from the times of the Spanish conquest, and her standard coins had found their way through the gateways of Europe and the Philippines—which was at one time an appanage of Mexico—into China, Japan, and most of the countries of the China Sea. But the gradual fall in the gold price of silver, accentuated in 1902 by the lowest level ever touched by the metal, convinced Mr. Limantour and his advisers that Mexico must follow other advanced nations onto the gold basis. The public finances were deranged by the fall of silver, because much of the foreign debt of the country had been contracted in gold, and the import trade had been reduced almost to gambling because exchange with gold countries had become subject to such wide fluctuations. More important still was the effect of the fall of silver and its incessant fluctuations upon the earnings of the railways and the refusal of foreign capital from gold countries to embark in the extension of the railway network or in other Mexican enterprises. While many local enterprises profited after a fashion from the rise in exchange, the railways were governed by official

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<sup>a</sup> The account here given of the adoption of the exchange standard follows in the main the narrative of the author's "History of Modern Banks of Issue," fourth edition, New York, G. P. Putnam's Sons, 1909.



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rates, which the Government only tardily, in 1902, authorized them to change.

Confronted by these conditions, Minister Limantour obtained the approval of President Diaz for the appointment of a monetary commission to investigate all phases of the subject of the metallic standard. While this commission was at work in Mexico, beginning in the spring of 1903, another step was taken by the Mexican Government, designed to secure a certain degree of international cooperation in establishing more stable exchange between other silver-using countries and gold-standard countries. Notes substantially identical in language were addressed in January, 1903, by the representatives of China and Mexico to the Government of the United States, asking the aid of the latter in presenting the subject to those Governments having commercial and territorial interests in the Orient. It was pointed out that the imports of certain silver-using countries reached a total of \$574,627,323 (in United States gold coin), and that the problem of securing relative stability of exchange between the gold and silver countries is one whose importance is not limited to silver countries, but comes home with force to all those gold-standard countries which are seeking markets for their products in silver countries and are seeking the extension of their trade in the Orient.

The Government of the United States responded favorably to this appeal, and President Roosevelt, under authority of Congress, appointed a commission of three members to cooperate with a commission appointed by

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<sup>a</sup> *Commission on International Exchange, 1903, p. 39.*

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Mexico to present the subject to other Governments.<sup>a</sup> These commissions visited successively London, Paris, The Hague, Berlin, and St. Petersburg, where they conferred with commissions appointed for the purpose. The result of their mission was an agreement between representatives of all the Governments visited—those of Great Britain, France, the Netherlands, Germany, and Russia—which was well expressed by the first resolution adopted at London:<sup>b</sup>

“That the adoption in silver-using countries of the gold standard on the basis of a silver coin of unlimited legal tender, but with a fixed gold value, would greatly promote the development of those countries and stimulate the trade between those countries and countries already possessing the gold standard, besides enlarging the investment opportunities of the world.”

There was not absolute agreement among the various powers in regard to the best means of reaching this result, but in most cases it was agreed that the ratio of 32 to 1 should be adopted as the relation between the gold standard and the new silver coins. This fundamental resolution was an indorsement of the principle of the gold-exchange standard.

Not much more than a moral effect was anticipated by the Government of Mexico from the efforts made abroad.

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<sup>a</sup> The members of the American commission were Hugh H. Hanna, of Indiana; Charles A. Conant, of New York; and Prof. Jeremiah W. Jenks, of New York. The members of the Mexican commission were Enrique C. Creel, president of the Banco Central; Luis Camacho, financial representative of Mexico in London; and Eduardo Meade, of San Luis Potosi.

<sup>b</sup> *Report of the Commission on International Exchange, 1903, p. 141.*

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Public opinion was still sensitive in the United States, and to some extent in Europe, against international bi-metallism, for which the United States had made their last effort in 1897.<sup>a</sup> It was expressly declared, therefore, in both the Mexican and Chinese memoranda to the United States, that it was not the expectation or the wish "that the gold-standard countries should take any action tending to impair their monetary standard or to make material changes in their monetary systems."<sup>b</sup> One of the objects sought, however, was to bring about greater regularity in the purchase of silver bullion by different powers, when required for coinage purposes, in order to diminish fluctuations in exchange with silver countries. The soundness of this policy was so far recognized by the British Government that it was afterwards adopted on a large scale in purchases of silver for India.

While the commission on international exchange was pursuing its mission in Europe the commission appointed to study the subject at home continued its inquiries through several subcommittees. The fourth subcommittee, which was charged with analyzing the effects of the fall of silver, reported in favor of a system of stable exchange for Mexico at a ratio of 33 to 1. The full commission held its

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<sup>a</sup> *Vide* "Statement respecting the Work of the Recent International Bimetallic Commission," by Senator Wolcott, of Colorado, in United States Senate, January 17, 1898. It was then proposed to the government of British India that it should retrace the steps of 1893 by again opening its mints to free coinage of silver, but this was met by a "unanimous and decided opinion" on the part of the government against such action.—*Commission on International Exchange, 1903, p. 303.*

<sup>b</sup> *Commission on International Exchange, 1903, p. 45.*

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final sitting on February 10, 1904, and in its report recommended the adoption of a system based on the gold standard. They did not advise the adoption of a gold currency, but of a system which would keep silver in circulation in quantities as large as possible without impairing the maintenance of the legal ratio with gold. To these ends it was recommended:

1. That the mints be closed to the free coinage of silver, and that the reimportation of Mexican pesos be prohibited after proper delay.

2. That a ratio be established between gold and silver based upon the average gold price of silver for the preceding ten years, which should not be raised more than 10 per cent.

3. That gold should not at first be coined for either the Government or individuals, but that such coinage should be deferred until the new coin should have attained parity with gold and when in the opinion of the Government the circulation of gold would not impair the maintenance of this parity.<sup>a</sup>

A plan for carrying out these ideas was presented to Congress by Minister Limantour on November 16, 1904, which reviewed all sides of the discussion which had been taking place in Mexico, frankly discussed the merits and defects of the old system, and pointed out the means of establishing the new. In this report the argument that the export trade profited by a depreciating currency was examined and found to have little foundation in the commercial history of Mexico. It was the conclusion of the

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<sup>a</sup> *Commission on International Exchange, 1904, p. 419.*

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minister that the expansion of the mining industry, though facilitated by the depreciation of the local currency, could not be ascribed to that as the chief cause, but to other causes, foremost among which were the construction of railways into new regions, the cheapening of transportation rates, and modern methods of treating the ores. Turning to the figures of gross export trade, it was pointed out that during the ten years ending with 1891, when the fluctuations in the gold value of silver were slight, total exports rose from \$26,000,000 to \$53,000,000 in American gold, or more than 100 per cent, while for the ten years ending with 1901, during which the value of the Mexican peso fell from 84 to 48 cents in gold, the increase in the value of exports, reduced to gold, was only from \$63,000,000 to \$77,000,000, or about 22 per cent.<sup>a</sup> The minister did not adopt, in terms, the conclusion of members of the American commission in 1903, that, under the system of a falling monetary unit, "Mexico had in recent years given up a growing proportion of the products of her own labor and intellectual efficiency in return for foreign products;" but in his report in the autumn of 1905 he brought out the corollary of this proposition, that the rise in the unit in 1905 enabled Mexico "to purchase a much larger quantity of foreign merchandise without any very material increase in our

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<sup>a</sup> *Monetary Reform in Mexico*, p. 4. This subject was discussed and similar conclusions reached in a paper submitted to the Mexican commission by the present writer, Professor Jenks, and Mr. Edward Brush, April 18, 1903. (See *Commission on International Exchange*, 1903, pp. 431-439.) It was also discussed exhaustively by Señor Casaus, *Currency Reform in Mexico*, pp. 193-239. On the same subject in other countries, *vide* the author's *Principles of Money and Banking*, I., pp. 347-351.

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remittances abroad.”<sup>a</sup> An important factor in the progress of recent years was the abolition of the *alcabalas*, or interior customs taxes at state lines. It was not until the middle of the year 1896 that this reform was effected, with the result of relieving commerce from a galling exaction and greatly stimulating the public revenue from other sources.

A measure to carry out the reforms proposed by Minister Limantour was submitted with his report and became law on December 9, 1904. This law declared that the existing silver coin, containing 24.4391 grams of pure silver and 2.6342 grams of copper, should continue to possess full legal-tender powers, but that it should have a value equal to 75 centigrams of pure gold. The issue of money of all kinds was reserved to the executive, who was also clothed with authority to forbid or tax the importation of Mexican pesos into the Republic; to continue coinage of old pesos for export; to modify the form of the peso; to authorize the circulation for a limited time of the gold money of other nations; to modify the mining laws by reducing the charge of 2 per cent upon coinage, the stamp tax of 3 per cent, and the charges for assaying, smelting, and refining; to modify the taxes on mine titles and various local taxes; to exempt mining machinery from import duties; to arrange for advances upon silver bullion and for its sale under favorable conditions at home and abroad; and to create a com-

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<sup>a</sup> *Financial Documents, December, 1905*, p. 4. The minister calculated that exports valued in silver, amounting for the fiscal years 1903, 1904, and 1905 to \$207,377,793, \$210,312,374, and \$208,520,451, respectively, worked out in gold value, at the average rate of exchange, at \$82,950,000, \$91,440,000, and \$101,710,000, respectively.

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mission for the purpose of maintaining stability of exchange, to which should be confided a special fund to be created by the executive and such powers as the executive thought proper.<sup>a</sup>

Sweeping as these measures were, there was some division of opinion as to the effective steps required for maintaining parity. Mr. Creel, chairman of the Commission on International Exchange, had urged that exchange funds should be established in New York and Europe, and had upon this point been vigorously supported by members of the American commission, but he was overruled by the majority of his associates. Minister Limantour accepted in a tentative way the view of the majority, that the appreciation of the silver peso to gold parity could be brought about by scarcity, but by the institution of the commission on money and exchange he recognized the view that something more than scarcity must be relied on, under all the conditions of international trade and the money market, to maintain permanently a parity once attained.

The event which contributed most to allay doubts and to permit the Government to advance from the ground of experiment to that of accomplishment was the rise in the price of silver bullion. The hiatus in the demand for the metal which had carried its price down in the London market to 21½d. in December, 1902, and January, 1903, was at length passed, and during the period from April, 1903, to the beginning of 1905 silver moved slowly, but almost uninterruptedly, upward.<sup>b</sup> In January, 1905, the

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<sup>a</sup> The text of this bill (in English) is given in the *Report of the Commission on International Exchange, 1904*, pp. 449-50.

<sup>b</sup> *Commission on International Exchange, 1904*, p. 28.

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London price was 28 $\frac{3}{8}$ d.—an advance of nearly one-third over the low point of 1903. On March 25, 1905, therefore, although silver had then receded to about 26d., the new gold standard was put into effective operation. A step toward the policy of India was introduced by one of the laws now promulgated by the provision that henceforth, except for recoinage, new silver money should be issued only in exchange for gold coin or bars at the legal parity. It was provided that this exchange of silver for gold should cease to be obligatory when silver rose above the legal parity.

A fund was constituted by section 27 of one of the new laws, called "Fund for the regulation of the monetary circulation," with the avowed object of facilitating the adaptation of the monetary circulation to the requirements of stability in foreign exchange. At the same time (April 3, 1905), a commission on money and exchange was created and a fund of 10,000,000 pesos was placed under its control, deposited in part at the National Bank of Mexico and in part at the other principal foreign banks. These funds were destined to support exchange by enabling the commission to buy or sell gold drafts according to the state of the market.<sup>a</sup>

The work of the commission was given an entirely different direction from what was expected by the continued rise in the price of silver bullion. By the close of 1905 Mexico was not only firmly established upon the gold

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<sup>a</sup> Violet declares that this "completed in a happy way the reform, which could not have been accomplished if it had been founded exclusively on the scarcity of money."—*Le Problème de l'Argent et l'Étalon d'Or au Mexique*, p. 202.



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standard, but was beginning to import gold in payment for her exports of silver. Up to the year 1904 exchange on New York had fluctuated in harmony, more or less exact, with the market for silver bullion. During the latter half of 1904, however, this exchange became practically fixed at \$2.16 in Mexican money for \$1 in United States gold.<sup>a</sup> The reason was in part the rise in silver, but was also in part the known purpose of Mexico to establish soon the relation of two to one. With the further rise in silver in 1905, which carried the average London quotation for the metal to 27½d. for the year, and to a maximum of 33⅞d. early in 1906, it became no longer a question of maintaining the value of the silver coins, but of keeping them down to the gold value fixed by law.

The first importations of gold were encouraged by the Government in order to enable the banks to diversify their reserves, but before the close of 1906 the golden stream had become a torrent and silver coins were freely exported because the market price of their bullion contents was above their legal value in Mexico. Exports of silver from Mexico for the sixteen months ending with October, 1906, were \$55,608,823, and the coinage of gold was \$51,606,500.<sup>b</sup> The fear spread that the country would be denuded of the stock of subsidiary silver necessary to do business, and in the autumn of 1906 an export tax of 10 per cent was imposed upon the amount of silver coins sent abroad without the importation of an equivalent amount of gold.<sup>c</sup>

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<sup>a</sup> *Commission on International Exchange*, 1904, p. 29.

<sup>b</sup> *Financial Documents*, December 1906, p. 7.

<sup>c</sup> *Bulletin de Statistique*, January, 1907, LXI, p. 120.

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Fortunately the new monetary law, while leaving the old silver peso unchanged at 27.03 grams, provided for subsidiary silver coins lighter in weight in proportion to their legal value (25 grams to the peso) and with a fineness of eight-tenths in pure silver instead of 0.902.<sup>a</sup> This precluded the profit which was found with the old pesos in exporting them for sale in the London silver market. The policy pursued by the Government, therefore, was to refrain entirely from the coinage of pesos and to endeavor to fill the channels of circulation with gold, bank paper, and subsidiary silver. To this end, in December, 1905, the issue of gold certificates was authorized against deposits of bar gold and foreign gold coin. Every effort was made also to increase the coinage of subsidiary silver, until at the end of November, 1907, the amount coined in about two years and a half in pieces of 50 centavos was \$26,186,619, and in smaller pieces \$5,499,923.<sup>b</sup>

By the close of the fiscal year 1908 the amount of gold coinage which had been executed since the inauguration of the monetary reform in 1905 had reached \$81,626,500; silver pesos, \$3,700,000; pieces of 50 centavos, \$26,830,619.50; pieces of 20 centavos, \$3,846,923.80; and pieces of 10 centavos, \$1,823,000, making a total silver coinage of \$36,200,543.<sup>c</sup> The coinage of the fiscal year 1908 was \$16,600,000 gold and \$7,403,619.50 silver. Within that time, or as early as October, 1907, silver had dropped below the Mexican legal parity in the bullion

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<sup>a</sup> Decree of March 25, 1905, *Bulletin de Statistique*, May, 1905, LVII, p. 560.

<sup>b</sup> *Financial Documents*, December, 1907, p. 17.

<sup>c</sup> *Financial Documents*, December, 1908, p. 25.

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market and the danger of undue exports of the coin was over.<sup>a</sup> The result of the fluctuations in the value of the metal had been to equip the banks with an ample stock of gold and leave the stock of silver coin adequate for national needs. On June 30, 1908, the exchange and currency commission had a net fund of \$17,100,340, of which \$6,100,000 was in Mexican gold coin, \$6,104,169 on deposit with banks and banking firms at home and abroad, and \$3,000,000 in silver pesos.<sup>b</sup>

### CHAPTER XI.—*The banks and the monetary reform.*

The banks under federal jurisdiction naturally played an important part in carrying out the monetary reform. They turned over the old silver pesos to the Government as rapidly as conditions permitted for conversion into the new. The National Bank furnished the \$10,000,000 with which the exchange and currency commission were provided by the law of March 25, 1905. The problem which confronted the administration during the transition from the old system to the new was to adjust the volume of coinage to the requirements of business in such a way as to bring about parity of exchange, without producing unnecessary stringency in the money market. The curtailment of the amount of silver pesos in the hands of the public was estimated by Mr. Limantour, the Minister of Finance, at \$3,000,000 between May and October, 1905, apart from exportations of silver from the exchange fund.

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<sup>a</sup> The average London price of silver bullion for the year ending June 30, 1908, was 27.3313d., but the highest price in August, 1907, was 32¼d. and in May, 1908, only 24½d.—*Report of the Director of the Mint* 1908, p. 24.

<sup>b</sup> *Financial Documents*, December, 1908, p. 26.

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The contraction was much more considerable during November, 1905, when, as the result of the rise in the value of silver bullion, pesos were shipped abroad to an amount estimated at \$10,000,000, of which \$5,500,000 was withdrawn from the exchange fund and \$1,000,000 to \$2,000,000 directly from the banks.<sup>a</sup>

While these changes were taking place in the cash holdings of the banks, the void in the circulation was being filled by increased issues of bank notes. Thus, the total note circulation advanced from \$82,995,576 at the close of January, 1905, to \$92,002,194 at the close of July, 1905. The increase was principally in the issues of the National Bank, which increased between the dates named from \$22,513,994 to \$28,502,230. As a result of these movements it was declared by the Minister of Finance that the curtailment of specie was, up to the end of October, more than compensated by increased issues of notes and that the heavy shipments of pesos in November only brought about a reduction of \$2,000,000 approximately in the total stock of monetary units (cash and notes) between May and the beginning of December, 1905.

The banks were enabled, by the unexpected rise in the price of silver bullion above the legal parity in 1905 and at the beginning of 1906, to strengthen their reserves in an unexpected measure. Up to near the close of 1905 the metallic resources of the banks consisted chiefly of silver, and reliance was placed upon the funds of the exchange and currency commission to keep this silver at its legal gold value. With the rise in the price of silver bullion in

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<sup>a</sup> *Financial Documents*, 1905, p. 13.

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the London market, it became possible to sell the coins for gold at more than their legal gold value. The margin at first was so slight as to encourage this movement only through the exchange and currency commission and the banks. During this period the commission was easily able to persuade the banks of issue to realize their silver pesos abroad through its instrumentality for an equivalent amount in gold. As the price of silver rose, however, so as to make the margin of profit upon the sale of coins considerable, large shipments were made by private individuals as well as by the banks and it was deemed necessary to pass a law, imposing an export tax on Mexican silver coin sent abroad without the importation of an equivalent amount in gold.<sup>a</sup>

So rapidly were the reserves of the banks converted from silver into gold that the Government for the first time, in January, 1906, decreed that the character of the money held in bank reserves should be classified as to whether it was gold or silver. In the first statement made under this requirement, for January 31, 1906, the gold held was as yet only \$15,832,840 and the silver was \$49,781,155, in a total of \$65,613,995. By the end of June the gold had increased to \$42,381,837 and the silver had fallen to \$29,849,675, in an increased total of \$72,231,513. For the next few months the increase in gold held by the banks was not rapid, but there was a gradual advance until the autumn of 1907, when the amount of gold held on September 30 was \$54,262,427 and of silver \$14,531,420 in total cash holdings of \$68,793,847.

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<sup>a</sup> *Financial Documents*, December, 1906, p. 6.

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The experience of the depression of 1908 was to reduce somewhat the proportion of gold and to increase the proportion of silver. This was the natural result of the diminished demand for currency caused by the relaxation of business activity, and the reflex movement of money back to the banks, because the money actually in use consisted chiefly of silver and not of gold. Between December 31, 1907, and February 29, 1908, the gold holdings of the banks fell from \$53,854,896 to \$48,974,648, while silver holdings increased from \$15,963,452 to \$16,156,988 and subsequently, on June 30, 1908, to \$23,908,748.<sup>a</sup> The decline in specie from December 31, 1907, to February 29, 1908, was from \$69,818,349 to \$65,131,636. Of these sums the National Bank of Mexico held on December 31, 1907, \$32,015,845 and on February 29, 1908, \$29,931,696. Thus, partly by the operation of normal causes and partly by their own foresight, the banks of Mexico were supplied with metallic reserves in actual gold, which not only added to their capacity to maintain the parity of their own notes, but greatly strengthened the monetary position of the country.

### CHAPTER XII.—*Organization of the State Banks.*

The form of organization of the state banks of issue is not definitely set forth in the law of 1897, but it is implied that the bank shall be under the direction of a board of directors, or council of administration (*Consejos de Administración*), who shall exercise their executive authority through a majority. The members of the

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<sup>a</sup> *Financial Documents*, 1908, p. 20.

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board are declared to be responsible at the civil law for any infringement of the provisions of the banking law which has their sanction. The manager carrying out such infringements is also made liable, unless he has acted under express orders from the directors. The severe liability of the board and of the manager, however, does not impair the criminal liability which they may have incurred under either federal or local laws.<sup>a</sup> No member of the board of directors can enter on the discharge of his duties without giving bond, for which purpose he must make a deposit in the bank in cash or in shares of the bank, according to the amount fixed by its by-laws.

Members of the board are not permitted during the first year of the existence of the bank to take part in any transactions by which they render themselves liable to become debtors to the bank. After the expiration of the first year, they are permitted to enter into such transactions when they are associated in the liability with another guarantor of undoubted solvency or when they furnish collateral security for double the amount of such debt or liability. This provision was extended in 1908 to partnerships of which members of the board might be members. It was also strengthened by the requirement that there should be unanimous agreement, in cases of loans of this character, among the directors present in regard to accepting the guaranteeing firm or the collateral offered, unless the latter fell under the classes of securities

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<sup>a</sup> Law of 1897, art. 110.

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described by the law as immediately realizable or negotiable. It was also prohibited to officers and managers to transact personal business at the bank.<sup>a</sup>

### CHAPTER XIII.—*Publicity and official supervision.*

Minister Limantour in the law of 1897 took several leaves from the banking history of American as well as European countries in requirements regarding publicity and official supervision. It was provided, even in the preliminary outline of the new system embodied in the law of June 3, 1896, that the banks should publish monthly a cash statement which, besides showing balances of accounts as required by law, should also set forth the amount of coin on hand, the amount of notes in circulation, and the amount of deposits payable on demand or on notice of three days or less. The purpose of this enactment seemed to be to disclose merely the relation of the cash reserve to liabilities. The complete law went further by setting forth in detail the items which must be included in these monthly statements. These were, on the side of assets, the uncalled capital; cash holdings; amount of discounts; amount of loans on collateral; amount of loans on mortgage; holdings of public funds, other bonds, and shares capable of being immediately converted into cash; the balance of debtor current accounts; and the value of real estate held by the bank. On the side of liability only five items were required—capital; notes or other obligations in circulation; deposits subject to call at

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<sup>a</sup> Law of June 19, 1908. *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 175.



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short notice; the balance of debtor current accounts; and the reserve fund.

Early in 1906 a subdivision was required of cash holdings into gold coin, silver pesos, and subsidiary silver. The law of 1908 added some further specifications, designed to bring to light the investment of assets in questionable forms and to show the amount of surplus funds and the character of deposit liabilities.

Aside from these published monthly statements, the banks are subject to the supervision of the federal Department of Finance. The power of this department may be exercised either through inspectors permanently appointed for each bank or through special inspectors appointed for particular reasons.<sup>a</sup> The functions of these inspectors go beyond those of bank examiners under the national banking law of the United States and assimilate somewhat closely to those of the board of censors of the Bank of France and the Bank of Belgium. They are authorized to take part in the preparation of the monthly balance sheets and to verify, when they see fit, the cash holdings and the outstanding issues of the bank. Their signature is required to notes or securities which are put in circulation, after they have been stamped by the Government and been subjected to other official requirements for their validity. With these powers, it becomes their duty to see that the notes or securities put in circulation do not exceed the amount which each bank is entitled to issue. They are also required to be present and certify to the cancellation of notes or securities, to losses by fire or

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<sup>a</sup> Article 113.

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otherwise, and to exercise similar supervision over the coupons of securities. They are required to keep a record of notes and securities put in circulation with their sanction and such as are canceled and destroyed. It is their duty to attend auctions and drawings which the banks may hold and to give immediate notice of any infringement of the law to the Department of Finance. They are required to submit in January and July of each year a detailed report of the discharge of their functions during the preceding half year, with proper statistical data.

Inspectors are prohibited from interfering with the management of the bank's business; from giving any information to outsiders; from holding shares in the bank for which they are inspectors; or to apply for loans or in any way become debtors to the bank. To hold shares or apply for loans makes their dismissal mandatory.<sup>4</sup> In the preparation and revision of the annual balance sheets, the inspectors are granted the same powers which are granted by law to the auditors of joint-stock companies. They must verify the items of the balance sheet by comparing each statement with the books of the bank, but they can not demand the accounts in detail or the correspondence, minutes, contracts, or other papers of the bank, except under a special order from the Minister of Finance or when the bank voluntarily agrees to show these papers. The inspectors are required, in case a bank is liquidated or dissolved, to represent the holders of the outstanding notes or securities in enforcing their rights, but the latter may protect their rights in person or through an attorney.

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<sup>4</sup> Article 116.

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This system of local inspectors was supplemented in 1904 by the creation of an inspector-general, who supervises and coordinates the work of the local inspectors and has the same rights as they over the bank.<sup>a</sup> The comparatively small number of banks in Mexico, even after the expansion of the last ten years, makes it possible for the Minister of Finance, who stands above the inspector-general and the local inspectors, to exercise a more direct supervision than if he had under his care several thousand independent institutions, as in the United States. The Minister of Finance is constantly in touch with the inspector-general and examines from time to time the reports of the local inspectors. It is in the discretion of the minister, under the limitations of the law, to forfeit the charter of a bank or to impose upon it severe penalties. Forfeiture may be decreed for failure to bring the note issue promptly down to the limit of three times the metallic reserve, for obvious insolvency, and for various other reasons.

The right to decide whether a bank shall be consolidated with another or whether it shall establish branches is subject to the discretion of the Minister of Finance. Banks are prohibited from establishing agencies, even for the redemption of notes, within the Federal District, and can not open other branches or agencies except with the special permission of the Executive.<sup>b</sup> Consolidation without the previous consent of the Department of Finance operates forfeiture of a bank's charter. Another provision, designed to prevent undue foreign interference with

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<sup>a</sup> Favre, p. 33.

<sup>b</sup> Article 38.

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banking in Mexico, declares that a charter shall be forfeited when the majority of the shares of a bank come into the hands of a foreign government.<sup>a</sup> Forfeiture shall not be declared, however, until the bank has had an opportunity to be heard in its own defense.

The Minister of Finance names and dismisses the inspectors, and thereby exercises a marked degree of control over banking conditions in each locality. Many executive decrees and circulars of suggestion to the banks have been based upon the reports of the inspectors and upon their special recommendations. The control of the banking system is thus highly concentrated and the work of the inspectors, according to the observation of M. Favre, "exceeds the limits of ordinary supervision and extends to actual collaboration in the improvement of the banking régime."<sup>b</sup>

As M. Favre points out, there are two sides to this question of executive control. If the Minister of Finance is a man of experience and capacity, there can be no better guaranty for the security of the public and the prosperity of the banks, for not only will he take care that they shall not depart from the rules laid down, but he will not allow them to take a step in advance, either by increase of capital or the foundation of branches, which is not absolutely justified by the obvious interest of the depositors and shareholders. On the other hand, if power should fall into the hands of a reckless or unscrupulous financier, the inspectors might become a terrible instrument of vexations and blackmail against the banks.

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<sup>a</sup> Article 109.

<sup>b</sup> *Les Banques au Mexique*, p. 32.

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The French author concludes, however, that this system of surveillance was necessary in Mexico, because in a country which had long been disturbed, and which had yet to make its financial education midst all the speculations excited by mining enterprises, the gravest dangers attended the institutions of credit. In Mexico, under the administration of Mr. Limantour, the system gives remarkable results precisely because it permits the personal influence and counsels of the Minister to guide the policy of the banks. The possibility of abuse of their functions by inspectors was recognized and guarded against by Mr. Limantour in his report of 1897. He said upon this subject: <sup>a</sup>

“The inspectors may be appointed exclusively for each bank or only for specific cases; and the aim has been to give such precision to their duties as will avoid the difficulties which are always to be feared in connection with so delicate a function. For this purpose it was necessary to steer between two sets of shoals of different character, the one arising from the natural tendency of the inspected to diminish the sum total of the powers of the inspectors; the other arising from the very common propensity of inspectors to carry their function to excess.

“Thus there remained no other way than to specify with all possible clearness the principal duties and powers of inspectors and to establish, as reciprocal guarantees in favor of the banks and of the public, definite prohibitions and severe penalties for inspectors who might abuse their position; and, on the other hand, the power to extend

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<sup>a</sup> *Instituciones de Crédito: Leyes y Circulares Relativas*, p. 113.

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the inspection, in special cases, to the complete disclosure of the facts involved, always provided that the Department of Finance expressly so orders."

## CHAPTER XIV.—*Growth of the banks of issue.*

Judged by the rapidity with which capital has flowed into banking enterprises, to meet the demands of Mexican business expansion, the new system of banks of issue has proved successful. When the general banking law of 1897 took effect there were only nine banks in Mexico, with a paid-up capital of \$23,010,000 and reserve funds amounting to \$5,720,047—a total of \$28,730,047. Bills receivable, the largest items among the assets of these nine banks, stood at \$49,135,683, and creditor current accounts, the chief item of liability exclusive of notes, were \$56,593,226. Outstanding notes stood at \$38,497,367, which was below the amount of coin and bullion, which stood at \$42,573,025. The relative importance of the nine banks, exclusive of the National Bank and the Bank of London and Mexico at this date (January, 1897), may be put in summary form as follows:

*Condition of banks of issue, January, 1897.*

| Bank.                       | Paid-up capital. | Coin and bullion. | Bills receivable. | Creditor current accounts. |
|-----------------------------|------------------|-------------------|-------------------|----------------------------|
| National Bank.....          | \$8,000,000      | \$29,681,612      | \$23,608,234      | \$32,499,021               |
| Bank of London and Mexico.. | 10,000,000       | 9,611,548         | 18,032,383        | 10,105,122                 |
| Other banks.....            | 5,010,000        | 3,279,865         | 7,495,076         | 13,989,083                 |
| Total.....                  | 23,010,000       | 42,573,025        | 49,135,683        | 56,593,226                 |

Within less than four and a half years (June, 1901), the number of banks had increased from nine to nineteen, and

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bills receivable had increased by 150 per cent. This was due to the extension of banking facilities to the principal commercial cities of Mexico, scattered over various parts of the Republic, some of them deriving their importance from the development within a very short interval of mining and other special interests. The new banks already in operation by 1901 were the Bank of the State of Mexico, Bank of Coahuila, Bank of San Luis Potosi, Bank of Sonora, Occidental Bank of Mexico, Mercantile Bank of Veracruz, Bank of Jalisco, Mercantile Bank of Monterey, Oriental Bank of Mexico, Bank of Tabasco, and Bank of Guanajuato.

Within the next eight years, from June 30, 1901, to June 30, 1909, the process of banking creation was continued by the incorporation of ten new institutions. The total capital was reduced somewhat in 1908 by the merger of the two banks in the State of Yucatan—the Yucatan Bank, with a capital of \$12,000,000, and the Mercantile Bank of Yucatan, with a capital of \$6,000,000. These two institutions joined forces under the name of the Peninsular Bank, with a combined capital of \$16,500,000, or \$1,500,000 below the combined capital of the two older institutions. The greatest upward movement in capital, as will be seen by examination of the tables, occurred during the two years 1905 and 1906, after the steps were consummated for putting the country upon the gold standard. The paid-up capital and reserve funds increased about \$28,200,000 for the fiscal year 1905 and \$29,700,000 for the fiscal year 1906. The loans and discounts increased from \$65,712,000 in 1897 to \$309,738,564 in 1907, but fell off about \$83,000,000 under the pressure

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of the winter of 1907-8 and the following spring. The note issue, after increasing from \$44,792,000 in June, 1897, to \$97,787,878 in 1906, also declined somewhat with the contraction of business. Cash on hand, however, after increasing from \$34,297,000 in 1897 to \$80,599,993 in 1904, declined somewhat during the years of expansion, only to increase to \$80,928,310 with the relaxation in business activity in 1908 and to \$84,352,541 on June 30, 1909.

It is worthy of note that the increase in outstanding bank notes, while it has been considerable, has not corresponded with the increase in loans and in creditor accounts. The latter increased from \$52,920,000 in 1897 to \$361,471,004 in 1907. This more rapid increase in accounts than in note issues indicates a growth in the deposit system which is an interesting indication of the results of the diffusion of banking facilities under the law of 1897. As a natural result of these conditions, a large increase has taken place in the cash reserve for the purpose of protecting deposit liabilities. This has had the further result, so notable in France and other countries, that the ratio of the cash to the circulation has steadily increased until in 1908 it stood at about 88 per cent. It is declared by Mr. Casasus that—<sup>a</sup>

“Should this tendency become more marked and continue for a greater number of years, it may perhaps prove what is already an accomplished fact in other countries, viz, that in proportion as the banking system of a country becomes more perfected the note issue decreases in im-

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<sup>a</sup> *New York Bankers' Magazine*, March, 1909, LXXVIII, p. 399.



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portance and comes closer to the level of the cash on hand, because the deposits and checks constitute the greatest force of the metallic circulation movement, a force such as notes payable at sight and to bearer are incapable of giving."

### CHAPTER XV.—*The banks in the crisis of 1907.*

The Mexican banking system was subjected to a severe test, almost before it had reached maturity, of the wisdom and efficiency of the measures adopted to separate commercial banking from the locking up of capital in long-term investments. It was nearly inevitable, in view of the rapid industrial development of Mexico during the present century and the limited volume of established commercial business, that, in spite of these precautions, the banks of issue should be led in some cases to invest their resources in assets which were not readily convertible. As early as 1906 the Minister of Finance took note of the reduction of cash in the hands of the banks in proportion to outstanding notes and declared that it was a fact which, if it became more accentuated, would require timely measures to remedy the situation. Already pledges had been secured from several of the banks not to increase their note issues beyond given limits, but only on a scale proportionate to the increase in their cash holdings.<sup>a</sup>

The adoption of the monetary reform was the signal for an influx of foreign capital into Mexico on a scale far beyond that of previous years. It was declared by the

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<sup>a</sup> *Financial Documents*, December, 1906, p. 9.

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Minister of Finance that "this influx of money, though very considerable, has occasioned no surprise to the authors of the new monetary régime. Indeed, the influx of foreign capital was precisely one of the objects sought to be attained by the reform, not only because that capital fecundates all branches of the national wealth, but because it constitutes in itself one of the surest guarantees for the fixity of the gold value of our currency."<sup>a</sup>

An estimate of some of the more obvious investments of foreign capital was presented by the Minister, showing a total of \$86,500,000, which included new banking capital to the amount of \$57,600,000; issues of industrial shares, \$9,900,000; sale of mining properties, \$7,500,000; sale of the Hidalgo Railway, \$6,000,000; sales of land, \$3,500,000; and sales of mortgage bonds, \$2,000,000. The amounts invested in banking capital were given in detail as follows:

*Increases of banking capital and sales of shares.*

|                                  |              |
|----------------------------------|--------------|
| National Bank of Mexico.....     | \$17,000,000 |
| Bank of London and Mexico.....   | 20,000,000   |
| Mexican Central Bank.....        | 12,000,000   |
| Bank of Guanajuato.....          | 1,500,000    |
| Bank of the State of Mexico..... | 800,000      |
| Bank of Yucatan.....             | 4,500,000    |
| Mercantile Bank of Veracruz..... | 500,000      |
| Occidental Bank.....             | 300,000      |
| Oriental Bank.....               | 1,000,000    |

It was added that in this table no account was taken of investments in the shape of machinery or other articles imported and not fully paid for, nor of the sums applied to the payment of previous debts, nor, finally, of the

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<sup>a</sup> *Financial Documents*, December, 1906, p. 10.

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money that had come into the country through the sale of other kinds of securities or of the bonds of the Federal Government or of the States.

The events of 1907 in the United States and elsewhere checked this influx of capital. Already, when Minister Limantour submitted his annual report to Congress in December, 1907, he was compelled to note that the money market had become stringent, and that the crisis in the United States had produced its reaction in Mexico. Upon this subject he said:<sup>a</sup>

“At the time of my last report the business situation abroad already wore an unfavorable aspect. Money was with difficulty to be secured even for high-class investments. The stringency, which originated in the United States, gradually extended to Europe, and by the middle of the year business in the chief money centers of the world was almost at a standstill. European capital became more and more reluctant to engage in Mexican undertakings, and not only new issues, but even old ones, came to be regarded with disfavor by European investors, who gradually realized on them, preferring to have the money lying idle in their strong boxes.”

All through the year the Minister of Finance had been urging prudence upon the banks, with success in some cases, but without creating sufficient impression in others. He declared that perhaps some fault might be found with certain banks for the large proportion of loans made by them to industrial concerns and to private persons, who were known to intend to ask for extensions at the end of

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<sup>a</sup> *Financial Documents*, December, 1907, p. 19.

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the terms of three, four, or six months for which their notes were drawn. Perhaps also it might be charged that in certain localities the banks were in the habit of confining their operations to too narrow a circle of persons and firms. Upon this subject the minister said further:<sup>a</sup>

“Whether or not these criticisms be well grounded, the Department of Finance has constantly endeavored to impress on the banks the expedience of not tying up their resources unduly and of extending their facilities to the largest possible number of customers, while at the same time restricting the liabilities contracted by one and the same person or firm. But, in any event, such ground as there may be for the criticisms in question will disappear in proportion as institutions of credit are founded, of which the principal object will be to make loans for longer periods of time than are customary in commercial usage; and in the meantime there is no reason to fear that the vicious practices which have been mentioned will clog the normal activities of the banks of issue, if, as is to be hoped, they take care not to go altogether beyond the bounds of prudence in that direction.”

In thus referring to the distribution of long-term loans, Minister Limantour hinted at a project, evidently for some time in his mind, which matured after the panic. Already his warnings had been disregarded by the two banks of Yucatan, with the result that they passed through a period of serious difficulties. The use of a considerable portion of their capital in operations capable of very slow realiza-

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<sup>a</sup> *Financial Documents*, December, 1907, p. 16.

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tion, and in which only a small group of persons were interested, brought their business almost to a standstill and necessitated the intervention under government auspices of the National Bank of Mexico and the Banco Central. The business of the two Yucatan banks was continued by means of a merger under the name of the Peninsular Bank, but it was found necessary to write off the reserve funds of both establishments, amounting to \$3,582,185 for the Bank of Yucatan and \$1,911,270 for the Mercantile Bank, to offset losses.<sup>a</sup>

It was not an encouraging sign that these reductions in banking resources reduced the total reserve and emergency funds of all the banks, in spite of some increases among those which had been more prudent in their manner of operation. It was a symptom of conditions which were more acutely felt after the influx of capital from the United States was checked in 1907. The manner in which these conditions reacted upon Mexico was thus set forth by Minister Limantour in his annual report for 1908:<sup>b</sup>

“The first effects of the crisis were felt in the Republic in the second half of December, 1907, on account of the heavy remittances commonly made in that month by companies which have to pay interest or dividends abroad. Concurrently, the general lack of confidence throughout the world checked the flow of capital to Mexico, thus unsettling the equilibrium of our economic balance. Next, money grew scarce; collections became difficult; the volume of sales was reduced; and the prices of the bonds and shares of

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<sup>a</sup> *Financial Documents*, December, 1908, p. 19.

<sup>b</sup> *Financial Documents*, December, 1908, p. 27.

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almost all our corporations fell off. About the end of February and beginning of March of the present year the yield of internal taxes and of the custom-house revenue began to show a decline, accompanied or preceded by a sympathetic movement in other manifestations of the nation's economic life.

“It must be said, however, that the crisis, as it affected Mexico, was not a sharp and sudden catastrophe, as was the case in the United States, where in the course of a few days many powerful institutions of credit were wrecked and thousands of people were ruined; nor was it a violent shock of several weeks' duration, as in some of the nations of Europe. Here it was a transition from prosperity to liquidation, without panic and without upheavals, and, after all, it is a source of congratulation that the country has been enabled to give so signal a proof of the solidity of its business conditions.”

The effect of the monetary pressure upon the banks was indicated by the decline of their specie holdings from \$69,818,349 on December 31, 1907, to \$65,131,636 on February 29, 1908. The Department of Finance sought to impress upon them the desirability of strengthening their stock of cash and of preparing to resist the pressure on their resources which was obviously impending. The action taken was thus explained by Minister Limantour in his annual report:<sup>a</sup>

“The attention of the banks was also drawn to the fact that some of their funds and the funds intrusted to them by others were tied up and unavailable, and that it was to

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<sup>a</sup> *Financial Documents*, December, 1908, p. 22.

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be expected that a large portion of the deposits would be withdrawn and that many check accounts would be closed up. These and similar points were dwelt on in the circular of February 10, 1908, which pointed out certain reforms that seemed called for in banking practice, and even in banking legislation, as well as certain measures believed by the Department of Finance to be calculated to improve the situation of the banks; and it was proposed that all these matters should be discussed early in April at a conference to be attended by representatives of all the establishments concerned.

“The circular in question was in reality an exposition, supported by arguments, of the various questions as to which it was desired to hear the views of persons who, owing to their special knowledge and their experience, were in a position to throw light on them; and the conference was attended by over forty representatives of banking institutions, who discussed not only the questions propounded in the circular but others as well which they themselves broached.”

Some of the banks promptly modified their practices upon the receipt of the circular from the Minister of Finance, but others persisted in these practices, pending the conference or the further restrictions which were imposed by the banking law of June 19, 1908. Reviewing the subject broadly, after the new legislation had taken effect, in his annual budget statement of December, 1908, the Minister of Finance declared: <sup>a</sup>

“There are persons who maintain, with some show of reason, that it would have been preferable to allow the

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<sup>a</sup> *Financial Documents*, December, 1908, p. 23.

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methods of the banks of issue to remain unchanged until numerous institutions, amply supplied with capital, had been founded in the Republic for the purpose of making loans on terms which are not proper for establishments responsible for notes payable to bearer on demand; and the Government has even been reproached by some for not having sought to stimulate the creation of such institutions in order to accommodate those borrowers who, from necessity or habit, desire long-time loans. Such arguments and charges are, in reality, unjust, for, in the first place, the general banking law, promulgated more than eleven years ago, granted to the mortgage banks and banks of encouragement all the privileges, inducements, and facilities which might have been expected to encourage the foundation of those institutions. In the second place, though the Department of Finance has earnestly endeavored to contribute toward the object in question by helping to secure admittance in foreign markets for the cash bonds and mortgage bonds issued by such banks and in various other ways, its efforts have been of little avail on account of the marked preference of business men and the public generally for investments in banks of issue and their indifference toward other kinds of banks, owing to the special advantage which the issue privilege carries in multiplying the capital wherewith to operate; and, finally, to have allowed the errors of the past to subsist until such time as changed public sentiment had come to regard the mortgage banks and banks of encouragement with favor would have been to give time for the evils complained of to strike deeper root, to the



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detriment of sound economic principles which demanded that a new direction be given to the tendencies of the community in this respect.

“Furthermore, some of the chief amendments of the banking law, recently enacted, aimed precisely at diverting some of the capital that seeks investment in banks of issue to institutions whose specialty is to promote the development of industrial, agricultural, and other cognate interests. On the one hand, it was undoubtedly desirable to allow longer time and otherwise to facilitate the loans made by banks of encouragement and by the mortgage banks, so as to enable those institutions to enlarge the scope of their operations, and, on the other hand, it was essential to confine the banks of issue to their proper functions, for in no other way could their complete soundness be assured and in no other way could they be prevented from absorbing, to the detriment of other institutions, the entire banking business of the Republic.”

The plan for a new credit organism, hinted at in these preliminary warnings by Mr. Limantour, was put in definite form after the first effects of the crisis had been stayed and it had become apparent that even the banks of issue had gone too far in making loans which could not be turned promptly into cash. Among such loans were many which were based upon the bonds and stock of irrigation and agricultural development enterprises. Many of these enterprises were considered by the Government essential to the opening of the great natural resources of the country and the ultimate development

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of its mineral wealth. The difficulty was not that they would not prove ultimately sound, but that they were not of a nature suitable for the assets of banks having large liabilities payable on demand. With quick apprehension of the scientific solution of this problem, Mr. Limantour enlisted capital in a new *entêrprise* for loans for the encouragement of irrigation works and the development of agriculture.

The preliminary arrangements having been made with leading American financiers, an act was passed by the Federal Congress, approved by President Diaz on June 17, 1908, putting the credit of the Federal Government behind the issue of securities for carrying on such works. The Government was authorized to invest a sum not exceeding \$25,000,000 in works having for their object the utilization of water for agriculture and stock raising, either by direct government execution of such works or by assistance to private enterprises by means of subventions or other pecuniary aid. The Executive was authorized to pledge the guaranty of the nation, under such terms and conditions as he might consider proper, for the principal and interest of bonds issued by special institutions which might make loans for long terms and at moderate rates of interest to agricultural, cattle raising, combustible mineral, and metallurgical enterprises.<sup>a</sup> In order to give them a broad market, the securities of the institutions making such loans were to be given substantially the character of debenture bonds, similar to those issued in Europe by mortgage bond companies.

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<sup>a</sup> Irrigation Law, Department of Finance, art. 2.

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The assets upon which they were based, however, were the various enterprises to which the money was to be loaned, and their value to the foreign investor depended upon the guaranty of the Government.

Under this authority a new institution was formed, known as the "*Caja de Préstamos para Obras de Irrigación y Fomento de la Agricultura*," of which the official English translation was "Institution for Encouragement of Irrigation Works and Development of Agriculture." The concession under which this institution was formed was granted on September 3, 1908, to the National Bank of Mexico, the Bank of London and Mexico, the Banco Central, and the Mexican Bank of Commerce and Industry.<sup>a</sup> The initial capital was limited to \$10,000,000 and was divided into three series of shares, one belonging to the Government, one belonging to the four participating banks, and one to be sold to the public. These banks were authorized to offer for subscription at least 50 per cent of the share capital in shares of the third series.

The new company was authorized to make loans secured by mortgage or pledge, or upon the guaranty of some bank holding a federal concession, or of either of the banks to whom this concession was granted. The company was authorized to issue bonds, which should be a first lien upon its assets, in the same manner as bank notes issued by banks of issue. The Federal Government agreed to guarantee unconditionally, as to principal and interest, the obligations which might be issued and to place at the

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<sup>a</sup> The text of the agreement was printed in Spanish and English by the Ministry of Finance.

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disposal of the company, whenever required to do so, the amount needed to complete or to cover in full the amounts necessary for the punctual service of the bonds or obligations.<sup>a</sup> The new institution was to be managed by a board of directors, composed of fifteen members, of whom three were to be elected on behalf of the Government; five by owners of shares of the second series; and the remaining seven by owners of the shares of the last series.

Stripped of technicalities, the project of Mr. Limantour was to transfer from the loans of the banks of issue into a permanent investment fund the securities of irrigation and development companies with which some of the banks were loaded down. He did not hesitate, in order to protect the financial situation, to pledge the credit of the Government in full for the new securities. The contract made with the New York and foreign houses which took the loan provided that the principal and interest of the bonds should be payable without deduction for any tax which the institution might be required to pay thereon under any present or future law of the Republic or any State or municipality therein. So rapidly did the plans of the minister mature that a public subscription for \$20,000,000 of the new bonds was announced in New York and Frankfort on October 24, 1908, to close four days later.

By this resolute intervention in the financial situation the Minister of Finance succeeded in disposing of securities for long terms in exchange for liquid foreign capital to the amount of the issue. He thereby improved the char-

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<sup>a</sup> Article 8.

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acter of the assets of the local banks and was able to announce, in his annual report for 1908, that he had saved the financial situation and that banking conditions were greatly relieved. Summing up the action taken, he declared:<sup>a</sup>

“The local banking and monetary situation, since July 1, 1908, in other words, since the period covered by the analysis thereof already given, has improved day by day to a marked degree, so much so that it may now be described, without exaggeration, as satisfactory. Discount operations are larger, long-standing debts are in the way of being paid off, overdrawn accounts have been covered, and the rate of interest, which is an unfailing index of the scarcity or abundance of money, has been reduced by the metropolitan banks to 8 per cent per annum for commercial transactions, properly so called, and to 9 per cent for other transactions, determining a proportionate reduction in the rates of most of the state banks.”

### CHAPTER XVI.—*Development of Mexican banking under the law of 1897.*

The experience of Mexico under the banking law of 1897, although brief in point of time, has followed well-defined lines. Mr. Limantour, the Minister of Finance, who is largely responsible for the evolution of the new system, was able under the conditions existing in Mexico to carry out plans based upon sound banking principles with a practically free hand. With the usual clearness and precision of the Latin mind, he laid down in the report

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<sup>a</sup> *Financial Documents*, December, 1908, pp. 23, 32.

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of 1897 a definite programme, which involved the separation of commercial banking from that of mortgage banks and banks of finance and promotion. Under the conditions existing in Mexico—a rather limited volume of settled commercial business, with a great volume of capital seeking investment in mining and agricultural development—the formulation of sound banking principles was easier than strict adherence to them in practice.

The measure of the difficulty, however, in keeping the banks of issue from locking up their assets in industrial enterprises was in a sense the measure of the need for emphasizing this distinction. From the beginning of Mr. Limantour's service as Minister of Finance in 1893, the development of Mexico was rapid. Inevitably, however, much of the capital required for this development came from abroad—at first from French, Spanish, and English bankers, but later from the United States. This influx of capital was checked to a considerable degree by the sharp fall in the value of silver in 1901 and 1902, which introduced violent fluctuations in foreign exchange and impaired the value of dividends remitted abroad. When the losses caused to investors by this condition had been corrected by the adoption of the gold-exchange standard, the mass of capital which had been held in check for several years again poured into the country with the force of a stream which had broken through a dam. The amount of this movement, which was readily ascertainable, without counting many obscure factors, was computed by the Minister of Finance in 1906 as having reached for that year alone \$86,500,000.

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The reorganization of the banking system by the law of 1897 first made it possible to distribute capital and carry on exchange operations with facility throughout the Republic. Partly by the intended operation of the new law and partly by the influence of circumstances, a banking hierarchy was developed with several distinct parts, each fulfilling a definite function and contributing its share toward the efficient operation of the whole. At the center of this hierarchy stood the National Bank of Mexico, deprived of monopoly of note issue, but still exercising the functions of a central bank of rediscount and of collector and custodian of the national revenue. By the side of the National Bank in regulating the foreign exchanges stood the Bank of London and Mexico, with a considerable note issue, but looking chiefly to the export trade and to exchange operations for the employment of its large resources. For these two banks the business of the capital city was largely reserved by the exclusion of other banks of issue. To the state banks was ascribed the power of issuing notes each in its own State, which were not legal tender but were a first lien on the assets of the bank and were protected by a 50 per cent metallic reserve. With the purpose of knitting together these various institutions in a system of mutual helpfulness had arisen another institution in the capital, the Banco Central, which sought no special privileges from the State, but acted at once as clearing agent and support for the state banks.

The state banks of issue which were the outgrowth of the law of 1897 were peculiar in a measure to Mexico, but

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were brought into relations of cooperation through the National Bank of Mexico and the Banco Central. Standing alone, with their notes circulating only within limited areas, their position bore some resemblance to that of the French departmental banks prior to 1848, whose notes were a legal tender only within the departments where they were established. The inauguration of a clearing system through the Banco Central tended to keep the notes of the state banks at par in somewhat the same manner as the redemption system of the Suffolk Bank in the history of New England banking prior to the civil war. The functions of the Banco Central, however, went further than the mere machinery of clearings and gave a support to the local banks which they would otherwise have lacked.

The significant fact that the circulation and cash resources of the National Bank of Mexico increased at the expense of the local banks in the crisis of 1907, indicates the powerful position which it occupies in the hierarchy of Mexican banking. Its success in meeting the demand for credit and currency in the autumn of 1907 and the spring of 1908 may suggest the consideration whether the function of a central bank in regulating the exchanges and the movement of gold can not be successfully performed, even though it does not control the entire circulation of paper currency. The essential requirement for control of the exchanges is control of the supply of capital or currency on the margin of supply. It is the sufficiency or deficiency of this supply on the margin which practically determines the course of the exchanges. This is indi-



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cated by the fact that even the European banks, including the Bank of England, do not usually change their rate of discount sharply at their branches when they change it at the financial center in order to influence the movement of gold.

The existence of competing banks with authority to issue notes in large amounts would undoubtedly defeat the efforts of the central bank to regulate the exchanges, if such authority of issue on the part of the local banks were largely availed of. In Mexico several circumstances have averted this danger. One of these circumstances has been the direct influence of the Minister of Finance upon the state banks, in restricting their circulation within moderate limits and in requiring them to increase their metallic reserves whenever they increased their circulation. The limitation of the number of the banks to practically one for each state has been an incident which has permitted this exercise of direct influence more easily than if the number of institutions were large and their creation was only a matter of complying with the forms of a general incorporation law. The large ratio of the assets and note issues of the National Bank of Mexico to the total banking assets of the country has also been a factor whose influence would probably have been greatly impaired if this measure of relative power had been materially less. Beginning in 1900, after the state banks had been fairly established, with a ratio of note issues and assets of about 35 per cent of the issues and assets of all the banks of issue, the National Bank increased its relative proportion after the crisis of 1907 to about 40 per cent.

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This ratio has not since been impaired and the ability of the National Bank at that time to support credit and to expand its issues, while those of the state banks were being restricted, has added materially to the prestige and future power of the National Bank.

An important factor in this ability of the National Bank to control exchanges is found also in the prohibition imposed upon the state banks to issue notes or to establish redemption agencies in the Federal District, which includes the City of Mexico and adjacent territory. The fact that the Banco Central clears notes as well as checks for the state banks might seem to be an infraction or evasion of these provisions. When it is considered, however, that such redemptions of the notes of state banks as take place through the Banco Central come from banks only, and not from individuals, it is apparent that these conditions do not encourage the circulation of the notes of the state banks in large amounts in competition with those of the National Bank in the Federal District.

The fact, however, that these notes can be cleared at the Banco Central undoubtedly adds to their acceptability in all parts of the country. The fact that the federation of state banks through the Banco Central promises assistance to any of the federated banks in case of difficulty is also a powerful support for the notes of the state banks, which offsets in some degree the absence of any provision for specific security outside the custody of the bank, a common safety fund, or a government guaranty for the notes. As the notes are a first lien upon the assets, it is doubtful if any failure which might occur would dis-

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close assets insufficient to meet the demands of the note holders; but, if one such failure should occur, it would have a tendency to impair the acceptability of the notes of the state banks and to cause more careful scrutiny of notes tendered in every-day transactions than appears now to be the case.

That the monetary situation should have been kept so well under control in 1907 and 1908 is apparently to the credit of the Mexican financial system, in view of the fact that both the banking system itself and the monetary system, resting upon exchange funds abroad, were entities of very recent creation. The fact that the Government found itself under the necessity of creating a new institution to take over the obligations of industrial enterprises which had found their way too largely into the assets of the commercial banks was only a reflex of conditions in the United States and elsewhere, where the same service was performed by private initiative. The new finance bank, openly supported by the Government, tended to correct in a large measure the errors of the banks of issue in allowing inconvertible securities to creep into their assets and put the capstone upon a banking organization adapted, as nearly as practicable, upon scientific principles to the development of a new country.



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## Appendices.

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## APPENDIX A.

### REPORT ON THE BANKING SYSTEM OF MEXICO.

By the SECRETARY OF FINANCE to the Congress of the Union,  
November 15, 1897.

Under the exceptionally difficult and dangerous circumstances which beset the Federal Treasury in 1892-93 and 1893-94, the chief object of the efforts of the department under my charge was necessarily to avert, so far as possible, the disastrous consequences which the economic crisis then affecting the Republic threatened to bring upon the country in general and especially upon the treasury.

The task was a double one: First, to meet the needs of the budget by providing additional revenue; second, to diminish the expenditures of the administration by suppressing those that were not absolutely indispensable and postponing those that were not of immediate urgency. Happily, the results of this policy were not long in making themselves felt, and in the fiscal year 1894-95 the federal budget was placed on a footing of complete equilibrium.

At the same time it became necessary to undertake the task of putting the public debt in order. This work was particularly urgent, as being the only means whereby stability could be given to the national credit and without which the rapid development of the country's wealth

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would have been delayed indefinitely. The task was a thorny one, because the continual political upheavals and the numerous economic vicissitudes which have characterized our history as an independent nation had made the public debt an administrative tangle which could only be unraveled by arduous labor.

Shortly after, the Department of Finance had to face another grave problem, which had to be given precedence in order that the other administrative reforms might afterwards be undertaken with greater probability of success. I refer to the absolute freedom of internal commerce, to which the authors of our fundamental charter deservedly gave their foremost attention. In 1895 and the beginning of 1896 the great fiscal reform of the suppression of tolls on interstate traffic (*alcabalas*) and of the offices that collected them was duly studied and prepared, and it was carried out under the most satisfactory conditions, despite the obstacles that had frustrated previous attempts and in the face of the profound disturbance which the disappearance of so ancient and deep-rooted a system could not fail to produce in all the branches of national activity.

As soon as these imperative needs had been attended to and the three main objects of the financial policy of the Government had been attained, there arose the necessity of entering without delay on the preparation of laws and regulations intended to serve as a complement and corollary to the suppression of the tolls on interstate traffic by facilitating the expansion of commerce, agriculture, and all branches of industry by a well-planned



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and far-sighted development of institutions of credit. This was the motive of the memorial presented to Congress by the department under my charge on April 20 of last year, requesting authority to prepare a general law on the chartering, establishment, and operation of banks of issue, mortgage banks, and banking institutions of other kinds, and to modify the concessions granted to existing banks in order to make them conform, so far as possible, to the general law.

Our legislation on the subject of banks and the condition of our local institutions of credit were indeed in a state which could no longer be tolerated. The Commercial Code, promulgated on April 20, 1884, contained a number of provisions on this subject which for the most part were destined to remain a dead letter, especially as regards banks of issue, because the temporary articles of said code, conformably to article 8 of the charter issued a few days later in favor of the National Bank of Mexico, established a state of legislation under which the creation of new banks and even the maintenance of those then in operation was impossible.

The anomalous condition arising from the fact that provisions of a general character affecting outsiders, which are properly a matter of common law, had been embodied in a charter which, even though sanctioned by Congress, still retains the character of a contract entered into between two parties; the fact that, despite the stipulations of said contract, and the protests founded on that contract which were made by the National Bank, charters were granted for the establishment of banks of issue in various

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places in the Republic; lastly, the suppression, in the new Commercial Code of 1889, of the provisions which the earlier code contained on the subject of banks—all these circumstances created a state of affairs replete with difficulties, which compelled the Government to adopt a definite attitude, based on a system which, while respecting all legitimate rights, should at the same time be adapted to the needs of the country.

As a preliminary problem in the studies and negotiations that were to be undertaken, it was necessary to ascertain and decide whether the general interests of the country required that the issue of bank notes be concentrated in a single establishment, or whether, on the contrary, the law should favor the multiplication of institutions enjoying that privilege.

This is not the place to rehearse the time-honored discussion on the merits of the two opposite systems, that of monopoly and that of liberty of banking; but it will certainly not be superfluous to set forth here some considerations in favor of the system to which the preference was given in the memorial of April 20 of last year, and which was later on embodied in the General Law on Institutions of Credit, adopted in response to that memorial.

The system of monopoly was at once condemned by the constitutional provision which had, in fact, been vehemently urged against the charter granted to the National Bank of Mexico, although that grant did not properly or legally create any exclusive privilege of issuing bank notes. Thus a radical solution of the difficulty, by attempting a reform of the constitution, in the direction of monopoly,

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would have been dangerous on various accounts; because the idea would not have received the support of public opinion and would furthermore have wrought injury to the interests already created in virtue of subsequent grants; above all, because a monopoly can not be conceived without a close connection between the institution which enjoys it and the government which grants it; and the disastrous consequences should not be obscured which might arise in our country from any intimate connection, no matter how well planned, which might be established between the interests of an institution of credit and the policy of the Government, never exempt from hazards and vicissitudes.

Aside from these somewhat theoretical considerations, if we examine the subject from the standpoint of the development of public wealth, is it likely that the privilege granted to a single bank of issuing notes for the entire Republic would yield the best results? The examples of monopoly which might be cited in support of an affirmative reply are confined to nations of small territory, with climates and natural resources of no great variety, and whose population, generally dense, shows great homogeneity; or to countries with strong centralizing tendencies, for the most part absolute monarchies, a system which readily and naturally admits of the union of the two supreme powers—the civil power and the power which regulates credit.

In the Republic of Mexico, with its vast territory, its sparse population, its imperfect means of communication, and its immense variety of products, each locality has, as it were, local interests, the development of which, so far as

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the use of credit is concerned, can not be confided to a single banking institution, which, no matter how many branches and dependencies it may establish, could never supply the needs nor remedy the ills of each part of the national territory.

And it is not unreasonable to declare that branches of a central bank are incapable of exercising satisfactorily, in every corner of the country, the beneficent influence of establishments of this kind, because a branch bank can have neither the initiative nor the authority to provide for the exigencies of every economic situation; and, on the other hand, the general and permanent regulations to which every administration must be subject, especially one so complicated as that of a central bank, lack that flexibility which is necessary to meet the innumerable and unforeseen emergencies arising from interests so divergent as those of the various localities of the Republic.

From this point of view the creation of local banks evidently presents undeniable advantages. Managed by persons whose interests are centered in the same locality, who are acquainted with the people and the affairs of the community, and who are so situated as to be able to give personal attention to the business and to understand the peculiar needs of a given district, its resources, and their chances of development, such banks will undoubtedly be better able to realize the objects of the credit circulation confided to banking establishments.

Furthermore, the adoption of the system of a plurality of banks will in the course of time permit the development of specialization, the sphere of action of local banks being

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marked off from that of the great banks located in the Federal District with their ramifications in the States. There can be no doubt that, through the very nature of both kinds of institutions, the general banks, which operate at many points in the Republic with large capital and extensive connections, will develop into banks of rediscount and, by that very fact, become true protectors of the local banks, with which they neither should nor can come into conflict, because they complement each other and constitute distinct organs of a homogeneous and well-balanced system.

In order to form an accurate judgment of all the aspects of the problem, it was necessary, on the other hand, to examine carefully the consequences that might arise from liberty of banking, in order not to run the risk of inconveniences as grave or even graver, though of different nature, than those that would have ensued from the system sanctioned by the charter of the National Bank of Mexico.

To permit banks of issue to organize anywhere within the Republic without any restriction whatever would be advised by no one; but to present a general law regulating the power of issuing notes, requiring the necessary guaranties for them, and providing for the supervision to which such establishments should submit, authorizing them in return to begin their operations without previous permit from the public authorities, seemed to be a solution worthy of consideration, in view of the fact that other countries, especially one of our neighbors, had followed that path to their advantage.

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On comparing the political and economic conditions of the nations whose legislation does not require banks to apply for a concession to issue notes, it appears at once that their citizens are familiar with the practice of individual liberty and by that very fact know how to guard against the grave consequences that might arise from the abuse, and sometimes even from the normal exercise, of that liberty. The degree of culture which the masses have attained, and their experience in business, constitute the most effective counterweight possible to the reckless or even tortuous and mischievous tendencies of an ill-administered establishment. Finally, the well-understood interest of the banks themselves prompts them to enter into close relations of mutual support, whereby they are almost always shielded against economic crises and adverse incidents.

Can it reasonably be maintained that Mexico is in this condition? The very recent introduction of banks properly so called; the lack of experience in the use of credit; the distrust still prevailing, especially in districts outside the great centers of population, of instruments of credit; and the pronounced spirit of imitation, which would assuredly lead to a multiplication of banks out of all proportion to the needs of the country, are some of the reasons that speak in favor of certain restrictions, until the country shall have become accustomed to those ideas and practices without which absolute liberty of banking involves extreme danger.

If to these considerations we add the fear of a powerful reaction against bank notes in case of the failure of any

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establishment, no matter of how little importance, there will be no disagreement with the conclusion that the Government has acted wisely in deciding that the number of local banks to be established must not exceed certain limits.

In following this plan, the new law will no doubt give birth, at least in the early years of its operation, to a sort of banking oligarchy, causing the distribution of institutions of credit at all convenient points throughout the Republic, while their number, nevertheless, will not be so small as to give color to the statement that the issuing power constitutes a privilege in favor of a few. In any case, in a matter so delicate as that of credit, it is more prudent that the nation shall be in a position later on to extend the scope of its legislation, in order to favor the multiplication of banks on a larger scale, than to be driven by the evil results of a first effort to the restriction of their number and powers.

Such, in concrete form, and independent of other considerations arising from the nature of the federal power, are the principal reasons which led the Government to decide that the authorization to establish institutions of credit should only be granted on special application and also to adopt the plan relating to the so-called first banks in the States.

The fundamental problem having been stated and solved in a manner opposed to monopoly, the only honorable policy that the Government could follow was to enter into negotiations with the National Bank, with a view to modifying its charter in such terms as would remove all

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doubt concerning the legality of the charters of local banks already established, and would at the same time permit new charters to be granted, without embarrassing the Government or arousing the fears of the grantees.

The text of the charter of May 24, 1884, the text of the provisions relating to the Commercial Code in force on that date, the reasons brought forward in the form of a protest by the National Bank, and, above all, the grave inconvenience of leaving the local banks exposed to the consequences which might hereafter result from an antagonism of law and of practice between those establishments and the most powerful bank of the Republic, were abundantly sufficient reasons why the situation arising from the granting of powers objected to by that bank should be definitively legalized and placed beyond the reach of future conflicts arising from this cause.

Long and elaborate were the negotiations carried on for this purpose with the National Bank in the midst of the terrible crisis through which the country was then passing, but the obstacles which tended to frustrate a definitive arrangement were smoothed over, thanks to the attitude of the National Bank, which, it is only just to acknowledge, has always shown a disposition to follow the suggestions of the Executive in behalf of the public interest; thanks also to other circumstances, favorable to the Government; so that in the early months of 1896 a settlement was arrived at, covering all the points that had been under discussion and which were directly or indirectly connected with the main subject. This settlement took the shape of several agreements, which were signed, in



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accordance with authority granted by Congress to the Executive, and by the general assembly of stockholders of the National Bank to its administrative council.

In virtue of said agreements, the National Bank made the following concessions:

1. It declared its willingness to relinquish the rights granted in its charter relative to the creation of other banks, and it announced its unreserved assent to the principles of the law of June 3, 1896, which authorizes the establishment of banks of issue in the States and Territories of the Republic.

2. It agreed that the maximum of the standing credit of the Government in current account which the bank is obliged to maintain in favor of the General Treasury of the Republic shall hereafter be 4,000,000 pesos, instead of 2,000,000, which was the limit fixed by earlier agreements.

3. It also agreed that the service of collection and distribution of government funds, which it has to perform in accordance with its charter, shall continue to be performed for the coming ten years at a commission of  $1\frac{3}{4}$  per cent, instead of the 2 per cent which it had been receiving, this commission including not only all expenses but also the risks of said operations.

4. It agreed that the commission of 2 per cent which the Government, in accordance with contract, was paying it for the service of the consolidated debt, should be reduced to 1 per cent.

5. It assumed the obligation to open a credit, not to exceed 500,000 pesos, in current account, in favor of the

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National Loan Office (Monte de Piedad), without special guaranty and with interest of only 3 per cent per annum.

In return for these concessions, the National Bank obtained two advantages: An addition of fifteen years to the term of its charter, and a guaranty that during ten years the National Loan Office should not avail itself of nor grant to third parties the authority which it received from the Government to put in circulation certificates of deposit or notes payable at sight and to bearer.

The mere enumeration of the points covered by said agreements suffices to demonstrate the benefits which were obtained by the two contracting parties.

The Government secured from the bank the recognition of the legality of the system which it desired to establish, leaving free from obstacles the creation of new banks and the unhampered progress of those already in operation, without other limitation than (as regards the Federal District) the stipulation that paragraph A of article 8 of the original charter of the National Bank should continue in force.

The other advantages, although of a different nature, are none the less of pecuniary importance to the Government. On the one hand, they mean a saving of expenses which, expressed in figures, represents some tens of thousands of pesos (over 50,000); and, on the other hand, they mean a broadening of credit, which, while not needed under present conditions, will be of unquestionable utility in time of financial trouble. Indeed, without any such compulsory enlargement of credit, the balance which the current account showed in favor of the Government from

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1892 to 1895 almost always exceeded, and greatly exceeded, the agreed limit of 2,000,000 pesos. Hence it might be inferred that the obligation recently assumed by the National Bank, to make advances to the Government till the balance reaches the sum of 4,000,000 pesos, is not as important as might at first sight be apparent; but considering the diverse circumstances in which the Government might be placed, and, above all, the fact that the precedent created in no wise bound the National Bank for the future, and that its consent might have to be obtained through special agreements, in which diverse guaranties, a high rate of interest, and other onerous conditions might be stipulated, the importance becomes clear of the concession thus obtained.

After the painful experience with the privilege granted by the Government to the National Loan Office, to issue notes payable at sight and to bearer, it would not have been prudent to revive the authorization of which such unfortunate use had been made; and it is thought that the Government has adopted the most prudent course in leaving things as they are for some time and advising the National Loan Office to shape its action in accordance with the important advantage accruing to it from the fact that the National Bank offers to it an advance under exceptionally favorable conditions, requiring in exchange that the loan office shall for ten years postpone the exercise of a privilege the legitimacy of which the bank has constantly denied.

The negotiations carried on with the National Bank were approaching their termination, when the representatives of the Bank of London and Mexico (the only bank

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which shares with the National Bank the right to issue notes payable at sight and to bearer in the Federal District) approached this department with a request for modifications in their charter. It was proposed in connection therewith to widen the scope of that institution and to impart to it greater stability, enabling it to offer to the public ampler facilities and more advantageous conditions.

The Government was in full sympathy with the plan to strengthen an establishment which till then had been of comparatively modest dimensions, and which on every ground deserved to be utilized as an element of equilibrium in the powerful influence destined to be exercised on the market by the great banks of issue ramified throughout the Republic. This was the motive which led the Government to grant to the Bank of London and Mexico an extension of the time of its charter, which was the surest means to attract all the capital that it needed. The result justified this forecast, and the Bank of London and Mexico, whose legal duration was so extended by the Executive as to make its charter terminate at about the same time as that of the National Bank, was enabled, without any difficulty, to raise its capital to 10,000,000 pesos, fully subscribed and paid.

On the same day on which the law of Congress was promulgated, authorizing the Executive to prepare the general law on institutions of credit, a commission of experts was appointed to study the project. This commission, consisted of the managers of the three great banks established in the capital—the National Bank of Mexico,

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the Bank of London and Mexico, and the International and Mortgage Bank, to wit, Messrs. Carlos de Varona, H. C. Waters, and Joaquín de Trueba; one of the best reputed bankers, Mr. Hugo Scherer; and three lawyers of recognized competency in economic and financial studies—Messrs. Joaquín D. Casasús, José María Gamboa, and Miguel S. Macedo, licentiate. It was presided over by Mr. Joaquín D. Casasús, licentiate, who organized the work, presided over the numerous meetings held by the commission, and was the author of the luminous and interesting report which the commission adopted and presented on November 30th last, with the bill formulated as a result of its deliberations.

These labors were of great assistance to the present writer in the preparation of the law brought in by the Executive and promulgated under date of March 19 last. I take pleasure in stating this as a new mark of gratitude to these gentlemen for their intelligent and disinterested collaboration in the examination of one of the most important problems of our economic and financial system.

The argumentative part of the project just referred to presents with remarkable clearness the principal questions which occasioned the most discussion and most prolonged consideration, while at the same time it permits the proportions of this report to be restricted to setting forth the reasons which led the present writer to differ from the opinion of the commission on some fundamental points or which may render it desirable to give additional support to that opinion, when it relates to doubtful subjects or much-debated questions.

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By the decree of June 3, 1896, the Executive was authorized to prepare a general law regulating the franchises, establishment and operations of banks of issue in the States of the Republic and in the federal territories, and also to include in the same law, or to formulate in a special law, the provisions which are to regulate other institutions of credit. It was accordingly found necessary to determine, in the draft of the new law, the class of establishments whose functions were to be regulated, as well as the classes of credit operations which were to be the object of the same law.

There were weighty reasons for making the law apply to all institutions whose essential aim is to seek the most useful employment for their own capital and that of others by carrying on operations based on the issue of instruments of credit, which, being intended to circulate readily among the public, create rights in favor of third parties who have made no direct or personal contract with the said institutions. With this view it was at one time proposed to at least enumerate the diverse kinds of banks for the creation of which the previous and formal authorization by the Government was, for the above reasons, deemed indispensable.

This idea was, however, abandoned, first of all, because the work would have been didactic rather than legislative in character; second, because in the case of many kinds of banks, any regulations, or even the mere enumeration of such multiplied classes of establishments, would for many years have remained a dead letter, in view of the fact that neither the circumstances of the

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country nor the practices or customs of the inhabitants in general, require the legislator to busy himself with fixing rules for operations of credit practiced only on a very small scale, or perhaps even at one or two places abroad.

There was another potent reason for abandoning the idea of enacting a law to embrace all the points just mentioned, namely, the time which would have been required to examine it and to formulate it in appropriate terms. Inasmuch as all authorizations for the creation of banks had been suspended since 1892, it was not wise to postpone the law intended to facilitate the development of commercial, agricultural and industrial credit until a code could be adopted containing in condensed form all the legislation on the subject of banks, because, as above set forth, it would be a work of long duration.

For these reasons, the law of March 19 does not define institutions of credit in general nor designate those which are to be subject to the requirement of making preliminary application to the government for a charter. The law confines itself to the declaration that, for its purposes, only the following are considered as institutions of credit, namely: Banks of issue, mortgage banks, and credit banks (*bancos refaccionarios*); that is, the provisions of the law are applicable only to the three classes of banks enumerated, leaving untouched the principles and rules which govern the establishment, the mode of existence, and the operations of the other classes of institutions not comprised within said law.

In omitting to deal with the loan-pledge banks, savings banks, and storage and warehouse institutions, treated by

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the commission in its draft of a bill, the guiding motive was the convenience of dealing separately with operations sharply distinguished in their nature from those usually carried on by the three classes of banks just mentioned. As time goes on, profiting by the experience acquired, it is proposed, at the most favorable opportunity, to complete the work begun, by enacting the special laws required for the regulation of the institutions of credit not included in the law of March 19, which will in the meantime continue to be governed by article 640 of the Commercial Code.

The programme of the Executive having thus been reduced to the three classes of banks mentioned, it became essential, first of all, to define as briefly and precisely as possible the dominant and distinctive features of each, and next to proceed to the systematic arrangement of the law.

At the same time, the object of articles 3, 4, and 5 was not to give a precise definition of what is to be understood by banks of issue, mortgage banks, and credit banks. The sole object of these articles was to define, at the very start, each class of said institutions, and to facilitate the examination and consideration of all the pertinent provisions by taking as point of departure the definitions laid down by the law.

In the order of the governing principles a system was followed which differs somewhat from that of the commission. In the bill submitted by the commission, the provisions applicable to all the banks form the first chapter, without distinction of any sort, while in the law those provisions which are so to speak preliminary, referring to the granting of charters or to the constitution of companies



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that are to operate under these charters, are separated from the other provisions. By this method, instead of combining, as was done in the bill, certain regulations with others which have no visible connection with them, and which are rather related to those contained in the following chapters, the first chapter contains only the conditions which have to be fulfilled in order to obtain the grant of the charter and to organize the joint-stock companies to which the charter is to be granted; and then, after the provisions peculiar to each kind of banks, there have been inserted the provisions common to all, some referring to their mode of operation, others to the exemptions and privileges that go with the charters.

Great care has been taken to require in the creation of banks those conditions that are deemed most essential and effective, in order that these enterprises may be undertaken only with adequate resources, and that the institutions may be organized with that stability, strength, and prestige which may assure to them a long and prosperous existence.

Such is the aim of the provisions relating to a large deposit of Mexican government bonds, as a guaranty that the bank will be established within four months from the date of the charter; of those which stipulate that only joint-stock companies, and not private individuals, can operate banks, and that, when the grantees are private individuals, they shall never be more than three in number, nor shall they be holders of the grant for any longer time than is necessary to organize the joint-stock company to which the charter is to be granted; of those which forbid

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that in one and the same establishment authorizations and prerogatives be combined which by their nature ought to belong to institutions of different character; and, finally, of those relating to the organization of the joint-stock companies which are to operate under the charters, these provisions being in some points more severe in their conditions and restrictions than those of the Commercial Code, for the better protection of the interests of the public.

Article 12 of the law contains two important provisions dictated by the same thought and which require special explanation.

The duration of the charters, according to said article, shall not exceed thirty years for banks of issue and fifty years for the others, said period beginning with the date of the law. The nature of the operations and of the credit instruments to be issued in accordance therewith justifies sufficiently the difference established by the law between the duration of the two classes of establishments; but the principal innovation consists in this, that the period of the charter begins not with the date on which it is issued, but with the date of the law, a circumstance which affords opportunity to future governments to introduce into the system and into banking legislation all the modifications that may be deemed requisite, without being restrained by the stipulations contained in existing charters. The banking history of many countries presents examples of the innumerable difficulties in which governments have been involved through banking privileges already granted, when they tried to make any change in legislation or in the existing order of things; and thus, when introducing, for

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the first time in our country, a law on a matter in which we have had so little experience, it seemed advisable to fix a period at the end of which all charters should terminate on the same date, thus leaving the action of the Government free and unembarrassed, to the end that, with all franchises terminating simultaneously, it might follow the line of action counseled by experience or circumstances.

Directed to the same end is the second provision of article 12, according to which the charters granted under the new law are nothing more than a mere authorization to establish and operate the institution of credit in question, the grantees being bound by the laws actually in force on the subject.

It might seem at first sight that this provision makes the preceding one superfluous, and that when it has been once decreed that whatever laws may hereafter be in force on the subject of banks shall apply to existing ones, the provision in regard to the uniform date at which the charters terminate becomes useless, in view of the fact that this date has been fixed in order to afford to the Government at a given moment complete liberty of action, the fact being that, in virtue of the provision in question, it enjoys such liberty of action. But it is not in this way that the second part of Article 12 is to be understood.

The authorization to establish and operate a bank has to be given under well-defined conditions, relating to the nature of the establishment, the organization of the proper joint-stock company, and the privileges and duration of the franchise, all of which elements go to form an integral part of the contract between the Government

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and the bank, and which a new law can not alter without attacking, in its fundamental bases, the very existence of the company which operates under the franchise. These are rights and obligations which a new law can not alter without the consent of the interested parties, and these are precisely the rights and obligations whose extinction, through the lapse of a fixed period, it was necessary to provide for, in order not to create difficulties for future generations which might be insuperable, in case a radical change in the banking system should be deemed desirable.

In whatever relates to the existence of the grant, the fundamental bases of the company holding it, and the inducements in the form of exemptions or reduction of taxes offered by the law, the banks need have no fear that a subsequent law may create a condition less advantageous for them, because that would be equivalent to robbing them of a right which was fully vested. But the same is not true of the provisions of a general character, which are not the object of any stipulation in the charter nor in the contract of the company, and which rather form a part of the legislation which establishes and regulates the rights and obligations of the bank toward the public or toward the Government in its character as the representative of social interests; because this legislation, like all other laws, can not remain immutable and should not contain restrictions which might prevent the Government from changing it at such time and in such manner as it may deem requisite for the general well-being.

The series of special titles of the new law opens with the one which deals with banks of issue; and indeed this

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precedence in the order of exposition is properly given to the provisions which regulate the operations of those institutions of credit that are of greatest importance, both by reason of the part which they play in modern society and by reason of their great number and the amount of capital which they employ.

This would be a proper place for the considerations set forth in the beginning of the present report, in order to make clear the motives which led to the adoption of the system established by the decree of June 3, 1896, and developed in the recent law on institutions of credit; but as this was done elsewhere, I will merely say in this place, by way of summary and record, that under the new banking legislation there will be (1) two great banks of issue in the Federal District, with authority to create branches throughout the country, and (2) a number of banks in the States and Territories, with special privileges for the first bank established in any one of them, and with authority to establish branches (under fixed conditions) in any part of the Republic, except for the exchange of notes in the Federal District.

Sufficient explanation and basis had already been given, in my opinion, for the attitude taken by the Government in this matter, as set forth in articles 15, 38, 128, and 129 of the law, an attitude which is further justified by the necessity of guarding against the grave consequences that might arise from the abrupt transition from a restrictive system (like that of the past) to one of absolute liberty for banks of issue.

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The authority to issue instruments of credit payable at par, at sight, and to bearer, constitutes the most potent lever used in the present century to mobilize capital and put it in the hands of those who are able to most advantageously utilize it; but it is at the same time the most delicate instrument possessed by institutions of credit for multiplying their operations, and therefore requires a set of effective guaranties to insure the immediate and punctual reimbursement of the notes to those who accept them in full confidence in the fidelity and the solvency of the bank.

It is not an easy task to choose the right course in devising this set of guaranties, and this very difficulty has led governments and publicists to pursue a variety of methods in striving to reach the same goal. As regards governments, history teaches that some considerations of another order, nearly always related to the needs of the Treasury, have had their influence and have at times been superimposed on those properly belonging to the subject; but, fortunately, in Mexico these extraneous considerations have had no weight in the preparation of the law which has been presented to the chambers except that this law has been inspired exclusively by the desire to reconcile the greatest liberty and the greatest facility of operation by the banks with the solid assurance of the interests of the public.

As undeniable evidence of the motives of the Government may be indicated the numerous exemptions and reductions of taxes; the privileges in favor of the banks, which constitute exceptions in civil and commercial legislation; and, lastly, the absolute independence granted to said establishments with regard to the Government, which

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has, either in their administration or in their operations, no right of intervention properly so called, but is limited, in the function of its representatives, merely to the duty of supervision.

So strong was the desire to guard the banks against all outside influences, and especially against political influence, that, notwithstanding the precedents created by earlier charters, requiring that the circulation be guaranteed in part by a deposit of government bonds, it was deemed inadvisable to retain this requirement and to provide for a deposit, more or less substantial in amount, of evidences of the public debt as guaranty for the redemption of the notes. What would be the influence of such a deposit upon the credit of a bank in case that, in consequence of the vicissitudes of foreign or domestic politics, the securities of the state should precipitately decline? Would not rather the intensity of the evil be enhanced by the decline in the value of the guaranty at the very moment when business was paralyzed by the general crisis, cash was hoarded, and payments were delayed?

It is hoped that no reproach will be cast on the Government for having abstained from making such use of the government bonds, since it is preferable, for the reasons set forth, not to associate the credit of the banks in any manner with that of the Government, but to leave these establishments in condition to face periods of difficulty with their own resources, free from any extraneous influence and from any pecuniary connection with the Government.

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From this line of reasoning have arisen also the limitations which the law imposes on banks, both as regards the right to put notes in circulation and that of carrying on certain operations more or less connected with that of issuing notes. In these restrictions are found the guaranties in behalf of the public, which, though not absolutely beyond evasion (for what restrictions are so?), nevertheless constitute a solid ground for inspiring confidence. I will briefly discuss the two points to which I refer.

In the first place, there has been a departure from the precedents created by most of the earlier charters as regards the proportion between the amount of notes in circulation and the cash on hand, either in coin or in bars of precious metals.

It has been the rule to allow the credit circulation to attain three times the amount of the metallic reserve, while the law just referred to allows it to attain only double the amount, and furthermore introduces a new feature, providing that to the amount of the notes issued there shall be added the amount of deposits payable at sight or at most within three days, and that the resulting sum be used as the basis for computing the maximum limit of the note circulation.

The reason for this new feature is obvious. In any banking system the first care must be to establish a strict relation between the nature and period of the instruments of credit issued by the bank, on the one hand, and the obligations to the bank on the other. This rule can not be disregarded without giving rise to a danger more or less serious, according to the type of bank, but far more



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serious in the case of banks of issue, where there is no adequate measure of the amount of the obligations immediately payable in favor of the bank against the amount of obligations the payment of which may be demanded of the bank at a given moment.

On this account it would be a grave error to think that the only serious danger for banks of issue may arise from the possibility of a simultaneous presentation for payment of the larger part or all of its notes, since there exists another danger of equal, sometimes even greater, magnitude in the demand for payment of demand or short-time deposits.

The special mission of banks is to serve as intermediaries between persons or firms having available capital and those who need funds to apply to production. Strictly speaking, we might conceive of a bank without capital of its own. If, in fact, the law requires that it shall have capital, and that the amount thereof shall be commensurate with the amount of paper issued, this is solely for the greater security of the public; but even this provision does not alter the fact that the greater part of the movement due to banking operations is carried on with outside capital, subsequently deposited in the establishment, some of it to obtain a return, the remainder for safety.

The last-mentioned depositors constitute the class that has most frequent recourse to banks. They make deposits which at the pleasure of the depositor are payable either through the medium of checks or on the mere presentation of the bank book. Thus, from the point of view of

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immediate reimbursement, these deposits are upon an equal plane with bank notes, being likely, in fact, under certain conditions, to constitute a greater danger than the notes, because they represent, as a rule, larger amounts and thus are capable of exhausting more rapidly the metallic reserve of the bank.

Hence it was natural, in fixing the conditions regulating the issues of banks, to assimilate to each other the notes and the deposits payable at sight or on short time. This presented the most effective means of avoiding the abuses and dangers of the note issue, since its limits are determined by double the amount of the cash reserve in connection with the total amount of obligations payable on demand.

This provision of the new law may seem too restrictive, but in presence of the doubt which everyone feels regarding the manner in which the right to issue notes will be used in our country, it is preferable to sin by an excess of caution (seeing that there will always be time to enlarge the scope of the right in question), and not to expose the bank note, which has with such difficulty begun to penetrate among the mass of our population, to a disaster which would throw us back a long way on the road that has led other nations to prosperity.

Moreover, the rigor of the provision is greatly modified by the exception set forth in the law, according to which in computing the maximum limit of issue, no account is to be taken of interest-bearing deposits in current account, an exception grounded not so much on the nature of the deposit (since it is in the main just as capable of presen-

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tation for redemption as those which bear no interest) as on the necessity of inducing banks to remunerate the capital which the public brings to them, and on the desirability of facilitating the creation of current accounts, so beneficial for commerce and for all the branches of national production.

Furthermore, the aim has been to give every possible security to the bank note by the provisions relating to the preference which it is to enjoy over other obligations of the bank; those which give the right of summary suit to the holder of a note against an establishment which issued the note and refuses to pay it; those which prohibit these establishments from carrying on ordinary banking operations involving a period of more than six months and from discounting commercial paper not indorsed by two firms of known solvency or secured by some collateral; and, lastly, those provisions which aim to prevent the immobilization of capital in loans of long terms and difficult repayment.

It is proper to explain one of the provisions of a precautionary character just alluded to, namely, the prohibition to make mortgage loans, a provision to which the law makes two exceptions, one of which, at least, might be considered as contrary to the principle laid down and at the same time a possible cause of disorder.

The legislation of many countries expressly sanctions the right of banks of issue to accept mortgage security from their debtors when there is a decline in the credit of some of the indorsers of the obligations which the bank holds in its assets, but very few countries grant to

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said banks the right to make mortgage loans, and it may even be said that the nations which authorize such operations are in a situation very different from ours and have established certain restrictions which diminish, if they do not completely remove, the inconveniences of a system which, in the light of the strict principles of economic science, can not but meet with disapproval.

If the Executive has decided to follow the latter method—that is to say, to allow the banks in certain cases, on previous authorization by the Minister of Finance, to make mortgage loans—it was only after a mature examination of the conditions of the country, and especially of the practices and views prevailing among those in Mexico engaged in the business of making loans.

It might justly be objected that the main object of banks of issue should be the development of commercial interests, properly so called, and incidentally of agricultural and industrial wealth—an argument which becomes all the stronger in view of the fact that the immemorial practice of mortgage investment does not and did not exist except for the purpose of making loans to persons who are not properly merchants.

It is indisputable, nevertheless, that the maintenance in all its rigor of the scientific principle of not confounding the operations peculiar to banks of issue with those that belong exclusively to mortgage banks (a principle which the new law recognizes implicitly in its first articles when it prohibits both the establishment of two different institutions of credit under the same charter and the issue by the same bank of different kinds of instruments of

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credit which by their nature correspond to institutions of different kinds) would be equivalent to depriving agriculturists and manufacturers of the immediate facilities which institutions of credit are able to afford them for the proper development of their lands and factories.

It is true that for this purpose the very law on institutions of credit authorizes the creation of mortgage banks and of credit banks (*bancos refaccionarios*), which are intended to serve in a more direct manner the interests of agriculturists and manufacturers; but we should not delude ourselves with the belief that these institutions will multiply rapidly, because such will not be the case until the spirit of enterprise is sufficiently developed among us and the working of these banks and the benefits to be derived from them become practically known.

Banks of issue are better known among us, and it is almost certain that under the new law they will multiply in the country rapidly enough until they attain the number and size corresponding to the genuine social needs which they are intended to satisfy. Thus it may naturally be expected that the good effect produced by these establishments will promptly become known among many classes of the community, and hence it has been deemed wise to give legality to mortgage loans, stipulating, however, that the total amount of mortgages in favor of the bank shall not exceed the fourth part of the capital actually paid up; that the mortgage shall become due within not more than two years; and that, finally, the express authorization of the Minister of Finance shall be sought, who will take care not to grant it except in terms that shall

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well define its supplementary and transitional character. In this way the bank will not be deprived of its true character by diverting an important part of its capital from the operations peculiar to banks of issue; the capital invested in mortgage operations will not be long immobilized; and, finally, this exceptional departure from one of the fundamental principles of banking science will signify no more than the adoption of a means to supply an important public need temporarily, and only while this need is not supplied by other establishments more adapted to the purpose. There can be no doubt that the authorization here spoken of will cease to be granted and will disappear from our legislation as soon as the mortgage and credit banks shall be organized and multiply.

With the creation of banks which, besides conducting all kinds of banking operations properly so called, shall issue notes payable at sight and to bearer, the needs of commerce will be satisfied so far as relates to the mobilization of capital and short-time loans; but it has already been pointed out that this kind of establishment can not render the same degree of service to agriculture and industry, which, while occasionally asking for temporary aid, require for the most part loans on long term and made under conditions more stable and less onerous as regards payment.

The merchant buys and sells in a short time, and only in exceptional cases does it take him many months to realize on his merchandise. On an average, his operations allow him to contract debts on short terms, and it is to his interest to multiply and renew his operations as much as

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possible; so that for his purpose the banks of issue suffice and operate under exactly appropriate conditions. The obligations which constitute the assets of said banks are payable at sight or on very short time, just as is the case with the notes and obligations of the liabilities, whence function in perfect harmony the operations of these establishments with those of the commerce which they are intended to promote and serve.

In industrial enterprises the case is different, because, although such capital as is employed in the purchase of raw material and fuel, as well as in the payment of wages, can be recovered speedily enough, relatively speaking, through the sale of manufactured goods, this is not the case with money invested in buildings and machinery. This distinction is still more perceptible in the case of capital applied to agriculture, which is immobilized for a longer time when devoted to the improvement of the soil and to similar purposes.

Real estate in general, and especially country real estate, makes but slow return on the capital invested in it, and the increase of the product, due to the improvements introduced, hardly leaves enough surplus for the amortization of the capital, after covering the interest. The credit operations which furnish this capital must necessarily cover long periods, proportionate to the great length of time it takes the farmer to get returns for the expense of improving his property, and the payment of the principal, moreover, has to be made gradually in order that it may be covered by the products of the farm.

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As the loans repayable in the course of years are not, as a rule, sufficiently secured by the personal guaranty of the debtor, whose credit is exposed to unforeseen contingencies, the said loans are almost always conditioned on the giving of a guaranty in real estate, in the form either of a pledge or of a mortgage, and this has suggested to the legislators of different countries the idea of making the mortgage loan payable in numerous annual payments, comprising the installments on the principal and the interest.

The mortgage banks which aim to accomplish this object have assumed quite a variety of forms in different countries, some aiming to associate the capital which furnishes the funds; others to associate the farmers who may need the funds, while in other cases these establishments are made to bear the character of intermediaries between the persons who have funds to invest and the owners of rural or urban property who are looking for the means to improve that property and increase its production. The new law has adopted this last form, because it undoubtedly conforms better to the customs of our country, the character of its inhabitants, and the general principles of the national legislation, and also because it presents the best-defined type of this sort of institutions of credit.

A preliminary question was presented to the consideration of the Department by the terms of the charter granted to the Mexican Mortgage Bank, established in the capital of the Republic in 1882. Was it advisable or not to include in the law the regulations to which mortgage banks are to be subject?



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According to the said terms, the Government bound itself (art. 16) to make no grant to any other person, company, or corporation for the establishment of mortgage banks in the Republic during the period of twenty years, beginning with the date on which the Mexican Mortgage Bank began operations. This obligation, however, was not absolute, but on the contrary was subject to the express condition that during the said twenty years the bank should completely supply the needs for such an institution—a circumstance which by itself implied that the Government might find itself compelled to consider the possibility that, in case this condition was not realized, it would be free to authorize the establishment of other institutions of the same class. In regulating the matter and treating of mortgage banks in the new law, the Government did not in any manner prejudge its own attitude for the future—indicating whether it would or would not make use of its power to grant charters to other mortgage banks.

Accordingly the Executive did not hesitate on this point, but accepted the idea of a plurality of mortgage banks, all the more because this was the logical consequence of the attitude taken in regard to banks of issue. In fact, if for the circulation of bank notes it was deemed advisable to decentralize the establishments which issue them, it was still more necessary, when dealing with real estate, to promote the creation of local banks, which, by the sale of securities adapted to the purpose, might furnish sufficient resources for the improvement of agricultural property.

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The operations peculiar to mortgage banks are on the one hand the investment of funds in loans repayable within a period of greater or less length and guaranteed by mortgage, and on the other hand the correlative operation of issuing interest-bearing bonds for amounts equal to those of the loans, these bonds being payable within periods and on conditions equivalent to those of the loans.

The principle that the total amount of the bonds in circulation must correspond exactly to that of the mortgage loans which the bank holds among its assets presents serious difficulties in practice. In fact it is not possible that, in proportion as the bank advances funds to individuals or the latter repay their loans in whole or in part, the circulation of the mortgage bonds shall be instantly enlarged or restricted, adapting itself completely to the exact amount of the outstanding loans. Moreover it is often found, and in other countries it is the general rule, that the issue of bonds precedes the loans, this being usually the method of obtaining funds wherewith to make such loans. Was it advisable to forbid this practice in Mexico, or should some flexibility be given to the principle we have just examined? The Executive decided in favor of the second alternative, agreeing with the arguments advanced by the commission, although departing from its recommendations as regards the wording and scope of the respective articles.

The articles in question provide, first, that the banks shall not issue mortgage bonds whose nominal value exceeds in the aggregate the amount of the loans made on mortgage security; second, that when the lots are drawn,

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which shall be done at least twice a year, such number of bonds shall be called in for redemption as may be necessary in order that the nominal value of those remaining in circulation shall not exceed the amount of the mortgages which the bank holds among its assets; third, that no loan shall be made with money that has to be obtained through an issue of bonds, unless the loan be conditional and its completion subject to the results of the issue of bonds to be made later; and, fourth, that between two drawings of lots it be permissible, for the reasons set forth above, to alter the proportion between the mortgage bonds in circulation and the amount of outstanding loans held by the bank, the equilibrium being restored at the next drawing of lots.

The rigor of the above-mentioned principle having thus been attenuated, care had next to be taken to insert the provisions necessary to avoid all abuses in practice, as well as to assure the sufficiency and efficacy of the mortgage guarantees—the fundamental basis of the confidence of the public in the securities which might be issued.

For this reason it was deemed desirable to state expressly that the mortgage bonds are issued on the strength of the obligations which the bank holds among its assets through its loan operations with mortgage guarantee, and that this guarantee is collective; in other words, that the aggregate of the mortgage obligations in favor of the bank guarantees the aggregate of the mortgage bonds in circulation.

Among the numerous provisions which tend to realize, in the most equitable and effective manner, the objects

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indicated there is one that deserves special mention, because it is not commonly found in the banking legislation of other countries. This is the provision relating to the formation of a special fund in cash, intended to cover the service of the mortgage bonds for at least six months—a provision dictated by the desire to safeguard the banks against an unforeseen stringency of money, which might compromise the regular service of its bonds.

Of a similar nature is the article which creates in favor of said bonds special inducements to investors, in order that the public may receive them with favor. These inducements are: The right of preference on the reserve and guarantee funds of the issuing bank, as well as on its capital, whether paid-up or not; the prohibition to withhold the payment of principal and interest, even upon order of the court, except in case of loss or robbery of bonds, or in accordance with previous laws; and the option that, whenever the funds of corporations or of persons legally incapacitated are by law or contract to be invested in the purchase of real estate or of mortgages, these funds may also be invested in mortgage bonds.

Owing to the conditions established, not only for the issue and circulation of the mortgage bonds, but also for the security of the capital which they represent and the interest thereon, as well as for the ease, cheapness, and ready means of making the guaranty effective, it is very likely that these securities will find wide acceptance, provided the banks which issue them take care to accommodate themselves not only to the provisions of the law and the counsels of prudence, but also to what their knowledge

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of the market in which they operate may indicate regarding the interest on money, the habits of trade, the normal period for the amortization of capital invested in the promotion of enterprises, etc.

This knowledge will guide the banks in the drawing up of the tables of annuities, so that the public may choose, out of a variety, the kind of operations which is most suitable to the circumstances of each. The tact which it will be necessary for the directors of these establishments to show in this respect will need to be even greater when the loans are not made in ready cash but in the very bonds which have to be issued for the purpose of the operations, because, unless the indispensable conditions of the bonds are such that the debtor can realize on them without loss, the public will have a strong motive to refrain from dealing with the bank, no matter what may be its facilities for the repayment of the debt. Hence it is supremely important that the mortgage banks to be established shall combine their operations in such way that the bonds put in circulation shall find an easy market and a price approaching their face value.

Besides the essential operations just spoken of, the mortgage banks may engage in all the others which are of a purely banking character and do not constitute the exclusive object of some of the other classes of institutions of credit. The law, however, fixes some limitations and imposes certain prohibitions which tend to strengthen the confidence which these establishments should inspire, in order to avoid the danger that, through operations of a secondary character, the bank should find itself some day

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compelled to give the preference to these dealings over the primary objects for which it was established.

The loans with real estate guaranty, as the only resource to which the owner of the real estate can have recourse in order to obtain the means which he requires for the development of his business, are capable of involving dangers of a new order when these funds are sought, not in order to be immobilized in the property, by being invested either in the improvement of the soil or in buildings, or in the purchase of machinery, but to be applied to the payment of wages, the purchase of seed or raw material, or to other expenditures which may readily be covered in a short time by the returns from one harvest or by the normal output of a factory.

When a landowner (hacendado) needs funds for the purposes last mentioned, he finds himself in this dilemma: Either he has to apply to banks of issue, giving collateral security or an indorsement by a responsible party, and in that case he exposes himself to the possibility that, at the end of the term of payment, which must necessarily be brief, the loan may not be renewed, while he may still be unable to realize on the product of his estate in order to cover the loan; or he may have to apply to a mortgage bank and encumber his property for a long time and for a large sum, greater than he needs, because both these are generally conditions required in mortgage loans; and then, having more money, he spends more than he intended, and the property will be more highly encumbered, which later on will render it difficult for him to obtain new loans, even when he needs them more urgently.

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The fact is that the demand for capital for agriculture has two distinct objects, and hence must also be satisfied in different ways. If the object is to incorporate the new capital with that already represented by the property and its immobilized accessories, then the loan can only be repaid from the increased product of the estate, due to its improvement, and hence only in the space of many years; but if it is intended merely to cover the expense of working the same property up to the time when the crop can be realized on, then recourse must be had to operations the period of which shall not be long, although long enough to enable the return from the crop to be awaited without anxiety.

Few problems have given rise to so many disappointments throughout the world as the one relating to agricultural credit, a problem which, it may be said without exaggeration, has never yet been solved in a manner completely satisfactory. Hence I congratulate myself because the work undertaken on this subject by the Banking Commission, which has greatly facilitated my task, relieves me of a large part of the moral responsibility involved in the paternity of a new idea in a field that has been much explored by others, with little result.

The system devised by the Commission consists in the creation of institutions of credit which shall fill the void left between banks of issue and mortgage banks; in other words, which shall make loans for a period not as short as those fixed by banks of issue, but not as long as those required by mortgage banks; and, above all, without the security of the estate.

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In accordance with the project adopted by the Executive, these loans may extend over a period not to exceed two years, which will suffice, in case the crops of the first year are lost, to enable the farmer by means of the crops of the second year to fulfill his obligations; and, as a consequence of these operations, the banks are to be empowered to issue special securities repayable within fixed periods, also not to exceed two years, and which, naturally, are to draw interest.

In order that the banks in question may operate with the requisite security it was necessary also to modify the civil legislation, in such way that the guaranty might be established readily and with due privileges on the products of the estate, which privileges are all the more justified because, if such crop is harvested, it will be due in large part to the resources placed by the loan at the command of the owner of the estate. These facilities and privileges also have their precedent in the civil and commercial law, in the shape of the obligations called restitucional (*refaccionarios*), a term which the Commission very appropriately adopted to designate the establishments of credit above described.

The idea of creating credit banks (*bancos refaccionarios*) is not only fruitful as a means of solving the agricultural problem, but also for satisfying the just claims of another branch of industry, which is for us as important as the other. I refer to mining.

The peculiar character of mining property and of mining securities, and the exceptional dangers to which they are exposed, have greatly hampered the use of credit for the development of the mining industry. Where a real-



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estate guaranty offers complete security, credit founded on such guaranty is easily obtained; but when the property offered as guaranty is exposed to so many contingencies, as is the case with mines, real-estate credit has to struggle with serious impediments.

In the opinion of many people the mining business is equivalent to a game of chance, and even among those who have more confidence in this kind of business there is a disposition to estimate the elements of security which it offers in the immense majority of cases as of very brief duration. It is to be hoped, however, that with the application of scientific methods and the constant improvement of industrial processes many of the causes of error and deception will be eliminated, and greater insight and certainty will be attained in the anticipations regarding the producing capacity of mines and the duration of their output.

From this point of view there is some resemblance between the loans made to farmers to enable them to wait for the harvest and the loans made to miners whose property is developed in such way as to permit the probable return within a comparatively short period to be calculated; and it is this analogy that inspires well-grounded hopes that the credit banks may be of great utility not only to agriculture but also to mining and other industries, few of which are so unfavorably situated as regards the confidence which they inspire as the mining business, whose securities are not acceptable to the banks of issue because not suited to them, nor to the mortgage banks because the law forbids.

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Will these banks fulfill the object of their creation? If they are established, will their work be successful and will they improve the condition of industry, mining, and agriculture? These are questions which the Commission very justly asks at the close of that part of its report which relates to these institutions. The Government believes, in accord with the Commission, that the future of these banks will depend on the acceptance given to their bonds, and hence that no one will do more for their development than by bringing these securities into favor and creating for them an assured and extended market.

The last part of the law consists of the provisions applicable to all banks, when once established, which for greater clearness have been classified under two heads—one which treats of those common to all banks, the other of the privileges and taxes relating to the subject.

The first of these heads contains: The provisions relating to the establishment of branch banks and agencies; the prohibition to carry on certain kinds of operations, which, being dangerous or improper, can not be considered as included among the powers enjoyed by any institution of credit; certain provisions establishing special privileges in the matter of procedure and of legal preference in favor of banks; and, finally, the means of surveillance and control which have been deemed effectual as well as equitable, for protecting the public (so far as is possible and so far as depends on the Government) against the mismanagement to which these establishments may be exposed.

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The surveillance over institutions of credit will be exercised in two ways—on the one hand by the Department of Finance, by the appointment of inspectors; on the other by the general public, by virtue of the publicity which the banks are required to give to certain data and documents.

The inspectors may be appointed exclusively for each bank or only for specific cases; and the aim has been to give such precision to their duties as will avoid the difficulties which are always to be feared in connection with so delicate a function. For this purpose it was necessary to steer between two sets of shoals of different character, the one arising from the natural tendency of the inspected to diminish the sum total of the powers of the inspectors, the other arising from the very common propensity of inspectors to carry their functions to excess.

Thus there remained no other way than to specify with all possible clearness the principal duties and powers of inspectors and to establish, as reciprocal guaranties in favor of the banks and of the public, definite prohibitions and severe penalties for inspectors who might abuse their position, and, on the other hand, the power to extend the inspection, in special cases, to the complete disclosure of the facts involved, always provided that the Department of Finance expressly so orders.

As regards indirect surveillance, provision has been made for the publication of the monthly balance sheets of the institutions of credit and of an annual report on their condition. The monthly reports have been the object of careful study as regards the data which they

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are to contain, in order that the situation of the banks may be made as clear as possible. Among other data, they will hereafter contain, for the first time, on the credit side, the investments in public securities and in stocks or bonds on which it is possible to realize at once, as well as the distinctions between securities held against discounts and the amount held against loans on collateral and on mortgages; and on the debit side distinct enumeration will also be made, among the other debts, of the deposits repayable at sight or on notice of three days or less—a class of deposits which plays a great part in banks of issue, in view of the provisions regulating the circulation, which are elsewhere set forth.

As regards the provisions whose aim is to guarantee the shareholders and the public in general against mismanagement by the directors, it will be noticed that one of these provisions prohibits members of the administrative council, during the first year of the existence of the bank, from becoming debtors to the bank; while another clause provides that, after the first year, they shall be permitted to become debtors to the bank only when they are in a position of joint liability, as regards indebtedness, with some other firm of well-known solvency, or when they give a collateral guaranty of double the amount of said indebtedness or responsibility.

Unfortunately, experience has shown that banks may establish themselves with a fictitious capital, by their organizers reserving to themselves the places in the administrative council and making loans to themselves in account current for amounts equal to those which they

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have brought together in order to establish the bank. There have also been cases where influential persons who manage these establishments have absorbed for their own operations a considerable part of the corporate capital, without giving the same guaranties which they would have required of outsiders. These illegal methods, extremely dangerous to banks established with a modest capital in unimportant centers, will be altogether impossible under the new law, unless the directors are ready, knowingly, to incur not only civil but also criminal liability.

Lastly, to make sure that no omission in the law shall fetter the action of the Government, it has been provided that any failure on the part of a bank to comply with any of the requisites or conditions required by the law for the security or benefit of the public, and which do not constitute a sufficient reason for forfeiting the charter, may furnish ground to the Department of Finance, after due hearing given to the bank in question, to order the suspension of all its operations until the legal requirements and conditions shall be fulfilled.

The Executive is of opinion that, in order to facilitate the creation of banks in the Republic, the legislation in the matter of taxes ought to be exceedingly liberal, while on the other hand there would be no risk of diminishing the amount of the present revenue, seeing that the aim is to promote operations which, in most cases, would not take place without the existence of banks, and which, by means of the banks, will be multiplied so as to produce, directly or indirectly, important revenues for the treasury.

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Of course the privileges which had been granted in this respect in most of the cases of special charters had to be respected, and on this account the law provided that the capital of the banks, the shares which represent it, the dividends paid by them, and the various instruments of credit which they issue, should be exempt from all kinds of taxes in the federation, in the states and municipalities (with certain exceptions, set forth in the law itself). It granted exemption from stamp tax for the documents used by institutions of credit in their internal administration, for the contracts which they may make with the Federal Government or with the local governments, and for the extracts from accounts and notes of payment or other documents and operations which they carry on with said governments in prescribed cases. Besides these exemptions, the new law grants an additional one, namely, that whatever be the value of the bank notes, mortgage bonds, certificates of deposit, and cash certificates (*bonos de caja*) which the institutions of credit may put in circulation, the stamp by which said documents are to be legalized shall never exceed 5 centavos. Similarly the law takes care that the rather large expenditures generally attending contracts of loan, security, pledge, or mortgage, either in the way of tax or of legal fees, shall be greatly reduced, principally as regards taxes, the reduction of fees being naturally left subject to such contracts as the interested parties may make among themselves.

On the ground of the right belonging to the Federation to legislate on everything relating to commercial matters, and supported by the precedent which placed a limitation

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on the right of States to impose taxes on mining, the Executive decided to incorporate a similar provision in the law on institutions of credit, to the effect that local legislation can in no case hamper the operations of banks by fiscal measures while the Federation is striving to free them from most of the taxes imposed by the general laws.

The articles forming the last heading of the law close with two sections which confirm the principle established in the law of June 3, 1896, according to which the exemptions or reductions of taxes can only be granted to the first bank that is established in any one of the States of the Republic or in any one of the Federal Territories; the other banks, established subsequently, having to pay all the taxes imposed by the general laws, and, furthermore, a special tax in behalf of the Federation of 2 per cent a year on the amount of capital disclosed. In virtue of this provision the banks that may be set up subsequently to the first will be placed under such disadvantages in their competition with the first bank that a plurality of banks in one and the same State will only be possible where the transactions are so active and the demands for credit so great that they can not be satisfied by a single bank, no matter how powerful.

It is to be noted that it has not been the spirit of the law to invest with the character of first bank, and the exemptions and privileges attached thereto, the branch banks which may be established in some of the States or Territories of the Republic, because that would lead to the absorption of all the markets in the interior of the country by a very small number of institutions of credit,

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which, having established their head offices in three or four States, would try to set up branches in all the rest of the country in order to impede the creation of other banks with equal rights and privileges. This view is borne out by the considerations set forth in another part of this report, with the purpose of demonstrating that branch banks fall far short of fulfilling with the same degree of efficiency the same ends as the bank on which they depend. On this account the Executive deemed it proper to promote the creation of local banks, notwithstanding the existence of branches maintained by the great banks of the capital at many points in the Republic, and was influenced by similar reasoning in favor of the creation of banks in all the States and Territories of the Federation, notwithstanding the branches that may exist in each one of them, whether of banks of the Federal District or of local banks.

The transitional articles of the law contain two very important principles—the recognition of the rights previously acquired by existing banks, either in the capital or in the States, and the privilege granted to the latter, whatever be their number, of acquiring the character of first banks in the locality where the parent house is established if they declare to the Department of Finance that they submit their charters to the new law.

The article relating to obligations contracted naturally served as a guide to the Government in preparing the general law on institutions of credit, and I should not touch on this point were it not that I wish to point out that the present was deemed a favorable opportunity, by



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means of law, to impart all the necessary authority to the repeated decrees of the President of the Republic, by which the meaning of an article contained in nearly all the earlier charters was defined in the sense that all institutions of credit must be subject to the laws of the country and to the other provisions of a general character which were afterwards promulgated in the matter of banks when such laws and provisions are not opposed to the charter or statutes of the bank.

It is within the scope of the executive power, when duly authorized, to grant rights and privileges by means of a charter or contract, but it can never renounce the right or part with the obligation to legislate or issue regulations on those points or questions which were not expressly provided for in the charter or agreement in question. Moreover, charters are special laws (*leyes privativas*), and the interpretation of a special law must be made in the sense of restricting the privileges or exemptions that depart from the general law, rather than of enlarging them; and hence the clause whose tenor might lead some banks to think that they were subject to none but their own special legislation, based on the charter and by-laws, must not be understood in this exclusive sense, but in the sense just pointed out—that is to say, admitting the application of the general law in everything which does not impugn their special legislation.

One of the aims of the decree of June 3, as already noted, was to enable the Executive to introduce uniformity into the heterogeneous legislation created by earlier charters, so far as such reform might be compatible on

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the one hand with the conditions of the business of existing banks and on the other with the respect due to rights which their charters conferred.

This need was urgent in order to enable the Government to enter on its task of reducing the charters, so far as possible, to general types, inasmuch as the diversity and dissimilarity of these charters made it impossible to follow in the matter of banks a uniform and well-defined policy, which would allow all the establishments to take advantage, in the best possible manner and for the common benefit, of the admirable instrument of progress which instruments of credit afford.

Seven banks were operating in the States when the decree of June 3, 1896, was promulgated, and no two of them had identical charters, but all differed in various points, more or less essential. Thus, for example, one charter terminated in 1904, the others at later dates up to 1939. The issue was regulated in the case of some banks by the amount of capital; in the case of others by three times the capital. To guarantee the circulation, sureties were required of some banks, deposits of others, and of yet others neither sureties nor deposits, but a different kind of guaranty. The reserve funds differed greatly in amount with the different establishments. The right to establish branch banks was unlimited for some banks, while for others it was subject to various restrictions. The value of the notes which they were allowed to issue was in some cases 25 centavos as a minimum, while in others 1 peso was the smallest value authorized. There was one bank which was authorized to make loans subject to

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extension up to twelve months, while the operations of the others were not to exceed six months. Similar differences existed in the guaranties for loans and discounts, as well as in privileges and exemptions from taxation, and in other fundamental requirements of the charter.

With a view to putting an end to this capricious diversity in legislation, the second transitional article of the law fixed a term within which the banks established in the States were to submit to the provisions of this law, offering to them in exchange the character of first bank in each of the respective States, with the full rights and privileges granted to first banks.

This inducement proved insufficient to secure the desired object. Most of the institutions of credit that were in operation in the country when the law of March 19 last was enacted agreed to subject their charters to the law; but since, according to article 12 of that law, the said charters bear only the character of a mere authorization, and the banks are obliged to accept the modifications which the law may undergo hereafter, they decided not to exchange the rights and obligations of their original contracts, which could not be altered (during the life of the charter) except by the consent of both parties, for other rights and obligations, which, though in their aggregate more to their interest, yet presented the grave drawback of not being immutable to the same degree as the former.

No definitive result could be obtained in the course of the four months allowed for the existing banks to declare their unqualified adhesion to the new law, surrendering

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their earlier charters; but since, according to paragraph III of article 2 of the law of June 3, 1896, the Executive was authorized to conclude agreements with the banks of the States during the six months following the enactment of the general law on institutions of credit, without further stipulation than that the banks should surrender the rights granted to them by their respective charters, it seemed advisable to take advantage of the good will shown by most of the banks to conform to the new law, leaving them free not to accept such modifications as the law might undergo hereafter, unless they deemed it conducive to their interest.

This condition, by which the establishments antedating the general banking law are safeguarded against any change of legislation that might curtail the rights expressly conferred by the present law, is in the main the same that they enjoy in virtue of their original charters; and it may even be said that the very vague terms in which one of the clauses contained in all the charters was couched, and which led the said banks to think that they were entitled to claim the benefit of any law, regulation, or part thereof, which they thought advantageous to their establishments, and to claim exemption from any law that did not suit them, it may be said, I repeat, that this vagueness left the banks in a better condition than they now enjoy in virtue of the new arrangements with the department under my charge.

In fact, the fundamental basis of these arrangements was the surrender on the part of the banks of all the rights conferred on them by their earlier charters, and

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the acceptance of the general law of institutions of credit, with the limitation just mentioned. According to this limitation, any future legal enactments in the matter of banks will affect these establishments only in those matters which are not opposed to the provisions of the law of March 19 and to the express stipulations of the said agreements; but it was also agreed that, if the provisions of a general character, or the stipulations contained in subsequent charters, should grant greater privileges to the banks, the establishments in question could claim the benefit of them, provided they made express application for the purpose to the Department of Finance; and that, if said privileges were associated with certain obligations or legal requirements, the benefit of the privileges should accrue to the banks only in case they accepted at the same time these obligations or legal requirements. This arrangement cut the root of the claim of the old banks to accept only such parts of future laws as were favorable to them, and to insist on exemption from the rest.

The term for coming to an agreement with the local banks was about to expire, when the agreements referred to were signed, being subscribed by the representatives of the Banco Minero of Chihuahua, the Banco Mercantil of Yucatan, the Banco Yucateco, the Banco Comercial of Chihuahua, and the Banco of Durango—that is to say, five out of the seven banks which were in operation at the time the general law of institutions of credit was enacted.

In these agreements, besides the clauses relating to the point just mentioned and those relating to the capital, the main office of the bank and the branch banks that may be

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established, there were included the identical provisions contained in these charters granted by the Government for the establishment of new banks—provisions which were in a manner complementary to the law, and which, after its enactment, it was deemed advisable to impose on the banks for the clearer understanding of the law and for the better safeguarding of the public interest.

The term for which authority had been granted to the Executive had just expired when the Banco de Zacatecas sent in its adhesion to the bases accepted by the other banks, and thus the agreement with this bank had to be submitted to the sanction of the chambers. At the same time the Banco de Nuevo Leon petitioned anew, before the Department of Finance, to be allowed to participate in some of the prerogatives of the general law in return for its abandonment of part of the rights secured to it by its charter. The conferences held for this purpose resulted in a special agreement which had to be submitted for approval to the chambers, and which, in the opinion of the Executive, conforms, so far as circumstances will allow, with the policy of unification pursued by the Government in banking matters.

The terms in which this agreement was drawn up are identical with those of the agreements with the five banks above mentioned, differing from them only in one point, which deserves explanation.

Like some others of the earlier banks, the Banco de Nuevo Leon was authorized by its charter to issue notes up to three times its cash on hand in coin or in silver and gold bars; but, unlike all the other credit establishments,

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this bank had been the only one whose circulation had approached the maximum fixed, and which for a long time maintained it at more than double its metallic reserve. Thus it had a powerful motive for declining to part with a right from which it had for a good while derived considerable advantage, and which it was in a position to continue to enjoy with the same degree of security and benefit.

If the requirement that the bank should subject itself to the provisions of article 16 of the law, establishing the double proportion as the maximum, had been put forward by the Government as a *sine qua non*, it could not have induced the bank to surrender, like the others, all the rights of its original charter, and accordingly the Executive deemed it wise not to insist on this point so long as the adhesion of the bank to the provisions of the general law was secured, on the same terms on which they had been accepted by the other establishments.

As a compromise, in order that the metallic reserve guaranteeing the circulation should not descend below the limit of one-third of the notes in the hands of the public, it was agreed that said circulation should be computed by adding to the value of the outstanding notes the amount of deposits payable on sight or on notice not to exceed three days, and that the sum of the two amounts should not exceed three times the cash reserve, in coin or in gold or silver bars. This was a virtual curtailment of the privilege which the Banco de Nuevo Leon enjoyed, in virtue of its old charter, to issue notes up to three times its metallic reserve.

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But in order to arrive at this solution, some supplemental guaranty for the notes had to be found, in order to avoid an absolute departure from the rule laid down by the government itself in this matter, in fixing the limit of security which in its opinion should be accepted in the new system. Accordingly it seemed natural to retain the deposit of government bonds stipulated in the old charter of that bank, since, although that practice involves the inconvenience pointed out elsewhere, it must still be regarded as adequate for the purpose, under the circumstances, seeing that there was question of modifying an earlier charter and not of granting a new one.

Furthermore, when the Banco de Nuevo Leon obtained its charter, the 3 per cent bonds of the consolidated debt were quoted at 33 per cent, more or less, of their value, at which price they were computed in making the deposit of said bonds, in accordance with the respective clause; whereas, according to the new arrangement, in making the deposit, the 3 per cent bonds are to be computed at 40 per cent, and the 5 per cent bonds of the redeemable debt at 65 per cent, although the market price of the two sets of bonds has for some time maintained itself above 54 per cent and 78 per cent, respectively.

Lastly, according to the agreement made with the Department of Finance, the Banco de Nuevo Leon acquires the character of first bank only in order to enjoy the exemptions and reductions of taxes, but not to prevent any other bank which may be established in the same State from enjoying the same privileges and exemptions.



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In a word, the Banco de Nuevo Leon, under date of September 18 last, accepted the bases of the agreement contracted with the other banks, and on the same terms as they, with only this difference, that it retains its right to issue notes up to three times its cash reserve, that right being limited by the stipulation of computing the deposits payable at sight or on short term together with the notes it has in circulation; and in exchange, it will continue to guarantee its circulation with Government bonds, to the amount of one-third of its capital on hand, computing said bonds at a value considerably lower than the market value; and furthermore the bank will remain subject to the possibility of the competition of some other establishment of the same kind that may be founded in that State, which would enjoy all the rights and privileges granted by the general law on the subject.

The work undertaken by the Executive since the necessary authorization was requested and obtained from Congress may be summarized as follows: The general law of institutions of credit, the principal object of said authorizations, was carefully considered and enacted; an agreement was arrived at with the National Bank of Mexico, which furnishes solid ground for the existence of the earlier local banks, and inspires the hope of rich fruit to be garnered from the new banking legislation; facilities have been obtained for the development of the other establishment of credit at the capital, the only one, aside from the National Bank of Mexico, that can issue notes in the Federal District; six banks out of the seven that existed before the promulgation of said law were induced to adhere

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to the new law by an identical type of agreement; the seventh bank also was induced to give its adhesion, in terms not differing greatly from those of the others; and lastly, six new charters have been granted in a short time, in entire conformity to the new law, for the establishment of banks of issue in the States of Mexico, San Luis Potosi, Coahuila, Sonora, Sinaloa, and Veracruz.

The Executive does not flatter himself with the belief that he has accomplished a work approaching perfection, and which will not before long require more or less important alterations. He simply tried to attain, and he hopes to have attained, a solution which at one and the same time respects rights previously created by heterogeneous charters, and establishes a liberal and uniform system, adapted to the ideas and the present needs of the country. He is also persuaded that the new legislation, the fruit of mature study, careful observation, and the most earnest desire to diffuse the sane and prudent use of credit among our people, will lend itself to a profitable trial, which offers not a shadow of danger, and which will, probably, in the course of some years lead to the establishment of a more stable system, lending still greater stimulus to the development of the national wealth and corresponding still more closely to its needs. It would give me pleasure to learn that this is also the opinion of the distinguished members of the legislative chambers, to whom this report is addressed.

I beg you to accept once more the assurance of my most distinguished consideration.

## APPENDIX B.

### THE BANKING LAWS OF MEXICO.

#### THE PRELIMINARY LAW OF 1896.

The Congress of the United States of Mexico decrees:

ARTICLE I. The Executive of the Union is hereby authorized to prepare the general laws which are to govern the concessions, establishment, and operations of banks of issue in the States of the Republic and federal territories, in accordance with the following conditions:

I. No concession shall be granted unless the beneficiaries thereof shall make a deposit in bonds of the national public debt, whose nominal par value shall be equal at least to 20 per cent of the sum which the banks are required to have in cash before commencing operations.

II. The minimum subscribed capital shall be \$500,000, of which at least half must be paid up in cash before the bank commences operations.

III. The cash balance in each bank must never fall below half of the value of its notes in circulation, added to the amount of deposits payable on demand or on not more than three days' notice.

IV. No bank shall be authorized to issue notes for a greater amount than three times its paid-up capital.

V. The notes shall have a voluntary circulation, and their minimum value shall be five pesos.

VI. Only the first bank that may be established in any State of the Republic or in any of the federal territories, shall be granted exemption from or rebate on the payment of taxes.

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The other banks shall pay all the taxes as provided by the general laws, and they shall also pay a special tax to the federation of 2 per cent per annum on the amount of their paid-up capital.

For the purposes of this section, those banks which are already established shall be considered as the first banks, always provided that they subject themselves to the provisions of the general laws.

VII. The banks which may be established in any State will not be allowed to open branches outside of the territory of that State for the purpose of redeeming their notes without special permission from the Executive, which permission will only be granted when there is a strong connection in commercial interest between different States, and will not be granted in any case for the opening of such branches in the City of Mexico or in the Federal District.

VIII. The Federal Executive shall appoint an inspector, whose functions shall be defined, and who will have the same authority in regard to the revision of annual balance sheets that the laws grant to the auditors of joint-stock companies.

IX. The banks shall publish monthly a cash statement, which, besides showing the balances of accounts as required by law, shall also set forth the amount of coin on hand, the amount of notes in circulation, and also the amount of the deposits payable on demand, or on previous notice of not more than three days.

X. The Executive of the Union shall not grant any concession whatever until after the issue of the General Banking Law and in accordance with its provisions.

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ART. 2. The Executive is likewise authorized:

I. To make arrangements with the National Bank of Mexico, by virtue of which and on payment of the compensation that may be considered equitable, all conflict shall be terminated between the privileges of that bank and the provisions of the general law referred to in the preceding article.

II. To come to an agreement with the banks that already exist under special concessions, on the understanding that in order to enjoy the benefits of the general law, the banks of the States shall be obliged to waive the concessions under which they have been created.

III. The powers granted to the Executive under the present article shall expire, as regards the making of agreements with the banks of the States, six months after the publication of the general law, and as regards the others, on the 15th of September next.

ART. 3. The provisions to be made for the regulation of institutions of credit may be treated in the same law or in another special law which the Executive shall issue, as he may consider most desirable.

ART. 4. Within the period of the session immediately following the publication of the decree or decrees relating to the subject, the Executive shall report to Congress on the use that he may have made of the powers granted to him under the present law.

Given in the Palace of the Executive, in Mexico, on the third day of June, one thousand eight hundred and ninety-six.

PORFIRIO DIAZ.

To Lic. JOSÉ YVES LIMANTOUR,

*Secretary of State and of the Department of the Treasury  
and Public Credit.*

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## THE GENERAL LAW ON INSTITUTIONS OF CREDIT.

[Law of March 19, 1897, as amended to June 19, 1908.]

### CHAPTER I.—*Of institutions of credit and their organization.*

ARTICLE 1. For the purposes of this law the following only shall be considered as institutions of credit:

- I. Banks of issue.
- II. Mortgage banks.
- III. Banks of promotion.

Other institutions doing a banking business shall continue to be governed by general laws or by concessions granted by the Executive, until such time as special laws are issued for their government.

ART. 2. Institutions of credit have in common the character of intermediaries in the negotiation of credit, and are distinguished from one another by the character of the particular securities which they place in circulation.

ART. 3. Banks of issue are those which issue notes of fixed denominations, payable at par, on demand and to bearer.

ART. 4. Mortgage banks are those which make loans secured by urban or rural estates and issue bonds which are secured by the same guaranty, which bear interest, and are redeemable under fixed circumstances and at fixed times.

ART. 5. Banks of promotion are those which are specially designed to encourage mining, agricultural, and industrial enterprise, which make preferred loans, unsecured by mortgage, which guarantee given undertakings, and

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which issue short time bonds or certificates running for a fixed time and payable on given dates.

ART. 6. Institutions of credit can only be established in the Republic under a concession granted by the Executive, subject to the requirements and conditions of the present law.

ART. 7. The establishment of two separate institutions of credit shall not be authorized by one and the same concession, nor shall any institution be empowered to issue securities other than those which, according to the foregoing articles, appertain to each of the several classes of banks.

ART. 8. On no account shall a concession be granted for the establishment of an institution of credit until the applicants have deposited, in the national treasury or in the National Bank of Mexico, government bonds of a nominal value equivalent at least to 20 per cent of the sum which the bank must have on hand in order to be incorporated.

This deposit shall be returned as soon as the bank is opened for business.

ART. 9. Concessions for the establishment of institutions of credit may be granted to private individuals or to limited liability companies; but the operation of such institutions shall be carried on only by limited liability companies duly organized according to the laws of the Republic.

ART. 10. Concessions to private individuals shall not be granted to less than three persons, who must, within four months, show that they have organized a limited liability company to operate the concession and that they have transferred the concession to said company.

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ART. 11. Limited liability companies, organized to operate banking concessions, shall be subject to the general provisions of the Code of Commerce, except as provided in the following paragraphs:

I. The number of members shall be at least seven.

II. The capital stock shall in no case be less than \$1,000,000.<sup>a</sup>

III. The express authorization of the Department of Finance shall be necessary for the increase or diminution of the capital of a bank.

IV. No banking corporation can be organized until the capital is fully subscribed and at least 50 per cent has been paid up in cash.

V. The legal domicile of a banking corporation in the Republic shall be at the place where it has established its head office.

VI. Shares shall be registered in the name of their holder until their value is fully paid up.

VII. Ten per cent of the net profit shall annually be set aside to form a reserve until said reserve amounts to one-third or more of the capital stock.

ART. 12. The duration of concessions shall in no case exceed thirty years, counted from the date of this law, for banks of issue, and fifty years for mortgage banks and banks of promotion. The concessions shall have no other character than a mere authorization to establish and operate an institution of credit in accordance with the laws which may be in force on the subject.

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<sup>a</sup> This limit was fixed by the law of 1908. The requirement of the law of 1897 was a minimum capital of \$500,000 for banks of issue and mortgage banks and \$200,000 for banks of promotion.



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ART. 13. Foreign institutions of credit issuing notes to bearer shall not be allowed to open in the Republic agencies or branches for the issue or redemption of such notes.

ART. 14.<sup>a</sup> The articles of association and the statutes of any company organized for the operation of an institution of credit shall be submitted for approval to the Department of Finance before the bank opens for business, in order that said articles and statutes may conform to the provisions of the Code of Commerce, to the special provisions of this law, and to the general administrative enactments in force in regard to banking.

The obligation imposed by this article extends to all subsequent modifications of the constitution and by-laws.

## CHAPTER II.—*Of banks of issue.*

ART. 15. Banks of issue may be established and do business in the States and Federal Territories of the Republic under no other requirements than those contained in the present law. The foundation of banks of issue in the Federal District shall continue subject to existing contracts and regulations.

ART. 16.<sup>b</sup> The issue of notes shall not exceed three times the paid-up capital, nor shall it, together with

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<sup>a</sup> The second paragraph was first enacted by the law of June 19, 1908.

<sup>b</sup> The provisions of articles 16 and 17 were modified by the law of May 13, 1905, which provided that the fact of drawing interest should not acquit an account of the character of a deposit for the purposes of the law, but that current accounts growing out of loan operations should continue to be excluded from classification as deposits. It was also provided by the law of 1905 that silver bars should no longer be counted as a part of the metallic reserve and that gold bars could be counted only when the free coinage of gold should be resumed.—*Instituciones de Crédito: Leyes y Circulares Relativas*, p. 11.

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deposits payable on demand or subject to withdrawal at not more than three days' notice, exceed twice the holdings of the bank in cash and gold and silver bullion.

ART. 17. Deposits in current account and at reciprocal or differential interest, even though subject to check, shall not be regarded, for the purposes of the foregoing article, as payable on demand or subject to withdrawal at three days' notice.

ART. 18. Whenever the note circulation exceeds either of the limits fixed by article 16, the bank shall communicate the fact in writing immediately to the government inspector and shall abstain from making new loans until the circulation has been reduced within the limits fixed by the law.

If such reduction has not been effected within fifteen days, the Department of Finance shall allow the bank a reasonable period, which shall in no event exceed one month, to adjust its circulation to legal limits, on pain of the forfeiture of its concession and enforced liquidation.

ART. 19. The circulation of bank notes shall be entirely voluntary on the part of the public, and on no account shall they be considered as legal tender.

ART. 20. Only notes of the following denominations shall be put in circulation, viz, \$5, \$10, \$20, \$50, \$100, \$500, and \$1,000.

ART. 21. Bank notes must contain, in Spanish, a promise on the part of the bank to pay to bearer in cash at par and on demand the amount of the note. They must also state the date of their issue, together with the

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series and number to which the note belongs, and must bear the signatures of the government inspector, of one of the directors of the bank, and of its manager or cashier.

ART. 22. Bank notes bear no interest and do not lapse as long as the issuing institution exists. They shall only lapse, and that after five years, when the bank is declared bankrupt or goes into liquidation.

ART. 23.<sup>a</sup> Banks of issue are obliged in the manner stated in article 21 to redeem their notes put in circulation. Notes must be redeemed either at the head office of the bank or at its branches immediately on their being presented; but the branches shall be required to redeem only the notes which they may have put in circulation.

Banks of issue shall periodically exchange the notes of other banks in their possession and shall, in the absence of express agreement between the parties, pay the balances in cash. The Government shall prescribe by means of a regulation the basis of the exchange and settlement, prescribing at the same time the corresponding safeguards.

ART. 24. The failure of a bank to redeem a note which it has issued gives to the bearer the right of summary action against the issuing institution, after summons to pay has been formulated by a notary, and places the bank in a state of bankruptcy, unless payment has been refused on account of the note being counterfeit, in which case the bank must notify the government inspector and refer the matter to the proper authority.

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<sup>a</sup> The second paragraph was first enacted in the law of June 19, 1908.

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ART. 25. Bank notes represent debts of the issuing bank and enjoy preference over all other debts with the following exceptions:

I. Claims to the ownership of property pledged to the bank, under the terms of the Civil Code and the Code of Commerce.

II. Mortgage debts, when such mortgage has been registered previous to the transaction whereby the bank acquires the mortgaged property.

III. Debts referred to in article 106 of the present law.

ART. 26. No note shall be put in circulation without the proper stamp, which shall be engraved on the note by the stamp-printing department. Permission to engrave the stamp on the proposed issue must be obtained from the Finance Department and shall only be granted when it has been proved to the satisfaction of the department that the amount involved does not exceed the limits of issue fixed by the first part of article 116.

ART. 27. Banks are obliged to redeem worn notes presented for collection, even though they be divided, provided the number, series, value, and signatures continue distinguishable.

ART. 28. The worn notes which a bank may desire to withdraw from circulation shall be destroyed by fire under requirements to be established by regulation.

ART. 29.<sup>a</sup> It is prohibited to banks of issue:

I. To make loans or to discount notes or other paper running for more than six months.

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<sup>a</sup> From Clause IV, all these requirements were first enacted in the law of 1908, except that those which now appear as Clauses V and VI appeared in the law of 1897 as Clauses V and IV.

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II. To discount notes or other commercial paper without at least two signatures of well-known solvency, unless collateral security is given.

III. To make loans secured by mortgage except in the cases set forth in the following article.

IV. To make loans without sufficient collateral to persons or associations not domiciled nor having business of importance in the States or Territories wherein the home office, branches, or agencies expressly authorized by the Treasury Department may be located. From this provision are excepted operations between banks.

V. To mortgage their real property or borrow on their credits.

VI. To pledge or pawn their bank notes or to contract obligations respecting them.

VII.<sup>a</sup> To accept uncovered bills of exchange or drafts, or to open credits not revocable at discretion by the bank.

VIII. To hold corporation stocks or bonds exceeding 10 per cent of the amount of paid-up capital and reserve at the time. Securities representing the federal debt and others where the capital or revenues are guaranteed by the Government are not included in this limitation.

IX. To operate on their own account mines, metallurgical offices, mercantile establishments, industrial or agricultural enterprises, or to take part, either by general or silent partnership, in associations, except under circumstances analogous to those set forth in article 100, in

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<sup>a</sup> It became necessary to issue a circular regarding this clause, setting forth that the right to revoke credit, therein referred to, meant only that portion of a credit granted to a client which was still unused and did not impair the contracts usual in banking practice.—*Circular of August 20, 1908, Department of Credit and Commerce, No. 12.*

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which case the provisions of article 101 shall be complied with.

X. To engage in insurance operations.

XI. To accept responsibilities, whether direct, indirect, or associate, from any single person or association, which in the aggregate exceed 10 per cent of the paid-up capital of the establishment. Rediscounts between banks are excepted.

ART. 30.<sup>a</sup> Banks of issue may accept mortgage security only in the following cases:

I. When the credit has become impaired of any of the signers of an obligation held by the bank.

II. When express authority has been given by the Department of Finance. This authority shall be granted only on condition that the total amount of mortgages in favor of the bank shall not exceed one-fourth of the paid-up capital and provided that the debts so secured mature within a period of not more than two years.

Banks shall in no case make new extensions in favor of debtors when the time has expired of the hypothecary credits arising under the two previous sections, and they shall have the power, at the expiration of one year from the date of maturity of the loan, to exercise their rights to proceed to the foreclosure of the security.

ART. 31.<sup>b</sup> Upon the maturity of a loan made on collateral consisting of bonds of the national public debt or of the States or municipalities, of stock or obligations of

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<sup>a</sup> Clause I of this article differed slightly in language in the law of 1897 and the second paragraph of Clause II first appeared in the law of 1908.

<sup>b</sup> The second paragraph first appears in the law of 1908.

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commercial or general associations or of personal property, the bank may sell such collateral through two brokers, or, lacking these, through two merchants in trade, the sale being at the current price for the day. The bank shall have the right to acquire such collateral at this price, the brokers or merchants intervening in the operation certifying the price upon their responsibility.

In order that banks shall have the preferential right that hypothecation gives to the creditor in respect to other creditors, it shall be sufficient that the securities representing the collateral be set out in the same document which constitutes the evidence of the debt.

ART. 32. If the collateral security consists of invoices of goods for collection, the bank shall collect such invoices on its own account, and if it consist of invoices of goods receivable, it shall receive the goods and sell them at public auction.

ART. 33. When the price of goods given as collateral declines in such manner as not to cover the amount of the debt and 10 per cent in addition, the debtor must reinforce his collateral within three days after demand in writing, when the bank accompanies its demand with a certificate of two licensed brokers testifying to the depreciation of the collateral. If the collateral is not reinforced, the bank may proceed to sell the same at auction or otherwise, in the same manner as if the term of the loan had matured.

ART. 34. If the collateral consists of shares of stock standing in the name of the holder, they shall be transferred to the bank at the time of the contract which is the

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object of the guaranty, but the holder shall be protected by a certificate stating the specific object of the transfer.

ART. 35. When the proceeds of securities or goods offered as collateral are not sufficient to cover fully the debt to the bank, and interest thereon, the bank may sue the debtor for the difference, but when, on the contrary, the proceeds are more than sufficient, the bank must pay the difference to the borrower, after deduction of the expenses of the sale or auction.

ART. 36. When banks of issue are under the necessity of foreclosing on mortgages executed in their favor, in the cases permitted by this law, they shall enjoy all the rights and privileges conveyed by article 78 and those following.

ART. 37. No private individual or corporation not authorized by the terms of this law shall issue notes or any other document containing a promise to pay cash to bearer on demand. Documents issued in violation of this clause carry with them no civil rights and are not enforceable in the tribunals.

ART. 38. Banks established in the States and federal Territories shall not open branches or agencies for the redemption of their notes outside of the State or Territory where they are authorized to operate, save with the special permission of the Executive, which shall only be granted when there is close community of commercial interests among the States covered by the permission. On no account shall permission be granted for the establishment of such agencies or branches in the federal district.



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ART. 38<sup>a</sup> (bis). Banks of issue may at any time be converted into banks of promotion by renouncing the special rights conferred on them by the law, provided they are so authorized to do by the Department of Finance, which shall take care that the charter shall be modified in the terms required by the new character of the bank and shall make proper regulations for the retirement or guaranty of the notes in circulation.

## CHAPTER III.—*Of mortgage banks.*

ART. 39. The loans on mortgage authorized to be made by the banks dealt with in this chapter are of the following two kinds:

I. Loans at simple interest payable on fixed dates, with principal reimbursable within short periods.

II. Loans reimbursable in long periods by means of annual installments comprising interest, part of the principal, and the commission of the bank.

ART. 40. Short-time mortgage loans are those which are payable in one or more installments, but in all cases in less than ten years.

ART. 41. In the case of loans payable in annual installments the number of such installments shall not be less than ten nor more than forty, whether the payments be quarterly, semiannual, or annual.

ART. 42. Mortgage banks shall prepare for the information of the public a series of tables showing the payments to be made on the several classes of loans, and copy of said tables shall be attached to the mortgage deeds.

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<sup>a</sup> This article first appeared in the law of 1908.

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ART. 43. Mortgages executed in favor of these banks must always have a first lien, either on account of the property being previously unincumbered or because existing mortgages are subordinated to the claims of the bank, either by transfer with the express consent of the earlier creditors or by any other of the methods provided by law.

ART. 44. A mortgage loan shall never exceed one-half the value of the property mortgaged, nor shall an annual installment payable under the terms of the loan, according to clause II of article 39, be larger than the proceeds of the capital represented by the property, estimated at stated rates of interest as provided by the statutes.

ART. 45. For the purposes of the foregoing article the value of the property which it is desired to mortgage shall be appraised by experts appointed by the bank, unless there be a fiscal valuation and the Department of Finance authorizes the bank to operate on said valuation.

ART. 46. Mortgages can only be taken on estates situated in the district, State, or territory where the bank has its head office or branches and on estates entered at the property registration office in the name of the mortgagor.

ART. 47. Mortgages shall not be taken on estates held "pro indiviso" or on estates of which the reversion and the usufruct belong to different persons, unless all the coproprietors and the usufructuary, when there is one, give their express consent to the mortgage. A similar requirement shall be made when the estate is divided up among

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several owners, and when there is an agreement for the return of the estate to a vendor under stated circumstances.

ART. 48. Banks shall not accept mortgages on mines, forests, fixtures, or churches, or on buildings specially intended for federal, state, or municipal purposes.

ART. 49. The limit fixed for loans by article 44 shall be reduced to 30 per cent of the value of the property when buildings constitute more than half of such value, unless the owner binds himself to insure the buildings for the time that the loan is to run for a sum exceeding the amount of the mortgage. In the latter case the bank, in default of the policy holder, may pay the premiums and renew the insurance for as long as may be necessary, charging the sums so paid to the mortgagor.

The bank shall always hold a prior claim to that of any other creditor on the amount of the security.

ART. 50. The aggregate amount of loans on mortgage shall never at any one time exceed twenty times the paid-up capital of the bank, nor shall the loans to a single person or corporation exceed the fifth part of said capital.

ART. 51. Loans on mortgage may be repaid before the stipulated time, provided that such payment be made in the manner and form agreed upon and the terms of the deed as to notification and settlement of interest be complied with. Partial payment shall be subject to the rules and limitations contained in the statutes of each bank.

ART. 52. When a mortgaged estate depreciates in value in such manner that half, or in the special case above mentioned 30 per cent, of its value is insufficient to cover the amount of the loan, the bank, acting on the report of two

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appraisers, one of whom is to be appointed by the bank and the other by the government inspector, may require the debtor to give additional security or demand the immediate payment of outstanding principal and interest. After a notification has been served on the debtor the latter has three months from the date of the notification within which he must elect to either give supplementary security or repay the loan.

ART. 53. Payments due to mortgage banks for principal or interest are on no account to be subject to attachment, even though application be made in due form of law to the competent judicial authorities.

ART. 54. Default in the payment of principal or interest on the dates and in the manner agreed upon confers on the bank the right to foreclose at once and to enforce payment of the outstanding principal and interest in conformity with articles 78 and the following.

ART. 55. The nominal value of the mortgage bonds which the banks are authorized to issue shall never exceed the amount of the loans on mortgage made by said banks.

ART. 56. Said bonds shall bear interest, whose rate and times of payment and other conditions shall be determined by the banks themselves either in their statutes or by the resolutions of their directors.

ART. 57. The denominations of the bonds shall be \$100, \$500, and \$1,000, and they shall be transferable by simple transfer or by indorsement, according as they are to bearer or in the name of the holder.

ART. 58. Mortgage bonds may be issued with or without a fixed date for their redemption.

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Those issued without a fixed date for redemption shall be paid off by means of drawings.

ART. 59. The express authorization of the Department of Finance is necessary for the issue of bonds carrying a right not only to the repayment of principal and interest, but to money or other premiums.

ART. 60. The terms of the issue, the particulars for identification, and the conditions as to interest and redemption shall be stated in Spanish on each bond. The bonds shall be signed by the government inspector, by one of the board of directors and the manager or cashier, and on their back shall be printed the text of the articles determining the rights and obligations attached to the bonds.

ART. 61. The drawings shall take place at least twice a year, and at each one of those drawings enough bonds must be redeemed to keep the nominal value of those outstanding at a figure not exceeding the net amount of mortgage loans made by the bank.

ART. 62. The place, date, and hour on which the drawings are to take place shall be advertised a week in advance in the official journal, or, if there be none, in one of the newspapers of largest circulation in the place.

ART. 63. The drawing shall be public and shall be presided over by the government inspector. A notary public shall be present and shall draw up and certify a statement as to the drawing.

Within a week after the drawing the numbers of the bonds drawn for redemption shall be advertised in the papers above mentioned and a date shall be fixed on and after which the bonds are to be paid.

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ART. 64. Bonds drawn for redemption shall cease to bear interest from the date appointed for their collection, but such date shall not be less than one month after the drawing.

ART. 65. In addition to the ordinary drawings, the banks may hold extraordinary drawings whenever they think fit or whenever the statutes require, but subject in all cases to the rules for ordinary drawings.

ART. 66. Bonds drawn for redemption shall be canceled immediately after they have been paid off, and at stated intervals canceled bonds shall be destroyed in presence of the government inspector and with proper legal formalities.

ART. 67. When in payment of loans or in any other way the banks come into possession of mortgage bonds issued by them, said bonds shall not be considered as withdrawn from circulation, for the purposes of article 61, until they are redeemed in due form.

ART. 68. Mortgage bonds are issued as the token of mortgages owned by the bank as a result of loans made by such bank, and, in consequence, said bonds with their interest and premiums, when there are any, shall be guaranteed by such mortgages to the fullest extent, preferably to any claim of a third party.

ART. 69. The guaranty mentioned in the foregoing article is collective; that is to say, the aggregate of property mortgaged to the bank constitutes security for the aggregate of bonds put in circulation by the same institution, save as provided by the closing part of article 76.

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The holders of bonds can enforce their claims only against the issuing bank.

ART. 70. A special cash guarantee fund shall be formed in all mortgage banks to secure the interest and redemption service of the mortgage bonds. This fund shall always be larger than a half-yearly interest service on the bonds outstanding.

ART. 71. Mortgage bonds also enjoy the following privileges:

I. The right of priority to the reserve and guaranty funds of the issuing bank, as also to its capital, whether paid up or uncalled.

II. The principal, interest, and premiums of bonds, as soon as payment is due, give the right of summary action against the bank, after summons to pay has been served on the bank by a notary.

III. The payment of principal and interest can not be withheld even by judicial order, except when the securities have been lost or stolen, and then only in accordance with law.

IV. In all cases in which by law or contract the funds of corporations or of persons legally disqualified are to be employed in the purchase of estates or in loans on mortgage, said funds may also be invested in the purchase of mortgage bonds.

ART. 72. Notwithstanding their character, mortgage bonds are to be considered as personal property in all that relates to their transfer, and when they are issued in the name of given individuals they shall be assimilated to commercial paper subject to indorsement.

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ART. 73. In addition to loans on mortgage and the issue of mortgage bonds, mortgage banks are empowered to carry on any of the following operations:

I.<sup>a</sup> To invest their funds in the purchase of their own mortgage bonds or of other classes of securities of the first class, those being considered such which are described in article 102 (*bis*) of the present law.

II. To make loans to run not more than six months on collateral constituted by first-class securities.

III. To receive deposits on current account, whether with or without interest.

IV. To draw, purchase, sell, and discount letters of exchange, drafts, orders, or checks, payable in the Republic or abroad, and maturing within not more than six months.

V. To sell, purchase, or collect on commissions, either directly or through brokers, all kinds of securities.

VI. To loan their own mortgage bonds on suitable collateral, so as to enable the borrower to offer them as bail or as a pledge.

VII. To make loans for public works or improvements by virtue of contracts entered into with the federal, state, or municipal governments.

ART. 74. In order to have the right of investing money or making loans under Clauses I and II of the foregoing article, it is indispensable that the securities accepted shall be not mining stock; that they be quoted in some one of the markets of the country or on the principal

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<sup>a</sup> In the law of 1897 this clause read: "To invest their funds in the purchase of their own mortgage bonds or of other classes of securities of the first class."



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foreign bourses; that they be dividend-paying or interest-bearing, and that such dividend or interest has been paid with regularity for at least two years prior to the date of the loan.

ART. 75.<sup>a</sup> Mortgage banks may receive deposits only up to twice the amount of the sum of their paid-up capital and reserve. These banks shall always hold in cash one-half at least of their deposits on sight or at three days' call. The remaining 50 per cent may consist of sums immediately realizable or negotiable and in paper discounted for not longer than six months, the latter not to exceed 25 per cent of the whole amount of the deposits.

The guaranty fund mentioned in article 70 of this law shall not be considered as part of the cash reserve required by this article for the guaranty of deposits.

ART. 76. The capital and interest of loans made to the government of any of the States of the federation or to a municipal corporation for the purposes mentioned in Clause VII of article 73 must be suitably secured, either by the mortgage of property not included in the exceptions mentioned in article 48 or by an assignment of taxes or by securities issued on account of the works or improvements in question. In all cases the contract must be submitted for approval to the Department of Finance, which shall decide whether the mortgage bonds issued as a loan

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<sup>a</sup> This article in the law of 1897 read thus: "Mortgage banks may receive deposits only when the total amount of deposits already held is less than five times the paid-up capital of the institution, and they shall always hold in specie or gold or silver bullion or in immediately realizable securities of the kinds referred to in clauses I and II of article 73, an amount equivalent to two-thirds or more of the aggregate of such deposits."

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for the improvements in question are to enjoy the same privileges as all the other bonds or are only to be guaranteed by the property or securities offered as a pledge for the particular loan in question, instead of by the aggregate of the property mortgaged to the bank.

ART. 77. Mortgage banks are forbidden to issue bank notes or any other document payable to bearer on demand.

ART. 78. When the banks are compelled to foreclose a mortgage, owing to nonpayment of principal or interest, on the terms agreed upon, they are entitled, after summons to pay has been served by a notary not less than five days in advance, to have recourse to a competent tribunal, and, on the mere presentation of the mortgage deed duly registered, to be placed in provisional possession of the mortgaged property; or they may obtain an order for the appointment of a receiver. In the latter case the receiver shall be appointed by the bank and shall not be required to give bond.

ART. 79. The order placing the bank in provisional possession or appointing a receiver shall be published in the official journal; shall be entered in the books of the public registry office; and shall have the same legal effects as is given by the legislation of the federal district to mortgage decrees. The powers and duties of the receiver shall also be subject to the same legislation.

ART. 80. Within eight days from the date of the order placing the bank in provisional possession or appointing a receiver, the mortgagor shall be entitled to equity of redemption or to the privilege of discharging all the obligations of which the previous nonfulfillment gave rise

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to the action against such mortgagor, but no proof of such discharge shall be accepted except the receipt in writing of the bank. After the lapse of the period of eight days without such proof having been presented, the judge shall give to the bank the necessary authorization to proceed to sell the property at auction.

ART. 81. The auctions shall always be held in the office of the bank, in presence of the government inspector and with the assistance of a notary public. Such auctions shall be advertised in the Official Gazette and in one of the other papers of largest circulation in the place, at such interval, in advance of the sale, as may be provided by the statutes of the bank, but which shall in no case be less than nine days.

ART. 82. At the sale any bid shall be admissible, which, if paid cash down, shall suffice to cover two-thirds of the valuation serving as the basis of the auction, provided that said bid suffices also to meet the sum owing to the bank for principal, interest, and costs. The expert valuation of the property, which served as a basis for the loan shall also serve as the basis for the auction, saving an agreement to the contrary.

ART. 83. If there be no bidders, the bank may take over the property at two-thirds of its price; but if a bid is made which is rejected on account of its not sufficing to meet the claim of the bank and the expenses, but which is equivalent to two-thirds the price of the property, then the bank may take over the property; and when there are no bidders, the bank may hold new auctions, after advertising them as in the case of the first auction and making

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in each case a reduction of 10 per cent on the valuation adopted for the preceding auction. At any of the auctions the bank has the right of taking over the property on the terms above stated.

ART. 84. With a view to the execution of the deed of sale following on an auction or on the taking over of the property by the bank, the papers, accompanied by a notarial attestation of the auction, shall be returned to the judge who authorized the sale and said judge shall deliver the documents to a notary designated by the purchaser or the bank, in order that such notary may draw up the deeds of transfer. At the same time notification shall be served on the mortgagor requiring him to sign such deeds within a fixed term which shall in no case exceed ten days, and if he fails to sign within the time allowed, the judge shall sign for him.

ART. 85. All judicial expenses, the expenses of the receivership, and all other expenses arising from the foreclosure, shall be borne by the mortgagor. If, at the time of the auction he make no objection to the bill for expenses, which shall be posted in a visible place and the amount of which shall be stated in the notarial attestation, said bill shall be regarded as approved and the mortgagor shall forfeit all right to subsequent claim under this head. If the mortgagor takes exception to the bill, such exception shall be judicially decided and the bank must abide by such decision, but the objection shall not be allowed to delay the execution of the deed of sale.

ART. 86. Mortgage banks shall not be bound to give bond in cases where a bond is exacted from other litigants as a preliminary to litigation.

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ART. 87. No control of third parties or preferential rights shall be recognized over property mortgaged to a bank, unless, in support of such claims, deeds be forthcoming antedating the deeds executed in favor of the bank. Nor shall mortgage banks be obliged to associate themselves with other creditors for the purpose of enforcing their claims. Other creditors, whatever be their claims, shall only be entitled to require the bank to pay to them the surplus proceeds of property sold at auction or taken over, after the sum owing to the bank has been fully met.

## CHAPTER IV.—*Of banks of promotion.*

ART. 88. Banks of promotion (*bancos refaccionarios*) are authorized to engage in the following operations:

I.<sup>a</sup> To make cash loans for a period not exceeding three years on agricultural, mining, and industrial transactions, for the payment of wages, for the purchase of seeds, raw materials, implements, or machinery, or for expenses of administration or conservation. The time of these loans shall not be extended.

II. To give their guaranty with a view to facilitating the discount or negotiation of notes or other securities running for not more than six months.

III.<sup>b</sup> To issue interest-bearing treasury bonds redeemable in periods which shall not be less than three months nor more than three years.

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<sup>a</sup> The language of this paragraph in the law of 1897 was: "To make loans in cash for a period not exceeding two years to mining, industrial, and agricultural undertakings."

<sup>b</sup> The maximum limit fixed by this clause in the law of 1897 was two years.

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ART. 89.<sup>a</sup> The loan contracts referred to in Clause I of the preceding article shall set forth the purpose of the loan in the form of a notarial contract, which shall be inscribed in the registry of mortgages according to the location of the properties involved. The amount of such loans shall not exceed 15 per cent of the value of the properties benefited, as fixed by appraisers named by the bank. Banks of promotion which make the loans provided for in this article shall take care that the sums advanced are employed for the objects set forth in the contract, under penalty of losing, with respect to prior mortgage creditors, the preferences given by article 91 of this law.

ART. 90. When the loan is made for mining purposes the following conditions shall also be enforced:

I. It must be proved that the title deed of the mining property is recorded in the name of the contracting party and that all legal taxes have been paid.

II. Experts appointed by the bank must give their opinion to the effect that in view of the ore in sight and the other conditions of the property, the loan, with interest thereon, can be paid within the time agreed upon.

III. In all cases the bank shall exercise a rigorous supervision at the mine to insure the employment of the loan in the development of the property and to secure the proceeds of the work, out of which shall be paid the expenses of the concern, with preference for the mining tax.

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<sup>a</sup> This section of the law of 1897 simply declared that "the loans referred to in section I of the foregoing article shall be effected by means of a notarial contract, which shall be entered in the registry office of the locality where the borrowing concern is situated."

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ART. 91.<sup>a</sup> In all cases the loan of the bank shall be considered as an expense incurred for the conservation and management of the property for the purposes of article 1934, Clause II, of the Civil Code of the Federal District, which in the matter of promotion loans shall be applicable throughout the Republic.

ART. 92. The prior rights mentioned in the foregoing article shall not be affected by the transfer of the property on which money has been borrowed, to a third party, whatever may be the nature of the transfer or conveyance.

ART. 93.<sup>b</sup> In addition to the loans referred to in the preceding article, banks of promotion may make loans, for a maximum of two years, to the owners of agricultural or industrial enterprises, or to those conducting the same, upon security of products, crops, raw material, live stock, implements, machinery, or utensils. In this class of loans it is not necessary that the security be turned over to the bank, but the same may remain in possession of the debtor, who shall be considered at all times a trustee, without prejudice to the right which the bank may have as fixed by statute law to establish a special intervention in the transaction referred to.

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<sup>a</sup> The language of this article in the law of 1897 was: "In all cases the loan of the bank shall be considered as an expense incurred for the conservation and management of the property for the purposes of article 1002, Clause I, letter B, of the Code of Commerce, and article 1934, Clause II, of the Civil Code of the Federal District, which, in this instance, shall be applicable throughout the Republic."

<sup>b</sup> Articles 93 and 94 in their present form were enacted in 1908. In the law of 1897 articles 93 and 94 embodied substantially the same provisions, but with somewhat less precision, that are now brought together in article 93, making the present article 94 a new provision.

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ART. 94. The loans referred to in articles 89 and 93 shall not exceed two-thirds of the amount of the paid-up capital of the bank and its treasury bonds in circulation.

ART. 95. The loans on collateral referred to in article 93 shall be registered in the mortgage registry office within whose jurisdiction the property is situated, and from the date of such registry the loan, as far as the goods pledged are concerned, shall have preference over any other subsequent claim, even when secured by mortgage.

ART. 95 bis.<sup>a</sup> In order to make effective this credit for promotion in case of default in paying principal or interest within the term stipulated, the provisions of articles 78 to 86, relating to mortgage banks, shall be applicable to banks of promotion.

ART. 96. The rules governing loans on collateral made by banks of issue shall be applicable to loans made by banks of promotion.

ART. 97.<sup>b</sup> The amount of treasury bonds in circulation shall not exceed at any one time double the paid-up capital stock. The principal and interest of said bonds shall have, in respect to other creditors, the same preference in redemption as is established for bank notes by article 25 of this law.

ART. 97 bis.<sup>c</sup> Banks of promotion are required to keep in cash on hand at least 40 per cent of the sum of depos-

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<sup>a</sup> This article was first embodied in the law of 1908.

<sup>b</sup> In the law of 1897 this article was as follows: "The amount of treasury bonds issued by banks of promotion shall at no time exceed the holdings of the bank in cash and bullion and immediately realizable securities."

<sup>c</sup> This article first appeared in the law of 1908.



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its payable on demand or within not more than three days, with the option, however, of substituting for cash, up to one-half of said 40 per cent, securities immediately convertible. The remaining 60 per cent shall be guaranteed by paper discounted for a period of not more than six months.

ART. 98. Banks of promotion are prohibited to do the following things:

I. To issue bank notes.

II.<sup>a</sup> To give their treasury bonds in pledge or to contract any obligation in respect thereto.

III. To engage in any of the operations set forth in paragraphs I, II, III, IV, V, IX, X, and XI of article 29 of this law, except under the provisions of said paragraphs.

## CHAPTER V.—*Enactments common to all banks.*

ART. 99. The establishment of branches and agencies outside of the State, Federal District, or territory where the bank has its headquarters shall be governed by the bank's concession, with the limitation contained in article 38 of this law with respect to banks of issue.

ART. 100. Institutions of credit are forbidden to acquire real estate on any account, except such as is necessary for office purposes and such as they are obliged to take

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<sup>a</sup> In the law of 1897 the provisions of paragraphs II and III were as follows:

"II. To make loans on real estate mortgages or to issue mortgage bonds.

"III. To operate mines, metallurgical works, factories, or farms on their own account or to enter into any kind of partnership with persons engaged in those businesses."

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over in settlement of claims or by virtue of any of the rights pertinent to the business transacted by them.

ART. 101. In the exceptional cases mentioned in the foregoing article a mortgage bank must sell real estate which it has been obliged to take over within three years from the date of the acquisition, and a bank of issue or promotion within two years from the same date. If the property has not been sold within the periods above stated, the Department of Finance shall cause it to be sold at auction.

ART. 102. Institutions of credit are forbidden to purchase their own shares or to do business on the security of such shares.

ART. 102 bis.<sup>a</sup> For the purposes of this law bonds or obligations immediately realizable or negotiable or first-class securities shall be understood to be:

I. Bonds or certificates of the Mexican Government and others whose principal or interest the said Government may guarantee.

II. Bonds of foreign countries or corporations that capitalize at 4 per cent or a less rate on the official exchanges where they are quoted.

III. Bonds of the States or municipalities of the federation that capitalize at 6 per cent or at a less rate.

IV. Bank notes, mortgage bonds, treasury bonds, and collateral bonds, provided that all these be issued by institutions with federal charters.

V. Stock or obligations issued by national (Mexican) companies, provided that these securities are quoted on

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<sup>a</sup> This article first appeared in the law of 1908.

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any of the markets of the country or of foreign countries, and which, as to the first, have paid dividends, and as to the second, have regularly paid interest, in both cases at least for five years prior to acquisition by the bank.

ART. 103. The principal of securities issued by banks shall become forfeited in favor of said banks when ten years have elapsed from the date when payment was due, except in the case mentioned in article 22. Interest on said securities shall be forfeited when five years have elapsed from its falling due; but if it has been capitalized it shall be treated in the same manner as the principal.

ART. 103 bis.<sup>a</sup> The deposits received by the banks without interest, referred to in this law, represent credits against the banks proper and shall have preference over any others except the credits enumerated in article 25 of this law, outstanding notes of banks of issue, and treasury bonds issued by banks of promotion, which shall enjoy preference with respect to the said deposits.

ART. 104. The claims of the mass of creditors on the assets of a bankrupt estate shall in no manner interfere with the rights granted to banks by this law.

ART. 105. The objections of the debtors of a bank in case of auctions shall only be taken into account when the bank has been fully paid and shall be the subject of special proceedings, which shall not be allowed to stand in the way of the auction or to affect its validity. In such cases the bank shall be answerable for damages occasioned to the debtor, when it shall be proved that there is ground for damages according to law.

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<sup>a</sup> This article first appeared in the law of 1908.

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ART. 106. Debts to the federation and to state or municipal governments shall enjoy preference in the order named over debts owing to banks, whatever be the nature of the latter, but only when the former arise from taxes accrued within the three preceding years. Claims of the public treasury having any other origin shall rank as provided by law.

ART. 107. The consolidation of two or more banks shall not take place without the consent of the Department of Finance, whether the consolidation involves the continued existence of one of the banks and the disappearance of the others or the creation of an entirely new institution.

ART. 108. When a bank fails to comply with any of the requirements of this law looking to the protection or advantage of the public, and when such failure is not of a nature to warrant the forfeiture of the bank's concession under the next article, the Department of Finance, after hearing to the bank, may order it to suspend any or all of its business until the requirements or conditions of the law are complied with.

ART. 109. The concession of an institution of credit shall be forfeited for any of the following reasons:

I.<sup>a</sup> For default in attestation, within the period provided in article 10, for the organization of the stock company in whose favor the charter should be assigned, when such has been issued in behalf of private persons; for not submitting the by-laws to the Department of Finance one month after organizing the company; or on account

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<sup>a</sup> This clause in the law of 1897 was as follows: "For failure to prove within the term allowed by article 10 that a limited liability company has been organized to take over the concession when such concession has been granted to private individuals."

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of the bank not beginning operations for one month after approval of the by-laws by the Department of Finance.

II. For the reason stated in article 18.

III. For excess in the circulation of securities in violation of the provisions of articles 55, 61, 67, and 97.

IV. For consolidation with another banking company without the previous consent of the Department of Finance.

V. On account of the dissolution or liquidation of the company operating the concession.

VI. Cases of bankruptcy legally declared.

VII. In case the majority of the shares of a bank come into the hands of a foreign government.

The declaration of forfeiture shall be made in executive form by the Department of Finance after the bank has been heard in its own defense. In the case contemplated by Clause III the formalities set forth in article 18 shall also be adhered to.

ART. 110. The members of the board of administration shall be held civilly responsible for every infringement of the provisions of this law sanctioned by them, and the manager carrying out such infringements shall also be held liable, unless he has acted under express orders from the board of administration. The civil liability of the board and manager shall not impair the criminal liability they may incur in accordance with federal or local laws.

ART. 111.<sup>a</sup> Members of the council of administration and companies in which in general or silent partnership

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<sup>a</sup> Under the law of 1897 this article did not apply to partnerships of which members of the council of administration might be members. The last three paragraphs appear for the first time in the law of 1908.

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said members are interested shall not, during the first year of the bank's establishment, engage in any transaction by virtue of which it shall result or may result that the said members or companies become indebted to the bank, and after the first year such business may be engaged in only when another firm of well-known solvency is associated in the debt or responsibility or when an effective collateral guaranty for double the debt or responsibility is given.

In every case it shall be necessary in any transaction in which any of the persons referred to in the preceding paragraph become or may become indebted to the bank that there be a unanimous agreement by the members of the council present at the session in regard to accepting the proposed firm or as to the value of the collateral offered, provided always that the collateral be not among those mentioned in article 102bis of this law.

Managers and officers shall not on any account transact private business in the bank nor obligate thereto their private firms; neither shall they become sureties in any transaction.

Violation of these provisions shall, without prejudice to the responsibility established in the prior article, incapacitate a member of the council from continuing as a member thereof and a manager or officer from exercising functions as such.

ART. 112. No member of the board of administration shall enter on the discharge of his duties without giving bond, for which purpose he shall make a deposit in the bank either in cash or in the shares of the institution for an amount to be determined by its statutes.

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ART. 113. The power of supervision of all institutions of credit pertains to the Department of Finance, and shall be exercised either through inspectors permanently appointed for each bank or through special inspectors appointed for particular cases, to whom the Minister of Finance shall give such instructions as he sees fit with a view to the satisfactory discharge of their duties.

ART. 114. In addition to other obligations imposed on them by this law and the instructions given to them by the Department of Finance, the duties of the inspectors are as follows:

I. To satisfy themselves of the total or partial subscription to, and payment of, the capital of the bank.

II. To take part in drawing up and to sign the monthly cash statement and general balance sheet showing the actual position of each bank.

III. To see that the special balance sheets requested by the Department of Finance are duly drawn up.

IV. To demand proof, whenever they see fit, of the cash holdings of the bank and of the number and value of the securities which it has issued.

V. To sanction by their signature the notes or securities about to be issued by banks after they have been stamped by the Government and gone through the other official requisites for validity.

VI. To see that the notes or securities put in circulation do not exceed the amount which each bank is entitled to issue in accordance with the provisions and restrictions of this law.

VII. To be present at, and to certify to, the cancellation of notes or securities and the destruction by fire or other-

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wise of such notes or securities, together with their coupons, when there are such, and to sign the notarial attestation along with the manager, cashier, or accountant of the bank.

VIII. To keep a special account in a book of the number, series, and value of the notes or securities put in circulation with their sanction and of such as are canceled and destroyed.

IX. To attend auctions and drawings which the banks may hold in their offices.

X.<sup>a</sup> To see to the strict fulfillment on the part of the bank of the terms of the laws and mercantile code, and especially the banking laws, and of the concession and the bank's statutes, without interfering in its business, and to give immediate notification to the Department of Finance of any infringement they may observe, while at the same time advising the board of administration of such infringement.

XI. To submit in the months of January and July of each year a detailed report of all that they have done in the discharge of their duties during the preceding half year, with statistical data as to the volume of cash handled, the circulation in notes or securities, and other particulars to be determined by regulation.

ART. 115. Inspectors are strictly prohibited from doing the following things:

I.<sup>b</sup> To accept and discharge duties, employments, or commissions from the State in which the bank has its head office, branches, or agencies.

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<sup>a</sup> The language of this clause, at it was amended by the law of May 13, 1905, amplifies somewhat the language of the original law of 1897.

<sup>b</sup> This clause first appears in the law of 1908. Clause I of the law of 1897, now superseded, forbade inspectors "to interfere in the management of the affairs of the bank."



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II. To furnish to anyone whatsoever any kind of information as to the bank's business, inasmuch as they are limited to making written reports to the Department of Finance as to matters coming within their sphere of action.

III. To hold shares in the bank of which they are inspectors.

IV. To apply for loans to the institution with which they are connected or in any manner to become its debtors.

ART. 116. When inspectors fail to perform any of the obligations to which they are subject under article 114, or when they disobey any of the prohibitions of article 115, they shall be liable to such executive penalties as may be imposed on them by the Minister of Finance, including the loss of their positions, which penalty shall invariably be applied in case of infringement of Clauses III or IV of the foregoing article. Moreover, all executive penalties are without prejudice to the civil or criminal liability incurred by inspectors.

ART. 117.<sup>a</sup> The monthly balance sheets which institutions of credit are required to publish monthly shall comprehend at least the following:

## ASSETS.

- I. Capital stock unpaid.
- II. Cash on hand, setting out the kinds of which composed.
- III. Notes of other banks.

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<sup>a</sup> This article was redrafted in the law of 1908 so as to extend the classifications under assets from eight to thirteen and under liabilities from five to eleven. The principal changes involved requirements that the cash and various forms of current accounts be more carefully classified. The final clause first appeared in the law of 1908.

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- IV. Bonds or obligations immediately realizable or negotiable.
- V. Discounted paper.
- VI. Loans upon collateral.
- VII. Mortgage transactions.
- VIII. Credits on current accounts.
- IX. Sundry debtors.
- X. Value of real estate.
- XI. Value of furniture, fixtures, etc.
- XII. Impersonal debtor accounts.
- XIII. Ordinary accounts.

### LIABILITIES.

- I. Capital stock.
- II. The obligatory reserve fund.
- III. Other reserve or provisional funds.
- IV. Deposits at sight or not longer than three days, segregating such as bear interest and such as do not.
- V. Time deposits, for longer than three days.
- VI. Bank notes in circulation.
- VII. Treasury bonds in circulation.
- VIII. Mortgage bonds in circulation.
- IX. Sundry creditors.
- X. Impersonal creditor accounts.
- XI. Ordinary accounts.

The treasury department may order that the items, which by virtue of this article must appear in the balances, be set out in detail.

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ART. 118.<sup>a</sup> The same powers shall belong to inspectors which are granted by the statutes of the bank to auditors. They shall revise the balances by proving the various items and comparing them with the books. In general, and always when they consider it necessary in order to exercise proper vigilance, to verify the details of accounts by the correspondence, minutes, and other papers of the bank, they may apply in writing to the manager of the bank to show them the necessary documents, and in case they are refused they may apply to the Department of Finance, setting forth what they desire to examine and the object of the investigation, in order that the department, if it is deemed advisable, may require the bank, on condition of applying the suspension, total or partial, set forth in article 108 of the law on institutions of credit, to show to the inspector the accounts, books, and documents involved.

ART. 119. In case of liquidation or dissolution of a banking corporation, the inspectors shall represent the owners of the outstanding notes or securities, in enforcing the rights of such owners, excepting always when the latter decide to protect their own rights in person or through an attorney.

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<sup>a</sup> This article was amended by the law of May 13, 1905, the law of 1897 having provided: "In the formation and revision of annual balance sheets prepared by institutions of credit, the inspectors are to enjoy the same powers as are granted by the law to the auditors of limited liability companies and they shall proceed together with the auditors to verify the items of the balance by comparing each account with the books of the bank, but they can not demand to be shown the accounts in detail, or the correspondence, minutes, contracts or other papers of the bank, unless they obtain in each case a special order from the Minister of Finance, or unless the bank voluntarily agrees to show the papers in question.

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ART. 120. The Department of Finance shall publish annually a report as to the condition of institutions of credit operating in the Republic, and shall include in such report the statistical information supplied by the inspectors.

### CHAPTER VI.—*Franchises and taxes.*

ART. 121. The capital of institutions of credit, the shares by which it is represented, the dividends which they distribute to their shareholders, and the several kinds of securities which they issue, shall be exempt from all classes of federal, state, and municipal taxation, with the exception of the predial tax on the buildings occupied by them for office purposes and of the taxes comprised in the stamp law, both of which shall be paid in accordance with the enactments in force relating thereto and the provisions of the following articles:

ART. 122. No stamp tax shall be payable on documents of which institutions of credit make use for their internal management or on documents passing between the head institution and its agencies or branches, provided such documents do not create rights either in favor of the bank or of third parties extraneous to the institution, including its employees when in a personal capacity they have dealings with the bank.

ART. 123. Stamp duties are not payable in the following cases:

I. On contracts entered into by institutions of credit with the Federal Government, with the governments of States, and with municipal corporations.

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II. On summaries of accounts, advices of payment or receipt, drafts, letters of exchange, promissory notes, telegraphic or other forms of money transfer, when such documents relate to business done with the Federal, State, or municipal governments of Mexico.

ART. 124. Bank notes, mortgage bonds, certificates of deposits, and treasury bonds put in circulation by institutions of credit, as well as checks uttered by them or drawn against them, shall be stamped according to law, but with the limitation that, whatever be the amount mentioned in them, the stamp shall never exceed 5 centavos.

ART. 125. Notarial contracts for loans, sureties, pledges, or mortgages, executed either in favor of or against institutions of credit, shall be subject to a stamp duty of 2 per thousand, unless the stamp laws fix a lower rate. The same contracts, when they are drawn up in a private form, shall be subject to a stamp duty of 1 per thousand.

ART. 126. The States of the Federation shall not impose any tax on banking business, properly so called, when transacted by institutions of credit, except on mortgage loans, and even in this case the tax shall not exceed one-quarter of 1 per cent on the amount of the transaction.

ART. 127. Saving an agreement to the contrary, the fees of experts, notaries, and other persons whose remuneration is subject to schedule according to local legislation shall, when their services are engaged by institutions of credit, be reduced to two-thirds of the schedule rates. In no case shall the enactment be observed which

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authorizes higher charges on the ground of one of the contracting parties being a corporation.

ART. 128. The exemptions or reductions in taxation mentioned in the foregoing articles shall continue for twenty-five years from the date of this law; but with respect to banks of issue they shall only be enjoyed according to Clause VI, article 1 of the law of June 3, 1896, by the first bank established in each of the States or Federal territories.

ART. 129. Concessions which are applied for with a view to the creation of other banks of issue in any State or Territory of the Republic where a bank already exists can only be granted with the requirement that the new banks shall be subject to all the taxes imposed by general laws, as well as to a special tax to the Federation of 2 per cent per annum on the paid-up capital, as provided by said Clause VI, article 1, of the law of June 3, 1896. This tax shall be collected at the end of each quarter in a manner to be prescribed by regulations.<sup>a</sup>

### TRANSIENT ARTICLES.

ARTICLE 1. The National Bank of Mexico, the Bank of London and Mexico, and the International and Mortgage Bank of Mexico, as well as the banks now operating in the States of the Federation, which shall not make use of the

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<sup>a</sup> It was provided by article 5 of the law of May 13, 1905, that no further charters for banks of issue should be granted until after December 31, 1909, and that such banks incorporated after that date should enjoy no exemptions from taxation. These limitations were extended by the law of June 19, 1908, to March 19, 1922, when the special exemptions granted to existing banks will expire.—*Instituciones de Crédito: Leyes y Circulares Relativas*, p. 31.

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right contained in the next article, shall continue to be governed by their concessions and statutes, while subjecting themselves, in all points in which it is not at variance with said concessions and statutes, to this law, as well as to all future enactments of a general character in regard to banks.

ART. 2. For the purposes of the closing provision of Art. 128 of this law, those banks already existing in any of the States of the Federation shall be considered as first banks of issue, whatever be their number, provided that, within four months from this date they shall signify in writing to the Department of Finance their readiness to adjust their concessions to the provisions of this law. In consequence, for the prescribed term of four months no concessions shall be granted for the foundation, in States in which banks of issue are already in operation, for new banks of the same kind and with the franchises to which first banks are entitled, unless the existing banks shall declare to the Department of Finance their unwillingness to adjust their concessions to the provisions of this law.







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The text of Mr. Macedo's report was as follows:

The exchange and currency commission was created by decree of April 3, 1905, issued in compliance with the provisions of article 32 of the law of March 25 of the same year, which established the new monetary régime of the Republic, and it entered upon the exercise of its functions on the 8th day of April, 1905, devoting itself forthwith to the organization and regulation of its offices and work, a task which occupied the remainder of the month. In consequence, the actual operations of the commission, including its accounts, date from May 1, 1905.

Since then, when presenting to the general treasury of the federation a statement of its accounts and a résumé of its operations at the close of each fiscal year, as with all punctuality it has done, the commission ought also to have submitted to the finance department a detailed report of its labors during each of those years; but a variety of circumstances, among which must be mentioned in particular the attention which the undersigned vice-president of the commission has been obliged to give to important public business, on which he has twice had to absent himself from the Republic, have prevented the preparation of the annual reports, so that the present report embraces the entire period that elapsed between May 1, 1905, and June 30, 1909, or a little more than four years.

Those four years have afforded occasions for the stability of the new monetary régime to be put to the most searching tests, by causes completely the opposite of one another in their nature—first, the appreciation of silver and then its decline accompanied by the effects of the

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severe economic crisis which the whole world has suffered since the beginning of 1908 and which has not yet altogether come to an end,—effects which could not but be felt in the Mexican Republic, not only in the restriction of transactions of every kind, mercantile, mining, industrial, and even agricultural, but in the complete paralysis of many enterprises and in the necessity entailed on our country of repaying to foreign markets considerable sums of money which under normal circumstances would have been retained here, and even have been added to, in the form either of loans or permanent investments. Thus the history of the operations of the exchange and currency commission during the period under review will be particularly interesting and instructive; and, related, as it will be, with scrupulous veracity, without glossing over or withholding anything, it will serve to strengthen, let us hope, the confidence already felt both at home and abroad in the stability of our currency reform.

## I.

### METHOD WHICH WILL BE FOLLOWED IN THIS REPORT

Slight interest attaches to the operations of the commission during the months of May and June, 1905, considered by themselves, for though the commission was not idle for a single day during those two months, its work at that time chiefly consisted in adopting measures and making arrangements of a preparatory character of which the results were perceptible later on; and for that reason the figures and returns for those two months will be included in this

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report and in the accompanying tables and statements, with the figures and returns for the fiscal year following, so that the period embraced is from May 1, 1905, to June 30, 1906.

For the rest, the operations of the commission may be classified under four main heads: First, what has been done to demonetize the old coins; secondly, the mintage and distribution of the new coins; thirdly, the sale or other disposal of the bulk of the country's stock of silver pesos; fourthly, what has been done to influence the exchange market in the direction of maintaining the rate of exchange on gold-standard countries at the parity established by our monetary laws, a parity based, as is known, on the quantity of pure gold which each foreign coin contains.

Naturally all these operations are intimately bound up with one another, and, strictly speaking, constitute a single subject-matter which is almost indivisible; but the exigencies of method necessary for clearness indicate the above division, and it will be followed in the present report, which will conclude with certain considerations and suggestions of a practical character and the exposition of some facts relating to the internal order or economy of the commission and its offices. In some passages, too, allusion will be made to the enactment of laws and the adoption of measures which, though not constituting, properly speaking, acts of the exchange and currency commission, are intimately connected with those acts and with the subjects being discussed, so that it is absolutely necessary to refer to the laws and measures in question.

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## II.

### DEMONETIZATION OF OLD COINS.

Under our former currency laws the subsidiary silver coins were unlimited legal tender; and probably to that circumstance, combined with the equally vicious and mischievous system of the free coinage of silver, which made the Mexican peso our staple export, was due the fact that the subsidiary coins preferably sought our sea ports, whence they could not be shipped abroad owing to the considerable loss from wear which such coins undergo and could not be returned to the interior of the country because nobody would pay the freight. On the other hand, the inconvenience of handling large quantities of subsidiary coins had led to their agglomeration in the banks of the Republic, which computed them as part of their obligatory cash holdings; so that whereas at the sea ports and in other places small change had accumulated to an undue extent, most of the mercantile, industrial, and agricultural centers of the Republic had to complain of a scarcity of the cash tokens necessary for minor transactions, which are the most frequent and numerous.

On the other hand, though the law of March 25, 1905, did not demonetize the old coins, it did introduce changes in the style, size, denominations, fineness, and even the constituent metal of the various subsidiary coins, so that the commission addressed itself, first, to the retirement of the old coins, endeavoring to remedy the uneven internal distribution to which allusion has been made, and, above

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all, obviating all occasion for alarm or inconvenience to the public, for it was remembered that here, as everywhere else, the masses are the chief users of the subsidiary coinage, and inasmuch as they are unable to grasp certain economic phenomena, they do not lend themselves readily to help or cooperate in innovations, even though these do them no immediate harm and will in the long run be advantageous to them.

In order to attain the desired object the commission, not being able to acquire bar silver for mintage into new coins, as this is prohibited by the law of March 25, 1905, decided to melt down a portion of the 10,000,000 pesos placed at its disposal as a fund for the regulation of the currency, and to make arrangements with the banks, especially with the National Bank of Mexico, for them to turn in at this capital, on their own behalf or on behalf of the Government, as the case might be, such quantities of the old subsidiary coins as they already held or might subsequently accumulate. Moreover, the commission established at the capital, with the aid of certain public offices, a money-exchange service, and in this way between May 1, 1905, and June 30, 1909, \$6,518,330 in silver pesos and \$11,732,511.01 in old subsidiary silver coins, making a total of \$18,250,841.01, have been consigned to the melting pot. (See Annex No. 1.)

At the same time efforts were made to retire from circulation the old copper centavos; and though this has been rather difficult and costly, owing to the great number of coins which it has been necessary to transport and handle and owing to the low price at which copper has

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been quoted, it has been possible to retire the not inconsiderable sum of \$332,668.07, of which \$74,940.35 has been melted down and \$257,727.72 awaits similar treatment. The losses in this connection, without including freight charges, amount to \$32,148.70, or nearly 43 per cent of the coinage value of the copper centavos demonetized. (See Annex No. 2.)

As the result of these various operations, together with the mintage of new coins, which forms the subject-matter of the following chapter, it is beginning to be observed that few of the old subsidiary coins remain in circulation, except in certain sections of the more populous States, and to deal with these cases the commission has recently adopted special measures from which good results are expected. And this has been accomplished without occasioning the least inconvenience, without giving rise to complaints or abuses of any kind, and in strict accordance with the provisions of the law of March 25, 1905, which limit the powers of the commission in this particular so as to obviate a glut of subsidiary coins which would necessarily result in their depreciation, with its inevitable train of serious evils and perturbations. In this context, it seems worthy of special mention that nickel coinage in 5-cent pieces is now in circulation to the value of \$904,308 and that the demand for these coins is incessant, so that it will soon be necessary to coin larger quantities. These facts are very significant, taking into consideration the troubles and even the popular uprisings which occurred in this capital in the year 1883 owing to the introduction of nickel coins. The difference is that, whereas in 1883

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the coins were unloaded in a hurry, almost in a heap, it may be said, in settlement of liabilities of the federal exchequer and were made unlimited legal tender, the present nickel coins are only legal tender to the amount of 1 peso in each payment, and they have been issued in proportion to the public demand and in every case for an equivalent in other coins.

In regard to the old gold coins, article 10 of the law of March 25, 1905, fixed July 1, 1906, as the date on which they were to cease to be legal tender, and therefore the commission established a service for the exchange of those coins at the rates and for the values specified in article 2, transient, of the law in question. Through the instrumentality of this service, gold coins to the value of \$737,674.85 were retired from circulation. (See Annex No. 3.)

Before leaving the subject-matter of the present chapter, it is necessary to mention the anomalous and very singular conditions in which some districts of the State of Chiapas have been placed for years past, it may be said from time immemorial, in the matter of monetary circulation, conditions which, though modified to a great extent by the measures and efforts of the commission about to be mentioned, can not be said to have disappeared and can not be expected to disappear altogether, unless the steps suggested in the closing portion of this report, or other steps which the National Government considers better or more expedient, be adopted.

Reference is here intended to the circulation, in the districts of the State of Chiapas that border on the Republic of Guatemala, of the coins known by the name of



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“cachuca,” which include all silver coins, large and small, from the mints of the Central and South American republics. Whether it be due to the frequency of commercial relations between the population along our southern border and the Republic of Guatemala, where, it is said, there is an abundant circulation of coins belonging to the other Central and South American republics, or to the lack of communication and intercourse with the rest of the Republic and even with the other districts of the State of Chiapas, or to both causes combined, as well, perhaps, as to local circumstances of which the commission is unaware, the fact remains that the currency of that frontier region has consisted of the “cachuca” coins, so much so that not so long ago the peso and other Mexican coins were almost unknown to a large portion of the common people of that section. For this reason, and owing to the exigencies of the case, the local authorities came to sanction arrangements whereby the “cachuca” coins were received in the public offices of certain districts of the State at a given discount with respect to the native coins; and this practice, while, as could not help being the case, it caused the use of the “cachuca” coins to strike deeper root, also gave rise to private speculations almost always advantageous to the parties engaging in them, who thus became interested in the maintenance of this abnormal state of things, which the federal authorities have not yet been able to do away with, in spite of repeated orders and rulings made by them of late to the effect that no federal office shall on any account receive any sum whatever in the foreign money in question.

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The commission, having been informed of these circumstances, and availing itself of the favorable conjuncture offered by a rise in the gold price of silver, resolved to bring about a change in so far as lay in its power, and in the first place forwarded considerable quantities of subsidiary silver coins to the branches of the National Bank at Tuxtla, Gutierrez, and Tapachula, and also endeavored to encourage similar remittances by private parties to their correspondents. At the same time purchases were made of the "cachuca" coins in circulation at their bullion value, and subject to the usual discounts, for purposes of recoinage into Mexican money, and by this means the commission retired \$333,571 in silver pesos and \$533,452.05 in subsidiary silver coins, face value, or a total of \$867,023.05, face value, at an actual cost of \$736,257.74. Reminted, this silver produced \$754,294.89, thus yielding a net profit of \$18,037.15. (See Annex No. 4.)

The effect of these measures, according to information received by the commission, has been favorable, inasmuch as a material change has been brought about in monetary conditions prevailing in the border districts of the State of Chiapas; but unfortunately the evil has not been altogether extirpated and the commission has suspended the purchases of the coins in question, fearing that, owing to the fluctuations in the gold price of silver, those purchases may not be attended with practical results, by reason of the refusal of the holders of "cachuca" to part with it below its traditional current value, or that, far from exhausting the stock thereof, they may even stimulate the importation of more coins of the kind alluded to;

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for, according to the custom-house tariff, all foreign coins enter our territory duty free.

Toward the conclusion of this report, as has already been stated, reference will again be made to this subject. For the moment, it is proper here to declare that certain measures are being matured which come within the powers of the commission and which it is hoped will at least contribute in no small degree to put an end to an anomalous and mischievous monetary situation, though by themselves alone they will assuredly not suffice to remedy it altogether.

### III.

#### MINTAGE OF NEW COINS—EXPORTATION OF SILVER PESOS— PURCHASE OF GOLD BULLION.

Toward the close of the year 1905 an event took place which nobody had looked for and which facilitated and expedited in an extraordinary degree the practical consummation of our monetary reform. The white metal, which in November, 1902, had reached its lowest point, being quoted at  $21\frac{1}{8}$ d. the standard ounce in the London market, had been gradually though slowly rising; when the monetary reform was decreed, in March, 1905, it was worth between  $25\frac{1}{8}$ d. and  $27\frac{1}{8}$ d. per ounce, and in the following October the minimum price was  $28\frac{5}{16}$ d. and the maximum  $28\frac{1}{8}$ d. The commission at once bethought itself of taking advantage of so favorable an opportunity for demonetizing the Mexican peso by selling its silver content for gold, which was feasible even if at a slight loss, seeing that parity between the silver content of

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our peso and 75 centigrams of pure gold, which is the theoretical unit of our monetary system, is attained when the standard ounce of silver is worth  $28\frac{1}{8}$ d. in gold.

In order to succeed in this object it was necessary to act with great dispatch, for it was impossible to foresee how long the higher prices of silver would last, and at the same time with much caution; for, as is known, the silver market is extremely sensitive, and any excess, however small, of the supply over the immediate demand suffices to cause a heavy break in the prices. Without haste, therefore, but with a thoroughly consistent purpose, and following with close and anxious interest the fluctuations of the market, the commission began to sell for gold the stock of silver pesos which it held in the fund for the regulation of the currency; and when it had disposed of that stock at remunerative prices, which was soon, it began to make arrangements with the banks that they should dispose of their holdings in silver pesos and should be enabled to sell them on the London market without loss, notwithstanding the great diversity of their location, which, as can readily be understood, entailed a considerable difference in the expenses and conditions of each transaction; for it is not the same thing to sell a commodity when it is on the Pacific coast and needs months to arrive in London as it is to sell that same commodity when it is on the Gulf coast or near our northern border and can be delivered within a few days after the adjustment of the sale by wire.

It was the invariable policy of the commission, in the numerous transactions of this nature in which it inter-

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vened, to allow the banks which agreed to part with their silver pesos for exportation to retain all or nearly all the margin of profit obtained; for it considered that in doing so it was not only acting justly, but was also living up to the object of its existence, which is not to earn profits but to contribute to placing and maintaining the currency of the Republic on a sound and solid basis.

The commission also had another object in view in observing the policy alluded to, viz, by making its services practically free of charge, to eliminate any interest which the banks and private parties might have in engaging directly in the exportation of silver pesos, and thus to prevent any unsettlement of the market, such as would undoubtedly have occurred if Mexico's offers of pesos for sale had been multiplied unsystematically instead of being made through a single channel having facilities for close observation of passing conditions, for prompt and efficient action and for an economy in the matter of expenses such as is possible to few private exporters.

Thus the commission succeeded in exporting from November 17, 1905, to September 24, 1907, the substantial sum of \$60,727,500 in silver pesos, of which only \$2,710,000 remained unsold, owing to a sudden and rapid decline in prices, said unsold balance having been reimported into the Republic in February, 1908. (See Annex No. 5.)

Notwithstanding all the efforts of the commission, as already mentioned, to retain control over the exportation of silver pesos, it constantly feared that a moment might arrive when it would lose that control, for it was unquestioned that, if the appreciation of silver continued, the

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love of gain and the speculative spirit would lead many private persons to engage in such transactions on their own account; and the danger in such case would not have been confined to the perturbations occasioned in the purchasing markets but would also have consisted in the fact that, by reason of the rapid withdrawal from the country of large amounts of silver pesos, a disastrous contraction of the currency might first occur, succeeded by a permanent curtailment of the monetary circulation, seeing that private individuals might easily fail, having no direct interest in the matter, to restore in gold what they had withdrawn from that circulation in silver, a point which the commission had not overlooked, as will be shown later on.

Fortunately, this evil did not assume serious proportions, as shown by the daily telegraphic reports from the maritime and frontier custom-houses, until toward the close of 1906, when the commission had already exported and converted into gold \$45,108,500, and it then became necessary to obviate the danger, as much as possible, in so far as the permanent curtailment of the circulation was concerned, which was done by means of the law of November 19, 1906, which the federal chambers passed with commendable dispatch. That law respected, as was proper, the unquestionable right of the owners of silver pesos to export them if they found it expedient or profitable to do so; but it imposed an export duty of 10 per cent ad valorem on silver pesos sent abroad, a duty which was to be remitted if, within thirty days, the exporters should deliver to the exchange and currency commission, for free coinage, gold bullion or foreign gold coin to an

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amount equivalent at legal parity to the value of the silver pesos exported. This law, which respected alike the rights of the private citizen and the rights of the community, was well received by public opinion and has been carried out to the letter without encountering opposition, so that under its provisions the exportations that have been made of silver pesos have been the means of the commission receiving for coinage gold bullion and foreign gold coin to the value of \$8,264,447.65. (See Annex No. 6.)

Thus the exportations of silver pesos amounted to \$68,991,947, as follows:

|                                   |              |
|-----------------------------------|--------------|
| Exported by the commission .....  | \$60,727,500 |
| Exported by private persons ..... | 8,264,447    |
| Total .....                       | 68,991,947   |

This figure is less by \$15,856,073 than the actual exportation of Mexican silver pesos as shown by fiscal statistics, as appears from the following table:

### *Exportation of pesos according to fiscal statistics.*

|   |              |
|---|--------------|
| Exportation of Mexican silver pesos during the fiscal year 1905-6 .....   | \$49,671,025 |
| Exportation of Mexican silver pesos during the fiscal year 1906-7 .....   | 24,521,921   |
| Exportation of Mexican silver pesos during the fiscal year 1907-8 .....   | 10,655,074   |
| Total .....   | 84,848,020   |
| Exportation of Mexican silver pesos by the commission and by private parties under the law of November 19, 1906 ..... | 68,991,947   |
| Difference .....  | 15,856,073   |

This sum, it may be presumed with high probability, represents the exportations of pesos effected by private parties before the law of November 19, 1906, went into effect.

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It is now time to take up the proper subject-matter of this chapter, viz, the coinage of the new currency, for if hitherto it has been sought merely to throw light on the exportation of silver pesos, it is because that exportation was the means of which the country availed itself in order to secure the gold which it needed for the mintage of its new money and to get, de facto, on the gold basis.

Many very weighty problems had to be solved in coining the new currency, owing to the celerity with which it was necessary to act, not only in order to replace the silver pesos exported but also in order to remedy the contraction which it was to be feared would occur, and which did, in effect, occur in the circulating medium, as soon as the bullion value of the peso came to exceed the coinage value assigned to it under the new monetary régime. Everyone, in fact, both banks and private parties, throughout the Republic, began to accumulate silver pesos, some for immediate profit and others influenced simply by their knowledge that the coins in question were at a premium, even though it was inconsiderable and though they had no idea how or when to realize on it. What happens in the case of social phenomena of this nature is well known. The mere fact of many persons seeking to get hold of a certain thing suffices to make those who possess it reluctant to part with it; and if the thing in question is money, which everyone handles, the phenomenon spreads rapidly and the contraction grows until it eventuates in absolute depletion, everyone considering himself fortunate in the possession of what everyone else wants to take away from him, and on that account alone, without stopping to listen



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to any other arguments or considerations. This is what happened in the case of our silver pesos. A time came (August, 1907) when the visible stock of pesos in the banks and other institutions of credit throughout the Republic barely amounted to \$8,084,133; but when silver began to decline and the demand for exportation ceased that stock gradually increased until on June 30, 1909, it amounted, with the quantity on hand in the general treasury of the federation, to \$30,099,472, and deducting \$10,105,000 newly coined, as will be shown later on, it appears beyond all question that there remained a visible stock of \$19,994,472, coined prior to the monetary reform, a sum which exceeded by \$11,910,339 the visible stock in August, 1907, which, as stated, was only \$8,084,133.

In order to prevent a contraction of the currency it was urgently necessary, as has been said, to make haste in striking the new coins; and to this end the commission considered that the most expeditious method was to secure gold coins in the United States, seeing that they are of the same fineness as ours and are very carefully minted, so that only a slight loss is sustained in the process of recoinage. But it was not enough to coin gold, which, according to law, is only turned out in pieces of 10 and 5 pesos; it was necessary also to supply silver coins, chiefly 50-cent pieces, in order to take the place of the peso, which day by day was becoming scarcer, for the minor transactions of commerce, and also to distribute the new coins all over the national territory. On the other hand, the exportation of pesos could not be suspended, for it was impossible to foresee how long the appreciation of silver would continue.

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Then it was that two classes of measures were adopted in order to meet the twofold exigency of the situation. The only other expedient would have been to legalize the circulation of foreign coins, a measure that would have been attended with many drawbacks and would have exposed us to the risk of having almost to renounce the hope of having a circulation of our own, or at least to the risk of having a hybrid and very unsettled circulation for a considerable time, for everyone knows how difficult it is to eliminate from use a coin which once becomes current.

On the one hand, the decree of December 22, 1905, authorized the commission to issue in favor of the banks gold deposit certificates which might be computed as part of their cash reserves and of which the equivalent in gold bullion or native or foreign gold coin was to be held constantly by the commission in order to redeem the certificates on presentation at any moment. This requirement seemed necessary in order to prevent anyone thinking that the commission and, back of the commission, the National Government, were having recourse to a fiduciary token to take the place of a metallic currency.

In the second place, at the same time that the Mexico mint was set to work at its full capacity with improved machinery, orders were placed for the mintage at Birmingham, England, subject to the vigilance and supervision of Mexican officials, of the nickel 5-cent pieces and the bronze 1 and 2 cent pieces, and the courteous permission of the Government of the United States was obtained that the mints of that Government at Philadelphia, San Francisco, New Orleans, and Denver should coin at cost,

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without charging any profit, and subject also to the supervision of Mexican officials, gold pieces of 5 and 10 pesos and silver 50 and 20 cent pieces. In this way, in the space of twenty-six months (from May 1, 1905, to June 30, 1907), the new coins which were either in actual circulation or were held by the commission ready to be placed in circulation amounted to \$95,561,570.70, as follows:

|  |                 |
|--|-----------------|
| In gold, \$10 and \$5 pieces.....          | \$65,026,500.00 |
| In silver, 50, 20, and 10 cent pieces..... | 28,796,923.80   |
| In nickel, 5-cent pieces.....              | 801,728.00      |
| In bronze, 1 and 2 cent pieces.....        | 936,418.90      |
| Total.....                                 | 95,561,570.70   |

If we consider the number of pieces which the coinage of the above sum represents, and bear in mind also the necessity of acquiring and remitting to the mints the precious metals from which the coins were struck, as well as the intricacy and multiplicity of the operations incidental to the distribution of the coins over the whole of the national territory, we can form an idea of the foresight, care, and industry which the work involved, especially as it almost always synchronized with the manifold and complicated labors connected with the acquisition and exportation of pesos.

In the two subsequent fiscal years (July 1, 1907, to June 30, 1909) the work of coinage continued, though on a lesser scale, as follows:

|  |                 |
|--|-----------------|
| In gold, \$10 and \$5 pieces.....          | \$18,360,000.00 |
| In silver, \$1 pieces.....                 | 10,105,000.00   |
| In silver, 50, 20, and 10 cent pieces..... | 3,826,619.50    |
| In nickel, 5-cent pieces.....              | 102,580.00      |
|  | <hr/>           |
|  | 32,394,199.50   |

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In consequence, the total quantity of money coined and in circulation, seeing that there has been no appreciable exportation, from the time when the new monetary régime was implanted until June 30, 1909, is \$127,955,770.20, a sum which, it may be mentioned, is considerably in excess of the amount which, as the result of the estimates and investigations of the monetary commission appointed by the ministry of finance in 1903 to study our currency problem, was assigned even on the most liberal calculations as the volume of cash then in circulation, viz, \$120,000,000, especially bearing in mind that no pesos have been imported, at any rate on a considerable scale; and if to the amount of new coins struck be added the sum of \$19,994,472 in old silver pesos, which, as has been said, formed part of the cash holdings of the banks and the general treasury of the federation on June 30, 1909, we get a total volume of \$147,950,242.20 as the stock of metallic money at present in circulation. (See Annex No. 7.)

Before concluding this chapter it seems indispensable to make special reference to two facts, one of which has been already referred to, though incidentally, and it is the coinage of \$1 silver pieces.

The commission hesitated much as to whether, after demonetizing successfully such considerable sums of the old traditional peso, totaling nearly \$85,000,000, it was desirable again to mint the same coin. The principal and most obvious argument against such action was that it would be a step backward in the realization of the ideal of all countries which are on the gold basis, viz, to use no

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other money than gold as unlimited legal tender, and it can not be denied that this argument was a weighty one.

Per contra, various facts and circumstances worthy of consideration militated on the opposite side.

In the first place, it was quite certain that a considerable number of silver pesos, how many was not known, still remained in the Republic. The banks, first of all, though they had parted with a considerable number of their pesos, never disposed of their entire stock, the lowest figure shown by their balance sheets being \$8,084,133 on August 31, 1907, as already stated. Again, it was undoubted that private parties were hoarding considerable quantities of pesos, which, sooner or later, were bound to come to light. Facts have fully corroborated the accuracy of this view, as has been shown, and thus the argument that to coin silver pesos would be to run counter to the gold standard, with circulation consisting exclusively of gold, lost much of its force, for since a goodly stock of silver pesos still remained outstanding no great harm would be done by adding to that stock, provided that the addition were not very large.

But there was still another reason which seemed decisive. Unless the new monetary régime were to be radically modified by the open demonetization of the peso, through the purchase thereof in gold at the legal value—and this could not have been done without manifest imprudence, for, at the time when the problem presented itself, coinciding with a decline in the price of silver, the economic crisis, marked by alarming symptoms, was already in sight—it was necessary to comply with the

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provisions of the law as they now stand, according to which, and inasmuch as the coinage of gold is not yet free, anyone holding that metal is entitled to present it to the commission in refined bars or in the form of foreign specie and to receive in exchange new silver coins at the rate of 75 centigrams of pure gold per peso. (Art. 11 of Law of March 25, 1905.) Now the case was every day coming up before the commission, owing to the fact that native producers of refined gold, as will be explained fully later on, find it convenient, in order to save expenses, to deliver their gold to said commission in considerable amounts instead of exporting it. Thus it became necessary to deliver to them silver coins in exchange for the gold; and as the country already had subsidiary silver coins to the value of more than \$31,000,000, as has been already explained, it did not seem advisable, at any rate just then, to add to the supply of such coins, under penalty of producing a plethora thereof. And as, on the other hand, it was not expedient to coin more gold, owing to the necessity of having a stock of domestic gold bullion available, in order to influence the exchange market, which was beginning to show symptoms of an alarming scarcity of drafts on foreign parts, there was no alternative but to coin silver pesos; and this was the course finally adopted. There was another advantage in such a course, though a subsidiary one and not of great importance. The decline in the price of silver was getting worse and worse, and it was desirable to use as much as possible of the domestic output at home, without allowing it to reach foreign markets, subject always to the limitations wisely laid down by the law of

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1905. And thus it came about that in February, 1908, the commission began to buy refined domestic silver in bars, suspending those purchases in April, 1909, after acquiring a little more than 185,564 kilograms at a cost of \$6,509,033.11. From the bars thus bought silver pesos were coined to the value of \$7,593,036.51; and pesos to the value of \$2,511,963.49, making a total of \$10,105,000, thus coined from the old subsidiary silver money withdrawn from circulation. (See Annex No. 8.)

The other point that must be referred to before closing the present chapter is that which relates to the purchase of domestic gold bullion.

One of the most urgent necessities incidental to the new monetary régime was the acquisition of gold for coinage purposes, for it had been foreseen, and facts later on showed, that the gold obtained from melting down the old Mexican and colonial gold coins would be of no great amount. On the other hand, to acquire gold abroad by selling silver pesos belonging to the fund for the regulation of the currency, when the price of the latter metal was rather far from the legal parity, would have been a very costly operation. No other course, then, was open than to endeavor to retain in the country the gold mined therein, and for that purpose it was indispensable to encourage the refinement of gold at home and to derive the fullest possible benefits from the stability of exchange rates, which, following on the official announcement of the establishment of the new régime, settled very near to the legal parity, owing to the great confidence felt at once in the soundness of the régime in question. In this manner,

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the domestic producers of refined gold, who, according to the law of March 25, 1905, were to be entitled and actually became entitled to receive silver money in exchange for gold, at the rate of 75 centigrams of pure gold per peso, found that, in availing themselves of this privilege, they saved freight charges, commissions, and other expenses incidental to the exportation of their bars and therefore had an inducement to offer them voluntarily to the exchange and currency commission.

To this end, as well as with the laudable object, among others, of affording reasonable and proper protection to a native industry, was directed the decree of June 19, 1905, which reduced to  $1\frac{1}{2}$  per cent the former stamp tax of  $2\frac{1}{2}$  per cent on the value of silver or gold bars when refined to 0.999 or over, a decree enacted by virtue of the powers with which the Executive was clothed by the law of taxation on and franchises to the mining industry, promulgated at the same time as the law which established the new monetary régime.

The measure was a wise one and proved efficacious, for very soon gold began to flow into the offices of the commission; and as before long a rise in the price of silver took place, enabling silver pesos to be exported at a profit, the problem of how to acquire bullion for the coinage of gold was soon solved. Even if that rise had not taken place, the problem would also have been solved but more gradually; for, as the rates of foreign exchange have been stabilized, we can when we choose retain the gold which we produce and refine. A document which is appended as Annex No. 9 shows that the commission has acquired



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pure gold to the value of \$52,096,882.38 of which the whole might have been coined, and if it has not, it is due to reasons which will be set forth in the following chapter.

## IV.

### MEASURES ADOPTED TO INFLUENCE THE FOREIGN EXCHANGE MARKET.

In the latter part of the year 1907 some foreign markets, especially those of the United States of America, began to show alarming symptoms of perturbation, which rapidly grew worse until eventuating in a positive business crisis, involving all the branches of commerce and industry and producing most serious effects on the money market, for it occasioned not only a scarcity, but the complete disappearance of specie and other forms of currency, so that for the settlement of banking debts it was necessary to have recourse to the system of clearing-house certificates, which, as is known, constitute a sort of paper money of purely private origin and which owe their existence and circulation to an agreement freely entered into between individuals by virtue of a collective guaranty.

The intensity and suddenness of the crisis, caused in the last analysis by an irrational and unprecedented appreciation of all values, involved other markets and important centers in Europe which made strenuous efforts to retain their gold and other specie; so that not only was there everywhere a formidable calling in of debts, but all credit was completely withdrawn in all the important centers of the world simultaneously.

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So profound a crisis could not but affect us, and affect us it did, not only stopping the influx of foreign capital, which still enters so largely into our economic life, but closing almost wholly the doors of credit on us and obliging us to settle in haste our debts abroad. To the above must be added the fact that for several years past our crops have barely been even middling, and that last year the cotton crop was lost and the corn and wheat crops were very poor; that all our metals and other articles of export declined in price, especially silver, copper, lead, and henequen; that in Yucatan a period of wild and feverish speculation had ruined some of the most important firms and even jeopardized the solidity of the local banks; that the establishment of new industries throughout the Republic and the construction in this capital of handsome residence sections had locked up considerable sums of money; and, finally, that importers, perhaps largely encouraged by the stability or fixity of the exchange rates, had laid in excessive stocks of foreign merchandise which had not been sold and yet had to be paid for.

In view of these causes, all of which tended to reduce the amounts standing to our credit abroad and to oblige us to settle our debts to foreign countries, it is not to be wondered at that the exchange market became seriously affected, and the commission, if it was to fulfill the most important of the functions which the law and the confidence of the Government had intrusted to it, could not fail to interest itself in this matter, and, in consequence, it acted with decision.

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Not only was the supply of foreign exchange manifestly insufficient to meet the demand, but our banks and bankers, in spite of meritorious sacrifices, had reached the limit of their individual credit. Moreover, the cash holdings of the banks had fallen off considerably, and while it is true that their discount operations had also largely increased, they could not easily realize on them without occasioning bankruptcies and suspensions of payments.

The Government sought to remedy these evils by means of sundry provisions and other measures which aimed at preventing the banks of issue, particularly the banks of issue in the States, from persisting in the mischievous practice of locking up their assets and resources in long-time transactions, encouraging them, even in their own despite and regardless of the clamor of mistaken public opinion, to reduce their loans to within the limits marked by prudence and to strengthen their holdings in cash. But none of these precautions availed rapidly to ward off the crisis in exchange, which called for measures of a totally different character.

Rich and powerful nations, whose currency has from time immemorial been based on the broad foundation of an abundant circulation in specie, have recourse, under such circumstances, to the exportation of a portion of their gold coin, which loses none of its value when going abroad beyond the relatively inconsiderable cost of transportation; and thus we very frequently observe gold sovereigns arriving in America or American double eagles going to Europe, and alternately serving to settle the balances of the immense trade and transactions of every kind

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of the Old World and the New. We shall be able to do the same, no doubt, in time, if peace and public order, which are the foundations of our business prosperity, are not disturbed, for the possibility of doing it is one of the many advantages of our adoption of the gold standard; but to export our gold money, at a time when there was not much of it and we had just got hold of it, and that to the surprise of not a few among us, would have been simply an act of folly which public opinion both at home and abroad would at once have stigmatized as ruinous and which alone might have been capable of compromising not only the success of the monetary reform but the material progress of the Republic in all its branches. It was necessary, therefore, at all costs to save our gold coins from exportation; and after using up almost the whole of the fund for the regulation of the currency and a portion of that part of its reserves which the National Exchequer with praiseworthy foresight holds in gold in Europe (£900,000) the commission availed itself of its own credit, with exact and scrupulous regard for the provisions of the law as to method, conditions, and restrictions.

Thus, early in January, 1908, arrangements were made with a group of French bankers, at whose head was the powerful institution known as the "Banque de Paris et des Pays-Bas," whereby the commission was authorized to draw on them at three months from date, to the order and with the indorsement of the National Bank of Mexico, for 25,000,000 francs, the drafts to be renewable once only for the same length of time. The conditions of this loan, which in its form was quite usual and strictly adjusted to

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mercantile practice, were the conditions that are customary in such cases, nay, rather more favorable; a commission of three-eighths per cent on acceptance and one-fourth per cent on payment was stipulated, and the drafts were discounted at the current rate of the Bank of France.

Other measures had been devised and other preparations had been made in other markets in the possible event of the 25,000,000 francs not being sufficient to tide over the difficulty; but fortunately no further sum was necessary, for conditions gradually improved, and the only problem that demanded attention was how to meet in July, 1908, the drafts made in January of that year which had been renewed when maturing in April. The conditions of the exchange market, as has been said, had been improving and the supply of drafts sufficed for the demand, even enabling the banks to cover the balances standing against them; but beyond this the improvement did not go. Arrangements were therefore concluded at New York toward the close of May, 1908, for the commission to issue six-month  $4\frac{1}{2}$  per cent notes at  $99\frac{1}{4}$  per cent, also to the order of the National Bank of Mexico, and indorsed by that bank, for \$2,500,000 United States currency, which was used to take up in the following July 13,000,000 francs of the drafts which had been renewed in April, the remaining drafts—i. e., for 12,000,000 francs—being again renewed so as to mature in the following October. Even when this month arrived, the supply of exchange was far from being plentiful, and it was necessary to make another issue of six-month notes in New York for \$2,500,000 United States currency to pay off the

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balance of 12,000,000 francs of the Paris drafts, thus winding up that transaction. But the object sought had been attained; better times had come to foreign markets; business had almost entirely become normal again; and fresh capital, including the proceeds of the bond issue successfully floated by the institution of loans for irrigation works and the encouragement of agriculture, was again flowing into the Republic, as usual, enabling the commission to meet its obligations at New York at, nay, before, maturity. In like manner that portion of the gold reserves of the federal treasury held in Europe of which use had been made was refunded, and at the close of the fiscal year 1908 the commission had placed once more with its correspondents in London and New York the portions of the fund for the regulation of the currency which it is in the habit of keeping on hand in those cities and which amounted on June 30 last to £16,945 16s. 11d. and \$3,666,664.18 United States currency, respectively.

To complete the information under this head it must be stated that the commission created another fund abroad on which to draw by shipping and selling the domestic gold bullion which, as already explained, it is in the habit of acquiring at this capital. The detail of these shipments (Annex No. 10) shows that the proceeds in Mexican currency, at the legal parity, of 11,469.120984 kilos of gold shipped, were \$15,286,741.24 received by the commission, as against a cost, including freight charges and other expenses, of \$15,342,343.81, resulting in a loss of \$55,602.57, which is a little more than 3.62 per mill or 36.2 cents per \$100. This loss,

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calculated, as has been said, at the legal parity, was ultimately reduced to \$53,706.59, as part of it was recovered when the commission sold its drafts.

These facts afford, it is to be hoped, a clear view of one phase of the question; but another and not less interesting one remains to be referred to.

What use was to be made of the proceeds of the foreign exchange when sold? It seems proper, in this context, to remember that, according to article 30 of the law of March 25, 1905, that part of the fund for the regulation of the currency which is kept in the Republic and which was the part in question, "must consist of specie, and, in exceptional cases, of gold or silver bullion intended for coinage, to the exclusion of bank notes or any other security." According to this article, therefore, it would have been absolutely necessary to withdraw from circulation suddenly, say within a week, large volumes of specie, exceeding probably at certain moments the sum of \$20,000,000. Now, the effect of such a contraction of the currency would not only have been disastrous to business in general, causing an abnormal rise in the rate of discount, which already stood at 10 per cent, but would also perhaps have injured the credit of our banks, which, as it was, remained unimpaired, notwithstanding the fact that their cash holdings, as already stated, had been materially curtailed.

The commission therefore considered it expedient and opportune to engage in certain banking operations, by means of which it was enabled to maintain in circulation in the country the proceeds of the foreign exchange sold

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by it, acting in this respect in complete conformity with section H, article 3 of the law of April 3, 1905, by which the commission was created, and which permits it "to make use of the regulating fund for all banking transactions and for the exchange of coins in a manner tending to promote stability in the rates of foreign exchange and to meet interior currency requirements." The commission might legally have taken this action on its own authority, for the law above mentioned enables it to "exercise freely, to the exclusion of any other authority," the attributions which the article already quoted enumerates; but the situation was a new one; it was possible that an error of judgment might be committed in the operations contemplated; and the commission preferred to solicit the authorization of the finance department, not only for the transactions in general, but in each concrete case. The authorization in question was secured, and the approval of the department given for each separate loan.

In this way loans were made aggregating \$11,000,000, at various rates of interest not exceeding 9 per cent, to a number of companies and corporations; but these loans were in all cases guaranteed unconditionally by one of the three principal banks of the capital, and in one case by all three banks jointly, while in another case the loan was secured by first-class collateral. The commission also used some of its funds in purchasing from the same banks certain high-class securities, including bonds of the 3 per cent interior consolidated debt and bonds of the International and Mortgage Bank of Mexico. These purchases aggregated \$2,624,000.



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The mercantile character of these transactions seems a sufficient reason for not entering into the details thereof in this report, which, by its very nature, is intended for publication. Suffice it to say that all figure in full on the books of the commission and that the several accounts were liquidated in due course without any difficulty. As for the securities purchased, they were realized as soon as the conditions of the market made it possible.

As to the pecuniary results of these manifold transactions, they were as follows, considered apart from other operations in exchange during the course of last fiscal year:

|   |                |
|---|----------------|
| Discounts, commissions, and expenses on 62,000,000 francs, viz, 714,617.70 francs, which at varying rates of exchange amounted to .....                                   | \$276, 354. 34 |
| Interest, commissions, and expenses on \$5,000,000 United States currency, viz, \$111,902.28 United States currency, which at varying rates of exchange amounted to ..... | 224, 688. 34   |
| Commissions paid to the National Bank of Mexico .....   | 5, 022. 82     |
| Total of discounts, commissions, interest, and expenses .....   | 506, 065. 50   |
| Loss in remitting 25,000,000 francs .....   | \$90, 434. 03  |
| Loss in remitting \$5,000,000 United States currency .....  | 9, 069. 00     |
| Loss in remittances .....   | 99, 503. 03    |
| Gross loss .....  | 605, 568. 53   |
| Less interest earned in Mexico and abroad .....   | 567, 476. 07   |
| Net loss .....  | 38, 092. 46    |

On the other hand, the operations in bonds and other securities resulted in a profit, as follows:

|  |                   |
|--|-------------------|
| Cost of bonds and other securities bought .....    | \$2, 624, 000. 00 |
| Coupons collected and selling price realized ..... | 2, 700, 392. 50   |
| Profit .....                                       | 76, 392. 50       |

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On the whole, then, the various operations may be said to have been wound up with an actual profit of \$38,300.04; but on the books of the commission, it is credited with the full profit of \$76,392.50, for the general treasury, by order of the finance department, refunded the \$38,092.46 lost on the transactions in Paris and New York.

In conclusion, it seems proper to state that the dealings of the commission in exchange have been effected not directly by the sale of drafts to the public, which, on account of its being so unusual, would have attracted attention and perhaps occasioned some alarm, but by turning over the drafts for sale to the banks of the capital or placing funds at their disposal in different foreign centers to be drawn against. Thus, as the public found that its requirements in the matter of exchange were being met in the usual form and through the usual channels, no undue stimulus was applied to the demand, as would have been the case if the ordinary practices had been departed from and if the intervention of the commission had been obtrusive, though, on the other hand, no mystery was made of the matter.

### V.

#### AGGREGATE RESULTS OF OPERATIONS FROM MAY 1, 1905, TO JUNE 30, 1909.

With a view to the ready comprehension of the aggregate results of operations from the creation of the exchange and currency commission to June 30, 1909, profit and loss accounts for each of the fiscal years embraced in the period have been drawn up, as well as a general résumé, and the following reflections seem in order:

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The commission received \$10,000,000 as a fund for the regulation of the currency. Operating with that fund and never going outside of the limitations or the methods laid down by the law under which the commission was created, it has attained the following results:

1. It has retired from circulation and demonetized the following amounts:

|  |                  |
|--|------------------|
| Old gold coins.....  | \$737, 674. 85   |
| Old subsidiary silver coins.....   | 11, 732, 511. 01 |
| Copper cents.....  | 332, 668. 07     |
| Central and South American pesos circulating in the State of Chiapas.....            | 333, 571. 00     |
| Central and South American subsidiary coins circulating in the State of Chiapas..... | 533, 452. 05     |
| Mexican silver pesos.....  | 72, 800, 277. 00 |
| Total.....   | 86, 470, 153. 98 |

2. It has coined and put into circulation the following:

|  |                    |
|--|--------------------|
| Gold coins.....                        | \$83, 386, 500. 00 |
| Silver pesos.....                      | 10, 105, 000. 00   |
| Silver 50, 20, and 10 cent pieces..... | 32, 623, 543. 30   |
| Nickel 5-cent pieces.....              | 904, 308. 00       |
| Bronze 2 and 1 cent pieces.....        | 936, 418. 90       |
| Total.....                             | 127, 955, 770. 20  |

3. It has purchased refined silver bars to the value of \$6,509,033.11.

4. It has purchased refined gold bullion to the value of \$52,096,882.38 and has exported same to the value of \$15,342,343.81.

5. It has realized for the federal exchequer a profit of \$8,102,091.15, which is more than 81 per cent in four years and two months, increasing the fund for the regulation of the currency to \$18,102,091.15, which was its amount on June 30, 1909.

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6. Finally, the stability of foreign exchange, which is the fundamental object of the commission's labors, has been invariably maintained, not excepting one single day, as everyone knows, and to present a table showing the very slight oscillations that have occurred in the rates of exchange, owing to the exigencies of dealings in arbitrages rather than to any other cause, would be quite superfluous. Suffice it to say that the rates for sight drafts were, respectively, as follows on the dates named:

|                             | May 1,<br>1905. | June 30,<br>1909. |
|-----------------------------|-----------------|-------------------|
| Francs.....                 | 2.554           | 2.562             |
| Pounds sterling.....pence.. | 24.39           | 24.46             |
| American dollars.....       | 0.4944          | 0.4975            |
| Marks.....                  | 2.079           | 2.084             |
| Pesetas.....                | 3.361           | 2.795             |

Finally the maximum and minimum rates during the same period have been as follows:

|                             | Maximum. | Minimum. |
|-----------------------------|----------|----------|
| Francs.....                 | 2.55     | 2.61     |
| Pounds sterling.....pence.. | 24.35    | 24.90    |
| American dollars.....       | 0.4942   | 0.5025   |
| Marks.....                  | 2.07     | 2.13     |
| Pesetas.....                | 2.75     | 3.40     |

## VI.

### SOME CONSIDERATIONS AND OBSERVATIONS OF A GENERAL CHARACTER.

A careful observation of facts with which it has had to do, or which it has witnessed at close range, has enabled the commission to form opinions on some matters con-

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nected with the monetary reform, and, therefore, it does not seem out of place to include in this report certain considerations of a general character.

In the first place, it is worth while noting that the domestic production of refined gold shows a marked tendency to increase. In the fiscal year 1905-6 the amount bought was, in round numbers, only 3,538 kilograms; next year it rose to 9,548 kilograms; the year following it was 10,239 kilograms, and in 1908-9 it reached 15,747 kilograms, with a coinage value approximating \$21,000,000. These figures warrant the expectation that, as soon as equilibrium shall have been thoroughly restored in exchange conditions, which assuredly will only be a matter of a few months, it will be possible to resume the coinage of gold, of which the supply is still inconsiderable, although the \$83,000,000 coined is not far short of the total quantity of silver pesos withdrawn from circulation. But a gold coin is everywhere propitious to hoarding, and especially is this the case with us, so little accustomed to employ a gold currency or to turn our accumulations to profitable account, and it is to be observed that for some time past very few gold coins circulate, and, as we shall see more in detail later on, only about \$50,000,000 of the cash holdings of our banks consist of gold, the remainder of the grand total of about \$85,000,000 being silver.

It is true that the commission generally holds about six or seven million pesos in gold; and the general treasury of the federation another ten or eleven million, the gold circulation held by the public being something like \$15,000,000. But this latter sum is doubtless hoarded,

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for it is the daily experience of the banks that the gold which they pay out over their counters is very long in returning to their coffers. Hence they now frequently refuse to pay out gold, and this circumstance serves to increase the demand, by virtue of the social phenomenon alluded to elsewhere in this report. Now, the commission is of the opinion that efforts should be made to increase as much as possible our stock of gold money, so that when foreign exchange becomes scarce our banks and bankers may be enabled to ship gold specie abroad without causing alarm or producing any perceptible curtailment in the volume of our circulating medium. Only then will it be possible to declare the coinage of gold free and attain to the plenitude of currency reform. It will be said that the same result can be achieved by holding gold bullion, and to a certain extent this is true as long as the exchange and currency commission remains in existence; but that commission, owing to its very nature, is a temporary organization, and, besides, in order that the monetary reform may become a fully accomplished fact the circulation must operate automatically, and to that end it is necessary to accustom the public of all ranks to make use of gold coin in their daily transactions and not to regard it as a mere rare curiosity.

In regard to silver, nickel, and bronze subsidiary coins, the supply seems to meet the requirements of circulation, seeing that they do not accumulate in the banks, which generally hold from 5,000,000 to 6,000,000 pesos in such coins, while the remainder, or about 28,000,000 pesos, is in the hands of the public, completing the 34,500,000 pesos

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of such coins struck. It is to be observed, nevertheless, that certain agricultural centers, especially Toluca, Puebla, Morelia, and Aguascalientes, frequently accumulate in their local banks and in the local branches of the National Bank of Mexico considerable quantities of the coins in question which are needed elsewhere. The commission has made every endeavor to obviate such accumulations, which, among other drawbacks, entail an unnecessary outlay, sometimes on the Government and sometimes on the banks and private persons, for transportation of these coins. But so far it seems that the evil can not easily be eradicated.

The service of free exchange of subsidiary coins for silver pesos, and vice versa, in amounts of \$100 or exact multiples thereof, for which provision is made by article 16 of the law of March 25, 1905, has not yet been established, for the order of the finance department of April 20, 1905, deferred sine die the designation of the public offices having charge of this service, as at that time the coinage of the new currency had not begun. Later a difficulty arose in the fact that article 16 speaks of the exchange of subsidiary coins for silver pesos, and vice versa, without making any mention of gold; and as the commission undertook, without expense to private parties, to distribute the new currency all over the Republic, as well as to transport the silver pesos exported, the necessity of such a service has not been very urgently felt. Nevertheless, it is time that it should be established, and the commission considers that it would be well to confide the service in question not to public offices, as it is hardly compatible with their proper functions, but to the National Bank of Mexico and its

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numerous branches all over the Republic. The annual expense entailed by this service would be insignificant compared with its utility. Moreover, it should seem necessary to amend article 16 in such manner as to provide that the exchange offices shall for subsidiary coins pay out either silver pesos or gold coins and subsidiary coins for gold coins or silver pesos, whichever the public chooses to present, and that it shall not be obligatory but optional to give gold in exchange for silver pesos, or vice versa, in order to preclude the danger of loss in the event of silver rising again so as to realize the contingency mentioned in article 12 of the monetary law as well as the danger of an immoderate withdrawal of gold from the banks for speculative purposes.

The commission has followed closely month by month the various phases presented by the transformation of our monetary system and to this end has availed itself of the balance sheets of the banks and other institutions of credit, regularly published by the finance department as well as of the tables courteously furnished by the National Bank of Mexico showing holdings in cash at the head office in this capital and in its several branches. And since a substantial fund in cash has been created in the general treasury of the federation, account has also been taken of it in determining the amount and kinds of our visible metallic currency. The publication in connection with this report of the monthly tables that have been drawn up would not be without interest; but the more important of those tables are the ones corresponding to the period comprised between January 31, 1907, and June 30, 1909, and based thereon three résumés have been formed,



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including each kind of coin—gold, silver pesos, and subsidiary coins of every kind. (See Annexes, Nos. 11, 12, 13.)

A comparative examination of these tables suggests some interesting reflections, but to enter into them would swell this report to undue proportions, and the only point that will be referred to is the important question, as yet undetermined, as to the amount of specie circulation in the Republic.

The new money of all kinds coined, as has been said, is \$127,955,770.20. Of this total, fiscal statistics show that none has been exported except the truly insignificant sum of \$29,990, in gold (in the fiscal year 1906-7), which may be left out of account.

Now the banks, the general treasury, and the commission on June 30, 1909, had cash holdings of the following amounts:

|  |                    |
|--|--------------------|
| In gold.....   | \$67, 889, 015. 00 |
| In silver pesos.....   | 30, 099, 472. 00   |
| In subsidiary coins.....   | 6, 293, 370. 99    |
| Total.....   | 104, 281, 857. 99  |
| <b>Amount in the hands of the public or in actual circulation:</b> |                    |
| In gold.....   | \$15, 497, 485. 00 |
| In subsidiary coins.....   | 28, 170, 899. 21   |
| Total.....   | 43, 668, 384. 21   |
| Total.....   | 147, 950, 242. 20  |
| Amount coined.....   | 127, 955, 770. 20  |
| Excess of circulation over coinage.....                            | 19, 994, 472. 00   |

This difference is undoubtedly due to the fact that the public has returned to the banks and to the general treasury an equivalent sum at least in old silver pesos, for if we consider the total amount of silver pesos held by the banks and the general treasury on June 30, 1909, viz.....

|  |                  |
|--|------------------|
| 30, 099, 472. 00   |                  |
| And even assuming that those holdings include all the new silver pesos coined (a fact which it is impossible to determine), viz..... | 10, 105, 000. 00 |

|   |                  |
|---|------------------|
| We get the above-named difference of..... | 19, 994, 472. 00 |
|---|------------------|

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On the other hand there must still be in circulation considerable amounts of the old subsidiary coins, to judge by the fact that the commission retired those coins during the whole of the fiscal year ended June 30, last, at the rate of \$120,000 per month, in round figures, and moreover it is to be observed that the holdings of the banks in silver pesos have increased steadily from month to month since September, 1907.

What is the amount of these two unknown quantities in the problem of determining the volume of specie in circulation? This question it is impossible to answer; the only thing quite certain is that on June 30, last, the amount of old pesos, i. e., of pesos prior to the monetary reform, was \$19,994,472 which must be added to the \$127,955,770.20 of new coinage.

Such is the conclusion attainable for the time being, but in order to determine conclusively and definitively the country's specie circulation—a result which is important on many accounts and not a mere curious statistical datum—it would be necessary to adopt measures of another sort, of which perhaps the most efficacious would be to decree the demonetization of the old subsidiary silver coins and the copper cent, fixing a suitable period of time after which they would cease to be legal tender. These coins, especially the silver 25 and 5 cent pieces and the copper cent, are a stumbling block in our circulation and give rise to confusion from which the humbler classes, particularly entitled to the protection of the law and the authorities, are the chief sufferers. Yet, even the demonetization proposed might be detrimental to those same

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classes if the outstanding amounts of the old coins are still considerable, owing to the abuses frequently committed by petty merchants in refusing prematurely to receive the coins that are going to be demonetized; and so the best course seems to be to expedite the retirement and recoinage of the old subsidiary currency; and to this object the commission will address itself now that its other work leaves it free to do so.

Connected with the above subject is the question of the striking of a new silver peso, and it will not be out of place to say a few words on this topic.

In connection with the first centennial of our Independence, which will be celebrated next year, the finance department has ordered the preparation of a new die for the silver peso, which, while departing from the traditional design of our historical coin, is much more artistic, being the work of one of the most famous engravers in Europe. This die might well be adopted, not only for the peso of 1910 but for all time, serving for the remintage of the old pesos, for, as specialists are well aware, and as an experience of more than four years has fully proved, the old Mexican peso is no longer particularly sought for on account of its time-honored emblems or for use as money in certain parts of the Far East, but exclusively on account of the quantity of refined silver which it contains. Of the many millions of pesos exported since November, 1905, not a single one, though many of them were completely new, was sold otherwise than for its bullion value, and it appears that all of them went to the melting pot. Those communities in the Far East which formerly used our peso for currency pur-

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poses have now a currency of their own or use the money minted for them by the English, of the same fineness as our peso and superior in design; and the advantage which many persons supposed Mexico might derive from the retention of the traditional design of her peso belongs to conditions that are now long since past and are never likely to prevail again.

Again, as the finance department is aware, there are strong grounds for believing that at certain points on our northern border silver pesos are smuggled into the country, in defiance of the law, and though these importations, made chiefly by laborers having their homes on this side of the line who are paid in Mexican pesos for work done on the other side, may not be considerable, they nevertheless constitute a proof that contraband operations of this nature are possible, and whether the pesos thus introduced have only been recently exported or whether considerable quantities of the coin are held in American border towns—it is not known which is the case—the fact remains that the clandestine introduction of pesos is illegal, and to a greater or less extent detrimental, all of which would be radically avoided by recoin-ing the present peso and later on demonetizing all pesos bearing the old design.

By this means, also, it would be possible to find out the volume of the Republic's specie circulation, provided that the copper cent and the old subsidiary silver coins were likewise demonetized. But it must be borne in mind that the operation would be an expensive one, on which account it would perhaps be advisable to distribute

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it over several years, for the cost of mintage, freight charges, wear and loss in minting are considerable, especially when millions of coin have to be handled.

There seems to be no question as to the desirability of putting a stop to the circulation of "cachuca" coins in the State of Chiapas, and if the importation of Central and South American coins is not absolutely prohibited, under penalty of their being melted down into bars at the cost of the importer, it is at least obviously expedient that the federal and local authorities of the State in question, especially the local authorities, should be reminded that they are not allowed to receive in payment of taxes and other pecuniary liabilities any other than national currency; and the attention of private parties should in particular be drawn to the terms of article 26 of the monetary law, whereby they are forbidden, under penalty of a fine of the second class, to make payments by means of any instrumentality other than the legal coin of the Republic. At the same time the commission will take steps to increase the supply of subsidiary coins in that region and will buy up the "cachuca" coins purely at their bullion value, in order not to cause loss to the persons who in good faith have come into possession of them, and by these concurrent measures it is to be hoped that this anomaly in our currency system, which is unique, will soon disappear.

It would be very interesting to learn and to be able to state in figures the saving which the nation has realized in its payments abroad as a consequence of the monetary reform, of which the immediate and chief effect has been

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to dissociate the rates of foreign exchange from the price of silver. Some efforts have been made to arrive at numerical results, even though approximate, in so important a matter, but, unfortunately, complete data are lacking, owing to the absolute impossibility of finding out exactly, or even approximately, the amount of our economic balance, if among the factors thereof are to be included, as they would have to be included, all our liabilities abroad for premiums, interest, dividends, repayment of capital, and other accounts, in connection both with the national debt and the debts of private parties. So multifarious and complex are our business relations with foreign parts, and so varied are the conditions under which they are conducted that it is no exaggeration to say that it is almost impossible to determine the amount which we have to remit abroad year by year. It will be remembered that the monetary commission which met under the auspices of the finance department in 1903, in order to study our currency problems, was unable, in spite of its manifold investigations, to reach any definite result on the subject. The treasury statistics, for example, to take a very clear case, give us the figures of imports and exports; but they do not and can not tell us what portion of the imports, such as machinery and other articles, represents new permanent investments in the country and has not to be paid for, at any rate, at once, nor what portion of the values exported remains abroad, being spent by Mexicans for traveling or living expenses. And so on, in regard to all ascertainable figures. In regard to each, observations suggest themselves which show that it would be a gross error to take them

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lightly as a sure basis for calculations as to the balance of liabilities which we are called on to settle abroad. Moreover, circumstances have changed radically since that date, and it is quite certain that the figures of 1903 would be as unreliable now as the present figures will be in six years' time.

It is, in consequence, necessary to give up the hope of arriving at a complete solution of the problem; but what can be done is to determine, with close approximation to accuracy, the amount which the country, owing to the stability of exchange rates, has saved on certain obligatory remittances representing interest and sinking-fund service on gold debts contracted by the Government and some of our more important corporations.

Now, under the budget for last fiscal year, 1908-9, the Government had to remit abroad the following sums:

|   | £         | U. S. currency. |
|---|-----------|-----------------|
| For the service of the public debt .....                    | 1,505,000 | \$1,860,000.00  |
| For salaries and expenses of legations and consulates ..... | 70,500    | 325,000.00      |
|   | 1,575,500 | 2,185,000.00    |

Furthermore, from reports officially secured from the managements of some of our chief railways, the latter remitted abroad during the fiscal year 1908-9 the following sums:

|                                   |           |               |
|-----------------------------------|-----------|---------------|
| Mexican International .....       |           | 1,370,000.00  |
| Interoceanic .....                | 226,980   | 372,864.90    |
| Mexican Central .....             |           | 3,564,131.08  |
| National Railroad of Mexico ..... |           | 1,255,000.00  |
| National Railways of Mexico ..... |           | 5,905,000.00  |
| Mexican Railway .....             | 280,400   | 244,152.69    |
| United Railways of Yucatan .....  |           | 285,761.16    |
| Mexican Tramways Company .....    | 2,008     | 519,461.88    |
|                                   | 2,084,888 | 15,701,371.71 |

These sums, at the average exchange rate which was in force, viz, 24.50d. and \$0.4975 United States currency, respectively, entailed a disbursement in Mexican currency

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of \$51,983,897.99, whereas if the same sums had been remitted at the average rate of exchange that would have prevailed if depending on the average price of silver, viz, 19.85d. on London and \$0.3980 (gold) on New York, the disbursement in Mexican currency would have been \$64,658,396.54, or a gain of \$12,674,498.55.

Examples might be multiplied almost indefinitely; but this seems useless, when all are convinced of the primary truth that unfortunately the financial balance is still against us and, like all young nations in the early stages of their development, we are permanently in debt to foreign countries and can only wipe out that liability definitively by increased productiveness, while meeting it provisionally through the investment of foreign capital which older nations send here for the cultivation of our soil and the exploitation of our other natural resources.

For the rest, the Government of the nation well knows, and has long known, while the immense majority of the inhabitants of the Republic, giving proof of their sound sense, have also become convinced of the fact, that what the Republic needs for its aggrandizement is the construction of more railways, the opening up of new routes of communication, the carrying out of extensive irrigation works, the encouragement, on a liberal and ample scale, of agriculture, industrial enterprises, and immigration, so that opportunities for lucrative endeavor may be multiplied and, like our northern neighbors, we may be enabled to pay back the borrowed capital of which we now stand in need and may come to have an economic life of our own.

The silver-mining interest still complains, it is true, of the abolition of its time-honored right of free coinage,



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which was nothing but a privilege by virtue of which all the inhabitants of the nation had to buy the product at a fixed price, and at the cost of an actual decline in salaries and wages, though in appearance they might seem to rise, and of a depreciation, as unjust as it was general, in every branch of public and private wealth. The mining interest, in thus complaining, forgets that under the new régime, it alone profited, as, indeed, was only fair, when the price of silver rose, selling it not at the old coinage value of that metal, which was \$40.91 per kilogram, but at \$43 and even more; it also forgets the permanent reduction in taxes decreed in its favor when the monetary reform came into force, and that it also derives advantages from the fixity of exchange when it makes purchases abroad of machinery, tools, apparatus, and many other articles which it needs in the development of its industry, an industry which is important, very important indeed, and one in whose fortunes we ought all to feel a concern, but which, after all, is, fortunately, not the nation's only industry.

The department of finance, to which this report is addressed, will, no doubt, pardon the commission for thus examining the monetary question in its general aspect, when the object of such report is more immediate and modest and when the commission ought, perhaps, to confine itself to considerations of a more specific character. The commission can only plead in excuse the motive under which it has acted, viz, that having been created to cooperate in the realization of an object set before itself by the Government of the nation, it

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should not be charged with irrelevancy when it affirms and seeks to prove once more that the object in question is sound, just, patriotic, and praiseworthy.

It seems desirable to make another observation which also perhaps does not come directly within the scope of the commission, but which is necessary for the completeness of the present report.

It has been said that the fund for the regulation of the currency has increased from ten to more than eighteen million pesos; and this statement, without explanation, might create the impression that the difference between the two sums mentioned constitutes a net profit to the federal exchequer, giving rise to unfavorable comment on the part of the public, as the privilege of coining money ought not, according to the principles of a sound and careful administration, to be a source of revenue to the state, for it seems like taking advantage of the community to oblige it to accept for currency purposes a piece of metal of which the nominal value is higher than its intrinsic value. Incidentally, it may be remarked that this evil bears an inverse ratio to the value of the coin, and that in many cases, in order to satisfy certain requirements as to hardness, etc., the currency has to be alloyed with certain inferior metals. In any case, it might be supposed that the commission was taking credit to itself, a credit to which it acknowledges it is not entitled, for having earned for the exchequer a net profit of more than ₱2,000,000 per annum during the four years of its existence.

The finance department and all persons acquainted with our monetary legislation know very well that this is not

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the case. The law of March 25, 1905, to which reference has been so often made, lays down (art. 29) that "the only expenses or losses that will be charged to the fund are those that may be incurred strictly in connection with the deposit of said fund, the handling or remittance of specie or bars of the precious metals constituting it, and the transactions in foreign exchange effected with it." Article 29 goes on to state that "all other expenses that may be incurred, either in the form of salaries to employees, coinage of money, or any other purpose, will be met out of the appropriations provided by the budget of expenditure."

Under this clause, of which the object is to bring about the gradual and insensible increase of the fund for the regulation of the currency, the disbursements for the above-named purposes, as far as the commission has been able to ascertain from its own accounts, and the statements of the federal treasury presented every year to Congress, were as follows from May 1, 1905, to June 30, 1909:

|   |                 |
|---|-----------------|
| Salaries and expenses of the commission .....   | \$119, 248. 74  |
| Salaries and expenses of the Mexico City mint, including the wear of money recoined and loss in the process of coinage: |                 |
| Fiscal year 1904-5 (two months), approximately .....  | 89, 125. 56     |
| Fiscal year 1905-6 .....  | 461, 786. 23    |
| Fiscal year 1906-7 .....  | 500, 448. 91    |
| Fiscal year 1907-8 .....  | 397, 044. 86    |
| Fiscal year 1908-9 (subject to revision, the accounts for the year not having been fully made up) .....                 | 383, 185. 22    |
| Expenses of mintage of money abroad (not including cost of metal) .....   | 527, 856. 71    |
| Freight charges paid by the general treasury of the federation and the Mexico City mint .....                           | 271, 073. 96    |
| Total .....   | 2, 749, 770. 19 |
| Deducting the above sum from the increase which there has been in the fund for the regulation of the currency, viz ..   | 8, 102, 091. 15 |
| The actual profit is reduced to .....   | 5, 352, 320. 96 |

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Perhaps even this figure is not quite correct, and it may still be necessary to make further deductions from the amount of profits realized; but even as it is, it will be seen that the net profit to the federal exchequer is substantially smaller than the total increase in the fund for the regulation of the currency.

By the express desire of the members of the commission and as an act of strict justice, the undersigned places on record that in the discharge of their functions they have been aided by the good will and efficient cooperation of all the authorities, of many banking firms of this capital, of almost all the chartered banks of the Republic, and particularly of the National Bank of Mexico, which, in a manner befitting its position as the foremost of our institutions of credit, has contributed, with all the manifold elements at its disposal, to facilitate in every way the labors of the commission, not only furnishing it with data and information of special interest, but affording it aid and material assistance, whenever necessary, with the unwavering determination of uniting its efforts with those of the Federal Government to maintain the fixity of foreign exchange rates, an object in whose attainment both the board and higher officials of the bank always expressed the utmost confidence.

## VII.

### PERSONNEL OF THE COMMISSION.

According to the law whereby the commission was instituted, its ex officio chairman is the minister of finance and public credit, and in that capacity Sr. Lic. José Yves Limantour has always done it the honor of presiding at its

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sessions, following very closely and with untiring interest the commission's debates and allowing the subcommission or executive committee to address to him all the frequent queries that were involved in its daily work—the work of which it has charge by virtue of its internal regulations—when the matter at issue was too urgent to brook delay. During the few months in 1906 when Sr. Limantour was absent, Sr. Lic. Don Roberto Nuñez, subsecretary of finance and acting minister, performed like functions with the same painstaking assiduity.

Furthermore, and also according to the law by which it was instituted, the commission consists of nine members, two of whom are members *ex officio*, viz, the general treasurer of the federation and the director-general of the mints; three are appointed, severally by the National Bank of Mexico, the Bank of London and Mexico, and the Mexican Central Bank from among their directors or higher officials, and four are appointed by the Federal Government.

The following have belonged or still belong to the commission through the above-named appointments:

As treasurer-general of the federation, Don Manuel de Zamacona é Inclan, and since his resignation in April, 1906, Don Javier Arrangoiz.

As director-general of the mints, Eng. Manuel Fernandez Leal, until his lamented death on July 2 last, and later his successor in that office, Don Miguel de Mendizabal.

By appointment of the National Bank of Mexico, Don Gustavo Struck, until February, 1906, when his regretted demise occurred; after him, Don Luis G. Lavie until June

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21, 1908, when, unhappily, he too died; and subsequently Don Ernesto Otto, all directors of the bank.

By appointment of the Bank of London and Mexico, Don Enrique Tron, one of its directors.

By appointment of the Mexican Central Bank, Don Federico Kladt, assistant manager.

The members appointed by the Federal Government, such appointments being renewed at the close of each fiscal year, have been Don Andrés Bermejillo, head of the old and well-known firm of Bermejillo & Co., of this capital; Don Hugo Scherer, jr., head of the banking firm which bears his name; James Walker, manager of the Mexican Bank of Commerce and Industry, established in this city, and the undersigned. During a brief absence of Messrs. Scherer, jr., and Walker, in the year 1905, their places were taken, respectively, by Don Ernesto Otto, of the firm of Sommer, Herrmann & Co. (successors), and by Don H. M. Dieffenbach, manager of the Peñoles Mining Company. Although Mr. Scherer, jr., is now again absent, the temporary vacancy has not yet been filled.

In accordance both with the law by which it was instituted and its internal regulations, the commission has elected from among its members a vice-president, and the undersigned has on each occasion been honored by his colleagues in being clothed with that office. In addition three subcommittees, each consisting of three members, have been appointed, viz, the executive committee having charge of current business and business not admitting of delay, the second having charge of cash and bookkeeping, and the third having charge of office matters and office personnel.

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The first or executive committee consists of the undersigned vice-president, *ex officio*, Don Hugo Scherer, jr., and Don Federico Kladt, the second of whom has been replaced, when absent, on this subcommittee by Don Enrique Tron; the second subcommittee consists of Don Ernesto Otto, Don Enrique Tron, and Don Javier Arrangoiz; and the third subcommittee consists of Messrs. James Walker, Andrés Bermejillo, and Miguel de Mendizabal.

The executive committee has naturally had most to do with the matters coming within the commission's province, and the undersigned takes this occasion of discharging the pleasant duty of thanking his colleagues for their important and valued aid and the unremitting attention which they have devoted to the work of this committee.

The law lays down that membership in the exchange and currency commission is purely honorary, and by virtue of this precept the members, whose names have been given, have received no remuneration. All of them have expressly charged the undersigned to declare that they consider themselves amply recompensed by the honor which they feel in having their names associated with the illustrious name of the President of the Republic and with that of his distinguished finance minister in the important task of reducing to practice, so far without a single drawback, the currency reform laws enacted in 1905, one of the main factors in the economic progress and future of this country, to which all the members of the commission are attached, some because it is the country of their birth and others because they are indebted to it for a generous and liberal hospitality.

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## VIII.

### PERSONNEL AND EXPENSES OF THE COMMISSION'S OFFICE.

On account of the simple and wholly businesslike methods followed in systematizing the work of the commission, that work has been performed by a very small personnel, which, even at times when the press of matters demanding attention was greatest, has consisted only of a chief, Don Luis Ulink; of a cashier, Don Rafael Arrillaga; of an accountant, Don Juan Boy Muñoz; a clerk for correspondence, Don Adolfo Graue; two assistants, Don Manuel Rodriguez and Don Fiacro Arrangoiz (the latter succeeding Don Juan Manual Carrillo, who resigned); and an office boy. Moreover, from March 1, 1906, to June 30, 1908, Don Rosendo Esparza was engaged in the laborious task of sorting the vouchers for the statement of accounts that had to be rendered and was, in effect, punctually rendered to the general treasury of the federation as to all the business transacted.

Thus the work of the office has been done by a chief and two higher employees, a clerk, two or three assistants and an office boy, and it is not, therefore, to be wondered at that in no fiscal year has the whole of the appropriation of 50,000 pesos assigned in the budget to the commission for its expenses been used.

In fact, including the purchase of office furniture and office supplies, rent, cost of books, printing, lighting, and salaries, the expenses have been as follows:

|  |             |
|--|-------------|
| May 1, 1905, to June 30, 1906.....       | \$30,432.78 |
| July 1, 1906, to June 30, 1907.....      | 21,927.49   |
| July 1, 1907, to June 30, 1908.....      | 33,234.75   |
| July 1, 1908, to June 30, 1909.....      | 33,653.72   |
| Total in four years and two months. .... | 119,248.74  |



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or an average of \$2,384.98 per month, including the value of office furniture and equipment, the most valuable of which, viz, the safe and sample scales, costing \$2,632.88, are as good as new.

It should be observed that the correspondence, book-keeping, cash, and other departments of the office work have been kept scrupulously up to date; that the differences in the cash account, notwithstanding the immense sums of specie of all kinds that have been handled, have amounted only to \$1,140; that in the shipments of silver pesos abroad the claims for losses have aggregated only \$1,682; and finally, that all the work of the office has been conducted in such manner that neither the public nor the members of the commission have had a single ground for complaint.

The accounts for the general treasury of the federation (for each fiscal year ending June 30) have always been presented before August 31, and the audit office of the federation has already approved the accounts for the fiscal years 1905 and 1906-7.

For these reasons the commission has charged the undersigned to thank the staff of the office without distinction of persons, for each in his sphere has rendered services which without exaggeration may be described as highly meritorious.

### IX.

#### CONCLUSION.

It is now time, perhaps more than time, to conclude the present report.

But, before concluding, the commission begs to express the hope that the foregoing accurate statement will con-

## *National Monetary Commission*

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tribute to strengthen more and more the confidence which has been felt both at home and abroad in the success of the monetary reform of 1905 ever since its fundamental features were known. Severe are the tests to which it has been put, especially in the last two years, and yet it emerged from them unimpaired, its maintenance not having entailed any sacrifice of any kind on the Republic.

If, in addition, we compare the resources that were available in 1905 with those now available to surmount any temporary perturbation in foreign exchange, the confidence in final success will be still further strengthened.

In 1905 we had no other funds in gold but those which the finance department has been accustomed to hold abroad since the treasury reserves began to accumulate as a consequence of the annual budget surpluses, whereas at the present time those funds have not only not diminished, but amount to £1,500,000 approximately. At home we had no gold currency at all in 1905 and at present we have more than \$83,000,000 in gold coins, of which, on June 30 last, the exchange and currency commission held five millions and the general treasury more than eleven millions, while the remainder of the fund for the regulation of the currency, some thirteen millions, was held on the same date, partly at home and partly abroad, almost exclusively in gold, and the domestic production of refined gold has increased from \$4,718,104.87 in 1905-6 to nearly \$21,000,000 in 1908-9. Furthermore, the experience acquired during the late crisis shows that the exchange and currency commission constitutes an efficient instrumentality for the regulation of exchange, when neces-

# *Banking System of Mexico*

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sary, without producing alarm or occasioning upheavals. And, finally, the credit of the nation has daily grown stronger, for from 1905 to date the Republic has shown that under the ægis of peace, internal and external, its resources have steadily expanded and every confidence may be felt that the sound sense of its people will preserve intact that essential factor of their economic, intellectual, and moral progress.

(Signed)

PABLO MACEDO,  
*Vice-President.*

MEXICO, *September 2, 1909.*

## ANNEXES.

ANNEX 1.—*Statement of old silver coins withdrawn from circulation and sent to the mint for recoinage.*

|  | Silver pesos. | Subsidiary silver coins. |
|--|---------------|--------------------------|
| Withdrawn from circulation from May 1, 1905, to June 30, 1906..... | \$800,000.00  | \$4,584,593.87           |
| Withdrawn from circulation in fiscal year 1906-7.....              | 5,718,330.00  | 3,212,347.39             |
| Withdrawn from circulation in fiscal year 1907-8.....              |               | 2,477,506.15             |
| Withdrawn from circulation in fiscal year 1908-9.....              |               | 1,458,063.60             |
|  | 6,518,330.00  | 11,732,511.01            |

### RÉSUMÉ.

|  |                |
|--|----------------|
| Retired in silver pesos.....                         | \$6,518,330.00 |
| Retired in subsidiary silver coins.....              | 11,732,511.01  |
| Total of old silver coins retired June 30, 1909..... | 18,250,841.01  |

ANNEX 2.—*Statement of copper coins withdrawn from circulation and sent to the mint to be melted down.*

|   |             |
|---|-------------|
| Withdrawn from circulation between May 1, 1905, and June 30, 1906.... | \$57,577.85 |
| Withdrawn from circulation in fiscal year 1906-7.....                 | 84,074.06   |
| Withdrawn from circulation in fiscal year 1907-8.....                 | 109,002.60  |
| Withdrawn from circulation in fiscal year 1908-9.....                 | 82,013.56   |
| Total of copper coins withdrawn from circulation.....                 | 332,668.07  |

### LIQUIDATION.

|  |              |
|--|--------------|
| Total of copper coins retired between May 1, 1905, and June 30, 1909.. | \$332,668.07 |
| Deduct coins melted:   |              |
| Fiscal year 1906-7.....  | \$28,482.32  |
| Fiscal year 1907-8.....  | 30,511.55    |
| Fiscal year 1908-9.....  | 15,946.48    |
| Not yet melted.....  | 74,940.35    |
|  | 257,727.72   |
|  | 332,668.07   |

### *Profit and loss account of copper coins melted.*

|   |             |
|---|-------------|
| 1906-7: Amount realized from sale of 21,344.465 kilos of copper obtained by melting down \$28,482.32 of copper coins..... | \$21,344.47 |
| 1907-8: Amount realized from sale of 22,790.878 kilos of copper obtained by melting down \$30,511.55.....                 | 13,674.53   |
| 1908-9: Amount realized from sale of 11,957.923 kilos of copper obtained by melting down \$15,946.48.....                 | 7,772.65    |
| Loss owing to difference between amounts realized from sales of copper and the coinage value of the coins:                | \$42,791.65 |
| Fiscal year 1906-7.....   | 7,137.85    |
| Fiscal year 1907-8.....   | 16,837.02   |
| Fiscal year 1908-9.....   | 8,173.83    |
|   | 32,148.70   |
| Total equal to amount melted down.....  | 74,940.35   |

MEXICO, June 30, 1909.

# Banking System of Mexico

ANNEX 3.—Statement of old gold coins withdrawn from circulation and sent to the mint for recoinage.

|   | Face value.  | Value at legal parity. |
|---|--------------|------------------------|
| Withdrawn from circulation during the fiscal year 1905-6..... | \$217,149.00 | \$428,642.85           |
| Withdrawn from circulation during the fiscal year 1906-7..... | 156,565.50   | 309,032.00             |
|   | 373,714.50   | 737,674.85             |

MEXICO, June 30, 1909.

ANNEX 4.—Statement of Central and South American coins withdrawn from circulation in the State of Chiapas and sent to the mint in this capital to be melted down and recoined into Mexican money.

|   | Pesos.      | Subsidiary coins. |
|---|-------------|-------------------|
| Withdrawn from circulation during the fiscal year 1907-8..... | \$96,605.00 | \$287,977.49      |
| Withdrawn from circulation during the fiscal year 1908-9..... | 236,966.00  | 245,474.56        |
|   | 333,571.00  | 533,452.05        |

## LIQUIDATION.

Cost of coins withdrawn from circulation during fiscal year 1907-8:

|                                  |              |              |
|----------------------------------|--------------|--------------|
| \$287,977.49 at 83 per cent..... | \$239,021.31 |              |
| \$96,605 at 88 per cent.....     | 85,012.40    |              |
|                                  |              | \$324,033.71 |

Cost of coins withdrawn from circulation during fiscal year 1908-9:

|                                  |            |            |
|----------------------------------|------------|------------|
| \$231,967.50 at 88 per cent..... | 204,131.40 |            |
| \$5,000 at 87 per cent.....      | 4,350.00   |            |
| \$245,473.06 at 83 per cent..... | 203,742.63 |            |
|                                  |            | 412,224.03 |

Obtained by melting and recoinage into Mexican money:

|                         |              |
|-------------------------|--------------|
| Fiscal year 1907-8..... | \$330,211.10 |
| Fiscal year 1908-9..... | 424,083.79   |

Profit:

|                         |           |           |
|-------------------------|-----------|-----------|
| Fiscal year 1907-8..... | 6,177.39  |           |
| Fiscal year 1908-9..... | 11,859.76 |           |
|                         |           | 18,037.15 |

|            |            |
|------------|------------|
| 754,294.89 | 754,294.89 |
|------------|------------|

MEXICO, June 30, 1909.

# National Monetary Commission

## ANNEX 5.—*Exportation of silver pesos.*

**Pesos exported:**

|   |                 |
|---|-----------------|
| From November, 1905, to June, 1906----- | \$39,253,500.00 |
| During fiscal year 1906-7-----          | 13,439,000.00   |
| During fiscal year 1907-8-----          | 8,035,000.00    |
| Total exported-----                     | 60,727,500.00   |

**Pesos sold:**

|   |               |
|---|---------------|
| Proceeds of sales from November, 1905, to June, 1906----- | 36,732,500.00 |
| Proceeds of sales during fiscal year 1906-7-----          | 14,776,000.00 |
| Proceeds of sales during fiscal year 1907-8-----          | 6,509,000.00  |
| Total sales-----  | 58,017,500.00 |
| Total reimported-----                                     | 2,710,000.00  |
|   | 60,727,500.00 |

MEXICO, June 30, 1909.

## ANNEX 6.—*Statement of amounts received in gold bullion and foreign gold coins as the equivalent of silver pesos exported under the law of November 19, 1906.*

**Total value received at the legal parity:**

|                         |                |
|-------------------------|----------------|
| Fiscal year 1906-7----- | \$5,750,740.37 |
| Fiscal year 1907-8----- | 2,513,707.28   |
|                         | 8,264,447.65   |

**Fiscal year 1906-7:**

|                                  |              |
|----------------------------------|--------------|
| Net proceeds of liquidation----- | 5,696,623.83 |
| Loss in melting-----             | 3,966.54     |

**Fiscal year 1907-8:**

|                                  |              |
|----------------------------------|--------------|
| Net proceeds of liquidation----- | 2,561,529.38 |
| Loss in melting-----             | 2,327.90     |
|                                  | 8,264,447.65 |

MEXICO, June 30, 1909.

## ANNEX 7.—*Statement of money coined from May 1, 1905, to June 30, 1909, under the law of March 25, 1905, establishing the new monetary régime.*

**Gold:**

|                     |                 |
|---------------------|-----------------|
| In \$10 pieces----- | \$54,666,120.00 |
| In \$5 pieces-----  | 28,720,380.00   |
|                     | \$83,386,500.00 |

**Silver:**

|                            |               |
|----------------------------|---------------|
| In \$1 pieces (pesos)----- | 10,105,000.00 |
| In 50-cent pieces-----     | 26,830,619.50 |
| In 20-cent pieces-----     | 3,846,923.80  |
| In 10-cent pieces-----     | 1,946,000.00  |
|                            | 42,728,543.30 |

**Nickel, in 5-cent pieces-----**

904,308.00

**Bronze:**

|                       |              |
|-----------------------|--------------|
| In 2-cent pieces----- | \$200,968.00 |
| In 1-cent pieces----- | 735,450.90   |
|                       | 936,418.90   |

|                   |                |
|-------------------|----------------|
| Total coined----- | 127,955,770.20 |
|-------------------|----------------|

# Banking System of Mexico

## RÉSUMÉ OF COINAGE BY FISCAL YEARS.

|   |                 |                |
|---|-----------------|----------------|
| Fiscal year 1904-5:                           |                 |                |
| Silver .....                                  | \$350,000.00    |                |
| Bronze .....                                  | 3,300.00        |                |
|   |                 | \$353,300.00   |
| Fiscal year 1905-6:                           |                 |                |
| Gold .....                                    | 41,776,500.00   |                |
| Silver .....                                  | 5,079,000.00    |                |
| Nickel .....                                  | 235,000.00      |                |
| Bronze .....                                  | 182,100.00      |                |
|   |                 | 47,272,600.00  |
| Fiscal year 1906-7:                           |                 |                |
| Gold .....                                    | 23,250,000.00   |                |
| Silver .....                                  | 23,367,923.80   |                |
| Nickel .....                                  | 566,728.00      |                |
| Bronze .....                                  | 751,018.90      |                |
|   |                 | 47,935,670.70  |
| Fiscal year 1907-8:                           |                 |                |
| Gold .....                                    | 16,600,000.00   |                |
| Silver .....                                  | 7,403,619.50    |                |
|   |                 | 24,003,619.50  |
| Fiscal year 1908-9:                           |                 |                |
| Gold .....                                    | 1,760,000.00    |                |
| Silver .....                                  | 6,528,000.00    |                |
| Nickel .....                                  | 102,580.00      |                |
|   |                 | 8,390,580.00   |
| Total coinage .....                           |                 | 127,955,770.20 |
| This money was coined at the following mints: |                 |                |
| Mexico City mint:                             |                 |                |
| In gold .....                                 | \$53,386,500.00 |                |
| In silver .....                               | 32,321,000.00   |                |
| In nickel .....                               | 301,728.00      |                |
| In bronze .....                               | 336,418.90      |                |
|   |                 | 86,345,646.90  |
| Philadelphia mint:                            |                 |                |
| In gold .....                                 |                 | 30,000,000.00  |
| San Francisco mint:                           |                 |                |
| In silver .....                               |                 | 6,221,000.00   |
| New Orleans mint:                             |                 |                |
| In silver .....                               |                 | 1,086,923.80   |
| Denver mint:                                  |                 |                |
| In silver .....                               |                 | 3,099,619.50   |
| Birmingham (England) mint:                    |                 |                |
| In nickel .....                               | \$602,580.00    |                |
| In bronze .....                               | 600,000.00      |                |
|   |                 | 1,202,580.00   |
| Total .....                                   |                 | 127,955,770.20 |

MEXICO, June 30 1909.

# National Monetary Commission

ANNEX 8.—Statement of domestic silver bars bought by the exchange and currency commission and sent to the mint for coinage.

|                                   | Number of bars. | Pure silver contents in kilos. | Cost.          | Coinage value. |
|-----------------------------------|-----------------|--------------------------------|----------------|----------------|
| Bought in fiscal year 1907-8..... | 4,588           | 85,503.982599                  | \$3,174,248.83 | \$3,498,698.07 |
| Bought in fiscal year 1908-9..... | 3,027           | 100,060.719158                 | 3,334,784.28   | 4,094,338.44   |
| Total.....                        | 5,615           | 185,564.701757                 | 6,509,033.11   | 7,593,036.51   |

## LIQUIDATION.

|   |                |                |
|---|----------------|----------------|
| Cost of 85,503.982599 kilos of pure silver bought in the fiscal year 1907-8.....  | \$3,174,248.83 |                |
| Coinage value of same.....  |                | \$3,498,698.07 |
| Cost of 100,060.719158 kilos of pure silver bought in the fiscal year 1908-9..... | 3,334,784.28   |                |
| Coinage value of same.....  |                | 4,094,338.44   |
| Profit realized:  |                |                |
| In 1907-8.....  | \$324,449.24   |                |
| In 1908-9.....  | 759,554.16     |                |
|   | 1,084,003.40   |                |
|   |                | 7,593,036.51   |
|   |                | 7,593,036.51   |

MEXICO, June 30, 1909.

ANNEX 9.—Statement of domestic gold bullion bought.

| Fiscal year— | Pure gold.    | Coinage value. |
|--------------|---------------|----------------|
|              | Kilos.        |                |
| 1905-6.....  | 3,538.590788  | \$4,718,104.87 |
| 1906-7.....  | 9,547.707190  | 12,730,244.30  |
| 1907-8.....  | 10,239.385606 | 13,652,479.97  |
| 1908-9.....  | 15,747.079395 | 20,996,053.24  |
| Total.....   | 39,072.768979 | 52,096,882.38  |

## DISPOSAL.

|                                   | Pure gold.    | Coinage value. |
|-----------------------------------|---------------|----------------|
|                                   | Kilos.        |                |
| Sent to the mint for coinage:     |               |                |
| Fiscal year—                      |               |                |
| 1905-6.....                       | 3,538.590788  | \$4,718,104.87 |
| 1906-7.....                       | 9,547.707190  | 12,730,244.30  |
| 1907-8.....                       | 10,239.385606 | 13,652,479.97  |
| 1908-9.....                       | 716.693576    | 955,589.05     |
| Exported, fiscal year 1908-9..... | 24,042.383160 | 32,056,418.19  |
| On hand June 30, 1909.....        | 11,469.120984 | 15,292,122.96  |
|                                   | 3,561.264835  | 4,748,341.23   |
| Total.....                        | 39,072.768979 | 52,096,882.38  |

MEXICO, June 30, 1909.



# Banking System of Mexico

## ANNEX 10.—Statement of domestic gold bullion exported.

### DEBIT.

|                 | Pure gold.    | Value.        | Expenses of remittance. | Totals.       |
|-----------------|---------------|---------------|-------------------------|---------------|
|                 | <i>Kilos.</i> |               |                         |               |
| <b>1908.</b>    |               |               |                         |               |
| July .....      | 246.602849    | \$328,802.98  | \$1,078.07              | \$329,881.05  |
| August .....    | 1,185.817242  | 1,581,085.69  | 5,193.91                | 1,586,279.60  |
| September ..... | 972.485870    | 1,296,644.58  | 4,256.43                | 1,300,901.01  |
| October .....   | 1,408.569352  | 1,878,087.79  | 6,178.80                | 1,884,266.59  |
| November .....  | 884.196145    | 1,178,925.19  | 3,871.61                | 1,182,796.80  |
| December .....  | 1,167.471207  | 1,556,624.36  | 5,110.39                | 1,561,734.75  |
| <b>1909.</b>    |               |               |                         |               |
| January .....   | 1,808.135405  | 2,410,841.14  | 7,910.48                | 2,418,751.62  |
| February .....  | 1,543.709337  | 2,058,273.97  | 6,761.92                | 2,065,035.89  |
| March .....     | 1,751.385196  | 2,335,174.43  | 7,655.09                | 2,342,829.52  |
| April .....     | 500.748381    | 667,662.83    | 2,204.15                | 669,866.98    |
|                 | 11,469.120984 | 15,292,122.96 | 50,220.85               | 15,342,343.81 |

### CREDIT.

|                 | Proceeds in Mexican currency. | Loss.      | Totals.       |
|-----------------|-------------------------------|------------|---------------|
| <b>1908.</b>    |                               |            |               |
| July .....      | \$328,706.49                  | \$1,174.56 | \$329,881.05  |
| August .....    | 1,580,444.93                  | 5,834.67   | 1,586,279.60  |
| September ..... | 1,296,560.18                  | 4,340.83   | 1,300,901.01  |
| October .....   | 1,877,333.09                  | 6,933.50   | 1,884,266.59  |
| November .....  | 1,178,558.82                  | 4,237.98   | 1,182,796.80  |
| December .....  | 1,556,088.14                  | 5,646.61   | 1,561,734.75  |
| <b>1909.</b>    |                               |            |               |
| January .....   | 2,410,067.67                  | 8,683.95   | 2,418,751.62  |
| February .....  | 2,057,545.61                  | 7,490.28   | 2,065,035.89  |
| March .....     | 2,334,065.63                  | 8,763.89   | 2,342,829.52  |
| April .....     | 667,370.68                    | 2,496.30   | 669,866.98    |
|                 | 15,286,741.24                 | 55,602.57  | 15,342,343.81 |

MEXICO, June 30, 1909

# National Monetary Commission

## ANNEX II.—Specie circulation—Gold.

|           | Held by the banks. | Held by general treasury. | Held by commission. | In hands of public. | Total coined. |
|-----------|--------------------|---------------------------|---------------------|---------------------|---------------|
| 1907.     |                    |                           |                     |                     |               |
| January   | \$40,595,495       |                           | \$700,000           | \$13,511,005        | \$54,806,500  |
| February  | 42,884,425         |                           |                     | 14,042,075          | 56,926,500    |
| March     | 44,266,585         |                           | 550,000             | 15,049,915          | 59,866,500    |
| April     | 45,062,730         |                           | 450,000             | 16,833,770          | 62,346,500    |
| May       | 46,664,295         |                           | 900,000             | 15,982,205          | 63,546,500    |
| June      | 46,706,240         |                           | 2,400,000           | 15,920,260          | 65,026,500    |
| July      | 48,620,100         |                           | 1,155,000           | 16,971,400          | 66,746,500    |
| August    | 51,677,205         | \$247,530                 |                     | 16,621,765          | 68,546,500    |
| September | 52,992,550         | 372,250                   | 200,000             | 16,781,700          | 70,346,500    |
| October   | 53,352,980         | 413,890                   | 1,080,000           | 17,319,630          | 72,166,500    |
| November  | 53,394,160         | 993,325                   | 1,100,000           | 17,879,015          | 73,366,500    |
| December  | 53,400,150         | 2,017,515                 | 920,000             | 18,148,835          | 74,486,500    |
| 1908.     |                    |                           |                     |                     |               |
| January   | 49,980,235         | 3,019,605                 | 4,000,000           | 18,646,660          | 75,646,500    |
| February  | 48,631,920         | 4,825,000                 | 4,840,000           | 18,189,580          | 76,486,500    |
| March     | 49,123,455         | 5,870,000                 | 4,200,000           | 17,893,045          | 77,086,500    |
| April     | 50,962,940         | 6,032,000                 | 3,760,000           | 17,331,560          | 78,086,500    |
| May       | 51,763,215         | 6,070,000                 | 5,000,000           | 17,173,285          | 80,006,500    |
| June      | 52,730,470         | 7,420,000                 | 6,100,000           | 15,376,030          | 81,626,500    |
| July      | 49,776,310         | 9,170,000                 | 7,520,000           | 16,580,190          | 83,046,500    |
| August    | 47,064,760         | 10,170,000                | 9,740,000           | 16,411,740          | 83,386,500    |
| September | 47,191,580         | 10,210,000                | 9,740,000           | 16,244,920          | 83,386,500    |
| October   | 46,898,330         | 10,210,000                | 10,000,000          | 16,278,170          | 83,386,500    |
| November  | 47,702,670         | 10,240,000                | 9,300,000           | 16,143,830          | 83,386,500    |
| December  | 46,873,680         | 11,275,000                | 9,300,000           | 15,937,820          | 83,386,500    |
| 1909.     |                    |                           |                     |                     |               |
| January   | 46,997,060         | 11,290,000                | 9,300,000           | 15,799,440          | 83,386,500    |
| February  | 46,499,130         | 11,300,000                | 9,680,000           | 15,907,370          | 83,386,500    |
| March     | 47,184,460         | 11,320,000                | 9,000,000           | 15,882,040          | 83,386,500    |
| April     | 47,710,745         | 11,320,000                | 8,500,000           | 15,855,755          | 83,386,500    |
| May       | 49,697,540         | 11,340,000                | 6,500,000           | 15,848,960          | 83,386,500    |
| June      | 51,549,015         | 11,340,000                | 5,000,000           | 15,497,485          | 83,386,500    |

MEXICO, June 30, 1909.

# Banking System of Mexico

## ANNEX 12.—Specie circulation—Silver pesos.

|                 | Held by the banks. | Held by general treasury. | Held by commission. | Total.       |
|-----------------|--------------------|---------------------------|---------------------|--------------|
| 1907.           |                    |                           |                     |              |
| January .....   | \$16,444,017       | -----                     | \$1,400,000         | \$17,844,017 |
| February .....  | 13,944,885         | -----                     | 1,400,000           | 15,344,885   |
| March .....     | 12,596,685         | -----                     | 1,400,000           | 13,996,685   |
| April .....     | 12,328,557         | -----                     | 1,140,000           | 13,468,557   |
| May .....       | 13,428,335         | -----                     | 850,000             | 14,278,335   |
| June .....      | 14,379,036         | -----                     | 850,000             | 15,229,036   |
| July .....      | 12,576,527         | -----                     | 850,000             | 13,426,527   |
| August .....    | 8,084,133          | \$5,812                   | 850,000             | 8,939,945    |
| September ..... | 8,330,741          | 5,868                     | 850,000             | 9,186,609    |
| October .....   | 9,086,235          | 5,890                     | 850,000             | 9,942,125    |
| November .....  | 9,965,011          | 5,910                     | 863,000             | 10,833,921   |
| December .....  | 10,861,485         | 6,340                     | 863,000             | 11,730,825   |
| 1908.           |                    |                           |                     |              |
| January .....   | 11,473,129         | 8,810                     | 863,000             | 12,344,939   |
| February .....  | 11,958,516         | 14,850                    | 1,193,000           | 13,166,366   |
| March .....     | 13,079,247         | 28,750                    | 2,050,000           | 15,157,997   |
| April .....     | 13,985,462         | 43,000                    | 2,770,000           | 16,798,462   |
| May .....       | 15,612,029         | 53,000                    | 3,880,000           | 19,545,029   |
| June .....      | 17,763,545         | 74,000                    | 3,000,000           | 20,837,545   |
| July .....      | 20,523,594         | 80,000                    | 1,000,000           | 21,603,594   |
| August .....    | 21,857,162         | 90,000                    | 1,000,000           | 22,947,162   |
| September ..... | 23,356,872         | 113,000                   | 500,000             | 23,969,872   |
| October .....   | 24,488,924         | 130,000                   | 200,000             | 24,818,924   |
| November .....  | 25,605,708         | 158,000                   | -----               | 25,763,708   |
| December .....  | 26,449,445         | 164,000                   | -----               | 26,613,445   |
| 1909.           |                    |                           |                     |              |
| January .....   | 27,224,115         | 289,000                   | -----               | 27,513,115   |
| February .....  | 27,754,347         | 190,000                   | -----               | 27,944,347   |
| March .....     | 28,326,616         | 206,000                   | -----               | 28,532,616   |
| April .....     | 28,820,917         | 216,000                   | -----               | 29,036,917   |
| May .....       | 29,531,549         | 220,000                   | -----               | 29,751,549   |
| June .....      | 29,869,472         | 230,000                   | -----               | 30,099,472   |

MEXICO, June 30, 1909.

# National Monetary Commission

## ANNEX 13.—*Specie circulation—Subsidiary coins.*

|           | Held by<br>the<br>banks. | Held by<br>the<br>treasury. | Held by<br>com-<br>mission. | In bands of<br>public. | Total coined.   |
|-----------|--------------------------|-----------------------------|-----------------------------|------------------------|-----------------|
| 1907.     |                          |                             |                             |                        |                 |
| January   | \$3,898,397.65           | -----                       | \$64,500                    | \$13,412,249.25        | \$17,375,146.90 |
| February  | 4,737,220.95             | -----                       | 90,700                      | 16,414,225.95          | 21,242,146.90   |
| March     | 4,908,748.89             | -----                       | 52,000                      | 18,517,398.01          | 23,478,146.90   |
| April     | 5,283,706.66             | -----                       | 43,000                      | 20,038,364.04          | 25,365,070.70   |
| May       | 6,167,694.53             | -----                       | 41,000                      | 21,556,376.17          | 27,765,070.70   |
| June      | 6,685,180.84             | -----                       | 628,000                     | 23,221,889.86          | 30,535,070.70   |
| July      | 7,106,389.46             | -----                       | 568,000                     | 24,340,300.74          | 32,014,690.20   |
| August    | 6,662,689.82             | \$6,030.95                  | 245,000                     | 25,660,969.43          | 32,574,690.20   |
| September | 6,100,319.08             | 6,743.52                    | 104,000                     | 26,753,627.60          | 32,964,690.20   |
| October   | 5,313,692.44             | 1,606.34                    | 66,000                      | 27,843,391.42          | 33,224,690.20   |
| November  | 4,963,968.74             | 2,526.64                    | 28,000                      | 28,470,194.82          | 33,464,690.20   |
| December  | 5,095,850.67             | 838.73                      | 145,000                     | 28,683,000.80          | 33,924,690.20   |
| 1908.     |                          |                             |                             |                        |                 |
| January   | 5,299,332.62             | 2,527.32                    | 102,000                     | 28,600,830.26          | 34,004,690.20   |
| February  | 4,202,742.33             | 5,345.74                    | 50,500                      | 29,846,102.13          | 34,104,690.20   |
| March     | 4,336,155.56             | 12,673.15                   | 71,500                      | 29,774,361.49          | 34,194,690.20   |
| April     | 5,012,741.24             | 19,946.07                   | 47,000                      | 29,115,002.89          | 34,194,690.20   |
| May       | 5,230,242.31             | 6,144.61                    | 25,000                      | 28,933,303.28          | 34,194,690.20   |
| June      | 6,145,203.68             | 5,814.27                    | 19,000                      | 28,024,672.25          | 34,194,690.20   |
| July      | 6,826,026.10             | 841.12                      | 125,000                     | 27,286,822.98          | 34,238,690.20   |
| August    | 7,099,655.97             | 1,217.69                    | 164,000                     | 26,973,816.54          | 34,238,690.20   |
| September | 7,399,639.13             | 23,358.33                   | 206,500                     | 26,609,192.74          | 34,238,690.20   |
| October   | 7,421,075.27             | 9,836.86                    | 126,000                     | 26,681,778.07          | 34,238,690.20   |
| November  | 7,306,739.26             | 20,914.79                   | 121,500                     | 26,789,536.15          | 34,238,690.20   |
| December  | 6,991,221.48             | 15,466.87                   | 120,500                     | 27,111,501.85          | 34,238,690.20   |
| 1909.     |                          |                             |                             |                        |                 |
| January   | 6,368,795.00             | 14,358.36                   | 119,500                     | 27,736,036.84          | 34,238,690.20   |
| February  | 5,855,973.42             | 2,647.01                    | 182,500                     | 28,267,569.77          | 34,308,690.20   |
| March     | 6,331,216.72             | 3,531.68                    | 232,000                     | 27,794,941.80          | 34,361,690.20   |
| April     | 5,680,491.73             | 3,101.79                    | 195,000                     | 28,483,096.68          | 34,361,690.20   |
| May       | 5,709,360.28             | 2,955.87                    | 184,500                     | 28,464,874.05          | 34,361,690.20   |
| June      | 6,063,919.48             | 5,371.51                    | 226,080                     | 28,170,899.21          | 34,464,270.20   |

# Banking System of Mexico

ANNEX 14.—Statement showing increase of fund for the regulation of the currency.

[Condensed table.]

|  |              |
|--|--------------|
| Profit:  |              |
| On coinage of gold .....   | \$3,302.26   |
| On coinage of silver .....   | 6,111,973.05 |
| On coinage of nickel .....   | 548,963.25   |
| On coinage of bronze .....   | 548,223.48   |
| On dealings in exchange .....  | 369,190.85   |
| Interest .....   | 469,863.21   |
| Sundry .....   | 86,219.89    |
| Total profit .....   | 8,137,735.99 |
| Loss:  |              |
| On copper coins withdrawn from circulation and melted down to date ..... | 32,148.70    |
| Expenses of refining .....   | 3,496.14     |
| Total loss .....   | 35,644.84    |

RÉSUMÉ.

|  |                |
|--|----------------|
| Total profit .....   | \$8,137,735.99 |
| Total loss .....   | 35,644.84      |
| Net profit .....   | 8,102,091.15   |
| Original fund for the regulation of the currency .....               | 10,000,000.00  |
| Amount of fund for regulation of the currency on June 30, 1909 ..... | 18,102,091.15  |
| Net profit of \$8,102,091.15 earned was—                             |                |
| From May 1, 1905, to June 30, 1906 .....                             | 1,747,573.62   |
| Fiscal year—   |                |
| 1906-7 .....   | 4,064,203.71   |
| 1907-8 .....   | 1,288,563.02   |
| 1908-9 .....   | 1,001,750.80   |
|  | 8,102,091.15   |

MEXICO, June 30, 1909.

ANNEX 15.—Statement of cash handled by office of exchange and currency commission from May 1, 1905, to June 30, 1909.

|                                     | Received.    | Paid out.    |
|-------------------------------------|--------------|--------------|
| May 1, 1904, to June 30, 1905 ..... | \$11,891.06  | \$11,891.06  |
| Fiscal year 1905-6:                 |              |              |
| July .....                          | 12,933.52    | 10,678.92    |
| August .....                        | 213,395.23   | 214,429.21   |
| September .....                     | 163,629.07   | 124,789.91   |
| October .....                       | 147,882.06   | 178,836.40   |
| November .....                      | 271,129.45   | 263,281.89   |
| December .....                      | 4,023,576.94 | 4,012,824.40 |
| January .....                       | 3,996,164.28 | 4,007,259.80 |
| February .....                      | 4,144,210.40 | 4,138,396.30 |
| March .....                         | 4,200,982.99 | 4,217,452.37 |
| April .....                         | 3,621,466.52 | 3,623,384.07 |
| May .....                           | 5,946,315.03 | 5,945,520.69 |
| June .....                          | 6,977,469.77 | 6,979,923.46 |

# National Monetary Commission

ANNEX 15.—Statement of cash handled by office of exchange and currency commission from May 1, 1905, to June 30, 1909—Continued.

|                            | Received.             | Paid out.             |
|----------------------------|-----------------------|-----------------------|
| <b>Fiscal year 1906-7:</b> |                       |                       |
| July.....                  | \$3,009,372.93        | \$3,002,122.85        |
| August.....                | 4,024,894.28          | 4,025,791.52          |
| September.....             | 4,215,753.95          | 4,217,927.17          |
| October.....               | 5,357,228.95          | 5,356,008.81          |
| November.....              | 6,230,014.83          | 6,235,557.08          |
| December.....              | 8,737,022.75          | 8,738,040.56          |
| January.....               | 12,980,619.09         | 12,980,171.68         |
| February.....              | 16,793,046.84         | 16,793,201.44         |
| March.....                 | 14,295,173.56         | 14,293,230.09         |
| April.....                 | 13,959,147.08         | 13,961,345.98         |
| May.....                   | 7,746,357.78          | 7,746,126.20          |
| June.....                  | 7,762,213.89          | 7,761,469.01          |
| <b>Fiscal year 1907-8:</b> |                       |                       |
| July.....                  | 13,524,811.28         | 13,524,595.90         |
| August.....                | 12,904,388.74         | 12,906,553.19         |
| September.....             | 8,798,496.82          | 8,797,433.49          |
| October.....               | 7,057,421.77          | 7,057,660.13          |
| November.....              | 4,605,099.33          | 4,605,019.08          |
| December.....              | 4,617,179.53          | 4,616,243.23          |
| January.....               | 7,066,812.82          | 7,066,317.95          |
| February.....              | 2,962,094.45          | 2,962,785.28          |
| March.....                 | 5,245,457.52          | 5,244,197.76          |
| April.....                 | 5,959,335.42          | 5,958,260.25          |
| May.....                   | 5,702,476.50          | 5,702,995.36          |
| June.....                  | 6,941,048.51          | 6,942,414.21          |
| <b>Fiscal year 1908-9:</b> |                       |                       |
| July.....                  | 7,627,026.98          | 7,621,820.61          |
| August.....                | 6,771,791.16          | 6,769,086.26          |
| September.....             | 4,602,331.13          | 4,611,791.23          |
| October.....               | 5,162,361.81          | 5,162,223.12          |
| November.....              | 3,854,570.07          | 3,854,352.93          |
| December.....              | 2,654,070.54          | 2,654,223.78          |
| January.....               | 5,315,246.66          | 5,313,197.03          |
| February.....              | 5,213,202.66          | 5,213,639.79          |
| March.....                 | 7,767,844.64          | 7,767,716.72          |
| April.....                 | 3,784,765.71          | 3,783,049.46          |
| May.....                   | 4,759,441.93          | 4,757,935.87          |
| June.....                  | 3,611,433.83          | 3,599,972.88          |
| <b>Total.....</b>          | <b>285,350,602.06</b> | <b>285,333,146.33</b> |

MEXICO, June 30, 1909.







APPENDIX D.—Table No. 1.

Reports of Condition of Mexican Institutions of Credit, June 30, 1909.

| ASSETS.     |                       |                 |                   |                 |                      |                            |                  |                 |                |              |                     |                    |                 |                 |                  |                   |                              |                              |        |                     |                 |                   |
|-------------|-----------------------|-----------------|-------------------|-----------------|----------------------|----------------------------|------------------|-----------------|----------------|--------------|---------------------|--------------------|-----------------|-----------------|------------------|-------------------|------------------------------|------------------------------|--------|---------------------|-----------------|-------------------|
| Gold metal. | Notes of other banks. | Total cash.     | Stocks and bonds. | Discounts.      | Loans on collateral. | Creditor current accounts. | Various credits. | Participations. | Real estate.   | Fixtures.    | Impersonal credits. | ACCOUNTS IN TRUST. |                 | Mortgage loans. | Promotion loans. | Other securities. | Property in process of sale. | Deposits in different banks. | Total. | Authorized capital. | Reserve fund.   |                   |
|             |                       |                 |                   |                 |                      |                            |                  |                 |                |              |                     | Securities.        | Other accounts. |                 |                  |                   |                              |                              |        |                     |                 |                   |
| 59,685.82   | \$1,578,220.00        | \$51,637,905.82 | \$10,278,576.05   | \$22,979,877.46 | \$19,188,304.50      | \$45,934,706.27            | \$25,694,681.15  | \$3,274,291.06  | \$2,206,875.28 | \$328,862.71 | \$16,055,949.30     | \$101,388,681.44   | \$1,117,209.96  |                 |                  |                   |                              |                              |        | \$300,455,221.00    | \$32,000,000.00 | \$16,000,000.00   |
| 98,042.47   | 1,304,530.00          | 12,602,572.47   | 10,856,486.97     | 30,795,514.50   | 21,105,183.00        | 8,030,686.51               | 4,053,281.46     |                 | 1,006,406.20   | 34,749.65    | 913,224.02          | 78,614,382.00      | 10,414,932.22   | \$1,715,937.76  |                  |                   |                              |                              |        | 180,143,356.76      | 21,500,000.00   | 10,750,000.00     |
| 96,907.99   | 84,675.50             | 1,781,583.49    | 2,005,736.00      | 4,029,325.15    | 1,944,160.63         | 7,086,254.43               |                  |                 | 202,665.70     | 68,491.41    | 202,044.85          |                    | 107,144.63      | 627,626.75      |                  | \$379,400.00      |                              |                              |        | 18,434,433.04       | 5,000,000.00    | 1,413,000.00      |
| 31,937.76   | 56,800.00             | 2,388,737.76    | 4,700,145.94      | 3,223,774.49    | 434,168.01           | 1,025,733.07               | 10,076,134.25    |                 | 202,500.00     | 32,546.65    | 2,072,102.42        |                    | 13,375,248.71   | 4,142,172.92    |                  |                   | \$4,505,365.17               |                              |        | 46,178,629.39       | 16,500,000.00   | 73,400,000.00     |
| 41,560.41   | 32,735.00             | 574,295.41      | 465,000.00        | 1,446,647.86    | 165,110.76           | 3,088,061.59               | 437,321.94       |                 | 202,089.96     | 29,353.34    | 119,739.14          | 4,975,792.88       | 1,690,845.31    | 51,524.94       |                  | 100,829.35        |                              |                              |        | 13,346,612.48       | 2,000,000.00    | 231,100,000.00    |
| 46,558.12   | 35,965.00             | 482,523.12      | 150,000.00        | 898,051.03      | 179,733.94           | 1,739,824.67               | 559,704.15       |                 | 70,321.47      | 20,947.06    | 58,959.72           |                    | 1,530,971.20    | 5,000.00        |                  | 231,222.50        |                              | \$248,745.09                 |        | 6,576,003.95        | 1,000,000.00    | 267,000,000.00    |
| 94,854.90   | 23,375.00             | 918,229.90      | 782,900.00        | 1,115,541.04    | 740,211.99           | 2,963,855.06               | 892,727.81       |                 | 225,000.00     | 17,000.00    | 72,000.00           |                    | 4,694,239.00    | 96,067.94       |                  |                   |                              |                              |        | 12,517,772.74       | 2,000,000.00    | 365,600,000.00    |
| 87,678.25   | 38,941.00             | 1,626,619.25    | 433,778.50        | 1,515,644.94    | 715,879.20           | 2,760,166.09               | 360,949.33       |                 | 124,053.78     | 20,892.31    | 45,952.52           | 1,391,807.62       |                 | 186,584.90      |                  | 428,703.00        |                              |                              |        | 9,611,031.44        | 3,000,000.00    | 205,500,000.00    |
| 03,495.08   | 32,800.00             | 736,295.08      | 240,000.00        | 830,965.53      | 129,830.09           | 2,380,825.05               | 2,267,930.47     |                 | 326,758.46     | 28,762.28    | 90,541.43           |                    | 3,947,695.35    | 48,112.51       |                  |                   |                              |                              |        | 11,027,716.25       | 1,600,000.00    | 210,400,000.00    |
| 50,605.81   | 58,165.00             | 1,008,770.81    | 518,125.00        | 1,765,452.89    | 3,921,299.38         | 3,777,044.20               | 3,921,299.38     |                 | 146,096.76     | 40,384.23    | 188,610.06          |                    | 219,709.63      | 219,709.63      |                  | 211,677.50        |                              |                              |        | 9,709,137.97        | 1,100,000.00    | 211,100,000.00    |
| 27,263.58   | 105,635.00            | 1,432,898.58    | 110,856.00        | 1,913,410.82    | 916,713.17           | 3,065,150.00               | 3,705,094.70     |                 | 178,947.25     | 34,059.47    | 141,928.28          |                    | 159,400.00      | 159,400.00      |                  | 256,176.52        |                              |                              |        | 11,914,634.79       | 1,500,000.00    | 472,600,000.00    |
| 95,376.43   | 76,193.00             | 1,571,569.43    | 658,225.00        | 958,390.00      | 431,462.37           | 1,343,692.12               | 1,773,473.04     |                 | 155,000.00     | 14,435.87    | 27,522.50           |                    | 1,341,735.00    |                 |                  |                   |                              |                              |        | 8,275,505.33        | 1,500,000.00    | 160,300,000.00    |
| 86,546.27   | 168,235.00            | 2,354,781.27    | 1,170,004.00      | 3,667,815.75    | 976,693.64           | 58,501.45                  | 2,466,772.10     |                 | 245,134.65     | 18,971.89    | 109,670.70          |                    | 2,357,350.26    | 372,576.43      |                  | 411,081.05        |                              |                              |        | 14,209,353.19       | 3,000,000.00    | 645,700,000.00    |
| 72,642.25   | 75,085.00             | 1,247,727.25    | 669,169.75        | 4,375,565.74    | 199,335.72           | 2,660,456.04               | 2,026,164.51     |                 | 349,649.67     | 23,243.05    | 75,148.69           |                    | 929,912.28      | 929,912.28      |                  |                   |                              |                              |        | 12,556,372.70       | 6,000,000.00    | 65,700,000.00     |
| 50,403.28   | 93,375.00             | 843,778.28      | 753,298.30        | 809,186.79      | 475,180.52           | 2,519,000.00               | 689,800.41       |                 | 300,000.00     | 18,224.35    | 120,072.81          |                    | 5,519,000.00    | 365,631.67      |                  | 124,957.00        |                              |                              |        | 12,538,130.13       | 2,500,000.00    | 222,000,000.00    |
| 81,268.08   | 264,485.00            | 3,145,753.08    | 5,075,123.91      | 2,653,327.95    | 2,220,532.96         | 3,758,250.78               | 11,729,364.80    |                 | 409,818.71     | 74,166.40    | 393,739.31          |                    | 6,903,878.84    | 366,178.33      |                  |                   |                              |                              |        | 36,730,135.07       | 8,000,000.00    | 610,300,000.00    |
| 18,252.43   | 55,800.00             | 674,052.43      | 646,953.75        | 1,634,925.98    | 1,178,214.97         | 976,603.84                 | 1,127,723.97     |                 | 101,160.74     | 27,499.31    | 588,607.37          |                    | 260,000.00      | 489,262.22      |                  |                   |                              |                              |        | 7,705,004.58        | 3,000,000.00    | 133,900,000.00    |
| 28,076.64   | 5,940.00              | 534,016.64      | 154,942.75        | 778,953.35      | 13,170.19            | 395,708.16                 | 334,839.46       |                 | 25,253.39      | 7,423.43     | 334,839.46          |                    | 60,106.71       | 60,106.71       |                  |                   |                              |                              |        | 2,559,438.32        | 1,000,000.00    | 70,700,000.00     |
| 16,934.63   | 109,760.00            | 726,694.63      | 183,910.00        | 476,829.76      | 997,859.31           |                            | 35,211.81        |                 | 241,022.65     | 23,862.71    | 54,348.68           |                    | 21,858.03       | 21,858.03       |                  | 242,750.00        |                              |                              |        | 3,004,347.58        | 1,000,000.00    | 129,900,000.00    |
| 04,408.30   | 31,520.00             | 735,928.30      | 401,876.00        | 152,225.30      | 346,643.45           | 1,645,586.64               | 2,495,448.56     |                 | 87,323.01      | 15,982.50    | 321,755.76          |                    | 2,554,722.74    | 223,089.59      |                  |                   |                              |                              |        | 8,980,581.85        | 2,500,000.00    | 228,400,000.00    |
| 77,006.91   | 1,895.00              | 378,901.91      | 95,425.00         | 53,042.92       | 68,578.78            | 980,249.25                 | 852,016.54       |                 | 37,848.18      | 15,773.09    | 144,658.98          |                    | 69,045.35       | 69,045.35       |                  |                   |                              |                              |        | 2,695,540.00        | 600,000.00      | 16,800,000.00     |
| 79,479.56   | 14,135.00             | 393,614.56      | 150,000.00        | 907,634.73      | 155,254.00           | 104,774.35                 | 267,342.42       |                 | 10,180.24      | 6,431.20     | 42,638.84           |                    | 63,000.00       | 63,000.00       |                  | 175,561.00        |                              |                              |        | 2,765,015.41        | 1,000,000.00    | 52,600,000.00     |
| 31,029.31   | 23,045.00             | 654,074.31      | 468,505.00        |                 | 100,054.08           | 327,640.96                 | 1,388,318.54     |                 | 85,000.00      | 19,945.68    | 42,461.93           |                    | 175,215.44      | 175,215.44      |                  |                   |                              |                              |        | 3,261,215.94        | 1,000,000.00    | 47,300,000.00     |
| 72,527.64   | 2,485.00              | 175,012.64      | 183,175.00        | 76,101.29       | 160,023.13           |                            | 6,297.50         |                 | 46,040.28      | 3,917.78     | 51,000.86           |                    | 44,590.00       | 44,590.00       |                  |                   |                              |                              |        | 996,158.48          | 500,000.00      |                   |
| 52,541.92   | 4,273,794.50          | 88,626,336.42   | 41,152,212.92     | 87,058,205.27   | 53,219,342.61        | 96,767,025.71              | 74,552,616.43    | 3,274,291.06    | 6,985,146.38   | 925,926.37   | 22,187,702.41       | 186,370,663.94     | 56,303,557.29   | 10,432,603.40   |                  | 2,562,357.92      | 4,505,365.17                 | 248,745.09                   |        | 736,191,398.39      | 118,800,000.00  | 32,584,400,000.00 |
| 83,152.54   | 498,765.00            | 881,917.54      | 2,675,248.00      | 243,638.42      | 475,636.35           | 1,049,626.12               | 2,526,728.52     |                 | 411,155.79     | 35,255.56    | 422,265.41          |                    | 16,090,528.72   | 16,090,528.72   |                  | 268,280.00        |                              |                              |        | 26,580,280.43       | 5,000,000.00    | 535,000,000.00    |
| 59,434.64   | 17,825.00             | 577,259.64      | 297,936.80        |                 | 257,455.17           | 50,335.90                  | 633,809.36       |                 | 300,000.00     | 2,497.15     | 1,926,628.37        |                    | 21,302,598.02   | 21,302,598.02   |                  | 5,301.00          |                              |                              |        | 25,353,821.41       | 5,000,000.00    | 128,000,000.00    |
| 42,587.18   | 516,590.00            | 1,459,177.18    | 2,973,184.80      | 243,638.42      | 733,091.52           | 1,099,962.02               | 3,160,537.88     |                 | 711,155.79     | 37,752.71    | 2,348,893.78        |                    | 37,393,126.74   | 37,393,126.74   |                  | 273,581.00        |                              |                              |        | 51,934,101.84       | 10,000,000.00   | 663,000,000.00    |
| 79,240.92   | 1,710,766.00          | 3,590,006.92    | 3,885,577.49      | 13,649,884.12   | 22,476,887.16        | 11,279,234.28              | 8,872,256.76     |                 | 591,595.50     | 10,000.00    | 1,920,736.12        |                    | 14,398,570.43   | 207,075.53      | 2,245,989.30     | 5,884,047.89      |                              |                              |        | 89,011,861.50       | 30,000,000.00   | 1,625,600,000.00  |
| 50,076.16   | 52,630.00             | 102,706.16      | 83,039.53         | 395,503.11      | 6,360.00             | 518,940.91                 | 24,248.25        |                 |                | 3,267.23     | 311.12              |                    |                 | 82,809.38       |                  |                   |                              |                              |        | 1,217,185.69        | 200,000.00      | 14,700,000.00     |
| 28,207.78   | 610,275.00            | 738,482.78      | 2,034,690.07      | 3,447,945.24    | 3,113,857.35         | 1,893,929.70               | 2,315,270.71     |                 | 402,045.57     | 6,000.00     | 2,081,198.67        |                    | 8,003,758.00    | 201,134.57      | 300,825.68       |                   |                              |                              |        | 24,820,958.36       | 10,000,000.00   | 108,500,000.00    |
| 63,917.21   | 16,645.00             | 80,562.21       | 86,419.63         | 368,685.93      | 1,955,090.05         | 356,060.67                 | 148,790.29       |                 | 30,360.00      | 13,315.83    | 74,382.67           |                    | 1,740,300.00    | 51,747.95       | 20,006.83        |                   |                              |                              |        | 9,592,709.86        | 6,000,000.00    | 23,800,000.00     |
| 41,965.90   | 12,055.00             | 54,020.90       | 147,156.63        | 112,973.94      | 4,250.00             | 955,306.02                 | 39,859.49        |                 | 86,206.93      | 5,146.45     | 50,396.34           |                    | 22,340.16       | 410,700.00      |                  | 615.70            |                              |                              |        | 1,888,972.56        | 1,000,000.00    | 44,400,000.00     |
| 23,869.41   | 49,720.00             | 73,589.41       | 92,400.00         | 800,935.89      | 22,606.12            |                            | 428,428.92       |                 | 95,000.00      | 10,706.53    | 80,559.28           |                    | 122,277.33      | 122,277.33      |                  | 116,840.67        |                              |                              |        | 1,843,344.15        | 600,000.00      | 29,700,000.00     |
| 87,277.38   | 2,452,091.00          | 4,639,368.38    | 6,329,283.35      | 18,775,928.23   | 27,579,050.68        | 15,003,471.58              | 11,875,201.86    |                 | 1,158,860.56   | 48,436.04    | 4,207,584.20        |                    | 24,164,968.59   | 941,187.43      | 2,681,372.31     | 6,021,511.09      |                              |                              |        | 1,948,807.82        | 47,800,000.00   | 1,847,000,000.00  |

| CLASS AND NAME OF INSTITUTION.                    | ASSETS.             |                      |                      |                     |                      |                       |                      |                      |                      |                      |                            |                      |                     |                     |                   |                      |                       |   |
|---|---------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------------|----------------------|---------------------|---------------------|-------------------|----------------------|-----------------------|---|
|   | Capital not paid.   | CASH HOLDINGS.       |                      |                     |                      |                       |                      | Stocks and bonds.    | Discounts.           | Loans on collateral. | Creditor current accounts. | Various credits.     | Participations.     | Real estate.        | Fixtures.         | Impersonal credits.  | ACCOUNTS IN           |   |
|   |                     | Gold.                | Silver.              | Fractional money.   | Total metal.         | Notes of other banks. | Total cash.          |                      |                      |                      |                            |                      |                     |                     |                   |                      | Securities.           | C |
| <b>BANKS OF ISSUE.</b>                            |                     |                      |                      |                     |                      |                       |                      |                      |                      |                      |                            |                      |                     |                     |                   |                      |                       |   |
| Banco Nacional de México                          | \$369,300.00        | \$29,330,465.00      | \$16,512,986.00      | \$4,216,234.82      | \$50,059,685.82      | \$1,578,220.00        | \$51,637,905.82      | \$10,278,576.05      | \$22,979,877.46      | \$19,188,304.50      | \$45,934,706.27            | \$25,694,681.15      | \$3,274,291.06      | \$2,206,875.28      | \$328,862.71      | \$16,055,949.30      | \$101,388,681.44      |   |
| Banco de Londres y México                         |                     | 8,193,200.00         | 2,723,477.00         | 381,365.47          | 11,298,042.47        | 1,304,530.00          | 12,602,572.47        | 10,856,486.97        | 30,795,514.50        | 21,105,183.00        | 8,030,686.51               | 4,053,281.46         |                     | 1,006,406.20        | 34,749.65         | 913,224.02           | 78,614,382.00         |   |
| Banco Minero de Chihuahua                         |                     | 1,058,310.00         | 521,899.00           | 116,698.99          | 1,696,907.99         | 84,675.50             | 1,781,583.49         | 2,005,736.00         | 4,029,325.15         | 1,944,160.63         | 7,086,254.43               |                      |                     | 202,665.70          | 68,491.41         | 202,044.85           |                       |   |
| Banco Peninsular Mexicano                         |                     | 1,988,230.00         | 321,900.00           | 21,807.76           | 2,331,937.76         | 56,800.00             | 2,388,737.76         | 4,700,145.94         | 3,223,774.49         | 434,168.01           | 1,025,733.07               | 10,076,134.25        |                     | 202,500.00          | 32,546.65         | 2,072,102.42         |                       |   |
| Banco de Durango                                  |                     | 234,260.00           | 296,887.00           | 10,413.41           | 541,560.41           | 32,735.00             | 574,295.41           | 465,000.00           | 1,446,647.86         | 165,110.76           | 3,088,061.59               |                      |                     | 202,089.96          | 29,353.34         | 119,739.14           | 4,975,792.88          |   |
| Banco de Zacatecas                                | 400,000.00          | 179,465.00           | 249,792.00           | 17,301.12           | 446,558.12           | 35,965.00             | 482,523.12           | 150,000.00           | 898,051.03           | 179,733.94           | 1,739,824.67               |                      |                     | 70,321.47           | 20,947.06         |                      |                       |   |
| Banco de Nuevo León                               |                     | 567,160.00           | 260,894.00           | 66,800.90           | 894,854.90           | 23,375.00             | 918,229.90           | 782,900.00           | 1,115,541.04         | 740,211.99           | 2,963,855.06               |                      |                     | 225,000.00          | 17,000.00         |                      |                       |   |
| Banco del Estado de México                        |                     | 634,760.00           | 805,510.00           | 147,408.25          | 1,587,678.25         | 38,941.00             | 1,626,619.25         | 433,778.50           | 1,515,644.94         | 715,879.20           | 2,760,166.09               |                      |                     | 124,053.78          | 20,892.31         | 45,952.52            | 1,391,807.62          |   |
| Banco de Coahuila                                 |                     | 574,470.00           | 114,602.00           | 14,423.08           | 703,495.08           | 32,800.00             | 736,295.08           | 240,000.00           | 830,965.53           | 129,830.09           | 2,380,825.05               |                      |                     | 326,758.46          | 28,762.28         | 90,541.43            |                       |   |
| Banco de San Luis Potosí                          |                     | 379,835.00           | 540,903.00           | 29,867.81           | 950,605.81           | 58,165.00             | 1,008,770.81         | 518,125.00           | 1,765,452.89         | 377,044.20           | 3,921,299.38               |                      |                     | 146,096.76          | 40,384.23         | 188,610.06           |                       |   |
| Banco de Sonora                                   |                     | 550,420.00           | 676,898.00           | 99,945.58           | 1,327,263.58         | 105,635.00            | 1,432,898.58         | 110,856.00           | 1,913,410.82         | 916,713.17           | 3,065,150.00               |                      |                     | 178,947.25          | 34,059.47         | 141,928.28           |                       |   |
| Banco Occidental de México                        |                     | 501,405.00           | 886,175.00           | 107,796.43          | 1,495,376.43         | 76,193.00             | 1,571,569.43         | 658,225.00           | 958,390.00           | 431,462.37           | 1,343,692.12               |                      |                     | 155,000.00          | 14,435.87         | 27,522.50            |                       |   |
| Banco Mercantil de Veracruz                       |                     | 1,154,730.00         | 873,986.00           | 157,830.27          | 2,186,546.27         | 168,235.00            | 2,354,781.27         | 1,170,004.00         | 3,667,815.75         | 976,693.64           | 58,501.45                  |                      |                     | 245,134.65          | 18,971.89         | 109,670.70           |                       |   |
| Banco de Jalisco                                  |                     | 539,210.00           | 611,328.00           | 22,104.25           | 1,172,642.25         | 75,085.00             | 1,247,727.25         | 669,169.75           | 4,375,565.74         | 199,335.72           | 2,660,456.04               |                      |                     | 349,649.67          | 23,243.05         | 75,148.69            |                       |   |
| Banco Mercantil de Monterrey                      |                     | 519,875.00           | 163,047.00           | 67,481.28           | 750,403.28           | 93,375.00             | 843,778.28           | 753,298.30           | 809,186.79           | 475,180.52           | 2,519,000.00               |                      |                     | 300,000.00          | 18,224.35         | 120,072.81           |                       |   |
| Banco Oriental de México                          |                     | 538,515.00           | 2,078,566.00         | 264,187.08          | 2,881,268.08         | 264,485.00            | 3,145,753.08         | 5,075,123.91         | 2,653,327.95         | 2,220,532.96         | 3,758,250.78               | 11,729,364.80        |                     | 409,818.71          | 74,166.40         | 393,739.31           |                       |   |
| Banco de Guanajuato                               |                     | 233,120.00           | 373,801.00           | 11,331.43           | 618,252.43           | 55,800.00             | 674,052.43           | 646,953.75           | 1,634,925.98         | 1,178,214.97         | 976,603.84                 |                      |                     | 101,160.74          | 27,499.31         | 588,607.37           |                       |   |
| Banco de Tlaxcala                                 |                     | 288,855.00           | 230,536.00           | 8,685.64            | 528,076.64           | 5,940.00              | 534,016.64           | 154,942.75           | 778,953.35           | 13,170.19            | 395,708.16                 |                      |                     | 25,253.39           | 7,423.43          | 255,024.24           |                       |   |
| Banco de Hidalgo                                  |                     | 318,245.00           | 248,068.00           | 50,621.63           | 616,934.63           | 109,760.00            | 726,694.63           | 183,910.00           | 476,829.76           | 997,859.31           |                            |                      |                     | 241,022.65          | 23,862.71         | 54,348.68            |                       |   |
| Banco de Tamaulipas                               |                     | 508,785.00           | 175,212.00           | 20,411.30           | 704,408.30           | 31,520.00             | 735,928.30           | 401,876.00           | 152,225.30           | 346,643.45           | 1,645,586.64               |                      |                     | 87,323.01           | 15,982.50         | 321,755.76           |                       |   |
| Banco de Aguascalientes                           |                     | 215,500.00           | 159,422.00           | 2,084.91            | 377,006.91           | 1,895.00              | 378,901.91           | 95,425.00            | 53,042.92            | 68,578.78            | 980,249.25                 |                      |                     | 37,848.18           | 15,773.09         | 144,658.98           |                       |   |
| Banco de Morelos                                  |                     | 35,565.00            | 317,879.00           | 26,035.56           | 379,479.56           | 14,135.00             | 393,614.56           | 150,000.00           | 907,634.73           | 155,254.00           | 104,774.35                 |                      |                     | 10,180.24           | 6,431.20          | 42,638.84            |                       |   |
| Banco de Querétaro                                |                     | 419,360.00           | 200,277.00           | 11,392.31           | 631,029.31           | 23,045.00             | 654,074.31           | 468,505.00           |                      | 100,054.08           | 327,640.96                 |                      |                     | 85,000.00           | 19,945.68         | 42,461.93            |                       |   |
| Banco de Guerrero                                 | 250,000.00          | 86,685.00            | 71,098.00            | 14,744.64           | 172,527.64           | 2,485.00              | 175,012.64           | 183,175.00           | 76,101.29            | 160,023.13           |                            |                      |                     | 46,040.28           | 3,917.78          | 51,000.86            |                       |   |
| <b>Total</b>                                      | <b>1,019,300.00</b> | <b>49,050,425.00</b> | <b>29,415,143.00</b> | <b>5,886,973.92</b> | <b>84,352,541.92</b> | <b>4,273,794.50</b>   | <b>88,626,336.42</b> | <b>41,152,212.92</b> | <b>87,058,205.27</b> | <b>53,219,342.61</b> | <b>96,767,025.71</b>       | <b>74,552,616.43</b> | <b>3,274,291.06</b> | <b>6,985,146.38</b> | <b>925,926.37</b> | <b>22,187,702.41</b> | <b>186,370,663.94</b> |   |
| <b>MORTGAGE BANKS.</b>                            |                     |                      |                      |                     |                      |                       |                      |                      |                      |                      |                            |                      |                     |                     |                   |                      |                       |   |
| Banco Internacional de Hipotecario de México      | 1,500,000.00        | 281,690.00           | 69,200.00            | 32,262.54           | 383,152.54           | 498,765.00            | 881,917.54           | 2,675,248.00         | 243,638.42           | 475,636.35           | 1,049,626.12               | 2,526,728.52         |                     | 411,155.79          | 35,255.56         | 422,265.41           |                       |   |
| Banco Hipotecario de Crédito Territorial Mexicano |                     | 519,460.00           | 20,020.00            | 19,954.64           | 559,434.64           | 17,825.00             | 577,259.64           | 297,936.80           |                      | 257,455.17           | 50,335.90                  | 633,809.36           |                     | 300,000.00          | 2,497.15          | 1,926,628.37         |                       |   |
| <b>Total</b>                                      | <b>1,500,000.00</b> | <b>801,150.00</b>    | <b>89,220.00</b>     | <b>52,217.18</b>    | <b>942,587.18</b>    | <b>516,590.00</b>     | <b>1,459,177.18</b>  | <b>2,973,184.80</b>  | <b>243,638.42</b>    | <b>733,091.52</b>    | <b>1,099,962.02</b>        | <b>3,160,537.88</b>  |                     | <b>711,155.79</b>   | <b>37,752.71</b>  | <b>2,348,893.78</b>  |                       |   |
| <b>BANKS OF PROMOTION.</b>                        |                     |                      |                      |                     |                      |                       |                      |                      |                      |                      |                            |                      |                     |                     |                   |                      |                       |   |
| Banco Central Mexicano                            |                     | 1,500,710.00         | 305,477.00           | 73,053.92           | 1,879,240.92         | 1,710,766.00          | 3,590,006.92         | 3,885,577.49         | 13,649,884.12        | 22,476,887.16        | 11,279,234.28              | 8,872,256.76         |                     | 591,595.50          | 10,000.00         | 1,920,736.12         |                       |   |
| Banco Comercial Refaccionario de Chihuahua        |                     | 49,010.00            | 503.00               | 563.16              | 50,076.16            | 52,630.00             | 102,706.16           | 83,039.53            | 395,503.11           | 6,360.00             | 518,940.91                 |                      |                     | 3,267.23            |                   | 311.12               |                       |   |
| Banco Mexicano de Comercio e Industria            |                     | 107,215.00           | 5,111.00             | 15,881.78           | 128,207.78           | 610,275.00            | 738,482.78           | 2,034,690.07         | 3,447,945.24         | 3,113,857.35         | 1,893,929.70               | 2,315,270.71         |                     | 402,045.57          | 6,000.00          | 2,081,198.67         |                       |   |
| Banco de "La Laguna" (Refaccionario)              | 3,000,000.00        | 36,515.00            | 7,089.00             | 20,313.21           | 63,917.21            | 16,645.00             | 80,562.21            | 86,419.63            | 368,685.93           | 1,955,090.05         | 356,060.67                 | 148,790.29           |                     | 30,360.00           | 13,315.83         | 74,382.67            |                       |   |
| Banco de Campeche                                 |                     | 2,420.00             | 35,385.00            | 4,160.90            | 41,965.90            | 12,055.00             | 54,020.90            | 147,156.63           | 112,973.94           | 4,250.00             | 955,306.02                 |                      |                     | 39,859.49           | 5,146.45          | 50,396.34            |                       |   |
| Banco de Michoacán                                |                     | 1,570.00             | 11,544.00            | 10,755.41           | 23,869.41            | 49,720.00             | 73,589.41            | 92,400.00            | 800,935.89           | 22,606.12            |                            |                      |                     | 95,000.00           | 10,766.53         | 80,559.28            |                       |   |
| <b>Total</b>                                      | <b>3,000,000.00</b> | <b>1,697,440.00</b>  | <b>365,109.00</b>    | <b>124,728.38</b>   | <b>2,187,277.38</b>  | <b>2,452,091.00</b>   | <b>4,639,368.38</b>  | <b>6,329,283.35</b>  | <b>18,775,928.23</b> | <b>27,579,050.68</b> | <b>15,003,471.58</b>       | <b>11,875,201.86</b> |                     | <b>1,158,860.56</b> | <b>48,436.04</b>  | <b>4,207,584.20</b>  |                       |   |

**APPENDIX D.—Table No. 2.**  
**Balance Sheet of BANKS OF PROMOTION at End of Each Half Year, 1898-1909.**

| DATE.        | ASSETS.         |                |               |                   |                |              |                |                   |                |                      |                 |                  |                  |                   |              | LIAB.               |                |                        |  |                |  |
|--------------|-----------------|----------------|---------------|-------------------|----------------|--------------|----------------|-------------------|----------------|----------------------|-----------------|------------------|------------------|-------------------|--------------|---------------------|----------------|------------------------|--|----------------|--|
|              | CASH HOLDINGS.  |                |               |                   |                |              |                | Stocks and bonds. | Discounts.     | Loans on collateral. | Mortgage loans. | Promotion loans. | Various credits. | Real estate, etc. | Total.       | Authorized capital. | Reserve fund.  | Special guaranty fund. | Deposits at sight or at no more than three days. |                |  |
|              | Capital unpaid. | Gold.          | Silver pesos. | Fractional money. | Total metal.   | Bank notes.  | Total cash.    |                   |                |                      |                 |                  |                  |                   |              |                     |                |                        |  |                |  |
| December 31— |                 |                |               |                   |                |              |                |                   |                |                      |                 |                  |                  |                   |              |                     |                |                        |  |                |  |
| 1 1899       | \$3,000,000.00  |                |               |                   |                |              | \$1,825,907.59 |                   | \$3,460,295.09 | \$1,016,858.51       |                 |                  |                  | \$1,553,020.39    |              | \$10,856,081.58     | \$6,000,000.00 |                        |  |                |  |
| 2 1900       | 105,000.00      |                |               |                   |                |              | 1,464,089.25   | \$750,820.70      | 3,530,497.07   | 1,299,568.50         |                 |                  |                  | 4,056,741.02      | \$339,679.58 | 11,546,396.12       | 6,300,000.00   | \$19,443.69            |  | \$2,770,330.73 |  |
| 3 1901       | 163,800.00      |                |               |                   | \$1,668,859.82 | \$849,867.00 | 2,518,726.82   | 1,384,796.06      | 7,042,705.00   | 2,914,992.04         |                 |                  |                  | 3,244,731.38      | 386,895.89   | 17,656,647.19       | 7,600,000.00   | 168,496.05             |  | 5,063,924.48   |  |
| 4 1902       | 100,000.00      |                |               |                   | 1,476,391.21   | 913,873.00   | 2,390,264.21   | 2,933,004.96      | 8,327,342.91   | 3,568,473.12         |                 | \$520,000.00     |                  | 8,594,817.86      | 391,730.72   | 26,825,633.78       | 7,800,000.00   | 233,133.93             |  | 7,215,774.93   |  |
| 5 1903       | 100,000.00      |                |               |                   | 1,275,253.62   | 2,129,604.00 | 3,404,857.62   | 2,868,236.03      | 5,437,781.20   | 3,248,436.60         |                 | 954,500.00       |                  | 13,858,946.61     | 410,000.00   | 30,282,758.06       | 10,200,000.00  | 1,626.93               | \$916,526.34                                     | 6,997,844.31   |  |
| 6 1904       | 100,000.00      |                |               |                   | 1,257,410.59   | 2,388,851.00 | 3,646,261.59   | 3,101,765.50      | 4,800,219.66   | 2,694,285.38         |                 | \$70,127.90      | 1,040,246.25     | 14,543,651.40     | 400,000.00   | 30,396,557.68       | 10,200,000.00  | 1,041,200.19           | 2,000.00   | 4,489,412.38   |  |
| 7 1905       |                 |                |               |                   | 1,284,579.39   | 2,501,385.00 | 3,785,964.39   | 7,743,853.26      | 7,556,158.99   | 3,743,111.26         |                 | 73,534.02        | 2,774,438.71     | 25,399,842.64     | 390,000.00   | 51,466,903.27       | 21,200,000.00  | 2,048,389.63           | 2,000.00   | 6,819,614.91   |  |
| 8 1906       | 5,000,000.00    | \$1,029,465.00 | \$168,008.00  | \$23,624.09       | 1,221,097.09   | 2,150,642.00 | 3,371,739.09   | 6,095,031.53      | 11,571,381.62  | 4,778,599.54         |                 | 42,967.19        | 2,810,427.77     | 42,688,487.92     | 651,028.63   | 77,009,663.29       | 31,200,000.00  | 2,178,631.16           | 3,004.87   | 9,461,410.84   |  |
| 9 1907       | 11,915,945.00   | 1,039,615.00   | 169,925.00    | 74,125.38         | 1,283,665.38   | 2,004,759.00 | 3,288,424.38   | 6,889,160.87      | 13,270,479.46  | 9,406,394.60         |                 | 78,117.06        | 2,670,717.18     | 52,252,635.07     | 652,392.74   | 100,424,266.36      | 40,200,000.00  | 5,924,008.37           | 4,004.87   | 7,220,473.79   |  |
| 10 1908      | 5,500,000.00    | 1,606,290.00   | 55,681.00     | 107,468.51        | 1,769,439.51   | 2,817,920.00 | 4,587,359.51   | 9,604,323.01      | 13,847,930.27  | 25,073,751.37        |                 | 414,108.67       | 5,169,955.56     | 56,685,481.01     | 895,249.29   | 121,778,158.69      | 46,200,000.00  | 1,310,592.96           | 5,030,004.87                                     | 7,179,586.80   |  |
| June 30—     |                 |                |               |                   |                |              |                |                   |                |                      |                 |                  |                  |                   |              |                     |                |                        |  |                |  |
| 1 1898-99    | 3,000,000.00    |                |               |                   |                |              | 1,244,603.89   |                   | 2,210,326.00   | 289,693.75           |                 |                  |                  | 1,552,667.06      |              | 8,297,290.70        | 6,000,000.00   |                        |  |                |  |
| 2 1899-1900  |                 |                |               |                   |                |              | 2,546,304.66   | 695,794.41        | 4,057,661.59   | 1,327,313.58         |                 |                  |                  | 2,858,083.50      | 281,735.15   | 11,766,892.89       | 6,000,000.00   | 19,443.69              |  | 2,667,712.73   |  |
| 3 1900-1901  | 240,000.00      |                |               |                   | 3,120,827.18   | 2,547,920.00 | 5,668,747.18   | 590,904.25        | 4,783,000.76   | 1,514,060.94         |                 |                  |                  | 1,180,541.37      | 383,783.17   | 14,361,037.67       | 7,600,000.00   | 168,496.05             |  | 3,391,396.22   |  |
| 4 1901-2     | 104,300.00      |                |               |                   | 1,662,260.80   | 2,002,878.00 | 3,665,138.80   | 968,842.54        | 7,229,945.17   | 2,915,768.72         |                 |                  |                  | 3,515,855.23      | 388,325.72   | 18,788,176.18       | 7,600,000.00   | 233,133.93             |  | 6,071,671.92   |  |
| 5 1902-3     | 1,429,900.00    |                |               |                   | 1,708,790.87   | 3,228,384.00 | 4,937,174.87   | 2,383,238.76      | 6,331,495.39   | 3,278,687.73         |                 | 520,000.00       |                  | 14,149,266.10     | 409,135.05   | 33,438,897.90       | 10,500,000.00  | 925,013.73             |  | 7,666,575.52   |  |
| 6 1903-4     | 100,000.00      |                |               |                   | 1,349,825.27   | 2,019,074.00 | 3,368,899.27   | 3,086,709.75      | 5,050,327.26   | 3,051,740.22         |                 | 1,257,500.00     |                  | 14,119,226.08     | 408,375.23   | 30,442,777.81       | 10,200,000.00  | 1,039,529.66           | 1,000.00   | 4,634,899.58   |  |
| 7 1904-5     | 70,800.00       |                |               |                   | 1,493,398.53   | 2,632,850.00 | 4,126,248.53   | 7,509,734.98      | 6,405,215.34   | 2,658,911.13         |                 | 78,412.05        | 1,329,080.16     | 21,382,407.66     | 395,000.00   | 43,955,809.85       | 21,200,000.00  | 958,082.03             | 2,000.00   | 5,771,970.10   |  |
| 8 1905-6     |                 | 934,885.00     | 217,934.00    | 26,667.93         | 1,179,486.93   | 1,807,645.00 | 2,987,131.93   | 5,108,190.66      | 8,443,751.42   | 3,200,589.98         |                 | 65,900.62        | 2,780,801.29     | 27,512,498.57     | 390,000.00   | 50,488,864.47       | 21,200,000.00  | 2,178,631.16           | 3,004.87   | 5,914,316.13   |  |
| 9 1906-7     | 5,000,000.00    | 1,083,600.00   | 164,724.00    | 113,667.63        | 1,361,991.63   | 1,785,775.00 | 3,147,766.63   | 6,178,791.96      | 11,872,595.19  | 6,287,796.63         |                 | 47,901.55        | 2,947,770.10     | 51,924,946.03     | 651,224.34   | 88,058,792.43       | 31,200,000.00  | 2,474,008.37           | 4,004.87   | 9,695,925.42   |  |
| 10 1907-8    | 8,000,000.00    | 1,196,840.00   | 28,296.00     | 105,169.63        | 1,330,305.63   | 2,287,480.00 | 3,617,785.63   | 6,870,301.68      | 13,989,584.23  | 21,896,790.47        |                 | 78,675.77        | 3,695,933.23     | 45,858,881.28     | 687,425.06   | 104,695,377.35      | 46,200,000.00  | 1,308,085.61           | 5,030,004.87                                     | 7,711,185.12   |  |
| 11 1908-9    | 3,000,000.00    | 1,697,440.00   | 365,109.00    | 124,728.38        | 2,187,277.36   | 2,452,091.00 | 4,639,368.38   | 6,329,283.35      | 18,775,928.23  | 27,579,050.68        |                 | 941,187.43       | 2,681,372.31     | 63,221,545.14     | 1,207,296.60 | 128,375,032.12      | 47,800,000.00  | 1,847,019.64           | 5,041,097.09                                     | 9,066,432.56   |  |

APPENDIX D.—Table No. 2.

Balance Sheet of BANKS OF PROMOTION at End of Each Half Year, 1898-1909.

| ASSETS.           |                |              |                |                   |                |                      |                 |                  |                  |                   | LIABILITIES.    |                     |                |                        |  |                                    |                            |                 |                 |    |
|-------------------|----------------|--------------|----------------|-------------------|----------------|----------------------|-----------------|------------------|------------------|-------------------|-----------------|---------------------|----------------|------------------------|--|------------------------------------|----------------------------|-----------------|-----------------|----|
| CASH HOLDINGS.    |                |              |                | Stocks and bonds. | Discounts.     | Loans on collateral. | Mortgage loans. | Promotion loans. | Various credits. | Real estate, etc. | Total.          | Authorized capital. | Reserve fund.  | Special guaranty fund. | Deposits at sight or at no more than three days. | Deposits for more than three days. | Cash bonds in circulation. | Various debits. | Total.          |    |
| Fractional money. | Total metal.   | Bank notes.  | Total cash.    |                   |                |                      |                 |                  |                  |                   |                 |                     |                |                        |  |                                    |                            |                 |                 |    |
|                   |                |              | \$1,825,907.59 |                   | \$3,460,295.09 | \$1,016,858.51       |                 |                  | \$1,553,020.39   |                   | \$10,856,081.58 | \$6,000,000.00      |                |                        |  |                                    |                            | \$4,856,081.58  | \$10,856,081.58 | 1  |
|                   |                |              | 1,464,089.25   | \$750,820.70      | 3,530,497.07   | 1,299,568.50         |                 |                  | 4,056,741.02     | \$339,679.58      | 11,546,396.12   | 6,300,000.00        | \$19,443.69    |                        | \$2,770,330.73                                   | \$185,023.23                       | \$801,600.00               | 1,469,998.47    | 11,546,396.12   | 2  |
|                   | \$1,668,859.82 | \$849,867.00 | 2,518,726.82   | 1,384,796.06      | 7,042,705.00   | 2,914,992.04         |                 |                  | 3,244,731.38     | 386,895.89        | 17,656,647.19   | 7,600,000.00        | 168,496.05     |                        | 5,063,924.48                                     | 691,513.72                         | 1,802,300.00               | 2,330,412.94    | 17,656,647.19   | 3  |
|                   | 1,476,391.21   | 913,873.00   | 2,390,264.21   | 2,933,004.96      | 8,327,342.91   | 3,568,473.12         |                 | \$20,000.00      | 8,594,817.86     | 391,730.72        | 26,825,633.78   | 7,800,000.00        | 233,133.93     |                        | 7,215,774.93                                     | 1,002,510.62                       | 3,395,100.00               | 7,179,114.30    | 26,825,633.78   | 4  |
|                   | 1,275,253.62   | 2,129,604.00 | 3,404,857.62   | 2,868,236.03      | 5,437,781.20   | 3,248,436.60         |                 | 954,500.00       | 13,858,946.61    | 410,000.00        | 30,282,758.06   | 10,200,000.00       | 1,626.93       | \$916,526.34           | 6,997,844.31                                     | 1,251,484.27                       | 2,155,600.00               | 8,759,676.21    | 30,282,758.06   | 5  |
|                   | 1,257,410.59   | 2,388,851.00 | 3,646,261.59   | 3,101,765.50      | 4,800,219.66   | 2,694,285.38         | \$70,127.90     | 1,040,246.25     | 14,543,651.40    | 400,000.00        | 30,396,557.68   | 10,200,000.00       | 1,041,200.19   | 2,000.00               | 4,489,412.38                                     | 1,751,405.81                       | 1,769,600.00               | 11,322,939.30   | 30,396,557.68   | 6  |
|                   | 1,284,579.39   | 2,501,385.00 | 3,785,964.39   | 7,743,853.26      | 7,556,158.99   | 3,743,111.26         |                 | 73,534.02        | 2,774,438.71     | 25,399,842.64     | 51,466,903.27   | 21,200,000.00       | 2,048,389.63   | 2,000.00               | 6,819,614.91                                     | 2,635,685.24                       | 3,182,100.00               | 15,579,113.49   | 51,466,903.27   | 7  |
| \$23,624.09       | 1,221,097.09   | 2,150,642.00 | 3,371,739.09   | 6,095,031.53      | 11,571,381.62  | 4,778,599.54         |                 | 42,967.19        | 2,810,427.77     | 42,688,487.92     | 651,028.63      | 31,200,000.00       | 2,178,631.16   | 3,004.87               | 9,461,410.84                                     | 5,337,078.11                       | 2,392,400.00               | 26,437,138.31   | 77,009,663.29   | 8  |
| 74,125.38         | 1,283,665.38   | 2,004,759.00 | 3,288,424.38   | 6,889,160.87      | 13,270,479.46  | 9,406,394.60         |                 | 78,117.06        | 2,670,717.18     | 52,252,635.07     | 652,392.74      | 40,200,000.00       | 5,924,008.37   | 4,004.87               | 7,220,473.79                                     | 6,238,391.62                       | 809,000.00                 | 40,028,387.71   | 100,424,266.36  | 9  |
| 107,468.51        | 1,769,439.51   | 2,817,920.00 | 4,587,359.51   | 9,604,323.01      | 13,847,930.27  | 25,073,751.37        |                 | 414,108.67       | 5,169,955.56     | 56,685,481.01     | 895,249.29      | 46,200,000.00       | 1,310,592.96   | 5,030,004.87           | 7,179,586.80                                     | 7,215,346.15                       | 2,562,900.00               | 52,279,727.91   | 121,778,158.69  | 10 |
|                   |                |              | 1,244,603.89   |                   | 2,210,326.00   | 289,693.75           |                 |                  | 1,552,667.06     |                   | 8,297,290.70    | 6,000,000.00        |                |                        |  |                                    |                            | 2,297,290.70    | 8,297,290.70    | 1  |
|                   |                |              | 2,546,304.66   | 695,794.41        | 4,057,661.59   | 1,327,313.58         |                 |                  | 2,858,083.50     | 281,735.15        | 11,766,892.89   | 6,000,000.00        | 19,443.69      |                        | 2,667,712.73                                     | 422,024.54                         | 428,400.00                 | 2,229,311.93    | 11,766,892.89   | 2  |
|                   | 3,120,827.18   | 2,547,920.00 | 5,668,747.18   | 590,904.25        | 4,783,000.76   | 1,514,060.94         |                 |                  | 1,180,541.37     | 383,783.17        | 14,361,037.67   | 7,600,000.00        | 168,496.05     |                        | 3,391,396.22                                     | 344,042.01                         | 748,200.00                 | 2,108,903.39    | 14,361,037.67   | 3  |
|                   | 1,662,260.80   | 2,002,878.00 | 3,665,138.80   | 968,842.54        | 7,229,945.17   | 2,915,768.72         |                 |                  | 3,515,855.23     | 388,325.72        | 18,788,176.18   | 7,600,000.00        | 233,133.93     |                        | 6,071,671.92                                     | 922,741.65                         | 2,787,300.00               | 1,173,328.68    | 18,788,176.18   | 4  |
|                   | 1,708,790.87   | 3,228,384.00 | 4,937,174.87   | 2,383,238.76      | 6,331,495.39   | 3,278,687.73         |                 | 520,000.00       | 14,149,266.10    | 409,135.05        | 33,438,897.90   | 10,500,000.00       | 925,013.73     |                        | 7,666,575.52                                     | 1,035,148.78                       | 3,797,800.00               | 9,514,359.87    | 33,438,897.90   | 5  |
|                   | 1,349,825.27   | 2,019,074.00 | 3,368,899.27   | 3,086,709.75      | 5,050,327.26   | 3,051,740.22         |                 | 1,257,500.00     | 14,119,226.08    | 408,375.23        | 30,442,777.81   | 10,200,000.00       | 1,039,529.66   | 1,000.00               | 4,634,899.58                                     | 1,165,836.76                       | 1,932,000.00               | 11,469,511.81   | 30,442,777.81   | 6  |
|                   | 1,493,398.53   | 2,632,850.00 | 4,126,248.53   | 7,509,734.98      | 6,405,215.34   | 2,658,911.13         | 78,412.05       | 1,329,080.16     | 21,382,407.66    | 395,000.00        | 43,955,809.85   | 21,200,000.00       | 958,082.03     | 2,000.00               | 5,771,970.10                                     | 922,632.17                         | 2,700,600.00               | 12,400,525.55   | 43,955,809.85   | 7  |
|                   | 1,179,486.93   | 1,807,645.00 | 2,987,131.93   | 5,108,190.66      | 8,443,751.42   | 3,200,589.98         |                 | 65,900.62        | 2,780,801.29     | 27,512,498.57     | 390,000.00      | 50,488,864.47       | 21,200,000.00  | 3,004.87               | 5,914,316.13                                     | 3,211,864.90                       | 2,596,900.00               | 15,384,147.41   | 50,488,864.47   | 8  |
|                   | 1,361,991.63   | 1,785,775.00 | 3,147,766.63   | 6,178,791.96      | 11,872,595.19  | 6,287,796.63         | 47,901.55       | 2,947,770.10     | 51,924,946.03    | 651,224.34        | 88,058,792.43   | 31,200,000.00       | 2,474,008.37   | 4,004.87               | 9,695,925.42                                     | 5,173,622.01                       | 1,590,500.00               | 37,920,731.76   | 88,058,792.43   | 9  |
|                   | 1,051,669.63   | 1,330,305.63 | 2,387,480.00   | 3,617,785.63      | 6,870,301.68   | 21,896,790.47        |                 | 78,675.77        | 3,695,933.23     | 45,858,881.28     | 687,425.06      | 46,200,000.00       | 1,308,085.61   | 5,030,004.87           | 7,711,185.12                                     | 6,033,579.49                       | 624,400.00                 | 37,788,122.26   | 104,695,377.35  | 10 |
|                   | 124,728.38     | 2,187,277.36 | 2,452,091.00   | 4,639,368.38      | 6,329,283.35   | 18,775,928.23        |                 | 27,579,050.68    | 941,187.43       | 2,681,372.31      | 63,221,545.14   | 1,207,296.60        | 128,375,032.12 | 1,847,019.64           | 9,066,432.56                                     | 8,776,990.48                       | 5,621,500.00               | 50,221,592.35   | 128,375,032.12  | 11 |

APPENDIX D.—Table No. 3.

Balance Sheet of MORTGAGE BANKS at End of Each Half Year, 1898-1909.

| DATE.        | ASSETS.         |                |               |                   |              |                       |              |                   |                |                       |                 |                  |                   |                 | LIA                 |               |                        |   |  |
|--------------|-----------------|----------------|---------------|-------------------|--------------|-----------------------|--------------|-------------------|----------------|-----------------------|-----------------|------------------|-------------------|-----------------|---------------------|---------------|------------------------|---|--|
|              | Capital unpaid. | CASH HOLDINGS. |               |                   |              |                       |              | Stocks and bonds. | Discounts.     | Loans on col-lateral. | Mortgage loans. | Various credits. | Real estate, etc. | Total.          | Authorized capital. | Reserve fund. | Special guaranty fund. | Deposits at sight or at no more than three days |  |
|              |                 | Gold.          | Silver pesos. | Fractional money. | Total metal. | Notes of other banks. | Total cash.  |                   |                |                       |                 |                  |                   |                 |                     |               |                        |   |  |
| December 31— |                 |                |               |                   |              |                       |              |                   |                |                       |                 |                  |                   |                 |                     |               |                        |   |  |
| 1 1898       | \$1,500,000.00  |                |               |                   |              |                       | \$824,735.03 |                   | \$1,084,354.48 | \$258,900.37          | \$4,933,807.57  | \$3,096,055.48   | \$291,500.00      | \$11,989,352.93 | \$5,000,000.00      | \$68,600.00   |                        | \$672,960.75                                    |  |
| 2 1899       | 1,500,000.00    |                |               |                   |              |                       | 684,102.70   |                   | 848,961.51     | 116,898.47            | 7,176,750.54    | 3,313,379.07     | 281,475.00        | 13,921,567.29   | 5,000,000.00        | 78,000.00     |                        | 388,596.71                                      |  |
| 3 1900       | 1,500,000.00    |                |               |                   |              |                       | 970,255.75   |                   | 901,444.31     | 230,896.91            | 7,808,445.42    | 3,056,216.11     | 270,000.00        | 14,737,258.50   | 5,000,000.00        | 90,000.00     |                        | 204,082.41                                      |  |
| 4 1901       | 2,500,000.00    |                |               |                   | \$206,276.41 | \$576,835.00          | 783,111.41   |                   | 799,308.63     | 307,036.00            | 10,633,492.88   | 4,237,089.23     | 273,124.65        | 19,533,162.80   | 7,000,000.00        | 103,500.00    |                        | 342,815.96                                      |  |
| 5 1902       | 1,500,000.00    |                |               |                   | 131,671.45   | 336,045.00            | 467,716.45   | \$177,189.47      | 1,428,516.14   | 496,138.24            | 12,138,561.21   | 3,134,279.87     | 273,124.65        | 19,615,526.03   | 7,000,000.00        | 122,085.81    |                        | 282,048.79                                      |  |
| 6 1903       | 1,500,000.00    |                |               |                   | 234,976.55   | 267,703.00            | 502,679.55   | 21,751.62         | 703,945.12     | 798,217.75            | 12,844,942.22   | 2,937,053.79     | 521,189.33        | 19,829,779.38   | 7,000,000.00        | 143,660.36    | \$19,735.00            | 662,689.25                                      |  |
| 7 1904       | 1,500,000.00    |                |               |                   | 278,434.21   | 358,035.00            | 636,469.21   | 35,327.50         | 529,860.70     | 1,162,706.16          | 13,803,421.64   | 3,912,405.39     | 731,387.06        | 22,311,577.66   | 7,000,000.00        | 252,599.47    | 30,700.00              | 454,163.14                                      |  |
| 8 1905       | 1,500,000.00    |                |               |                   | 340,387.17   | 428,830.00            | 769,217.17   | 3,652,003.26      | 302,017.74     | 1,827,914.19          | 15,131,726.97   | 2,454,657.65     | 750,924.45        | 26,388,461.43   | 7,000,000.00        | 344,511.06    | 30,688.00              | 1,061,363.44                                    |  |
| 9 1906       | 1,500,000.00    | \$203,745.00   | \$40,925.00   | \$26,355.71       | 271,025.71   | 860,200.00            | 1,131,225.71 | 3,265,936.36      | 341,663.24     | 1,033,572.62          | 18,350,906.65   | 3,338,288.89     | 741,155.79        | 29,702,749.26   | 7,000,000.00        | 412,483.36    | 143,021.24             | 1,560,020.34                                    |  |
| 10 1907      | 1,500,000.00    | 323,400.00     | 13,536.00     | 35,601.00         | 372,537.00   | 412,055.00            | 784,592.00   | 3,227,003.94      | 334,960.03     | 887,629.94            | 21,692,887.52   | 3,666,312.44     | 743,801.65        | 32,837,187.52   | 10,000,000.00       | 497,972.34    | 170,001.29             | 1,495,170.58                                    |  |
| 11 1908      | 1,500,000.00    | 730,125.00     | 29,050.00     | 16,543.04         | 775,718.04   | 1,175,390.00          | 1,951,108.04 | 2,984,604.79      | 229,871.85     | 700,321.20            | 30,247,603.58   | 6,624,892.97     | 711,155.79        | 44,949,558.22   | 10,000,000.00       | 578,334.38    | 459,777.47             | 1,083,964.79                                    |  |
| June 30—     |                 |                |               |                   |              |                       |              |                   |                |                       |                 |                  |                   |                 |                     |               |                        |   |  |
| 1 1898-99    | 1,500,000.00    |                |               |                   |              |                       | 783,316.45   |                   | 919,482.25     | 185,644.70            | 6,733,680.37    | 3,142,852.70     | 287,500.00        | 13,552,476.47   | 5,000,000.00        | 78,000.00     |                        | 458,227.22                                      |  |
| 2 1899-1900  | 1,500,000.00    |                |               |                   |              |                       | 576,633.72   |                   | 989,734.01     | 127,512.97            | 6,530,691.65    | 3,332,128.57     | 272,500.00        | 13,329,200.92   | 5,000,000.00        | 90,000.00     |                        | 408,999.39                                      |  |
| 3 1900-1901  | 2,500,000.00    |                |               |                   | 241,721.10   | 287,072.00            | 528,793.10   |                   | 1,023,973.24   | 298,219.67            | 10,154,750.85   | 3,945,152.63     | 270,000.00        | 18,720,889.49   | 7,000,000.00        | 103,500.00    |                        | 239,216.01                                      |  |
| 4 1901-2     | 1,500,000.00    |                |               |                   | 218,608.61   | 650,740.00            | 869,348.61   |                   | 774,749.53     | 293,315.76            | 11,155,261.78   | 4,447,116.10     | 273,124.65        | 19,312,916.43   | 7,000,000.00        | 116,500.00    |                        | 253,483.82                                      |  |
| 5 1902-3     | 1,500,000.00    |                |               |                   | 130,354.91   | 501,235.00            | 631,589.91   | 11,602.50         | 779,934.91     | 631,181.44            | 12,271,150.95   | 3,460,956.04     | 414,045.80        | 19,700,461.55   | 7,000,000.00        | 143,660.36    | 8,065.00               | 172,186.28                                      |  |
| 6 1903-4     | 1,500,000.00    |                |               |                   | 213,803.52   | 361,270.00            | 575,073.52   | 4,984.33          | 465,214.35     | 1,137,680.66          | 13,694,830.40   | 2,926,294.13     | 621,388.51        | 20,925,465.90   | 7,000,000.00        | 252,599.47    | 28,795.00              | 477,636.73                                      |  |
| 7 1904-5     | 1,500,000.00    |                |               |                   | 231,610.26   | 362,045.00            | 593,655.26   | 1,134,404.31      | 478,456.65     | 886,295.76            | 14,014,328.90   | 4,001,464.49     | 743,217.29        | 23,351,822.66   | 7,000,000.00        | 344,511.06    | 30,880.00              | 621,966.68                                      |  |
| 8 1905-6     | 1,500,000.00    | 383,925.00     | 37,723.00     | 2,370.12          | 424,018.12   | 353,381.00            | 777,399.12   | 2,266,179.03      | 340,497.00     | 1,129,506.13          | 16,368,130.51   | 4,334,597.64     | 737,383.31        | 27,453,692.74   | 7,000,000.00        | 412,483.36    | 129,094.24             | 1,133,362.39                                    |  |
| 9 1906-7     | 1,500,000.00    | 181,640.00     | 150,210.00    | 69,110.67         | 400,960.67   | 450,995.00            | 851,955.67   | 3,192,680.83      | 358,192.80     | 1,434,725.56          | 19,361,939.57   | 5,403,087.13     | 741,723.29        | 32,844,304.85   | 10,000,000.00       | 505,622.34    | 171,850.29             | 1,108,106.96                                    |  |
| 10 1907-8    | 1,500,000.00    | 442,200.00     | 38,139.00     | 40,753.03         | 521,092.03   | 502,960.00            | 1,024,052.03 | 2,810,210.31      | 258,200.43     | 797,570.46            | 26,041,925.85   | 5,339,170.64     | 743,958.85        | 38,515,088.57   | 10,000,000.00       | 579,084.38    | 321,277.47             | 1,263,820.09                                    |  |
| 11 1908-9    | 1,500,000.00    | 801,150.00     | 89,220.00     | 52,217.18         | 942,587.18   | 516,590.00            | 1,459,177.18 | 2,973,184.80      | 243,638.42     | 733,091.52            | 37,393,126.74   | 6,882,974.68     | 748,908.50        | 51,934,101.84   | 10,000,000.00       | 663,030.00    | 54,888.79              | 1,682,445.58                                    |  |

APPENDIX D.—Table No. 3.

Balance Sheet of MORTGAGE BANKS at End of Each Half Year, 1898-1909.

| ASSETS.      |                       |              |                   |                |                      |                 |                  |                   |                 | LIABILITIES.        |               |                        |  |                                    |                                |                 |                 |    |
|--------------|-----------------------|--------------|-------------------|----------------|----------------------|-----------------|------------------|-------------------|-----------------|---------------------|---------------|------------------------|--|------------------------------------|--------------------------------|-----------------|-----------------|----|
| Buildings.   |                       |              | Stocks and bonds. | Discounts.     | Loans on collateral. | Mortgage loans. | Various credits. | Real estate, etc. | Total.          | Authorized capital. | Reserve fund. | Special guaranty fund. | Deposits at sight or at no more than three days. | Deposits for more than three days. | Mortgage bonds in circulation. | Various debits. | Total.          |    |
| Total metal. | Notes of other banks. | Total cash.  |                   |                |                      |                 |                  |                   |                 |                     |               |                        |  |                                    |                                |                 |                 |    |
|              |                       | \$824,735.03 |                   | \$1,084,354.48 | \$258,900.37         | \$4,933,807.57  | \$3,096,055.48   | \$291,500.00      | \$11,989,352.93 | \$5,000,000.00      | \$68,600.00   |                        | \$672,960.75                                     |                                    | \$4,797,600.00                 | \$1,450,192.18  | \$11,989,352.93 | 1  |
|              |                       | 684,102.70   |                   | 848,961.51     | 116,898.47           | 7,176,750.54    | 3,313,379.07     | 281,475.00        | 13,921,567.29   | 5,000,000.00        | 78,000.00     |                        | 388,596.72                                       |                                    | 6,962,800.00                   | 1,492,170.57    | 13,921,567.29   | 2  |
|              |                       | 970,255.75   |                   | 901,444.31     | 230,896.91           | 7,808,445.42    | 3,056,216.11     | 270,000.00        | 14,737,258.50   | 5,000,000.00        | 90,000.00     |                        | 204,082.41                                       |                                    | 7,679,000.00                   | 1,764,176.09    | 14,737,258.50   | 3  |
| \$206,276.41 | \$576,835.00          | 783,111.41   |                   | 799,308.63     | 307,036.00           | 10,633,492.88   | 4,237,089.23     | 273,124.65        | 19,533,162.80   | 7,000,000.00        | 103,500.00    |                        | 342,815.96                                       |                                    | 9,616,700.00                   | 2,470,146.84    | 19,533,162.80   | 4  |
| 131,671.45   | 336,045.00            | 467,716.45   | \$177,189.47      | 1,428,516.14   | 496,138.24           | 12,138,561.21   | 3,134,279.87     | 273,124.65        | 19,615,526.03   | 7,000,000.00        | 122,085.81    |                        | 282,048.79                                       |                                    | 9,851,200.00                   | 2,360,191.43    | 19,615,526.03   | 5  |
| 234,976.55   | 267,703.00            | 502,679.55   | 21,751.62         | 703,945.12     | 798,217.75           | 12,844,942.22   | 2,937,053.79     | 521,189.33        | 19,829,779.38   | 7,000,000.00        | 143,660.36    | \$19,735.00            | 662,689.25                                       |                                    | 10,387,900.00                  | 1,615,794.77    | 19,829,779.38   | 6  |
| 278,434.21   | 358,035.00            | 636,469.21   | 35,327.50         | 529,860.70     | 1,162,706.16         | 13,803,421.64   | 3,912,405.39     | 731,387.06        | 22,311,577.66   | 7,000,000.00        | 252,599.47    | 30,700.00              | 454,168.14                                       |                                    | 11,636,500.00                  | 2,937,610.05    | 22,311,577.66   | 7  |
| 340,387.17   | 428,830.00            | 769,217.17   | 3,652,003.26      | 302,017.74     | 1,827,914.19         | 15,131,726.97   | 2,454,657.65     | 750,924.45        | 26,388,461.43   | 7,000,000.00        | 344,511.06    | 30,688.00              | 1,061,363.44                                     |                                    | 12,541,300.00                  | 5,410,598.93    | 26,388,461.43   | 8  |
| 271,025.71   | 860,200.00            | 1,131,225.71 | 3,205,936.36      | 341,663.24     | 1,033,572.62         | 18,350,906.65   | 3,338,288.89     | 741,155.79        | 29,702,749.26   | 7,000,000.00        | 412,483.36    | 143,021.24             | 1,560,020.34                                     |                                    | 16,474,600.00                  | 4,112,624.32    | 29,702,749.26   | 9  |
| 372,537.00   | 412,055.00            | 784,592.00   | 3,227,003.94      | 334,960.03     | 887,629.94           | 21,692,887.52   | 3,666,312.44     | 743,801.65        | 32,837,187.52   | 10,000,000.00       | 497,972.34    | 170,001.29             | 1,495,170.58                                     |                                    | 17,075,800.00                  | 3,598,243.31    | 32,837,187.52   | 10 |
| 775,718.04   | 1,175,390.00          | 1,951,108.04 | 2,984,604.79      | 229,871.85     | 700,321.20           | 30,247,603.58   | 6,624,892.97     | 711,155.79        | 44,949,558.22   | 10,000,000.00       | 578,334.38    | 459,777.47             | 1,083,964.79                                     | \$711,689.77                       | 29,000,500.00                  | 3,115,291.81    | 44,949,558.22   | 11 |
|              |                       | 783,316.45   |                   | 919,482.25     | 185,644.70           | 6,733,680.37    | 3,142,852.70     | 287,500.00        | 13,552,476.47   | 5,000,000.00        | 78,000.00     |                        | 458,227.22                                       |                                    | 6,546,400.00                   | 1,469,849.25    | 13,552,476.47   | 1  |
|              |                       | 576,633.72   |                   | 989,734.01     | 127,512.97           | 6,530,691.65    | 3,332,128.57     | 272,500.00        | 13,329,200.92   | 5,000,000.00        | 90,000.00     |                        | 408,999.39                                       |                                    | 6,381,516.00                   | 1,448,685.53    | 13,329,200.92   | 2  |
| 241,721.10   | 287,072.00            | 528,793.10   |                   | 1,023,973.24   | 298,219.67           | 10,154,750.85   | 3,945,152.63     | 270,000.00        | 18,720,889.49   | 7,000,000.00        | 103,500.00    |                        | 239,216.01                                       |                                    | 9,164,700.00                   | 2,213,473.48    | 18,720,889.49   | 3  |
| 218,608.61   | 650,740.00            | 869,348.61   |                   | 774,749.53     | 293,315.76           | 11,155,261.78   | 4,447,116.10     | 273,124.65        | 19,312,916.43   | 7,000,000.00        | 116,500.00    |                        | 253,483.82                                       |                                    | 9,947,000.00                   | 1,995,932.61    | 19,312,916.43   | 4  |
| 130,354.91   | 501,235.00            | 631,589.91   | 11,602.50         | 779,934.91     | 631,181.44           | 12,271,150.95   | 3,460,956.04     | 414,045.80        | 19,700,461.55   | 7,000,000.00        | 143,660.36    | 8,065.00               | 172,186.28                                       |                                    | 10,101,000.00                  | 2,275,549.91    | 19,700,461.55   | 5  |
| 213,803.52   | 361,270.00            | 575,073.52   | 4,984.33          | 465,214.35     | 1,137,680.66         | 13,694,830.40   | 2,926,294.13     | 621,388.51        | 20,925,465.90   | 7,000,000.00        | 252,599.47    | 28,795.00              | 477,636.73                                       |                                    | 11,164,900.00                  | 2,001,534.70    | 20,925,465.90   | 6  |
| 231,610.26   | 362,045.00            | 593,655.26   | 1,134,404.31      | 478,456.65     | 886,295.76           | 14,014,328.90   | 4,001,464.49     | 743,217.29        | 23,351,822.66   | 7,000,000.00        | 344,511.06    | 30,880.00              | 621,966.68                                       |                                    | 11,782,400.00                  | 3,572,064.92    | 23,351,822.66   | 7  |
| 424,018.12   | 353,381.00            | 777,399.12   | 2,266,179.03      | 340,497.00     | 1,129,506.13         | 16,368,130.51   | 4,334,597.64     | 737,383.31        | 27,453,692.74   | 7,000,000.00        | 412,483.36    | 129,094.24             | 1,133,362.39                                     |                                    | 15,047,100.00                  | 3,731,652.75    | 27,453,692.74   | 8  |
| 400,960.67   | 450,995.00            | 851,955.67   | 3,192,680.83      | 358,192.80     | 1,434,725.56         | 19,361,939.57   | 5,403,087.13     | 741,723.29        | 32,844,304.85   | 10,000,000.00       | 505,622.34    | 171,850.29             | 1,108,106.96                                     |                                    | 17,276,000.00                  | 3,782,725.26    | 32,844,304.85   | 9  |
| 521,092.03   | 502,960.00            | 1,024,052.03 | 2,810,210.31      | 258,200.43     | 797,570.46           | 26,041,925.85   | 5,339,170.64     | 743,958.85        | 38,515,088.57   | 10,000,000.00       | 579,084.38    | 321,277.47             | 1,263,820.09                                     | 326,823.34                         | 23,212,600.00                  | 2,811,483.29    | 38,515,088.57   | 10 |
| 942,587.18   | 516,590.00            | 1,459,177.18 | 2,973,184.80      | 243,638.42     | 733,091.52           | 37,393,126.74   | 6,882,974.68     | 748,908.50        | 51,934,101.84   | 10,000,000.00       | 663,030.00    | 54,888.79              | 1,682,445.58                                     | 1,377,251.24                       | 32,836,200.00                  | 5,320,286.23    | 51,934,101.84   | 11 |

APPENDIX D.—Table No. 4.

Balance Sheet of BANKS OF ISSUE at End of Each Half Year, 1898-1909.

| DATE.        | ASSETS.         |                 |                 |                   |                 |                       |                 |                   |                 |                      |                 |                  |                   |                  | Authorized capital. | Reserve fund.  | Special guaranty fund. | Increase of total and reserve. |
|--------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------------|-----------------|-------------------|-----------------|----------------------|-----------------|------------------|-------------------|------------------|---------------------|----------------|------------------------|--------------------------------|
|              | Capital unpaid. | CASH HOLDINGS.  |                 |                   |                 |                       |                 | Stocks and bonds. | Discounts.      | Loans on collateral. | Mortgage loans. | Various credits. | Real estate, etc. | Total.           |                     |                |                        |                                |
|              |                 | Gold.           | Silver pesos.   | Fractional money. | Total metal.    | Notes of other banks. | Total cash.     |                   |                 |                      |                 |                  |                   |                  |                     |                |                        |                                |
| December 31— |                 |                 |                 |                   |                 |                       |                 |                   |                 |                      |                 |                  |                   |                  |                     |                |                        |                                |
| 1 1898       | \$14,705,000.00 |                 |                 |                   |                 |                       | \$38,654,813.57 | \$694,436.35      | \$56,588,275.24 | \$22,440,691.65      | \$418,268.17    | \$36,380,843.54  | \$768,447.52      | \$170,650,776.04 | \$44,000,000.00     | \$3,757,864.79 | \$3,212,379.13         |                                |
| 2 1899       | 8,355,755.00    |                 |                 |                   |                 |                       | 51,357,730.76   | 1,053,628.37      | 78,909,412.59   | 34,048,160.73        | 492,097.18      | 33,886,935.48    | 772,479.38        | 208,876,199.49   | 47,710,000.00       | 4,735,907.44   | 3,316,716.88           | \$7,500.00                     |
| 3 1900       | 6,670,900.00    |                 |                 |                   |                 |                       | 49,394,761.03   | 2,122,160.09      | 89,868,042.11   | 35,178,814.57        | 462,270.34      | 41,800,565.88    | 1,113,830.85      | 226,611,344.87   | 62,200,000.00       | 8,730,902.74   | 3,371,098.15           |                                |
| 4 1901       | 2,550,000.00    |                 |                 |                   | \$52,023,746.73 | \$4,189,662.00        | 56,213,408.73   | 3,620,151.28      | 92,254,035.67   | 39,338,594.07        | 775,199.00      | 55,883,188.95    | 1,556,809.15      | 252,191,386.85   | 65,700,000.00       | 10,353,906.66  | 3,613,391.28           |                                |
| 5 1902       | 5,129,320.00    |                 |                 |                   | 51,400,669.82   | 3,262,360.00          | 54,663,029.82   | 6,955,639.70      | 116,174,127.43  | 49,513,139.27        | 926,814.43      | 70,878,941.50    | 2,036,359.39      | 306,277,371.54   | 74,550,000.00       | 12,413,252.39  | 4,029,719.20           |                                |
| 6 1903       | 5,316,250.00    |                 |                 |                   | 60,054,751.96   | 3,614,222.00          | 63,668,973.96   | 11,107,891.53     | 124,859,061.67  | 62,818,661.65        | 1,237,944.80    | 88,251,775.21    | 2,883,586.89      | 360,144,145.71   | 88,650,000.00       | 14,377,825.16  | 4,509,257.07           |                                |
| 7 1904       | 5,002,409.00    |                 |                 |                   | 76,797,865.43   | 3,802,128.50          | 80,599,993.93   | 12,012,728.82     | 140,035,239.04  | 62,309,686.55        | 1,548,843.42    | 112,398,004.57   | 3,574,544.31      | 417,481,449.64   | 92,400,000.00       | 16,069,886.34  | 4,777,839.70           |                                |
| 8 1905       | 3,017,607.00    |                 |                 |                   | 66,687,038.38   | 3,175,352.00          | 69,862,390.38   | 15,157,896.13     | 160,472,904.56  | 86,098,254.86        | 1,704,427.74    | 169,826,092.07   | 4,561,593.27      | 510,701,166.01   | 113,859,350.00      | 21,727,810.19  | 5,869,330.06           |                                |
| 9 1906       | 2,430,056.00    | \$41,095,293.61 | \$19,169,464.00 | \$3,152,464.62    | 63,417,222.23   | 4,638,350.00          | 68,055,572.23   | 16,141,123.32     | 182,571,819.36  | 102,240,713.97       | 1,903,860.70    | 192,334,672.66   | 5,785,854.70      | 571,463,672.94   | 119,900,000.00      | 41,244,161.24  | 10,075,455.33          |                                |
| 10 1907      | 1,803,152.00    | 52,491,881.96   | 10,684,141.00   | 4,986,124.29      | 68,162,147.25   | 6,652,775.00          | 74,814,922.25   | 23,802,304.66     | 172,301,933.77  | 107,393,517.41       | 6,240,828.44    | 233,841,270.21   | 7,289,268.09      | 627,487,196.83   | 121,400,000.00      | 45,476,880.72  | 7,663,329.71           |                                |
| 11 1908      | 1,026,500.00    | 44,431,390.00   | 26,441,935.00   | 6,880,178.41      | 77,753,503.41   | 6,208,538.00          | 83,962,041.41   | 46,239,834.81     | 91,106,399.61   | 56,012,818.95        | 10,504,677.66   | 405,739,981.78   | 9,929,989.98      | 704,522,244.20   | 119,900,000.00      | 32,129,471.86  | 17,973,811.90          |                                |
| June 30—     |                 |                 |                 |                   |                 |                       |                 |                   |                 |                      |                 |                  |                   |                  |                     |                |                        |                                |
| 1 1898-99    | 11,790,000.00   |                 |                 |                   |                 |                       | 46,333,293.21   | 464,240.00        | 66,103,905.96   | 24,925,221.04        | 436,836.17      | 38,265,388.87    | 796,332.11        | 189,115,217.36   | 44,360,000.00       | 4,634,615.00   | 3,193,332.63           | 2,503.81                       |
| 2 1899-1900  | 8,757,500.00    |                 |                 |                   |                 |                       | 53,955,489.43   | 1,526,302.15      | 93,119,869.66   | 33,723,173.60        | 460,425.76      | 41,447,984.00    | 887,995.87        | 233,878,740.47   | 58,600,000.00       | 8,058,475.99   | 3,477,180.47           |                                |
| 3 1900-1     | 2,300,000.00    |                 |                 |                   | 52,756,121.18   | 3,137,910.00          | 55,894,031.18   | 2,424,833.32      | 86,058,663.35   | 37,120,889.58        | 437,618.70      | 45,370,549.35    | 1,371,523.64      | 230,978,109.12   | 63,700,000.00       | 10,115,986.83  | 3,452,516.66           |                                |
| 4 1901-2     | 3,245,700.00    |                 |                 |                   | 61,039,245.18   | 3,953,821.00          | 64,993,066.18   | 4,480,430.99      | 100,789,717.00  | 43,555,465.77        | 902,423.28      | 58,959,549.57    | 1,682,022.88      | 278,608,375.67   | 68,700,000.00       | 12,130,659.26  | 3,891,042.87           |                                |
| 5 1902-3     | 3,345,000.00    |                 |                 |                   | 56,176,726.99   | 6,050,327.00          | 62,227,053.99   | 8,783,724.09      | 115,754,809.19  | 51,904,034.71        | 977,538.60      | 80,972,940.88    | 2,420,746.50      | 326,385,847.96   | 80,650,000.00       | 14,283,792.16  | 4,480,489.02           |                                |
| 6 1903-4     | 6,100,658.00    |                 |                 |                   | 62,357,816.00   | 4,015,367.00          | 66,373,183.00   | 11,501,239.33     | 126,588,715.75  | 64,844,950.03        | 1,264,986.30    | 103,863,143.71   | 3,239,910.61      | 383,776,786.73   | 92,150,000.00       | 15,964,832.70  | 4,726,067.04           |                                |
| 7 1904-5     | 4,575,382.00    |                 |                 |                   | 70,486,137.30   | 5,409,487.00          | 75,895,624.30   | 12,351,573.88     | 148,199,269.90  | 67,701,307.25        | 1,630,423.06    | 152,957,155.29   | 3,989,593.00      | 467,300,328.68   | 92,400,000.00       | 20,918,948.80  | 5,209,330.24           |                                |
| 8 1905-6     | 3,404,483.00    | 41,063,027.71   | 27,872,331.00   | 1,692,649.80      | 70,628,008.51   | 3,950,863.00          | 74,578,871.51   | 15,045,242.19     | 167,621,625.49  | 91,706,387.69        | 1,680,224.57    | 191,914,888.82   | 4,987,554.36      | 550,939,277.63   | 118,400,000.00      | 41,462,665.38  | 9,316,373.15           |                                |
| 9 1906-7     | 2,101,432.00    | 46,318,204.01   | 14,064,302.00   | 6,502,402.74      | 66,884,908.75   | 4,362,569.00          | 71,247,477.75   | 17,652,090.15     | 189,063,935.56  | 110,244,160.92       | 2,910,744.40    | 203,628,149.70   | 6,012,497.20      | 602,860,487.68   | 121,400,000.00      | 45,353,842.25  | 7,488,029.71           |                                |
| 10 1907-8    | 1,738,451.00    | 51,149,105.00   | 17,697,110.00   | 5,999,281.02      | 74,845,496.02   | 6,082,814.00          | 80,928,310.02   | 31,350,004.47     | 123,137,910.00  | 64,609,118.75        | 7,773,865.45    | 296,144,073.38   | 7,630,110.51      | 613,311,843.58   | 119,900,000.00      | 32,001,133.26  | 17,953,248.38          |                                |
| 11 1908-9    | 1,019,300.00    | 49,050,425.00   | 29,415,143.00   | 5,886,973.92      | 84,352,541.92   | 4,273,794.50          | 88,626,336.42   | 41,152,212.92     | 87,058,205.27   | 53,219,342.61        | 10,432,603.40   | 446,772,325.02   | 7,911,072.75      | 736,191,398.39   | 118,800,000.00      | 32,584,425.60  | 18,723,668.52          |                                |

APPENDIX D.—Table No. 4.

Statement of ASSETS and LIABILITIES of BANKS OF ISSUE at End of Each Half Year, 1898-1909.

| ASSETS. |                   |                 |                      |                 |                  |                   |                  | LIABILITIES.        |                |                        |                                   |  |                                    |                       |                 |                  |    |
|---------|-------------------|-----------------|----------------------|-----------------|------------------|-------------------|------------------|---------------------|----------------|------------------------|-----------------------------------|--|------------------------------------|-----------------------|-----------------|------------------|----|
| Sh.     | Stocks and bonds. | Discounts.      | Loans on collateral. | Mortgage loans. | Various credits. | Real estate, etc. | Total.           | Authorized capital. | Reserve fund.  | Special guaranty fund. | Increase of capital and reserves. | Deposits at sight or at no more than three days. | Deposits for more than three days. | Notes in circulation. | Various debits. | Total.           |    |
| 13-57   | \$694,436.35      | \$56,588,275.24 | \$22,440,691.65      | \$418,268.17    | \$36,380,843.54  | \$768,447.52      | \$170,650,776.04 | \$44,000,000.00     | \$3,757,864.79 | \$3,212,379.13         | -----                             | \$1,143,623.09                                   | \$2,199,886.64                     | \$54,375,769.25       | \$61,961,253.14 | \$170,650,776.04 | I  |
| 30-76   | 1,053,628.37      | 78,909,412.59   | 34,048,160.73        | 492,097.18      | 33,886,935.48    | 772,479.38        | 208,876,199.49   | 47,710,000.00       | 4,735,907.44   | 3,316,716.88           | \$7,500,000.00                    | 994,540.30                                       | 6,361,357.43                       | 63,196,832.50         | 75,060,844.94   | 208,876,199.49   | 2  |
| 51-03   | 2,122,160.09      | 89,868,042.11   | 35,178,814.57        | 462,270.34      | 41,800,565.88    | 1,113,830.85      | 226,611,344.87   | 62,200,000.00       | 8,730,902.74   | 3,371,698.15           | -----                             | 809,726.20                                       | 6,636,379.37                       | 64,012,464.75         | 80,850,173.66   | 226,611,344.87   | 3  |
| 08-73   | 3,620,151.28      | 92,254,035.67   | 39,338,594.07        | 775,199.00      | 55,883,188.95    | 1,556,809.15      | 252,191,386.85   | 65,700,000.00       | 10,353,906.66  | 3,613,391.28           | -----                             | 928,534.27                                       | 6,715,866.02                       | 71,257,626.50         | 93,622,062.12   | 252,191,386.85   | 4  |
| 09-82   | 6,955,639.70      | 116,174,127.43  | 49,513,139.27        | 926,814.43      | 70,878,941.50    | 2,036,359.39      | 306,277,371.54   | 74,550,000.00       | 12,413,252.39  | 4,029,719.20           | -----                             | 1,079,321.61                                     | 5,324,048.58                       | 86,145,227.00         | 122,735,802.76  | 306,277,371.54   | 5  |
| 73-96   | 11,107,891.53     | 124,859,061.67  | 62,818,661.65        | 1,237,944.80    | 88,251,775.21    | 2,883,586.89      | 360,144,145.71   | 88,650,000.00       | 14,377,825.16  | 4,509,257.07           | -----                             | 599,220.09                                       | 4,773,182.86                       | 163,031,950.78        | 306,277,371.54  | 6                |    |
| 03-93   | 12,012,728.82     | 140,035,239.04  | 62,309,686.55        | 1,548,843.42    | 112,398,004.57   | 3,574,544.31      | 417,481,449.64   | 92,400,000.00       | 16,069,886.34  | 4,777,839.70           | -----                             | 616,309.85                                       | 5,107,750.25                       | 183,525,876.00        | 214,983,787.50  | 417,481,449.64   | 7  |
| 00-38   | 15,157,896.13     | 160,472,904.56  | 86,098,254.86        | 1,704,427.74    | 169,826,092.07   | 4,561,593.27      | 510,701,166.01   | 113,859,350.00      | 21,727,810.19  | 5,869,330.06           | -----                             | 20,781,084.03                                    | 20,012,249.95                      | 94,141,407.50         | 234,309,934.28  | 510,701,166.01   | 8  |
| 72-23   | 16,141,123.32     | 182,571,819.36  | 102,240,713.97       | 1,903,860.70    | 192,334,672.66   | 5,785,854.70      | 571,463,672.94   | 119,900,000.00      | 41,244,161.24  | 10,075,455.33          | -----                             | 25,433,674.26                                    | 18,353,957.14                      | 97,787,878.00         | 258,668,546.97  | 571,463,672.94   | 9  |
| 22-25   | 23,802,304.66     | 172,301,933.77  | 107,393,517.41       | 6,240,828.44    | 233,841,270.21   | 7,289,268.09      | 627,487,196.83   | 121,400,000.00      | 45,476,880.72  | 7,663,329.71           | -----                             | 29,157,575.05                                    | 21,335,523.04                      | 91,475,982.00         | 310,977,906.31  | 627,487,196.83   | 10 |
| 41-41   | 46,239,834.81     | 91,106,399.61   | 56,012,818.95        | 10,504,677.66   | 405,739,981.78   | 9,929,989.98      | 704,522,244.20   | 119,900,000.00      | 32,129,471.86  | 17,973,811.90          | -----                             | 64,162,230.89                                    | 48,097,893.00                      | 87,504,630.00         | 334,754,206.55  | 704,522,244.20   | 11 |
| 03-21   | 464,240.00        | 66,103,905.96   | 24,925,221.04        | 436,836.17      | 38,265,388.87    | 796,332.11        | 189,115,217.36   | 44,360,000.00       | 4,634,615.00   | 3,193,332.63           | 2,503,812.50                      | 1,094,045.27                                     | 3,122,549.46                       | 58,208,340.75         | 71,998,521.75   | 189,115,217.36   | I  |
| 09-43   | 1,526,302.15      | 93,119,869.66   | 33,723,173.60        | 460,425.76      | 41,447,984.00    | 887,995.87        | 233,878,740.47   | 58,600,000.00       | 8,058,475.99   | 3,477,180.47           | -----                             | 1,281,734.69                                     | 7,364,632.22                       | 65,937,617.25         | 89,159,099.85   | 233,878,740.47   | 2  |
| 11-18   | 2,424,833.32      | 86,058,663.35   | 37,120,889.58        | 437,618.70      | 45,370,549.35    | 1,371,523.64      | 230,978,109.12   | 63,700,000.00       | 10,115,986.83  | 3,452,516.66           | -----                             | 1,053,454.33                                     | 6,378,896.29                       | 63,629,245.00         | 82,648,010.01   | 230,978,109.12   | 3  |
| 06-18   | 4,480,430.99      | 100,789,717.00  | 43,555,465.77        | 902,423.28      | 58,959,549.57    | 1,682,022.88      | 278,608,375.67   | 68,700,000.00       | 12,130,659.26  | 3,891,042.87           | -----                             | 1,134,949.88                                     | 6,498,793.96                       | 77,466,988.25         | 108,785,941.45  | 278,608,375.67   | 4  |
| 03-99   | 8,783,724.09      | 115,754,809.19  | 51,904,034.71        | 977,538.60      | 80,972,940.88    | 2,420,746.50      | 326,385,847.96   | 80,650,000.00       | 14,283,792.16  | 4,480,489.02           | -----                             | 816,627.21                                       | 4,575,730.99                       | 88,033,539.75         | 133,545,668.83  | 326,385,847.96   | 5  |
| 03-00   | 11,501,239.33     | 126,588,715.75  | 64,844,950.03        | 1,264,986.30    | 103,863,143.71   | 3,239,910.61      | 383,776,786.73   | 92,150,000.00       | 15,964,832.70  | 4,726,067.04           | -----                             | 528,107.42                                       | 5,176,766.88                       | 82,989,221.00         | 182,241,791.69  | 383,776,786.73   | 6  |
| 04-30   | 12,351,573.88     | 148,199,269.90  | 67,701,307.25        | 1,630,423.06    | 152,957,155.29   | 3,989,593.00      | 467,300,328.68   | 92,400,000.00       | 20,918,948.80  | 5,209,330.24           | -----                             | 21,172,553.94                                    | 6,018,757.65                       | 89,454,255.75         | 232,126,482.30  | 467,300,328.68   | 7  |
| 11-51   | 15,045,242.19     | 167,621,625.49  | 91,706,387.69        | 1,680,224.57    | 191,914,888.82   | 4,987,554.36      | 550,939,277.63   | 118,400,000.00      | 41,462,665.38  | 9,316,373.15           | -----                             | 27,666,159.30                                    | 17,640,631.68                      | 97,134,976.75         | 239,318,471.37  | 550,939,277.63   | 8  |
| 07-75   | 17,652,090.15     | 189,063,935.56  | 110,244,160.92       | 2,910,744.40    | 203,628,149.70   | 6,012,497.20      | 602,860,487.68   | 121,400,000.00      | 45,353,842.25  | 7,488,029.71           | -----                             | 25,464,882.90                                    | 22,451,704.54                      | 98,470,528.00         | 282,231,500.28  | 602,860,487.68   | 9  |
| 00-02   | 31,350,004.47     | 123,137,910.00  | 64,609,118.75        | 7,773,865.45    | 296,144,073.38   | 7,630,110.51      | 613,311,843.58   | 119,900,000.00      | 32,001,133.26  | 17,953,248.38          | -----                             | 23,955,303.30                                    | 25,643,649.18                      | 92,253,293.50         | 301,605,215.96  | 613,311,843.58   | 10 |
| 06-42   | 41,152,212.92     | 87,058,205.27   | 53,219,342.61        | 10,432,603.40   | 446,772,325.02   | 7,911,072.75      | 736,191,398.39   | 118,800,000.00      | 32,584,425.60  | 18,723,668.52          | -----                             | 72,126,285.39                                    | 58,125,969.71                      | 92,221,477.00         | 343,609,572.19  | 736,191,398.39   | 11 |





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NATIONAL MONETARY COMMISSION

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The Bank of France in Its  
Relation to National and  
International Credit

By MAURICE PATRON

Barrister

And an Article upon French Savings

By ALFRED NEYMARCK

Editor of the "Rentier"



Washington : Government Printing Office : 1910

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BY MAURICE PATRON.

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The Bank of France in Its Relation to  
National and International Credit

By  
MAURICE PATRON  
Barrister

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# THE BANK OF FRANCE IN ITS RELATION TO NATIONAL AND INTERNATIONAL CREDIT.

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## INTRODUCTION.

The interesting evolution of means of exchange which we are witnessing and which is familiar to everybody seems to be leading us, after the well-defined periods of barter and money, to a system of mere clearing of balances. All exchange operations would then be settled by simple book transfers. Coin, thus reduced to the condition of money of account, would cease to play any real part. Economists are even thinking of a return to barter, which would complete the cycle, bringing us back to the original state after thousands of years and combinations of all kinds. Such would be the course of this evolution.

At any rate, the undeniable characteristic of our present system is that it presents a transition between the money system and the clearing system, the ultimate form of which we are unable accurately to define. This period of transition, which began when the idea of genuine credit was conceived, will last for centuries before we can rid ourselves of money as a medium. The system of purely fiduciary currency, which is in process of becoming firmly established, is not yet sufficiently stable to prevent us from being thrust rudely back into the old ways whenever we exceed the limits of our resources.

Crises afford a striking proof of this fact. The initial period, the precursor of the crisis, is nothing but an ab-



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normal extension of credit and of speculation. At such times the need of leaning upon the solid foundation of metallic currency is felt with a new intensity; and when, with the blindness resulting from overconfidence, this need has been neglected, when, from a disregard of the functions of money, a crisis is brought about by the violent rupture of the equilibrium of credit, gold at once resumes its rights, is sought for on all sides, and, according to the seriousness of the offense, exacts complete amends, with the honors of a premium as high as it may choose to make it.

It clearly appears, therefore, that this quest for simplification in the means of credit, which each nation ardently pursues in the interest of its own industrial and commercial development, demands the greatest circumspection. In developing credit, metallic currency must not be too much overlooked. We must not lose sight of the fact that "credit, in order to be solid and permanent, must have a solid and permanent foundation."<sup>a</sup>

It devolves upon the bank of issue to watch over this solidity and permanence. It can do so by means of its note—that hybrid document, the offspring of both money and credit<sup>b</sup>—which is subjected to a more and more close dependence on money, in proportion as credit increases, and which constitutes a valuable means of transition in our time of transition.<sup>c</sup>

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<sup>a</sup>Sir Edward Fitzgerald Law, in the *National Review*, cited by A. Raffalovich, *Economiste Européen* of November 16, 1906, p. 617.

<sup>b</sup>Léon Say and Chailley, "*Nouveau dictionnaire d'économie politique*," under the word "billet de banque." "The bank note is at the same time an instrument of credit and a substitute for metallic currency."

<sup>c</sup>Let us for a moment consider these instruments of credit which justly do honor to our modern civilization; their number increases constantly; in addition to bank notes, checks, transfer orders, certificates of deposit,

# *T h e   B a n k   o f   F r a n c e*

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One hundred years ago the bank note, secured almost solely by discounts, was the chief element of a credit which was then little developed.<sup>a</sup> But nowadays, the tremendous growth of credit and the necessity of a large metallic basis compel us to provide a heavy gold counterpart for the bank note. It tends to become nothing more than a token representing money. Its issue is no longer a credit operation, but essentially a monetary operation which, it seems, should secure for the bank note its maximum development. By means of its notes, the Bank is in a position, under all circumstances, to

bills of exchange, bills payable to order, drafts, storage certificates, we have stock-market securities, treasury bonds, mortgages, warehouse receipts coupons; in short, obligations of the most varied nature which are to-day in use for credit transactions.

All these instruments are employed in making settlements; they supplement advantageously the use of coin, or multiply it, and they gradually lead toward that period of simple clearing which some economists believe is already in sight. There would be cause for unmixed gratification in their great number and the frequent use made of them, if we were not aware of the serious disturbances resulting from the excessive and careless use of credit. We do not deny the unquestionable advantages of these instruments; on the contrary, we believe the time has come to give them greater extension; but we lay down as a principle that the importance of the bank note in a fiduciary currency should not be belittled, as some people are inclined to do. To give to the credit structure any other foundation would, in our opinion, be equivalent to building on sand. The bank note alone permits the creation of a metal reserve strong enough to become, in case of need, a valuable war chest and a sinking fund for crises.

<sup>a</sup> This is shown by the following table (Cf. Pantel, "*Les fonctions de la Banque de France*," Montpellier, 1903, pp. 26 and 27):

[In millions of francs.]

| Year.     | Circulation.  |               | Discounts.    |              | Cash.         |              | Deposits and current accounts. |               |
|-----------|---------------|---------------|---------------|--------------|---------------|--------------|--------------------------------|---------------|
|           | Maxi-<br>mum. | Mini-<br>mum. | Maxi-<br>mum. | Mini-<br>mum | Maxi-<br>mum. | Mini-<br>mum | Maxi-<br>mum.                  | Mini-<br>mum. |
| 1800----- | 22            | 8             | 24            | 5            | 11            | 4            | 6                              | 1             |
| 1801----- | 25            | 15            | 45            | 18           | 10            | 5            | 9                              | 2             |
| 1802----- | 45            | 16            | 83            | 36           | 15            | 4            | 16                             | 5             |

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maintain an exact proportion between money and credit and to help develop the latter in precise proportion to its holdings.

Such, then, are the aims of the Bank when it extends credit under the most varied forms and over a steadily increasing area, adapting it to wider and more democratic social conditions, and when, supported by its metallic reserve, it removes the threat of war to which financial questions are so closely related, or at least dispels financial storms by some action based on world-wide solidarity.

We shall study the part taken by the Bank of France in the building up of the country's metallic reserves. We shall see the immediate and beneficial results of this extensive operation. Then we shall show how this great institution, thanks to its enormous power, is able to influence, first, national credit, and, second, international credit.

## PRELIMINARY CHAPTER.

### THE BANK OF FRANCE AND ITS METAL HOLDINGS.

#### SECTION I. *Cash holdings of the Bank.*

The first care of the architect who is about to erect a great building is to secure for it a broad and firm foundation. Likewise, in the vast and continuous upbuilding of a nation's credit, the metallic base requires the most attentive and enlightened consideration. To provide for it, the entire resources of the State are not too great. It is difficult to understand how, in certain countries, an undertaking of such universal interest should be left to private enterprise. How can the latter be powerful enough to accumulate holdings of currency which may have to remain idle for long periods, and which can unflinchingly resist all assaults and all storms?

"The maintenance of a country's gold reserve may be considered a public function."<sup>a</sup> This function, however, can not be performed by the State itself, but by the very force of things it naturally devolves upon the banks of issue.<sup>b</sup> In France a system which has already passed the hundred-year mark and has been particularly fortunate as to results, intrusts the Bank of France with the duty of building up and preserving the metal holdings, and this great organization shows itself fully worthy of the confidence which the Government has always reposed in it.

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<sup>a</sup> Vilefredo Pareto, "*Cours d'économie politique*," Vol. I, p. 390.

<sup>b</sup> In the United States, to be sure, this burden falls upon the Treasury, but it is unnecessary to lay stress on the fact that at the present time the American financial system does not deserve to be taken as a model.

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During its long career the Bank has never ceased to control credit with rare foresight and a remarkably steady hand.

We wish, at the outset, to call attention to the fact that the Bank of France is not, as might be supposed, directly or personally interested in the possession of enormous cash holdings. The note issues which contribute to the formation of these cash holdings do not represent clear profits; far from it. In increasing its gold reserve the Bank is working against the interests of its shareholders, and consequently against its own interests. There are two reasons for this: first, the expense of maintaining an additional reserve, and the cost of issuing notes against the same, represent a clear loss for the shareholders. If the holdings were smaller, the amounts of assets and liabilities would decrease evenly in the accounts of coin and bars, and notes to bearer, without interfering with the profit and loss account. In other words, the circulation which alone can yield a profit has nothing to gain from the increase in the circulation which is covered by a metallic reserve. In the second place, smaller holdings would lead, for the very safety of the country, to frequent rises in the discount rate, which are the main source of profit for banks of issue.<sup>a</sup> Thus, considering its own interest only, it matters little to the Bank if its holdings fall from 3,000,000,000 or 3,500,000,000 francs to 1,000,000,000 or 1,500,000,000 francs—the point at which they stood only twenty-five years ago. The Bank's credit would not suffer, its profit-yielding circulation would not be decreased, and it would be relieved

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<sup>a</sup> Indeed, the tolls can only apply to operations made in normal times, when the discount rate yields just about enough to cover the expenses of management. When the rate rises the expenses remain about the same, and the profits increase considerably.

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of very heavy" stamp duties, of the expense of manufacturing the notes which it would not be called upon to issue, and of the charges for safekeeping the corresponding metallic currency.

From 1870 up to the present time the cash holdings of the Bank of France have not ceased to grow, as shown below by the table of quinquennial averages. Moreover, the Bank, of its own volition, could not have made such an accumulation. The exchanges are usually in our favor, owing to our position as lenders to foreign countries<sup>b</sup> and

<sup>a</sup> One-fifth of 1 per cent.

<sup>b</sup> The amounts of French investments known to be made abroad, estimated in 1903 by the *Administration des Domaines*, and published in the *Officiel*, are as follows:

|              | Francs.        |
|--------------|----------------|
| Europe.....  | 21,012,000,000 |
| Asia.....    | 1,121,000,000  |
| Africa.....  | 3,693,000,000  |
| America..... | 3,972,000,000  |
| Oceania..... | 57,000,000     |
| Total.....   | 29,855,000,000 |

Very nearly 30,000,000,000 francs, which make us each year creditors for an income of 1,000,000,000 to 1,500,000,000 francs.

Since the balance remains in our favor, many of these settlements are made in gold. After deducting the sums which are deposited or circulated in France there remains a sufficient amount for reinvestment in numerous foreign securities, thus again increasing our national capital. This is the reason for the saying that France is the greatest gold producer in the world.

These figures could but increase since 1903. M. Lajusan ("La crise française; essai de solution," Paris, Giard & Brière, 1906) estimates that on the average we save 3,000,000,000 francs yearly, and M. Neymarck, at the meeting of the Société d'Economie Politique de Paris on November 4, 1905 (*Journal des Economistes*, 1905, p. 248), estimated the amount due us yearly by foreigners, on account of coupons or redeemable bonds, at 1,500,000,000 to 2,000,000,000 francs. This condition is the prerogative of the oldest nations of the old continent. England owns 55,000,000,000 francs of foreign securities.

We shall not join M. Lajusan (op. cit.) in saying that this taste for saving is the evil of our French society; neither shall we unduly lament with

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to the extent of our exports, and this for many years past has resulted in the continual flowing of the precious metal into the vaults of the Bank of France.<sup>c</sup>

M. D. Aubry (*"La Banque et le commerce," Réforme Economique*, July 10, 1904) as to the stand taken by bankers in favoring foreign investments, but we shall more readily conclude with M. Aupetit (*Revue Econ. Intern.*, 1904, Vol. III, p. 707) that there must be and that in fact there is an harmonious relation between investments at home and investments abroad. Of course, the development of the national industry must not be paralyzed by withholding from it the indispensable capital. Still, we must unreservedly congratulate ourselves on the fact that to such a large extent we are able to participate in foreign enterprises. Far from creating competition for us, we succeed in stimulating our own production, and no one will deny that it is more advantageous for a nation to cause other nations to work and to draw from them 2,000,000,000 francs yearly than to procure similar results by work at home. (Cf. *Rev. d'Econ. Pol.*, Vol. XIII, p. 154; *Revue Econ. Intern.*, 1906, Vol. II, p. 223.)

### *c Imports and exports of gold.*

[Bureau of Customs, Statistical Documents on French Commerce.]

[In millions of francs.]

| Year.     | Coin and bars. |          | Excess of—            |                       |
|-----------|----------------|----------|-----------------------|-----------------------|
|           | Imports.       | Exports. | Exports over imports. | Imports over exports. |
| 1880..... | 194            | 408      | 214                   | -----                 |
| 1881..... | 234            | 223      | -----                 | 11                    |
| 1882..... | 284            | 192      | -----                 | 92                    |
| 1883..... | 64             | 134      | 70                    | -----                 |
| 1884..... | 127            | 82       | -----                 | 45                    |
| 1885..... | 243            | 201      | -----                 | 42                    |
| 1886..... | 261            | 199      | -----                 | 62                    |
| 1887..... | 93             | 258      | 165                   | -----                 |
| 1888..... | 102            | 193      | 91                    | -----                 |
| 1889..... | 338            | 129      | -----                 | 209                   |
| 1890..... | 117            | 251      | 134                   | -----                 |
| 1891..... | 362            | 235      | -----                 | 127                   |
| 1892..... | 387            | 111      | -----                 | 276                   |
| 1893..... | 305            | 117      | -----                 | 188                   |
| 1894..... | 461            | 108      | -----                 | 353                   |
| 1895..... | 253            | 244      | -----                 | 9                     |

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In thirty-five years the amount of our metallic reserves has increased almost threefold.

## Imports and exports of gold—Continued.

| Year.      | Coin and bars. |          | Excess of—            |                       |
|------------|----------------|----------|-----------------------|-----------------------|
|            | Imports.       | Exports. | Exports over imports. | Imports over exports. |
| 1896.....  | 301            | 311      | 10                    | -----                 |
| 1897.....  | 291            | 132      | -----                 | 159                   |
| 1898.....  | 200            | 313      | 113                   | -----                 |
| 1899.....  | 319            | 162      | -----                 | 157                   |
| 1900.....  | 459            | 126      | -----                 | 333                   |
| 1901.....  | 429            | 145      | -----                 | 284                   |
| 1902.....  | 441            | 127      | -----                 | 314                   |
| 1903.....  | 314            | 130      | -----                 | 184                   |
| 1904.....  | 656            | 124      | -----                 | 532                   |
| Total..... | 7, 235         | 4, 655   | 797                   | 3, 377                |

The above table gives the figures for gold imports and exports during the last few years. They show that gold flows rapidly into France, and that in spite of numerous cases of export the holdings keep on increasing.

We give also for reference the amount of gold used yearly in the arts. The information, however, is not sufficient to permit of ascertaining the yearly increase in coined gold and gold bars, or what may be called international money; other particulars should be taken into account, such as recoinage, which the custom-house can not estimate.

### Gold used in the arts.

|           | Kilograms. |           | Kilograms. |
|-----------|------------|-----------|------------|
| 1882..... | 20, 859    | 1893..... | 17, 254    |
| 1883..... | 18, 585    | 1894..... | 18, 935    |
| 1884..... | 16, 131    | 1895..... | 20, 829    |
| 1885..... | 13, 729    | 1896..... | 20, 246    |
| 1886..... | 14, 226    | 1897..... | 20, 368    |
| 1887..... | 16, 395    | 1898..... | 23, 629    |
| 1888..... | 17, 639    | 1899..... | 27, 671    |
| 1889..... | 22, 148    | 1900..... | 27, 359    |
| 1890..... | 21, 851    | 1901..... | 28, 446    |
| 1891..... | 21, 253    | 1902..... | 25, 600    |
| 1892..... | 18, 190    |           |            |



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Statement of the Bank of France for the last week of each year.

[In millions of francs.]

| Year.  | Specie. |         |        | Circulation. | Discounts. | Loans. | Current accounts. |           | Ratio of cash to circulation. |
|--------|---------|---------|--------|--------------|------------|--------|-------------------|-----------|-------------------------------|
|        | Gold.   | Silver. | Total. |              |            |        | Individual.       | Treasury. |                               |
| 1890-- | 1,120   | 1,241   | 2,361  | 3,186        | 670        | 249    | 402               | 177       | 0.741                         |
| 1891-- | 1,137   | 1,253   | 2,390  | 3,194        | 761        | 298    | 433               | 244       | .748                          |
| 1892-- | 1,705   | 1,267   | 2,972  | 3,298        | 550        | 297    | 419               | 291       | .901                          |
| 1893-- | 1,702   | 1,261   | 2,963  | 3,581        | 579        | 303    | 405               | 128       | .827                          |
| 1894-- | 1,821   | 1,263   | 3,084  | 3,476        | 573        | 297    | 445               | 160       | .887                          |
| 1895-- | 2,048   | 1,244   | 3,292  | 3,527        | 544        | 312    | 547               | 202       | .933                          |
| 1896-- | 1,978   | 1,244   | 3,222  | 3,607        | 693        | 364    | 566               | 237       | .893                          |
| 1897-- | 1,963   | 1,222   | 3,185  | 3,689        | 730        | 358    | 492               | 221       | .863                          |
| 1898-- | 1,875   | 1,225   | 3,100  | 3,094        | 798        | 491    | 491               | 252       | 1.002                         |
| 1899-- | 1,866   | 1,196   | 3,062  | 3,820        | 828        | 344    | 477               | 207       | .802                          |
| 1900-- | 2,399   | 1,108   | 3,507  | 4,187        | 848        | 510    | 507               | 269       | .834                          |
| 1901-- | 2,449   | 1,096   | 3,545  | 4,287        | 846        | 523    | 560               | 167       | .826                          |
| 1902-- | 2,519   | 1,098   | 3,617  | 4,494        | 826        | 483    | 462               | 104       | .806                          |
| 1903-- | 2,361   | 1,101   | 3,462  | 4,491        | 1,040      | 508    | 447               | 236       | .770                          |
| 1904-- | 2,659   | 1,102   | 3,761  | 4,325        | 765        | 502    | 604               | 238       | .869                          |
| 1905-- | 2,878   | 1,075   | 3,953  | 4,566        | 1,098      | 503    | 716               | 390       | .865                          |
| 1906-- | 2,706   | 997     | 3,703  | 4,714        | 1,255      | 578    | 608               | 337       | .791                          |
| 1907-- | 2,691   | 924     | 3,615  | 4,801        | 1,215      | 578    | 489               | 258       | .752                          |

Average of specie holdings.

|                | Francs.       |
|----------------|---------------|
| 1873-1877----- | 1,520,000,000 |
| 1878-1882----- | 2,010,000,000 |
| 1883-1887----- | 2,200,000,000 |
| 1888-1892----- | 2,520,000,000 |
| 1893-1897----- | 3,150,000,000 |
| 1898-1902----- | 3,320,000,000 |
| 1903-1907----- | 3,770,000,000 |

The above table shows the condition of the most interesting accounts of the Bank of France at the last weekly statement of each year since 1890. It appears therefrom that while the amount of circulation increases together with that of discounts, loans, and current accounts, the fact is nevertheless established that the bank note tends to be more and more exclusively represented by cash holdings.

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We have said that the Bank, while increasing the total of its specie, had given especial attention to its quality. The single gold standard has now been adopted in most countries.<sup>a</sup> There remain but Mexico, the European populations of the Far East, and China, which compulsorily, if we may so express it, maintain the silver standard, though China has, properly speaking, no national monetary system. From the standpoint of international relations gold is therefore the only metal which can be exported. It was the duty of the Bank of France to see to it that our bimetallic system should not place us at a disadvantage in our relations with foreign countries.

This bimetallic system has remained incomplete since 1878, when the coinage of 5-franc pieces was definitely suspended. The former order of things left on our hands considerable holdings of coin, the real value of which was much inferior to the nominal value. But at present in our holdings of 5-franc pieces many are found to be of countries which belong to the Latin Union. We have withdrawn from their market such a quantity of these coins that, if the Union were dissolved and an accounting made, we would probably have to return to them more pieces than they would have to return to us, and the balance would have to be settled in gold. It is quite evident that this formidable quantity of 5-franc pieces of inferior quality might materially reduce the exact value of the circulating medium. The aim of the Bank was to dispose of as much of this silver as possible, in order, if not to

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<sup>a</sup> England was the first to teach the value of gold and to declare that this metal alone was fit to form the basis of a sound monetary system. Germany made use of the 5,000,000,000 francs indemnity to adopt monometallism in 1872. A law of March 14, 1900, established it in the United States.

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get rid of it altogether, at least to reduce the amount to a point where it would cease to be a cause of inconvenience and obstruction.<sup>a</sup>

It appears from a scrutiny of the preceding table that the silver holdings are continually diminishing, while the total holdings have increased. Indeed, the Bank of France avails itself of every opportunity to relieve its coffers of this depreciated currency.<sup>b</sup> Since 1898 a

<sup>a</sup> M. de Molinari thinks that in order to bring back the silver holdings to the condition they were in before 1850—that is, before the creation of the 10-franc gold piece which was intended to take the place of the disappearing silver—it would be necessary to call in these pieces. The value of those outstanding is 600,000,000 francs. This would cause the same amount in silver pieces or thereabouts to come out of the Bank. (Cf. *Journal des Economistes*, 1903, Vol. II, p. 12.) In our opinion this system, among other disadvantages, would overburden the circulation with a heavy and depreciated money.

<sup>b</sup> The following table of exports and imports of silver coins demonstrates that the French holdings have always shown an excess of exports.

[Bureau of Customs, Statistical Documents on French Commerce, pp. 84 and 144.]  
[In thousands of francs.]

|                         | Exports. | Imports. | Excess of exports. |
|-------------------------|----------|----------|--------------------|
| 1901.....               | 128,637  | 57,475   | 71,162             |
| 1902.....               | 106,006  | 60,807   | 45,199             |
| 1903.....               | 91,515   | 68,696   | 22,819             |
| 1904.....               | 78,028   | 41,918   | 36,110             |
| 1905.....               | 41,816   | 40,145   | 1,671              |
| 1906 <sup>a</sup> ..... | 79,574   | 71,034   | 8,540              |

<sup>a</sup> Amounts for 1906 are provisional.

This has led certain foreign authors, especially Austrians, to claim that we have a compulsory tender. Their reasoning is, in brief, that since the 5-franc piece has only a fiduciary value, and the notes of the Bank of France may be redeemed exclusively in 5-franc pieces, there is, therefore, a condition of compulsory tender.

There is hardly need to show the error of this reasoning. Compulsory currency in itself implies no redemption, and what we are reproached with simply amounts to stating that the 5-franc piece is legal tender and that its intrinsic value is not equal to its face value. Everybody knows it; nobody complains about it. Can it be said analogously that there is compulsory tender in all countries where subsidiary coins and copper are legal tender within certain limits and within these limits may be paid in redemption of notes?

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portion of the holdings has been absorbed by the recoinage of a certain number of 5-franc pieces into subsidiary coins, an operation which, according to the terms of the agreement of May 15, 1898, must be carried out up to the amount of 127,000,000 francs.

Our colonies also provide a large outlet for our silver reserves. In many of them, especially in regions somewhat remote from the coast, the custom of barter still exists. It is only recently, and in some countries, as in the upper Congo, only since a few months, that the natives journeying to the river with ivory, rubber, or other produce have begun willingly to accept coin in place of bags of salt or rice. For them the monetary unit is the 5-franc piece. The subsidiary coins of 1 franc and 50 centimes are doubtless known to them, and some of them even have seen gold coins; but these pieces are rarely in use. On several occasions, we are told, barrels of subsidiary coins, after remaining for a long time in the stores of the exporters who had secured them as a medium for their purchases, had to be sent back unopened because they could not be used.

It is, therefore, the 5-franc piece which is in greatest demand in these countries, and this demand appears strong enough to last for a considerable period.<sup>2</sup> On the

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<sup>2</sup> In this connection it may be interesting to note that in countries where commercial enterprise is least developed silver is taken in preference to gold; then, as economic knowledge increases, gold gives way to bank notes and bank notes to checks.

This is shown by the tables resulting from the inquiry of October 15, 1903, on the circulation of coins and paper. It is shown that the proportion of bank notes in circulation is only 63.08 in the Department of Ain, 65.75 in the Department of Haute Savoie, 66.45 in the Department of Lozère, 68.82 in the Department of Lot, 68.96 in the Department of Var; it reaches 90 to 91 per cent in the departments of Aude, Rhône, and the

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other hand, the members of the Latin Union, especially Belgium and Switzerland,<sup>a</sup> owing to their demands for

Bouches du Rhône, and exceeds 92 per cent in the departments of the Seine and the Gironde.

The average percentage of the various mediums of exchange was:

|                                 |        |
|---------------------------------|--------|
| Bank notes.....                 | 85.56  |
| Gold.....                       | 9.13   |
| 5-franc silver pieces.....      | 3.62   |
| Fractional silver currency..... | 1.58   |
| Copper.....                     | .11    |
|                                 | 100.00 |

At the same time a perceptible progress in general economic knowledge is evident, since the figures of the year 1897 indicate a larger use of metal:

|                                 |        |
|---------------------------------|--------|
| Bank notes.....                 | 82.91  |
| Gold.....                       | 11.10  |
| 5-franc silver pieces.....      | 4.45   |
| Fractional silver currency..... | 1.42   |
| Copper.....                     | .12    |
|                                 | 100.00 |

Concerning the evolution in money types and the struggle of the standards (Cf. Nicholson, "*Bankers Money*," London, Black, 1902, p. 4 and following), it may be added that there seems to be a constant progression toward a money of lighter weight. The French bank note, value for value, weighs two hundred times less than the equivalent in gold and three thousand times less than the equivalent in silver. (Cf. E. Théry, "*Les arrivages d'or*," *Econ. Europ.*, May 8, 1892.)

<sup>a</sup> There is between Belgium and Switzerland on the one side, and France on the other, an important and continuous movement of 5 franc pieces. The restocking of these two countries requires at times large amounts, as may be seen from the figures taken from M. Ansiaux ("*Les problèmes de la circulation*," *Revue Economique Internationale*, 1907, Vol. IV, p. 260; cf. Meyer, "*Les banques suisses d'émission et le drainage des écus*," Lille, Le Bigot frères, 1903):

[In millions of francs.]

| Year.     | Belgium. | Switzerland. | Year.     | Belgium. | Switzerland. |
|-----------|----------|--------------|-----------|----------|--------------|
| 1898..... | 38.0     | 68           | 1903..... | 25.0     | -----        |
| 1899..... | 60.0     | 103          | 1904..... | 12.0     | -----        |
| 1900..... | 35.5     | 75           | 1905..... | 24.0     | -----        |
| 1901..... | 14.5     | -----        | 1906..... | 81.5     | -----        |
| 1902..... | 11.0     | -----        |           |          |              |

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5-franc silver pieces, give us a considerable market for our embarrassing stock. And even if all these outlets were not open for our silver, the fact alone that our gold reserve keeps on growing would produce a steady decrease in the proportion of the silver holdings. The amount would be still smaller than appears from the above figures if the Bank, acting in the public interest, had not endeavored, during the last few years, to relieve the circulation by disbursing more and more gold and drawing silver to its vaults.

Now, neglecting our coined silver which can only be used in the home trade, if our gold holdings are compared with those of other nations, it will be seen that they are in no wise inferior:

*Holdings of gold at the end of June, 1904.<sup>a</sup>*

|                                  | Francs.          |
|----------------------------------|------------------|
| United States <sup>b</sup> ..... | 3, 391, 000, 000 |
| France .....                     | 2, 776, 500, 000 |
| Russia .....                     | 2, 222, 700, 000 |
| Bank of Austria-Hungary .....    | 1, 189, 700, 000 |
| England .....                    | 883, 500, 000    |
| Italy .....                      | 469, 200, 000    |
| Spain .....                      | 367, 900, 000    |
| Netherlands .....                | 138, 000, 000    |
| Denmark .....                    | 118, 600, 000    |
| Switzerland .....                | 116, 700, 000    |
| Naples .....                     | 101, 400, 000    |
| Sweden .....                     | 82, 600, 000     |
| Roumania .....                   | 68, 500, 000     |
| Sicily .....                     | 40, 900, 000     |
| Portugal .....                   | 27, 000, 000     |
| Finland .....                    | 21, 300, 000     |
| Servia .....                     | 18, 000, 000     |

<sup>a</sup> If the latest figures had been taken, it might be thought that they were influenced by the crises of 1907-8. It therefore seems preferable to select a year which was free from disturbances, and a time of the year when the calls for money are least, aiming thus to find a more correct level than during a period of agitation.

<sup>b</sup> Holdings of gold of the Treasury on October 1, 1903.

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The four countries whose holdings exceed 1,000,000,000 francs each are, as may be seen, the United States, France, Russia, and Austria-Hungary. The United States, owing to its precarious banking system, far from being able to derive any advantage from holding the largest reserve, has recently undergone a financial crisis of the severest kind, and has withdrawn much metal from Europe.<sup>a</sup> Moreover, the United States Treasury is only a department of the Government, and not a commercial institution. Russia has of late experienced some violent commotions. That country, however, somewhat like Austria-Hungary, is just enough outside the lines of international commerce to find but little use for its heavy reserve. This reserve is an appendage of the Russian Treasury, and a large percentage of the gold does not actually repose in its vaults, but is deposited abroad to the credit of the Bank or to the credit of the State.

France is, therefore, the richest country of the world in gold, thanks to its Bank, which has skillfully watched over and centralized arrivals of the precious metal. Owing to the uses the Bank can make of this gold, and to the shipments it sends abroad, Paris has become the most important gold market. It is thus with justice that France has repeatedly been called the greatest gold producer of the world, and at any rate, it is the great storehouse of that metal. It is therefore easy to understand how holdings as considerable as ours can withstand many shocks. It is not, however, in the public interest that these holdings should be indefinitely enlarged, and thus a

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<sup>a</sup> The amount of gold exported from Europe to the United States during the recent crisis is estimated at about 400,000,000 or 500,000,000 francs at least.

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pause in the movement seems to be, if not probable, at least possible.

After these remarks on the holdings of the Bank, from the point of view of their nominal importance and their quality, we now come to an examination of the function of the Bank in preserving what has been called the holdings of individuals.<sup>a</sup> The Bank properly considers that the very quality of the metal in circulation is a corollary of the considerable and judiciously constituted reserve in its keeping; this is simply an application of Gresham's law. In case of a panic, the duties of the Bank would be distinctly more serious, if it had not only to watch over its own reserve but also to repair the damage caused by a diminution or depreciation of the specie in circulation.

When, on March 21, 1907, the board of regents raised the rate of discount from 3 to 3½ per cent, that step was taken not for the purpose of safeguarding the reserve—which was enormous, consisting of 2,600,000,000 francs in gold, and which for a year, during periods much more favorable for exportation, had diminished only 400 to 500 million francs—but in order, by raising the discount rate, to avoid a decrease of the money in circulation, which would have resulted from the tempting and persistent offers from abroad, where discount rates ruled much higher. The incentive to export was too high, a counteraction was needed, and the Bank accomplished it by the means above described. During the week when the discount rate was raised, the monetary situation

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<sup>a</sup> Cf. *Pour & Contre* of March 24, 1907: "*Revue du marché.*"



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was not strained, because the gold reserve decreased only 3,000,000 francs, while discounts and loans decreased 4,000,000 francs; there was no inflation. Probably this rise was also intended to obstruct the outflow of capital, which, fearing the creation of an income tax, was ready to take shelter abroad.<sup>a</sup> This is a remarkable instance of the vigorous measures taken by the Bank to protect the money of individuals. It is equally certain that the same reasons had a great influence on the decision which, on November 7, 1907, raised the rate from 3½ to 4 per cent.

On the other hand, and especially in 1904, the financial policy of the Bank was to flood the French market with gold and to withdraw all silver that was not required for circulation. That silver, as we saw, was shipped abroad; the aim was to get rid of all that which, not being needed for circulation, was only depreciated money. Does this mean that we should reduce the holdings of silver in order to reach gold monometallism as quickly and as

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<sup>a</sup> According to M. de Foville's calculations, the amount of gold circulating in France reaches the sum of 4,000,000,000 francs. In England the coined gold outside the Bank would not exceed 2,000,000,000 francs, while in Germany it would reach the sum of 5,000,000,000 francs. (Raffalovich, *Economiste Français*, Nov. 23, 1907, p. 727.) But if it is possible, when speaking of the gold reserve of a country, to base calculations upon a concrete figure and to draw conclusions as to the amount of resistance, it is necessary, when considering the money in circulation, to bear in mind the extent of the territory and the density of the population. The latter is far from being alike in these three countries. In France there are 73 inhabitants per square kilometer, against 112 in Germany and 215 in England. If this factor is considered, the quantity of money per inhabitant will be seen to be greater with us than with our neighbors. The conclusion necessarily follows that, if the channels of circulation in England and Germany contain more metal than in France, nevertheless every Frenchman has a greater amount of circulating medium at his disposal.

easily as possible?<sup>a</sup> We think not. We remember that between 1860 and 1870 the question of a single metal was raised, as it is to-day, but in a contrary direction. The question then was how to get rid of the debased gold, and it was silver which was used as shield for the yellow metal. It is possible that new discoveries may result in a considerable reduction in the price of that metal. A general lowering of prices would result, which would give silver an increased value, and gold being depreciated in turn, would once more be safeguarded by silver. Thus we believe that, provided silver does not form a major part of the reserve, and provided the holdings of gold are able by themselves to meet the requirements of international trade, silver should not be entirely displaced. In our opinion the principle could be advanced that a strongly and wisely constituted reserve must aim to maintain between the gold holdings and the silver holdings about the same proportion as that between the value of the two metals.<sup>b</sup>

Now that a smaller production of silver and an increased production of gold is anticipated, the time would probably not be very favorable for putting this principle into practice. But when bimetallism was general there could have been established, and if in the future, as is quite possible, it again prevails, there might in our opinion again be established a ratio between the amount of gold holdings

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<sup>a</sup> "Our silver money is our militia; it guards our forts and frontiers at home, while gold is our regular army, which goes abroad and returns after profitable campaigns." (A Neymarck, Meeting of the Société d'Economie Politique of November 4, 1905, reported in the *Journal des Economistes*, 1905, p. 248.)

<sup>b</sup> See in the *Officiel*, in the report of the Senate session of February 5, 1877, the discussion of the question of bimetallism.

## *National Monetary Commission*

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and the amount of silver holdings inversely proportionate to that existing between (1) the official ratio of values of the two metals, (2) the actual ratio of the same values; for

instance:  $\frac{\text{Gold holdings}}{\text{Silver holdings}} = \frac{38}{15\frac{1}{2}}$ . Under the hypothetical

conditions which we have assumed, this equation would have offered and would offer the best means of counterbalancing the inconveniences of an ever-changing ratio of values. But as monometallism tends to become the rule and, moreover, as in all international commercial relations, settlements are made by taking as basis of value the ratio to gold bullion, which alone at the present time remains unchangeable, we are led to make large reductions in the holdings of silver. It is a delicate matter, however, to decide what limit should be placed to this reduction.

A thorough examination of the question of monometallism and bimetalism does not enter into the scope of our study, and we shall therefore add nothing to the above. In any case, if we confine ourselves to a view of the present situation and of the resistance which the unloading of the declining metal is able to offer to the fluctuation of values, we are led to be content with the incomplete bimetalism which now governs us, and once more to acknowledge the wisdom of the Bank of France, which preserves for us the *statu quo*.

# *T h e   B a n k   o f   F r a n c e*

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## SECTION II. *Immediate results of the dominating position of the Bank.*

The utility of a low discount rate for the commercial welfare of a country is well known.<sup>a</sup> Now, the rate tends to fall when the cash holdings increase and to rise when they decrease. In short, it is completely controlled by the holdings. On the other hand, it would not be correct to say that the amount of cash on hand follows the movements of the discount rate. Thus, of the two conditions we have under examination—low rate of discount, strength of holdings—the latter is the more useful. If it is advantageous to have a moderate discount rate, it is still more so to possess large cash holdings. This is the case in France, and as a natural result of our strong holdings, both as to quantity and quality, we enjoy a moderate rate of discount. This situation is so generally known, even in its details, that we shall recall its fortunate consequences as briefly as possible and only as far as is required for the unity of this investigation.

The normal rate of discount fixed by the bank of issue is imposed within rather narrow limits upon holders of funds. To raise it artificially for the greater contentment of a few

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<sup>a</sup> In this connection we cite the authoritative opinion of two English economists, Cairnes and Bastable: "What a nation is interested in is not in having its prices high or low, but in having its gold cheap—understanding by cheapness not low value, but low cost" (Cairnes, "*Leading Principles*," p. 494, cited by Bastable, p. 97 of the translation by Sauvaire-Jourdan, Paris, 1900); that is to say, not a gold value intrinsically low, but a small cost price, due to the inexpensive means used to obtain it. The idea, however, is not new. Napoleon said: "I have created the Bank in order to allow discount at 4 per cent." This was a very low rate one hundred years ago, and these few words show that the founder of the Bank meant, also, that it should remain stable. (Cf. Camille Pelletan in the Chamber of Deputies, session of January 17, 1907, *Journal Officiel* of the 18th, p. 71.)

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ardent capitalists must not be thought of any more than to reduce it to naught, as Proudhon<sup>a</sup> dreamed, and as despairingly wished for by the most fervent collectivists.<sup>b</sup> The cost of manufacturing the notes, the taxes, and the general expenses of a bank of issue set a limit for the discount rate toward which the normal rate constantly tends.<sup>c</sup> But that minimum itself may be raised owing to the influence of the minima existing in other countries.<sup>d e</sup>

In the table below are found grouped the average rates of official discount in the principal markets of the world. It will be seen that the French rate, with remarkable steadiness, rules perceptibly lower than that of other countries.

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<sup>a</sup> Proudhon had created a people's bank with the aim of making capital available free of charge. It failed wretchedly.

<sup>b</sup> To those who may find the present rate of discount too high, let us recall that, like ethics, political economy has laws which vary somewhat according to time and place. The Chinese, for instance, surprise us with the peculiarities of their civilization, however far advanced it may be in certain respects. Their conception of ancestor worship and of family ties is entirely different from ours; their music sounds queer to us; and, to keep to our topic, some time ago they were quite pleased to see their discount rate ruling at only 30 per cent. Their economists asserted that a lower rate would be dangerous. Cf. *Journal des Economistes*, 1879, I, p. 79.

<sup>c</sup> These taxes must not be indefinitely increased. If they should rise above certain limits, it would become necessary for the bank to transfer the burden to those who bring in bills for discount. In some cases the bank may cut down the profits; but when these are brought down to the ordinary level it is not possible to reduce them further without endangering the concern.

<sup>d</sup> Cf. *Revue d'Economie Politique*, Vol. XIII, p. 307.

<sup>e</sup> It is obviously impossible to determine *a priori* upon a fixed rate which would at once be sufficiently low and sufficiently high and which could be kept invariable. The problem of cheap money is far from so easy a solution. The rate would lack stability if it were not kept in close dependence on a certain number of economic conditions—such, for instance, as abundance of money in the home market or even in the world's market, money rates abroad, etc. On the other hand, a plethora of money is known to be one of the causes of crises, because excessively low rates for loans and discounts during a period of overconfidence permit enterprises which are often hazardous.

# The Bank of France

*Average rate of official discount from 1870 to 1907.<sup>a</sup>*

| Year. | France. | England. | Germany. <sup>b</sup> | Russia. | Italy. | Austria. | Spain. | Belgium. | Holland. | Switzerland. |
|-------|---------|----------|-----------------------|---------|--------|----------|--------|----------|----------|--------------|
| 1870  | 3.99    | 3.12     | 4.90                  | 6.55    | 5.11   | 6.00     | 6.00   | 3.87     | 4.10     | -----        |
| 1871  | 5.71    | 2.87     | 4.16                  | 7.95    | 5.00   | 5.37     | 6.00   | 4.33     | 3.09     | -----        |
| 1872  | 5.15    | 4.12     | 4.29                  | 7.83    | 5.00   | 6.43     | 6.00   | 5.06     | 3.56     | 5.83         |
| 1873  | 5.15    | 4.75     | 4.95                  | 6.45    | 5.00   | 5.16     | 4.32   | 4.37     | 4.75     | 5.58         |
| 1874  | 4.30    | 3.75     | 4.38                  | 5.72    | 5.00   | 4.91     | 6.00   | 3.85     | 3.50     | 4.88         |
| 1875  | 4.00    | 3.25     | 4.71                  | 4.49    | 5.00   | 4.88     | 6.00   | 2.75     | 3.20     | 4.34         |
| 1876  | 3.40    | 2.62     | 4.16                  | 6.39    | 5.00   | 5.00     | 6.00   | 2.69     | 3.00     | 3.73         |
| 1877  | 2.28    | 2.87     | 4.42                  | 6.00    | 5.00   | 5.00     | 6.00   | 3.21     | 3.00     | 3.57         |
| 1878  | 2.18    | 3.75     | 4.34                  | 6.00    | 4.73   | 4.50     | 5.26   | 3.04     | 3.62     | 3.61         |
| 1879  | 2.58    | 2.37     | 3.70                  | 6.00    | 4.00   | 4.17     | 4.11   | 3.01     | 3.07     | 3.57         |
| 1880  | 2.81    | 2.75     | 4.24                  | 6.00    | 4.00   | 4.00     | 4.00   | 3.35     | 3.00     | 3.53         |
| 1881  | 3.84    | 3.50     | 4.42                  | 6.00    | 4.13   | 4.00     | 4.00   | 4.08     | 3.72     | 4.28         |
| 1882  | 3.80    | 4.12     | 4.54                  | 6.00    | 5.00   | 4.20     | 4.58   | 4.42     | 4.63     | 4.57         |
| 1883  | 3.07    | 3.56     | 4.05                  | 6.00    | 5.00   | 4.11     | 4.97   | 3.60     | 3.64     | 4.11         |
| 1884  | 3.00    | 2.95     | 4.00                  | 6.00    | 4.43   | 4.00     | 4.68   | 3.32     | 3.06     | 2.99         |
| 1885  | 3.00    | 3.00     | 4.12                  | 5.96    | 4.16   | 4.00     | 4.16   | 3.28     | 2.58     | 2.85         |
| 1886  | 3.00    | 3.04     | 3.29                  | 5.00    | 4.71   | 4.00     | 4.00   | 2.75     | 2.50     | 3.09         |
| 1887  | 3.00    | 3.36     | 3.40                  | 5.05    | 5.50   | 4.12     | 4.00   | 3.06     | 2.50     | 2.91         |
| 1888  | 3.10    | 3.30     | 3.33                  | 5.34    | 5.50   | 4.16     | 4.00   | 3.27     | 2.50     | 3.13         |
| 1889  | 3.16    | 3.56     | 3.68                  | 5.75    | 5.22   | 4.19     | 4.00   | 3.54     | 2.50     | 3.70         |

<sup>a</sup> Most of these averages are taken from Soetbeer, "Materialien," and from the *Economiste Européen*, *Journal des Economistes* and *Moniteur des Intérêts Matériels*. The others have been directly calculated.

<sup>b</sup> The averages for Germany are those of the Bank of Prussia up to 1875; after that those of the Reichsbank.

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*Average rate of official discount from 1870 to 1907—Continued.*

| Year. | France. | England. | Germany. | Russia. | Italy. | Austria. | Spain. | Belgium. | Holland. | Switzer-land. |
|-------|---------|----------|----------|---------|--------|----------|--------|----------|----------|---------------|
| 1890. | 3.00    | 4.55     | 4.38     | 5.35    | 6.00   | 4.52     | 4.00   | 3.20     | 2.80     | 3.90          |
| 1891. | 3.00    | 3.40     | 3.80     | 4.88    | 5.78   | 4.40     | 4.00   | 3.00     | 3.12     | 3.92          |
| 1892. | 2.66    | 2.54     | 3.20     | 4.88    | 5.20   | 4.02     | 4.95   | 2.70     | 2.70     | 3.99          |
| 1893. | 2.50    | 3.05     | 4.08     | 4.70    | 5.18   | 4.24     | 5.00   | 2.83     | 3.40     | 3.37          |
| 1894. | 2.50    | 2.11     | 3.12     | 4.50    | 5.74   | 4.08     | 5.00   | 3.00     | 2.58     | 3.17          |
| 1895. | 2.10    | 2.00     | 3.15     | 5.00    | 5.00   | 4.30     | 4.50   | 2.60     | 2.50     | 3.27          |
| 1896. | 2.00    | 2.48     | 3.65     | 6.05    | 5.00   | 4.03     | 4.50   | 2.85     | 3.02     | 3.94          |
| 1897. | 2.00    | 2.78     | 3.82     | 5.87    | 5.00   | 4.00     | 5.00   | 3.00     | 3.13     | 3.90          |
| 1898. | 2.20    | 3.26     | 4.28     | 5.20    | 5.00   | 4.16     | 5.00   | 3.04     | 2.75     | 4.34          |
| 1899. | 3.06    | 3.75     | 4.98     | 5.59    | 5.00   | 5.04     | 5.00   | 3.91     | 3.83     | 4.95          |
| 1900. | 3.23    | 3.96     | 5.33     | 6.07    | 5.00   | 4.57     | 3.70   | 4.08     | 3.60     | 4.88          |
| 1901. | 3.00    | 3.72     | 4.10     | 5.67    | 5.00   | 4.08     | 3.50   | 3.28     | 3.23     | 4.00          |
| 1902. | 3.00    | 3.33     | 3.32     | 5.07    | 3.00   | 3.55     | 4.00   | 3.00     | 3.00     | 4.00          |
| 1903. | 3.00    | 3.75     | 3.84     | 4.65    | 5.00   | 3.50     | 4.15   | 3.17     | 3.40     | 4.06          |
| 1904. | 3.00    | 3.30     | 4.22     | 5.38    | 5.00   | 3.50     | 4.50   | 3.00     | 3.24     | 4.05          |
| 1905. | 3.00    | 3.00     | 3.81     | 5.65    | 5.00   | 3.70     | 4.50   | 3.18     | 2.68     | 4.05          |
| 1906. | 3.00    | 4.27     | 5.15     | 7.27    | 5.00   | 4.33     | 4.50   | 3.84     | 4.12     | 5.00          |
| 1907. | 3.45    | 4.92     | 6.03     | 7.12    | 5.07   | 4.89     | 4.50   | 4.94     | 5.10     | 4.94          |

## *T h e   B a n k   o f   F r a n c e*

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Some great nations, England, Germany, and even the United States, enjoy, as is well known, a commercial expansion vastly superior to ours in its intensity. Nevertheless, they pay higher for money than we do. Does this mean that a low discount rate has no influence on that expansion? We do not think so; indeed, we consider that there is here a grave mistake. Even admitting that a low rate, because it demonstrates a limited demand for money, also discloses only a moderate degree of prosperity—which is debatable—that low rate is nevertheless an element of impulse toward a period of greater activity, in that it allows money to be obtained on favorable terms. Should it be objected, however, that France, the land of cheap money, has permitted herself to be outdistanced by the commerce of her rivals, we would take this opportunity to show that from a financial standpoint France for the last thirty years has been ready for an onward movement which is only awaiting an impulse similar to that of which our neighbors have given us an example. In this question, moreover, we must carefully distinguish between the monetary factor and the economic point of view, and we must avoid attributing, under pretext of relationship, to the one the defects of the other. We shall have occasion again to return to this subject.

“There is something more important for a country than the figure of the discount rate, and that is the uniformity of this rate in space and in time. While it is not possible to reach absolutely fixed and uniform rates of discount and credit conditions, the nearer they are approached



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the nearer we are to perfection."<sup>a</sup> A discount rate subject to constant change would cause, at each variation, the gravest disturbances in commercial relations. On the other hand, a stable rate allows a certain prevision of the future and is highly advantageous to serious men of business.<sup>b</sup>

The advantages of as stable a rate as possible appear unquestionable. Let us recall, however, the classical controversy over the system of invariable discount as opposed to that of variable discount,<sup>c</sup> which ended by reducing the rate when money is abundant and raising it when money is scarce. It appears that here also, as in regard to low rates, it is necessary to discriminate. If the general welfare of commerce is at stake, the rate must remain as steady as possible; if the more complex problem of the elements composing the cash holdings is to be solved, then the question as to a change of rate may be raised. That question is then so related to the problem

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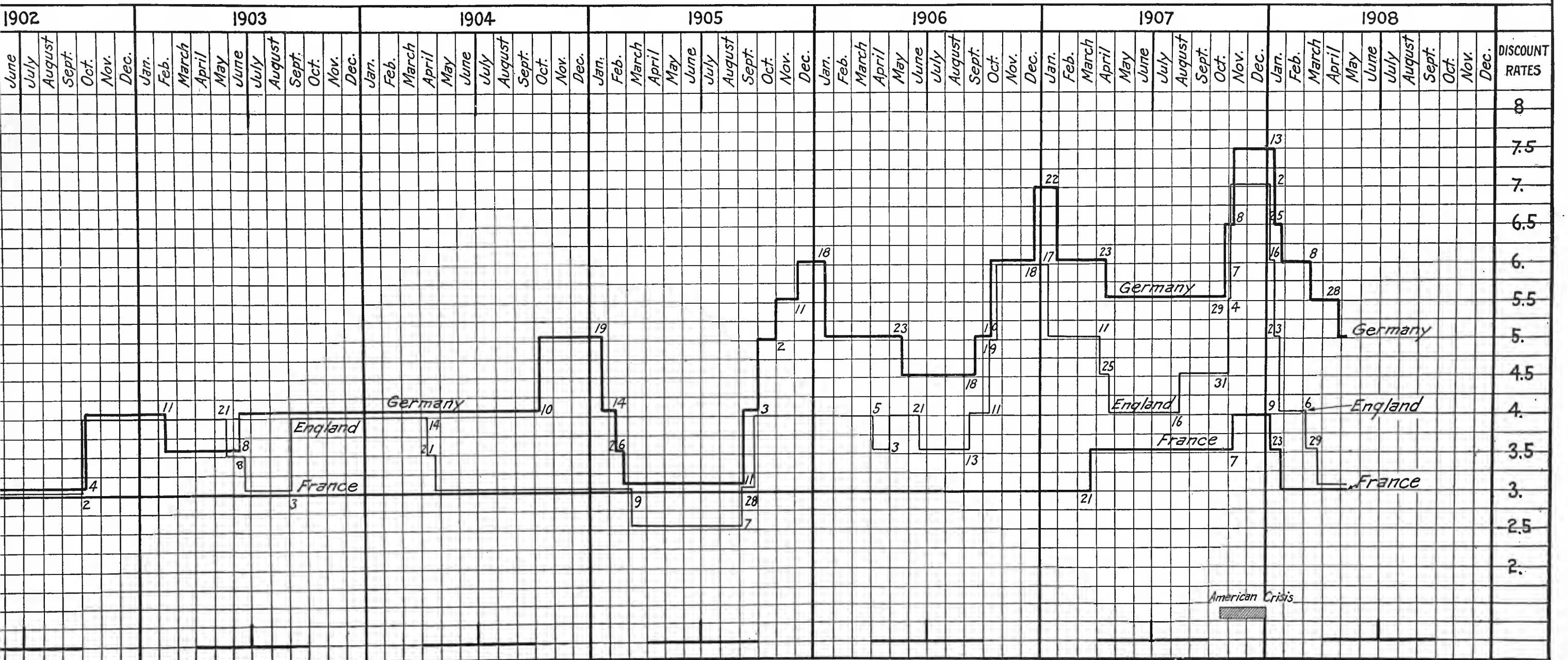
<sup>a</sup> Courcelle-Seneuil, "*Les opérations de banque. Traité théorique et pratique*," ninth ed., Paris, Alcan, 1905, p. 39.

<sup>b</sup> This is so true that among the plans for reorganization of the banks of issue in the United States there is one suggesting the adoption of certain measures, the chief merit of which would be the establishment of a sure guaranty against variations in the rate of discount. This plan was developed on September 3, 1903, by Mr. Shaw, Secretary of the United States Treasury (cf. *Econ. Europ.*, Sept. 11, 1903, p. 349). It has behind it the authority of a Cabinet officer who is also a distinguished economist.

It is well known that in the United States there are many banks of issue. The notes are very strictly secured by deposits of government bonds. The result is a lack of elasticity which is disastrous to public credit. On many occasions the defective organization of its banks has caused monetary crises in that country, though it is the richest in the world in metallic currency. A reform of its financial system has long been needed.

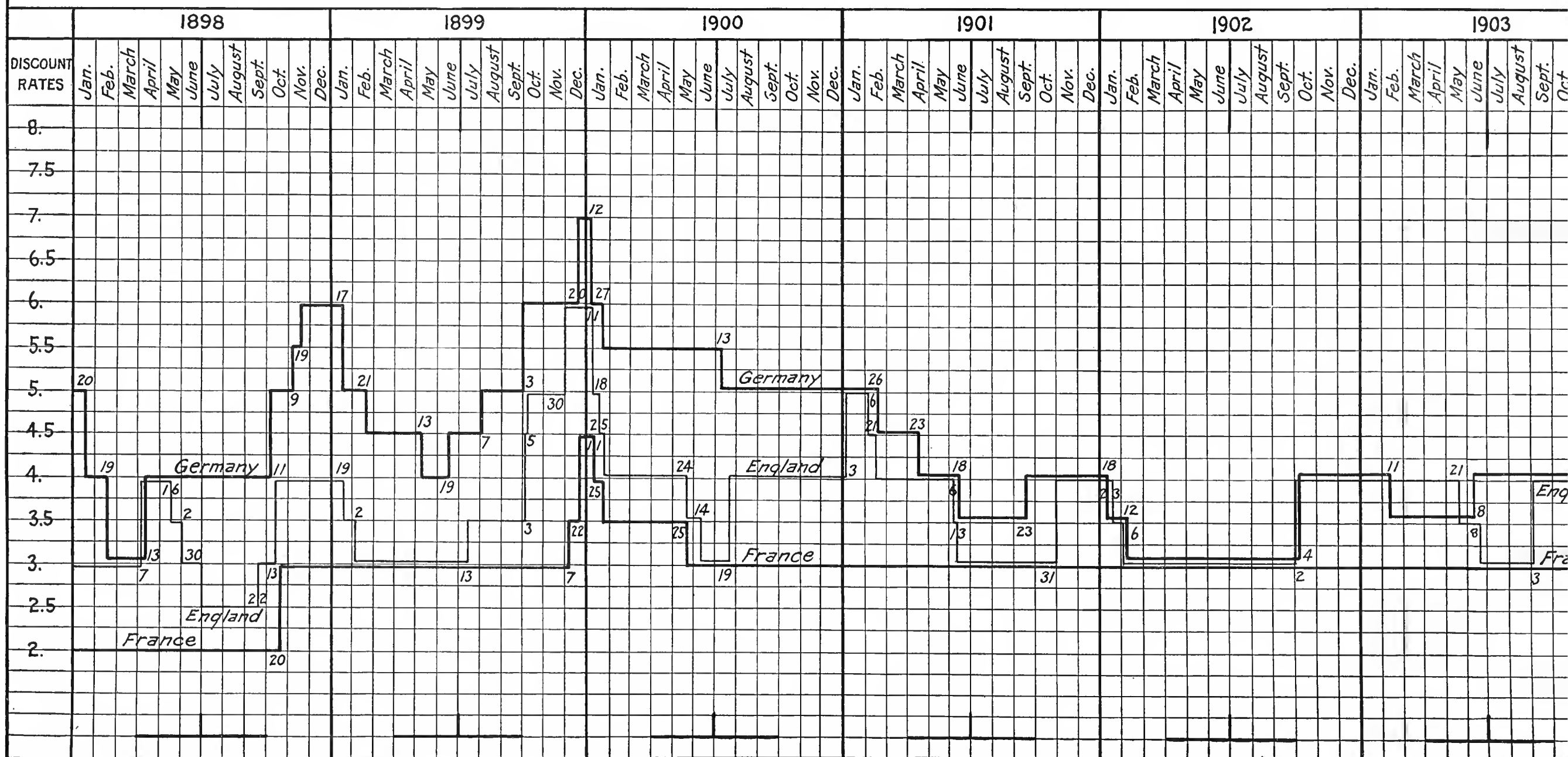
<sup>c</sup> This discussion is brought out in a clear and thorough manner, with reference to present conditions, by M. Léon Faucher (*Journal des Economistes*, 1847, I, pp. 206 and following).

# DISCOUNT RATE IN FRANCE, ENGLAND, AND GERMANY, FROM JANUARY, 1898



Note—The figures in the columns of months indicate the dates of each variation.

## VARIATIONS IN THE OFFICIAL DISCOUNT RATE IN FRANCE



# *The Bank of France*

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of the choice between the policies of "premiums" and of "discount," that we shall later make a special study of it when considering the gold premium and the rise in the discount rate. No doubt countries can be mentioned where the rate varies even less than in ours, but it appears, at the same time, that their position is not a leading one from the standpoint of international commerce; they deserve no credit for this relative stability, nor do they derive any benefit from it. "Countries lying outside the great international currents are as if in stagnant water, and they are able to preserve longer the same discount rates."<sup>a</sup>

The table we present a little further on for the purpose of showing how often the discount rate has changed in different countries points out in a striking manner how steady our market is as against the two greatest markets with which it can be compared, those of Germany and England.<sup>b</sup> This table reaches from January 1, 1870, to December 31, 1907. It is unnecessary to give earlier figures. This long period is amply sufficient to prove that the stability of the French rate is not the result of circumstances created by mere chance or peculiar to our time.<sup>c d</sup>

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<sup>a</sup> V. Pareto, "*Cours d'économie politique*", p. 386.

<sup>b</sup> On this point there is an English saying: "John Bull can stand most things, but he can not stand 2 per cent."

<sup>c</sup> On January 1, 1908, the principal rates of discount were as follows: Germany and Russia, 7½ per cent; England and Denmark, 7; Austria and Belgium, 6; Switzerland and Italy, 5½; Holland, 5; France, 4.

<sup>d</sup> Up to 1867 the changes in the bank rate were quite frequent. Since our reserve rose to 1,000,000,000 francs, the fluctuations have always been important and of long duration. (Cf. Nitti, *Essai sur les variations du taux de l'escompte*". *Revue d'Economie Pol.*, 1898, p. 384.)

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*Number of changes in the rate of discount per year.*

|      | Bank of<br>France. | Bank of<br>England. | Bank of<br>Prussia. |
|------|--------------------|---------------------|---------------------|
| 1870 | 4                  | 10                  | 5                   |
| 1871 | 2                  | 10                  | 1                   |
| 1872 | 1                  | 14                  | 1                   |
| 1873 | 4                  | 24                  | 6                   |
| 1874 | 1                  | 13                  | 4                   |
| 1875 | 0                  | 12                  | 5                   |
| 1876 | 1                  | 5                   | 6                   |
| 1877 | 1                  | 7                   | 7                   |
| 1878 | 1                  | 10                  | 3                   |
| 1879 | 2                  | 5                   | 6                   |
| 1880 | 2                  | 2                   | 5                   |
| 1881 | 2                  | 6                   | 3                   |
| 1882 | 3                  | 6                   | 5                   |
| 1883 | 1                  | 6                   | 1                   |
| 1884 | 0                  | 7                   | 0                   |
| 1885 | 0                  | 7                   | 3                   |
| 1886 | 0                  | 7                   | 5                   |
| 1887 | 0                  | 7                   | 2                   |
| 1888 | 3                  | 9                   | 2                   |
| 1889 | 3                  | 8                   | 4                   |
| 1890 | 0                  | 11                  | 3                   |
| 1891 | 0                  | 12                  | 4                   |
| 1892 | 1                  | 4                   | 2                   |
| 1893 | 0                  | 12                  | 3                   |
| 1894 | 0                  | 2                   | 2                   |
| 1895 | 1                  | 0                   | 1                   |
| 1896 | 0                  | 3                   | 3                   |
| 1897 | 0                  | 6                   | 4                   |
| 1898 | 1                  | 6                   | 6                   |
| 1899 | 2                  | 6                   | 7                   |
| 1900 | 3                  | 6                   | 3                   |
| 1901 | 0                  | 6                   | 4                   |
| 1902 | 0                  | 3                   | 3                   |
| 1903 | 0                  | 3                   | 2                   |
| 1904 | 0                  | 2                   | 1                   |
| 1905 | 0                  | 3                   | 7                   |
| 1906 | 0                  | 6                   | 5                   |
| 1907 | 2                  | 7                   | 4                   |
|      | 41                 | 273                 | 138                 |

If the fluctuations of the official discount rate in the three great markets of the world be presented in chart-form, a striking demonstration is obtained of the fact

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that we enjoy the greatest stability in the best money market.

We can further draw the following conclusions, which will be useful in the course of this study. The end of the year is regularly a period of important settlements; money is then in greater demand and rates rise. With the appearance of the crises of 1900 and 1907, the rates of discount reach their maximum. There are also periods of liquidation, of stagnation, and of that too rapid prosperity which by undue credit expansion prepares the way for the crisis. Finally, we may trace the sensitiveness of foreign markets, and in the midst of their movements the comparative immobility of ours.

So far we have dealt only with the official rate. But everybody knows that, besides this rate, there exists another called the outside market rate, which is, perhaps, in greater use than the former.\* One might be led to believe that the differences noted above between our situation and that abroad are, in part at least, the result of our having omitted this factor, and that the general average rate would materially differ from the official rate. Such, however, is not the case.

It is true that in foreign countries—in England especially and in Germany<sup>b</sup>—the officially published rate is in reality a maximum, and the banks of issue, through their commercial departments, may discount at lower rates.

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<sup>a</sup> The outside rates indicate as accurately as possible the relations between the supply and demand of metallic currency. They tend everywhere to vary in the same direction. When they are too high or too low they force the bank rate to be raised or lowered. In this sense it has sometimes been said that the official rate was in a manner artificial.

<sup>b</sup> This system has been used by the German Imperial Bank only between 1880 and April, 1896.

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They avail themselves of that privilege for the discounting of prime paper.<sup>a</sup> Certain it is that in this respect a difference may be noted. But, on the other hand, the great French banks of deposit, and in the first rank, the *Crédit Lyonnais*, the *Comptoir National d'Escompte de Paris*, and the *Société Générale*, owing to the powerful resources at their disposal for keeping their cash boxes replenished at low cost, are in a position to discount prime bills at a rate often lower than that of the Bank of France. If it happens that these concerns depart from the official rate by a considerable excess, it is merely that to a steady rate is added a premium justified by the risks of insolvency. It should be observed, moreover, that in England and Germany the exceptional rates granted by the banks of issue to especially prosperous concerns are not so generally used as notably to affect the average rate, and the private banks can not compete with our great financial institutions when it comes to offering very cheap money in the open market.

This indicates sufficiently for our purpose that any list which might be made of outside market rates, either abroad or in France, would necessarily be incorrect, and would furnish only an inexact average rate, the causes of which would still have to be analyzed. Besides, should the comparison be made, it would again show the favorable position of our commerce.

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<sup>a</sup> This system of plural rates applied, even by banks of issue, in their commercial departments has been greatly admired by some economists, who regret that the Bank of France does not pursue this policy. They seem to believe that ultimately the Bank may adopt it. On this subject see *Pour & Contre*, of March 5, 1905, "*Chronique financière du temps*," 1905.

# The Bank of France

Yearly averages of private discount rates.<sup>a</sup>

| Year.     | Berlin. | London. | Paris. |
|-----------|---------|---------|--------|
| 1887..... | 2.30    | 2.58    | 2.53   |
| 1889..... | 2.63    | 3.25    | 2.60   |
| 1891..... | 3.02    | 1.50    | 2.63   |
| 1893..... | 3.17    | 1.67    | 2.25   |
| 1895..... | 2.01    | .81     | 1.63   |
| 1897..... | 3.09    | 1.87    | 1.96   |
| 1899..... | 4.45    | 3.29    | 2.96   |
| 1900..... | 4.41    | 3.70    | 3.17   |
| 1901..... | 3.06    | 3.20    | 2.48   |
| 1902..... | 2.19    | 2.99    | 2.43   |
| 1903..... | 3.00    | 3.40    | 2.78   |
| 1904..... | 3.13    | 2.70    | 2.19   |

<sup>a</sup> From Thorwart: "*Le marché financier allemand*," *Revue Financière Internationale*, 1905, Vol. IV, p. 119.

So far we have seen the astonishing strength of France from a monetary point of view. The Bank of France has made it its duty to constitute for the country the largest metallic reserve in the world. This was necessary for the upbuilding of credit, and mathematically, as the reserve grew, the discount rate acquired a conspicuous steadiness and moderation. Local crises, whether monetary or of credit, are not to be feared when such powerful resistance can be brought to bear, and if they occur, it can only be in a world-wide disturbance. We shall, therefore, discuss this point only in connection with international credit.

Thus perfectly secure in its foundation, the Bank of France is enabled constantly to promote the development of credit. In this difficult undertaking we shall see the manifestations of its eminent wisdom as well as of its boldness. In spite of the complications of its task, we shall find the Bank always the leader in matters of credit as well as of money, unremittingly faithful to the great mission which the State intrusts to it, and its mastery of which we all acknowledge.



## PART I.

### PLACE OF THE BANK OF FRANCE IN THE DEVELOPMENT OF THE NATIONAL CREDIT.

We have seen what especial care the Bank of France has given to the building up, for itself and for the country, of a large and sound reserve and what were the immediate and fortunate results of this favorable situation. With such a cash reserve as basis, credit rests on solid and irreproachable foundations. We have assured ourselves of its power of resistance in our study of its most interesting aspects. On this basis the Bank can now erect and develop the structure of credit. If it controls the monetary situation, it must equally control credit or fail in its duty. There exists, indeed, between these two forces a close relationship, which, from the outset, we have endeavored to emphasize. The Bank, however, seems occasionally to lose this supremacy during the most prosperous periods, when confidence is unlimited and credit expands with excessive intensity. Money in the open market then often falls below the very low official minimum permitted by the expense of issuing bank notes. Other financial institutions, owing to their powerful resources in cash, become temporarily more prominent than the regulating bank, which sometimes shifts upon these more zealous auxiliaries the task of developing credit. But, if the least disturbance unexpectedly arises in the business world, the Bank immediately increases the discounts, and takes up again the reins which

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for a moment it had permitted to slacken. Would it be possible for the Bank to do this if it did not have the command of credit? By intrusting to it the care of Treasury funds the State acknowledges that the Bank has the power of regulating the money market and, as a consequence, of controlling credit.<sup>a</sup> The Bank ought to permit the extension of credit outside its control only so far as it is able to recover the leadership of the market as soon as this is threatened.

We shall see in this first part what is its exact place as a distributor by studying its relations with the great financial institutions. We shall then examine the manner in which the Bank develops credit, by increasing the number of instruments of credit, by making them available to the greatest number, by extending the area of its operations, and, finally, by fostering agricultural credit.

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<sup>a</sup> It has often been said that the Bank derives its strength from the fact that the administration displays extraordinary confidence in it. On the contrary, it would be truer to say that if the Bank is intrusted with duties such as the care of government funds, if there is a disposition to intrust it with ever new duties, it is on account of its strength, and because it is recognized as worthy of absolute confidence, the past being a sure guaranty for the future.

## CHAPTER I.

### PLACE OF THE BANK OF FRANCE IN THE DISTRIBUTION OF CREDIT.

We purpose to investigate the organs of French credit, and to assign to each of these organs its function, in order then to ascertain what operations the Bank of France can perform and within what limitations. We have therefore to examine (1) the function of local banks and of financial institutions; (2) in what manner the Bank of France promotes the free distribution of credit; (3) in what measure the Bank must control credit.

#### SECTION I. *Local banks and the financial institutions.*

The natural organs for the distribution of credit are the banks,<sup>a b</sup> but not all are able to spread it or popularize it in the same degree. Thus the "Haute Banque" (the great banking interests of Paris), solely engaged in operations of higher speculation or in international finan-

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<sup>a</sup> "A bank is a reservoir from which commerce must always be able to draw the metallic currency, of which, at a given time, it may have need in order to provide the community with products or services which can only be paid for in cash." (H. Lefèvre, '*Le change et la Banque*,' Paris, Ch. Delagrave, 1880, p. 396.)

<sup>b</sup> In beginning this chapter it seems to us interesting to draw attention to the fact that the capital employed in France in the operating of banks is notably less than that which is used in England or in Germany. The following figures, borrowed from the journal *Le Rentier* of March 7, 1905, demonstrate this sufficiently.

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cial relations, does not interest us. The function of distribution is reserved for the local banks and the financial

*Subscribed and paid-in capital of the large banks of France, England, and Germany.*

## FRANCE.

| Name of bank.   | Subscribed.    | Paid in.       |
|---|----------------|----------------|
|   | <i>Francs.</i> | <i>Francs.</i> |
| Banque de France.....                                 | 182,500,000    | 182,500,000    |
| Crédit Lyonnais.....                                  | 250,000,000    | 250,000,000    |
| Société Générale.....                                 | 200,000,000    | 50,000,000     |
| Comptoir National d'Escompte de Paris.....            | 150,000,000    | 150,000,000    |
| Crédit Industriel et Commercial.....                  | 80,000,000     | 20,000,000     |
| Banque de Paris et des Pays-Bas.....                  | 62,500,000     | 62,500,000     |
| Banque Française pour le Commerce et l'Industrie..... | 60,000,000     | 60,000,000     |
| Banque de l'Union Parisienne.....                     | 40,000,000     | 40,000,000     |
|   | 1,025,000,000  | 815,000,000    |

## ENGLAND.

|  |             |             |
|--|-------------|-------------|
| Bank of England.....                     | £14,553,000 | £14,553,000 |
| Union of London and Smiths Bank.....     | 22,934,000  | 3,554,000   |
| Lloyds Bank.....                         | 22,175,000  | 3,548,000   |
| National Provincial Bank of England..... | 15,900,000  | 3,000,000   |
| London City and Midland Bank.....        | 14,400,000  | 3,000,000   |
| London and Westminster Bank.....         | 14,000,000  | 2,800,000   |
| London Joint Stock Bank.....             | 12,000,000  | 1,800,000   |
| Parr's Bank.....                         | 8,542,000   | 1,708,000   |
| London and County Bank.....              | 8,000,000   | 2,000,000   |
| Bank of Liverpool.....                   | 8,000,000   | 1,000,000   |
| National Bank.....                       | 7,500,000   | 1,500,000   |
| Capital and Counties Bank.....           | 6,700,000   | 1,340,000   |
| Williams Deacon's Bank.....              | 6,250,000   | 1,000,000   |
| Manchester and County Bank.....          | 5,460,000   | 928,000     |
| Union Bank of Scotland.....              | 5,000,000   | 1,000,000   |
| Metropolitan Bank.....                   | 5,000,000   | 500,000     |
| National Bank of Scotland.....           | 5,000,000   | 1,000,000   |
|  | 181,414,000 | 44,231,000  |

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institutions, while the function of the Bank of France is to preside over this distribution.<sup>a</sup>

Local banks, preeminent less than one hundred years ago, have gradually seen their field of activity growing smaller, and a large number of them have been amalgamated with great institutions, possessed of much greater resources, with branches over the entire country, and, it must be said, free from the routine which caused the downfall of many provincial houses. With their decline

<sup>a</sup> "The Bank constitutes to-day such an inherent part of the economic organization of France that the country can hardly be thought of without this mechanism." (Flour de Saint-Genis, "*La Banque de France à travers le siècle*," Paris, Guillaumin, 1896, p. 123.)

*Subscribed and paid-in capital of the large banks of France, England, and Germany—Continued.*

## GERMANY.

| Name of bank.                       | Subscribed.          | Paid in.             |
|-------------------------------------|----------------------|----------------------|
|                                     | <i>Marks.</i>        | <i>Marks.</i>        |
| Reichsbank .....                    | 180,000,000          | 180,000,000          |
| Disconto-Gesellschaft .....         | 170,000,000          | 170,000,000          |
| Deutsche Bank .....                 | 160,000,000          | 160,000,000          |
| Bank für Handel and Industrie ..... | 132,000,000          | 132,000,000          |
| Dresdner Bank .....                 | 130,000,000          | 130,000,000          |
| Berliner Handelsgesellschaft .....  | 100,000,000          | 92,596,000           |
| Schaffhausenscher Bankverein .....  | 100,000,000          | 100,000,000          |
| Allgemeine Credit Anstalt .....     | 75,000,000           | 75,000,000           |
| Rheinische Credit Bank .....        | 61,000,000           | 61,000,000           |
| National Bank für Deutschland ..... | 60,000,000           | 60,000,000           |
| Bergisch Märkische Bank .....       | 54,250,000           | 54,250,000           |
| Breslauer Disconto Bank .....       | 50,000,000           | 25,000,000           |
| Commerz und Disconto Bank .....     | 50,000,000           | 50,000,000           |
| Norddeutsche Bank .....             | 50,000,000           | 50,000,000           |
| Pfälzische Bank .....               | 50,000,000           | 50,000,000           |
| Mitteldeutsche Creditbank .....     | 45,000,000           | 45,000,000           |
| Berliner Bank .....                 | 42,000,000           | 42,000,000           |
|                                     | <b>1,509,250,000</b> | <b>1,476,846,000</b> |

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we greatly regret to see the disappearance of personal credit, which it is more and more difficult to make available. The "intuitus personæ" (the judgment of character), which may serve as a basis for credit granted to a neighbor by a neighbor, can not be considered by a corporation official who has almost no means of estimating the solvency of individuals except from the material and tangible side.

The local banks, as far as they have survived, have adopted methods which do not bring them into competition with their powerful rivals. They have been obliged to grant long-term credits or content themselves with being intermediaries for the Bank of France in granting credits to parties known to them, generally farmers or small landed proprietors, with a view to rediscounting the paper. On this point again there is cause to regret, if not their disappearance, at least their effacement. We shall see, indeed, that the institutions for agricultural credit, in spite of all the attention they have received, have not yet been able to replace the local banks in the distribution of personal credit applied to agriculture.

The great financial institutions, of which the four most important are the *Crédit Lyonnais*, the *Comptoir National d'Escompte de Paris*, the *Société Générale*, and the

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The disproportion between Germany, England, and France would be still greater if, as in France, all banks having a subscribed capital equal to 40,000,000 francs at least had been mentioned. However, if we figure the pound sterling and the mark at par, the pound sterling at 25.22 francs, and the mark at 1.2345 francs, we shall find as subscribed capital in France 1,025,000,000 francs, in England 4,575,000,000 francs, and in Germany 1,863,000,000 francs. And as capital paid in: France 815,000,000 francs, England 1,115,000,000 francs, Germany 1,823,000,000 francs.

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Crédit Industriel et Commercial, have a much more important part in the distribution of credit. Thanks to their numerous agencies, to their attractive conduct of business, with the service of a courteous and attentive staff, they have gradually taught the people new habits in investment and confidence in credit, to such a degree that he who but yesterday hoarded in a stocking prefers to-day, if not to speculate on the Bourse, at least to make deposits in the savings banks. The great financial institutions have done much to give even the lowest classes confidence in credit, and to introduce a system of clearing.

In closer contact with the public than the Bank of France, which is restricted by having to protect the reserve of which we have spoken, these institutions are able more readily and effectually to reach and to mold the public. But that is not their only service nor the only reason for their existence. There are transactions which they alone undertake, which they alone can undertake, and which must be performed because they are in the line of progress. These operations are sources of profit in the same way as are discounts and loans for the Bank of France. Such are deposits, stock-market orders, and the flotation of securities. These operations can not be undertaken by the local banks. Occupied for the most part with long-term dealings, they have no use for deposits payable on demand. If they should have such deposits, their total would never reach a sufficient proportion safely to permit the investing of an important amount.

On the other hand, the Bank of France does not and, even if it wished, can not compete with the financial institutions in undertaking such operations. Neither the

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acceptance of interest-paying deposits nor the flotation of securities can come within the province of a bank of issue.<sup>a</sup> The flotation of securities necessitates a certain contingent responsibility, and the institutions which place securities on the market sometimes engage their credit for very large sums, which are sufficiently guaranteed by their capital, but the credit which is intended to safeguard the stability of the bank note<sup>b</sup> can not be pledged for that purpose. At most, the Bank may handle over its counters an issue of government and treasury bonds, as it bound itself to do when it accepted the terms of the last renewal of its charter.

It happens that the Bank of France sometimes transmits subscriptions, but this is a gratuitous and entirely voluntary service. In no case can the Bank take for its own account bundles of securities in order to dispose of them to the public. Even the purchase and sale of securities, which is so profitable a business in all financial institutions, could never, it is clear, be a successful undertaking in the Bank of France. The staff of the Bank has no special information as to the various securities dealt in on the Bourse, and can not, therefore, give valuable advice. Its rôle would apparently be confined to handing out the financial journals and passively awaiting orders. If it should act otherwise, the staff would engage the moral responsibility of the Bank of France; but the Bank, evi-

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<sup>a</sup> "Evolution tends less and less to make banks of issue institutions of credit in the true sense of the word, and more and more to make of them accurate, watchful, and skillful clearing cashiers." (P. Leroy-Beaulieu, "*Traité théorique et pratique d'économie politique*," Paris, Guillaumin, 1896, Vol. III, p. 666.)

<sup>b</sup> The reason why the Bank of France requires capital is that it is impossible to secure an absolutely infallible discount board and to discount only paper that is absolutely safe. (Cf. *Journal Officiel* of June 30, 1892, report of M. Burdeau.)



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dently reluctant to undertake such operations, prefers to leave that field to its auxiliaries, the financial institutions.

However, at the present time, as we shall see, the Bank of France tends to compete with these institutions for the purpose of maintaining sound conditions of credit which inclines more and more to speculation. Thus it is extending its department for the purchase and sale of securities in order to safeguard a poorly informed public against the excesses of speculation which dazzle with the hope of an always illusive gain.

## SECTION II. *In what manner the Bank of France promotes the free distribution of credit in France.*

Thus the Bank of France must leave entire freedom of action to the financial institutions and must not encroach, theoretically at least, on their functions, which, as has been shown, differ materially from its own. The Bank even owes them its protection, since they are valuable auxiliaries in pursuing its aim of extending credit as liberally as our metallic base permits. In the interest of the public the cash holdings are daily at their disposal. "The banks of issue, as well as the treasuries of the State, are treasuries for private banks. Thus the national credit rests entirely upon them."<sup>a</sup> The help and protection of which we speak are not mere passive professions. Unfortunately, there have already been numerous cases where the Bank has had to interfere in order to bring effective assistance to private banks. The Bank has, of course, acted thus for the welfare of the entire community, but also for the satisfaction

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<sup>a</sup> M. Clément, "*Des variations du taux de l'escompte*," Nîmes, 1902, p. 154.

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of protecting its auxiliaries with all its power in the fulfillment of a difficult task.

Let us recall, in the first place, the terrible crash of the Union Générale, in January, 1882. The manager and M. Bontoux, the president of the board of directors, were both arrested on the 1st of February. The Union Générale was so powerful that the French market, as a whole, was considerably influenced by this disaster. The financial institutions, heavily engaged, had serious fears for their own credit, as many Frenchmen may still sadly remember. Then the Bank of France intervened. "It contributed greatly to the restoration of confidence; it came to the rescue of the compromised institutions by rediscounting a part of their commercial paper; it helped individuals by receiving as current accounts the sums they had withdrawn from the banks, and brought general relief by making the discount rate  $3\frac{1}{2}$  per cent."<sup>a</sup> From this period dates the prosperity of the better managed banks, which, having remained unharmed, gathered in the customers of the discredited institutions.

In April, 1889, the Comptoir d'Escompte calamity nearly compromised the condition of the banks of deposit, which, however, had acquired stability, were engaged at the time in short-term transactions, easily convertible into cash, and appeared, therefore, less vulnerable than ever. "A heavy speculation in copper had been organized in 1888 with the help of the old Comptoir d'Escompte. In the beginning of 1889, owing to various circumstances, the copper market gave way, involving the Comptoir d'Escompte. M. Rouvier, the minister of finance, called

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<sup>a</sup> E. Théry, "*La France économique & financière pendant le dernier quart de siècle*," p. 231.

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upon the Bank of France for help. The authorities of the Bank felt that in the face of such events they could not afford to remain passive, and they placed at the disposal of the Comptoir d'Escompte a sum of 140,000,000 francs, thus permitting the repayment of all its deposits, and a liquidation, which, for want of that help, might have proved disastrous. The liquidation was effected on favorable terms and caused no loss to the Bank or to the firms which had given their guaranty."<sup>a</sup>

The Comptoir d'Escompte was then the only French financial concern having important branches in the Far East and abroad. Its disappearance, in addition to causing confusion in the home market, would have cast an unfavorable shadow on our credit abroad. The same syndicate of bankers, which rallied around the Bank of France to facilitate the liquidation of the old concern, furthered the subscription to the securities issued by the new company, the Comptoir National d'Escompte de Paris, which took over the business and the various agencies of the old company.<sup>b</sup>

Later we shall take occasion to speak of the failure of the house of Baring Bros., London, and of the part played by the Bank of France in the task of relieving the depressed London market. We shall concern ourselves, for the present, only with those incidents which could affect the French market, and we come now to the failure of the Société des Dépôts et Comptes Courants, in the beginning of 1891.

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<sup>a</sup> E. Théry, *op. cit.*, p. 277.

<sup>b</sup> Cf. Germain-Martin & Leo Polier, "*Cours d'économie politique*, II, *Le crédit*," p. 260.

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“The Bank of France, after exacting such security as the concern could still offer and, furthermore, the guaranty of several large banking institutions, for the purpose of limiting possible losses, authorized discounts to the amount of 49,228,206.87 francs. Thanks to this assistance, all deposits were paid off, and the dreaded effects of a panic were once more averted.”<sup>a</sup> In spite of the precautions that had been taken, the liquidation was slow. In 1894 there still remained 16,000,000 francs which the Bank had been unable to recover, and in 1895 7,500,000 francs. It was only in the following year that this account disappeared entirely from the balance sheet of the Bank.<sup>b</sup>

In the midst of the most perfect confidence and the greatest prosperity, it is again the Bank of France which renders it possible to secure an economical management of the cash reserve so important for the financial institutions. Indeed, by the rediscounting of some of their paper, they may at any moment readjust the proper balance between their receipts and disbursements, thus keeping on hand but a slender cash balance. Their payments can not exactly correspond to their collections, as neither can be accurately gauged in advance.

While it is possible for the public treasury to remedy this discrepancy, as far as its own transactions are concerned, by issuing short-term treasury bonds, in the case of the financial institutions the cashier's certificates can

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<sup>a</sup> “*Compte rendu de l'assemblée générale des actionnaires de la Banque de France*,” 1891.

<sup>b</sup> Cf. also for this episode, Juglar, “*Des crises commerciales et de leur retour périodique en France, en Angleterre et aux Etats-Unis*,” Paris, Guillaumin, 1889, and speech of M. Rouvier in the Chamber of Deputies in 1891.

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not fulfill the same purpose as surely, and resort is had to rediscounting. Therefore, a wise rule of internal regulation exacts that a fixed portion, usually one-third or one-half, of the paper they discount shall consist of bills acceptable to the Bank of France. It may be said, therefore, that in rediscounting such paper the Bank permits the financial institutions to discount paper that does not come up to its own requirement (not bankable) and to transact any other operation such as financing commercial undertakings.

Thus, whenever the financial institutions have found themselves in need of effective pecuniary assistance, the Bank of France has regarded it a duty to help them, and in normal times, by assisting them with its resources, it facilitates liberal credits.

### SECTION III. *In what measure the Bank must control credit.*

It may happen, on the other hand, that the great financial institutions expand too rapidly or unwisely this or that branch of credit. Mindful, above all, of their own interest, which is but natural, they have no especial regard for the public welfare, their only aim being to make their capital bear fruit and to pay large dividends to their shareholders.

We have already seen that the Bank of France aspires to a nobler ideal, and we remember some of its policies adopted primarily for the public good.<sup>a</sup> The development of credit is an extremely delicate matter; there are many instances where the application of this agency has led

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<sup>a</sup> Cf. *supra*, p. 10.

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to great catastrophes. It is undoubtedly impossible to exercise a strict supervision over the financial institutions; any such measure would soon appear vexatious and would be, moreover, contrary to our spirit of liberty and independence. But we can quite justly ask whether these concerns are fully sheltered against disasters; whether nothing can happen to them of a nature to shake their credit; and in such a contingency what should be the attitude of the Bank of France.

The preceding instances, briefly noticed above, inform us sufficiently as to the possibility of failures. The house of Baring Bros., the Union Générale, and others enjoyed an immense credit, thought to be unshakable, and the events of a day flatly contradicted that opinion. The various newspaper campaigns during a number of years against the financial oligarchy, of which the controversy of Lysis and Testis<sup>a</sup> is but an episode among many others, could have jeopardized, at least in a measure, the credit of the great banking establishments. Public opinion, however, has passed upon it.

But in considering matters more closely, we shall recall that deposits, stock-market orders, and the flotation of securities are the three branches which bring prosperity and profits to the great financial institutions. The steady expansion of these departments is the surest cause of their success. We may, however, ask whether this considerable increase, as shown by the statistics, may not some time be checked. Will the public continue

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<sup>a</sup> Lysis, "*Contre l'oligarchie financière en France*," *La Revue (anc. Revue des Revues)*, 1907. Testis, "*La vérité sur les propos de Lysis, le rôle des établissements de crédit en France*," *Revue Politique et Parlementaire*, 1907, Vol. 52, p. 456; Vol. 53, pp. 5, 241, 449; Vol. 54, pp. 25 and 229.

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every year to deposit new amounts, which, added to the previous deposits, would constantly augment them without any conceivable limitation? Will the public long submit to the system of speculation, the results of which can only be doubtful? Will its love of gain push it to multiply these operations indefinitely, in the hope of ultimate riches? And will the French market always continue to remain the great producer of capital as we know it, the land of constant thrift, inexhaustible, supplying all who come, while issues of securities increase and are indefinitely renewed, thus absorbing the national savings?

On these various points there would be matter for a long and interesting discussion, in which we shall not engage. But whatever others may think, to us it does not seem rash to state that the three sources of profit mentioned above will not continue to expand indefinitely in the proportions we now witness. However, what does not go forward goes backward. Since restriction is impossible, a change is sooner or later inevitable. Just like individuals accustomed to live beyond their means, the financial institutions, engaged in a movement of ever-growing operations, will not readily slacken their pace, and perhaps in the end they will let themselves be drawn into more or less hazardous transactions. Even if we suppose that each one of them is able to develop satisfactorily, it would still be necessary that the transformed banking methods should present opportunities for profits comparable to those hitherto enjoyed. Perhaps such opportunities may then arise, but we greatly fear that they may be sought amidst the risks of unrestrained

speculation, as has just happened in the United States, which, in this respect, is unhappily preeminent.<sup>a</sup>

In any case, we may ask whether in the future the actual monopoly enjoyed by the financial institutions could not be checked by competition. Without speaking of stock market orders and the flotation of securities, transactions which are essentially vulnerable, let us consider only the deposits, that part most vital and sensitive in that it supplies the cash which is obviously so important for a bank. In regard to their deposits the financial institutions have especial reasons for fear. What is called in banking parlance the deposit account is nothing but a current account and carries no privileges for the client. The common belief which tends to consider such deposits as preferred claims is absolutely erroneous. There is no analogy between the special kind of deposit we are speaking of and the one aimed at in articles 1915 and following of the Civil Code.<sup>b</sup>

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<sup>a</sup> The United States offers an example of speculation of which we can hardly form an idea in France.

The New York Stock Exchange has over 1,350 members. In each member's office all operations of the Stock Exchange are recorded by telegraph, which allows the numerous customers to follow the prices at any moment and to buy and sell incessantly, thus facilitating frantic speculation. The American spirit is so intent at the game that few among the rich speculators know the extent of their fortune; some even do not know if they are really rich. Such a one, after having purchased sufficient shares to control the stock of a certain concern, and especially to govern its quotations, will pledge his holdings and with the amount raised will buy the shares of some other great company of which he will gain control in the same way and the securities of which he will pledge again.

With a comparatively small capital the American speculator can manage thus to expand considerably his credit and to rule the market at many points at the same time. But how gravely the least oscillation of this unstable edifice threatens the entire business world!

<sup>b</sup> Cf. M. & A. Méliot, "*Dictionnaire financier international, théorique et pratique*," under the word "Banque." Paris, Berger-Levrault & Cie., 1904.



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The internal organization of financial institutions is so well known that a few words concerning it will suffice. Their numerous accounts, nearly all showing credit balances, assure them large sums which they hold without charge, even allowing depositors a moderate interest, varying, however, according to the cash requirements of the depositary, and according to the length of time the depositors agree to leave their funds in the bank. The same institutions also issue certificates of deposit similar to treasury bonds, which pay a small interest. The maximum of interest paid to depositors rarely exceeds 2 per cent per annum in the most favorable cases. But most deposits, especially those subject to check, which are in a majority, generally draw interest at one-half of 1 per cent. Thus we see at what low rate the banks of deposit procure their floating capital. They make use of it to provide for their various departments, loans, discounts, stock-market loans, credit accounts, which bring higher rates of interest, close to the official rate for certain operations, still higher for others, and often close to the outside rate. The banks of deposit are therefore greatly interested in the figure of the discount rate of the Bank of France. Here also we find a limit to the indefinite lowering of the official rate, because a decrease, even though imperceptible to commerce, might in certain cases endanger the vitality of the banks of deposit. With this in view M. E. Théry could say: "When the outside rate for money has fallen below  $1\frac{1}{2}$  per cent, what would become of the banks of deposit if the Bank of France, mindful only of its own interests and not of the

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superior interests of our public credit, should suddenly lower its discount rate to 2 per cent?"<sup>a</sup>

This new limit to a reduction of the official rate should be noted, because we have seen how important is the prosperity of our financial institutions for the national credit.<sup>b</sup> This consideration should suffice for the rejection of the system of multiple rates which consists in allowing the bank of issue, when it is thought expedient, to discount below the official rate for the benefit of certain customers. There appears to be in this an act of hidden competition which, in the interest of the country, the Bank could not possibly countenance. We shall see, in addition, that if the Bank wishes to recapture the market it has many other means at its disposal.

In the course of the discussion concerning the last renewal of the charter of the Bank of France, much was said as to the possibility of allowing a certain interest to de-

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<sup>a</sup> Edmond Théry, "*Trop de prudence*," *Econ. Europ.*, April 17, 1892.

<sup>b</sup> We are of course aware that there are other limits to the lowering of the discount rate. In the first place, if it is not indispensable to follow the rates of foreign markets, it is nevertheless not possible to maintain, artificially or arbitrarily, an independent rate. There is, in the next place, a minimum fixed by the cost of manufacturing bank notes, the safe-keeping of the metallic reserve, and the expenses of management. These rather high expenses amount to a rate of about  $1\frac{1}{2}$  per cent. If the various taxes and stamps are added, we reach a figure for general expenses so considerable that it alone would prevent an indefinite reduction. Moreover, it should be noticed that the rate of 3 per cent, which tends to be stable, yields to the shareholders but a very small dividend, if we take into consideration that the market value of a share of the Bank of France fluctuates about 4,000 francs, having quadrupled in one hundred years. This, indeed, appears normal enough, since money was scarcer at the beginning of the nineteenth century than now, and values have probably increased fourfold. The big dividends paid were earned in times when discounts were high, not arbitrarily, as is well known, but quite naturally, since elementary caution requires that a corporation shall manage to operate without having to rely upon the exceptionally favorable periods.

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positors in the Bank.<sup>a</sup> After what has gone before, it does not seem necessary to dwell at length on this point. M. Burdeau<sup>b</sup> has shown that it is impossible for the Bank of France to become a bank of deposit. The issue of bank notes and the receipt of interest-bearing deposits are absolutely incompatible services. Their union in a single hand "would replace the present organization by an entirely new one, which, in case of a crisis, would offer much less vitality and power of resistance." For us it is sufficient to know that the payment to depositors of 1 per cent on deposits subject to check would attract to the Bank nearly all inactive funds, and that a sum in the neighborhood of 1,000,000,000 francs would leave the private banks. This would be their death-blow—a result which we are unwilling to contemplate.

On the other hand, the future of the banks of deposit depends upon the interest paid by the Caisse des Dépôts et Consignations to its depositors. It is for their interest that the Caisse should not raise its rate. If, for instance, the Caisse should pay over 2 per cent, the banks of deposit, which can allow such a rate only in very exceptional cases, would for this reason receive much less, and their means of action would be correspondingly decreased.<sup>c</sup>

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<sup>a</sup> This idea is not new. Before 1869 M. Horn had demanded that interest be allowed on deposits in banks of issue. (Cf. Wolowski, "*Le change et la circulation*," Paris, 1869, pp. 12, 26, 33.) And it is found again in M. Léon Say's book, "*Dix jours dans la Haute Italie*," p. 63. The arguments pro and con are, however, always the same.

<sup>b</sup> Burdeau, "*Discours sur le renouvellement du privilège de la Banque de France*," June 29 and July 6, 1892, in the *Officiel* of June 30 and July 7.

<sup>c</sup> A. Moireau, "*La Banque de France, prorogation du privilège, le Crédit Foncier, La Caisse des Dépôts & Consignations*," Paris, Perrin & Cie, 1891, p. 183.

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To sum up, we may say that by their very nature the financial institutions are liable to weakness, and for the public good there must be some means of supporting them. For this reason the Bank of France, which presides over the distribution of credit, can permit the expansion of its auxiliaries only up to the point where its help would suffice to prevent the collapse of the market. Such a measure appears imperative in a country where the protecting wisdom of the Bank of France has always been relied upon. Fortunate land, fortunate institution, which excites the envy of foreigners, especially of England, where, as we shall soon have occasion to see, the least failure may result in disastrous consequences.<sup>a</sup>

## CONCLUSION.

Thus the banks of deposit have contributed to progress "by gathering and giving life to sums until then lying scattered and idle."<sup>b</sup> They are valuable auxiliaries in the distribution of credit. For this reason they deserve help and protection. The Bank, the mission of which is of a wider and loftier scope,<sup>c</sup> has shown on many occasions that its helpfulness is not a pretense; daily, in fact,

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<sup>a</sup> It should be noticed that the strongest defense of the system of the Bank of France is found in English books and papers, notably the *Statist*. (*Statist* of December 1, 1906, mentioned in the *Economiste Européen* of December 7, 1907, and *Statist* of February 15, 1908, mentioned in the *Messenger de Paris* of February 20, 1908.)

<sup>b</sup> Burdeau, June 29 and July 6, 1892, in the *Officiel* of June 30 and July 7.

<sup>c</sup> "The Bank of France, during periods of quiet and prosperity, aims at a gradual effacement, at a more complete retreat toward a very high but very restricted sphere of economic activity. But as soon as the least trouble appears \* \* \* the Bank assumes again its place at the head of our great financial institutions." (Brouilhet, "*Le nouveau régime de la Banque de France*," *Revue d'Economie Politique*, 1899.)

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it assists them by rediscounting their bills. We have also seen that the prosperity of the financial institutions has continually increased. It is associated with the confidence and growing security of our times.<sup>a</sup> But should a war or other calamity occur, quiet and security would disappear, and deposits would correspondingly decrease. At such a time, these banks might give way. Or again, should a lively competition develop, should the direction of opinion or of affairs be changed, that alone might suffice to arouse fear of defection among these auxiliaries of credit. Such a possibility is enough to impose upon the Bank of France the duty of foreseeing and of providing for it. The Bank must be ready to meet even improbable contingencies in order to be in a position to recapture the market with a sure hand as soon as danger threatens it.

Under these circumstances, what can the Bank do? In the first place, it can utilize its powerful reserve which has been accumulated for this purpose. It can, in the next place, curb the action of the banks by competing with them when they appear to enter upon a dangerous course, and by showing them what steps to take.<sup>b</sup>

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<sup>a</sup> The discounts and loans of the financial institutions are growing in importance, and are steadily increasing in proportion to those of the Bank. This condition, revealed by statistics, is in itself not alarming, but it once more justifies that intervention, so many motives for which we have brought out in the course of this chapter.

<sup>b</sup> It seems that this protective mission especially applies to the department for stock market orders, originally reserved for the customers of the Bank, and later opened to everybody. Thus it prevents the financial institutions from driving us toward excessive speculation. This purpose explains, according to our notion, the growth and broadening of the business of stock market orders at the Bank of France. The same may be said of the relatively recent measures which permit deposit accounts without interest, and give the loan accounts the privilege of having a credit balance.

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On the other hand, there is a whole series of operations which private banks do not undertake, or do not tend to develop as they deserve. The reason for this we have seen; directed by self-interest toward the more profitable transactions, they somewhat neglect the others. The Bank of France finds no one engaged in these less remunerative operations, and is, moreover, the better able to undertake them itself, because they are not incompatible with the duties of a bank of issue.

In this short essay on the physiology of the distributors of credit, we have endeavored to ascertain theoretically in what measure the Bank of France could and should intervene. We have noticed that on many occasions credit has had the greatest need of being purified, that the colossal expansion of the great financial institutions has demanded the intervention of the Bank, only possible in case of failure. We have said, moreover, that not all credit operations can be carried out by the financial institutions.

It remains for us to show, and this will be the subject of Chapter II, with what activity the Bank of France has developed the credit operations of which it may or should take charge.

## CHAPTER II.

### EVIDENCES OF THE ACTIVITY OF THE BANK OF FRANCE IN CONNECTION WITH THE NATIONAL CREDIT.

#### SECTION 1. *Development of instruments of credit in the Bank of France.*

The instruments of credit which we have previously enumerated<sup>a</sup> comprise almost exclusively those transactions which the Bank of France is not able to undertake. To increase the number of commercial bills, bills of exchange, bills payable to order, negotiable warehouse receipts, drafts, etc., is altogether beyond its control. Its mission merely consists in being always prepared to receive and welcome them. The case is different when it comes to instruments for simplifying accounting, such as checks, transfers, letters of credit, bills payable to order, and even bank notes, the aim of which is to abolish or reduce the transportation of specie.<sup>b</sup> As far as these are concerned, the Bank can advantageously intervene in developing their use.

Concerning the bank note, which is mentioned among the instruments of credit because its equivalent is not represented in full by cash, we have said enough, so that

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<sup>a</sup> Cf. *supra*, p. 6, note *c*.

<sup>b</sup> This increase of monetary instruments leads, if not to a sure and universal rise in prices—because, as economic wants become more numerous, consumption goods also tend to increase—then certainly to a general stability of prices, for it will be more difficult to realize a relative increase or decrease in a commodity, the greater the quantity in which the latter exists.

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we shall not need to recur to it.<sup>a</sup> Moreover, if there is need for its development, it is because upon this very development depends that of the other instruments. Upon it alone falls the duty of assuring the metallic reserve for credit as a whole. We are well aware—and this, perhaps, is the only objection that might be raised against the conception—that the ideal mission of instruments of credit is always to avoid the use of metallic currency, even in times of panic. Unfortunately not all of these instruments come up to this ideal. The clearing vouchers of the Bank are alone perfect from this point of view, and these are the real precursors of the system toward which we are nowadays tending. Therefore the Bank applies itself especially to their development. We shall presently study them.

In order that we may devote our attention to checks and transfers, the two really interesting instruments, let us first say a word on the bill payable to order and the letter of credit, instruments which are not as perfect,

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<sup>a</sup> It is known that more than four-fifths of the bank notes are represented by the metal holdings, the other fifth resting on the discounts, capital, reserves, and credit of the Bank. Nearly all the notes can therefore be considered as deposit receipts, which, in order to be absolutely legal, only require to have a counterpart "in specie" instead of "in genere." They may be said to be checks of deposit according to the civil law, always to bearer, imprescriptible, the taxes on which are borne by the depositary and not by the depositor.

On the other hand, checks against deposit accounts, which financial exigencies have permitted to deviate from the common law, are not subjected to the obligation of holding a counterpart. It is a curious circumstance, all the inconveniences of which have not yet been revealed by events, that the deposit most legal in form is the object of all the attention, caution, and regulations of the lawmaker, while the other—probably because it is less classical and less legal than it is imposing, owing to its modern and impressive development—enjoys general and unlimited confidence.



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but are worthy of mention, because they render useful service to the public.

The bill payable to order here referred to is a special form of the commercial bill. It is used for transfers of funds. This instrument is within the reach of all and does not require either for the sender or for the recipient that an account be kept with the Bank. Whoever wishes to transfer funds from a city where the Bank has a branch or an auxiliary office to another city similarly provided, has only to deposit the money. There is then handed to him a bill payable to order, worded like all such bills, by which the Bank binds itself to pay to the beneficiary the sum mentioned. The sender has the advantage that his name can remain unknown to all except the office by which the bill was issued. If he prefers, he can let the name of the recipient remain unknown to all except the office on which it is drawn, by having the bill made to his own order instead of to the order of a third party. The charge of 25 centimes allows in many cases a considerable saving as compared with other means of transfer. This bill may be regarded indeed, from a legal point of view, as a check, because by the very fact of its creation an account is opened and payment made to meet it. On that account it is not subject to the graduated stamp tax, and bears only the fixed tax of 20 centimes, like out-of-town checks.

The letter of credit<sup>a</sup> is very useful to business men and to all travelers who do not wish to carry large sums with them. It enables them to obtain cash in all the offices of the Bank of France up to the amount indicated. It is

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<sup>a</sup> Letters of credit form, in the Bank of France, a new department, which dates only from 1902.

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valid for six months. Payments are made on it without commission, and if the traveler has an account with the Bank, that account is debited on the day he draws the money.

## CHECKS.<sup>a</sup>

The check is the instrument of the current account. The first condition for rendering its use general is to facilitate the working of that account. The Bank permits three kinds, current account with discount privilege, current account for deposits, current account for loans. Article 33 of the Law of 24 Germinal, Year XI (April 14, 1803), which is still in force, declares that amounts deposited in current account can not be attached.

The growing number of these different accounts facilitates and teaches the wider use of the check. There is one variety of check on which emphasis should be laid, that is, the check against a current account based on a loan. This appears to be the latest improvement in instruments of credit, and is the one which is the most useful to domestic economy. Such advances, indeed, appear to be developing in a new direction. Originally they were especially intended to assist, or, at least, to allow stock market transfers. It is for this reason that the rate for advances must follow the rate for call money<sup>b</sup> and not the discount rates. This was evidently the original purpose of the loans.

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<sup>a</sup> "The complaint is sometimes made that the check is used less in France than in England. But it is not sufficiently understood that the Bank of France note is the check par excellence. \* \* \* It is certainly cheaper than the personal check which does not circulate, or at least disappears as soon as it is cashed." (E. Théry "*Circulation fiduciaire de la Banque de France*" *Econ. Europ.*, January 19, 1906.)

<sup>b</sup> Cf. *infra*, p. 129.

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In Paris, especially, many loan accounts are opened, with a view to operations on the Stock Exchange. But this is not the case in the country; the account based on loans has there become an instrument of domestic economy. Whoever possesses a certain competence, down to the smallest "rentier," makes use of this account. The old prejudice has disappeared, which considered the opening of such a loan account as the sign of an embarrassed condition, as if it were no different from borrowing on a mortgage. Nowadays, in some towns, there is not a "rentier" who has not a loan account, or at any rate it would be easier to name those who have no such account.

Let us briefly explain the operation of this system. The Bank accepts as pledge many kinds of securities, State rentes, bonds of the *Crédit Foncier*, of cities, railroads—in short, those securities which are considered absolutely safe and which are found in the hands of every capitalist. In order to open a loan account a certain number of these securities are deposited, on which the Bank allows a credit of 75 to 80 per cent of the market value on the day of deposit. If the borrower is not in present need of funds, he may advantageously withdraw a certain amount, which he may apply, for instance, to the purchase of securities. He will pay interest on the sum borrowed from day to day at the official rate, which varies, but generally holds at  $3\frac{1}{2}$  per cent. The use of these borrowed funds may bring him a net interest, which can easily be estimated, and which we may suppose to be 3 per cent. For the moment, the operation will have been a losing one, because he will still have to pay 1 per cent or one-half of 1 per cent on the sum borrowed.

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But this disadvantage disappears or is largely compensated, even from a pecuniary standpoint, in this way. Everyone, however modest his mode of living, will at times experience heavy drafts on his income, for which it is necessary to be prepared long in advance, or again it may happen that the dates for his collections do not correspond to the dates of his payments. He must, therefore, keep unemployed, for some days at least, sums which, however small, might be usefully invested. But if he has a loan account, he can keep just enough funds for current expenses and deposit the surplus in the Bank as it may accrue. In the same way, he can draw out sums to meet his expenditures just when necessary instead of keeping them idle at home while waiting for payment to fall due.

The advantage of this kind of an account is that it never suffers the smallest sums to remain unproductive. It is not too much to say that one of the chief reasons why so many households are wrecked is the lack of foresight and the discrepancy between the dates of receipts and the dates of outlays; it is this condition of disorder which unduly fills the purse one day and carelessly empties it the next.

It is evident that the economic management of a loan account demands from the holder sufficient force of character to guard against the temptation of rapidly squandering the available sums, which he knows require but his signature to enter his purse; so that, after all, it may be asked whether the opening of such an account is a safe economic device. This is, we acknowledge, a most serious objection, though it does not appear to us

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conclusive. The very act of opening a loan account implies a certain amount of self-control and an earnest leaning toward order and thrift. It is a first step in the right direction, and there is reason to hope that the beneficiary will persevere. To withdraw money but a sign is needed; still, the sign must be given, and he may hesitate to give it without sufficient cause. And besides, the means of dissipating a fortune are not wanting; the holder of a loan account who will squander his means in spite of this account would doubtless have done just as much, if not worse, if he had his securities in his own keeping, since securities nowadays are money, whether they are in the bank or at home.

Moreover, the man who can not control his own impulses need not open an account. This device promotes the sense of order and thrift, but does not create it. No doubt tradespeople are little accustomed to this mode of payment; however, the holder of a loan account, in order to pay his large bills or those that may be settled by check, has only to detach a form from his check book, after having filled it out and signed it. This paper, handed to the creditor in settlement, will probably remain in his hands for several days before being paid. The account will be debited only on the day when the amount is actually withdrawn. Owing to this now common device, all sums which hitherto lay idle in private coffers are thus rendered active, and for a time, at least as long as the period they would have remained unused at home, they earn a considerable interest, equal to the rate for loans. If the rate is  $3\frac{1}{2}$  per cent, the result will be equal to that of a savings bank, opened every day for deposits

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and withdrawals, paying  $3\frac{1}{2}$  per cent figured from day to day. It is seen that if the holder had to pay  $3\frac{1}{2}$  per cent on the amount borrowed in the first place, as the sums even only temporarily deposited are deducted from the original loan, it is exactly as if they earned  $3\frac{1}{2}$  per cent. Moreover, one perceives how much is saved when collections do not at all coincide with disbursements, or follow them, only to be much later renewed, while, in the meantime, expenditures are unceasing and irregular.

The same applies to liquidations, settlements of estates, or any other cases which may necessitate the advancing or the holding available of rather large sums. For this reason we have taken care from the start to suppose the account a debtor one; otherwise it would usually have a credit balance, and as the Bank allows no interest on the balances of its credit accounts the operation would have no significance.

On the other hand, it is seen that the interest, which we have estimated at one-half of 1 per cent to 1 per cent on the amount originally borrowed, would be soon recovered. Such, from the individual standpoint, is the pecuniary aspect of this system. But it is not the only one. As seen from a social standpoint, it tends to spread a spirit of order and thrift by forcing everyone to keep track of his affairs, and even to do a little bookkeeping, for which the half yearly statements of the account will form a sufficient basis. From an economic standpoint this system allows the withdrawing of the unused portion of the circulating medium. It is a powerful economic lesson; it renders credit generally available, and is a step toward the clearing system.

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The check drawn against a loan account is only the instrument of that account, and in order to know what it is, we have been obliged to study its workings in detail. In our opinion this check is the most perfect and generally available instrument of credit. It needs only to be used by certain people in order soon to become so well known that it would reach the humblest classes through the intermediary of tradespeople, who would be the first to receive it; it would then develop that "habit of banking" which is the most wholesome and useful in respect to household economy, and the most desirable with regard to the clearing system.

It is interesting to notice that a party has been formed in the Chamber of Deputies to protest against the extension of loans at the Bank of France, on the ground that the reserve for the bank notes was no longer secure. The same men reproached the Bank for having antidemocratic tendencies. This is evidently inconsistent. Either we must leave to the Bank the task of developing a democratic loan policy, or demand an indefinite increase of its gold reserve, and release it from being democratic. It can not at the same time do two things which are so absolutely antagonistic. But what it can do, and what it does, is to conciliate both by undertaking the expansion of both money and credit, without seeking to suppress the one for the benefit of the other.

This complex task is precisely the subject of our study. We shall endeavor to show in the course of the following section that the term "antidemocratic" can not rightly be applied to the Bank. This error is the more difficult to explain since it does not stand alone. It is hard to under-

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stand why the Socialist party should oppose the monopoly of the Bank of France, which is but a sure step toward social equality. If it is the word "monopoly" which gives offense, let us drop the word, and consider the thing itself. It will be remembered that the democratic Labor party, after having fought for centuries<sup>a</sup> to obtain salaries for representatives in Parliament, is the very one in whose midst are voiced the sharpest protests against this eminently democratic reform.

## TRANSFERS.

The operation of transfers from one account to another, especially bank transfers, has not ceased to attract attention, because of the greater simplicity which it has introduced. The operation consists in causing a sum to pass from the credit of one account to the credit of another. From the standpoint of bookkeeping nothing is easier. The simplicity is just as great for the holder of the account. He gives the order to debit his account and to credit such other as he may designate, existing in France. This is done with no other cost than the 10 centimes for the stamp on the receipt which is handed to him.<sup>b</sup> He sends this receipt to the recipient, who is thus notified. If, however, he prefers, he need not take a receipt, the amount being immediately transferred to the new account, which is credited on the day of the transfer. It is clear what

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<sup>a</sup> Witness English history, witness France itself, where the immense effort of the revolution was required to attain this end.

<sup>b</sup> The only condition for this free service is that the sender shall have discounted with the Bank, within ten days, a sum equal to the amount he is sending, or that the recipient be a debtor for a similar amount. If one of these conditions is not fulfilled, a commission of 25 centimes per 1,000 francs is charged. But in practice the cases are very rare where commission is charged.



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economy results from the use of this system for banks with a considerable volume of business.

It is especially advantageous for private bankers who must frequently cover themselves, sometimes at the shortest notice. Many banks, however, owing to an inexplicable routine, overlook, or feign to overlook, this system because it would oblige them to make certain bookings to which they are not accustomed. Many therefore settle with their correspondents in other ways, either by mail or by direct shipments of specie—obviously a very expensive method—or by remittance of bills of exchange. And then they must keep open an account, often for a long time and without profit, with correspondents with whom they have had, perhaps, but a single transaction. They recoup themselves, though inadequately, by increased charges on bills that come back unpaid.

Another mode of making use of the Bank, consists in remitting a check to the correspondent. This system may do when the correspondent has no account with the Bank, but it is inconceivable if he has an account. First of all, the check must be stamped with 20 centimes, and it is generally sent by registered mail. Moreover, the beneficiary does not receive a book credit at once, but only when the check is presented, since it is impossible to credit his account from the day the check was sent. Undoubtedly these are petty expenses, but we know, in banking matters, small savings here and there make big profits. Many private bankers, as we have said, neglect this system. On the other hand, those who use it make transfers on a large scale, and most of them even make it a practice to settle with their correspondents almost daily.

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As to the financial institutions, it is understood that, at least in the provinces, they do not, as a rule, have recourse to the transfers of the Bank of France. They have their own transfer system, which is also at the disposal of the public. They may, however, make use of the Bank transfers for everything relating to their cash and the replenishing of their cash holdings. Here again business customs are found to vary according to institutions and locations, and even according to managers. Sometimes the cash is replenished by means of transfers, sometimes by checks, sometimes by remittances of very large bankable bills, which financial institutions can immediately rediscount in order to obtain the cash they require.<sup>a</sup> Moreover, the total of transfers effected in the provinces is a great deal smaller than that of the transfers effected in Paris—a result of financial centralization. The amount, which is nearly 4,000,000,000 francs in the provinces, is not far from 200,000,000,000 francs in Paris.

The amount of the balances thus cleared through the Bank of France reaches annually a colossal sum, which,

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<sup>a</sup> In this connection there may be noted a similar mode of settling with correspondents, frequently used by large commercial houses, which alone, moreover, can advantageously use it. These houses are accustomed to do banking of a sort for themselves, and to pay one another by drafts which are only handed in at the Bank for collection at maturity, or are even collected by the last indorser himself.

This method saves the commission charged by the banks, and even the discounts which would have to be paid when remitting the drafts. These bills circulate like money, and their time of maturity usually corresponds approximately to the period of thirty or ninety days customary in business for the payment of purchases. Something may be saved in this manner. In any case, if there is reciprocity of situation between buyer and seller, the differences in the discount rate become immaterial.

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moreover, grows with industrial and commercial progress, and with the increased popularity of that great institution.

*Total of credit balances cleared by transfers through the Bank of France.*

[In thousands of francs.]

|      |               |      |               |
|------|---------------|------|---------------|
| 1896 | 85, 258, 288  | 1902 | 120, 233, 500 |
| 1897 | 86, 275, 994  | 1903 | 124, 963, 172 |
| 1898 | 93, 594, 205  | 1904 | 152, 822, 496 |
| 1899 | 102, 620, 960 | 1905 | 171, 227, 727 |
| 1900 | 102, 447, 026 | 1906 | 189, 233, 491 |
| 1901 | 111, 827, 905 | 1907 | 179, 399, 452 |

It has often been said that the clearing of these large sums directly through the Bank relieves our Clearing House of the burden of this operation. In this fact has been found the explanation of the relative unimportance of our Clearing House as compared with others. Indeed, the London Clearing House yearly effects clearings for a formidable sum, exceeding 300,000,000,000 francs.

*Operations of the London Clearing House.<sup>a</sup>*

[In millions of pounds.]

|      |         |      |         |
|------|---------|------|---------|
| 1871 | £4, 826 | 1893 | £6, 478 |
| 1876 | 4, 963  | 1894 | 6, 337  |
| 1880 | 5, 794  | 1895 | 7, 593  |
| 1881 | 6, 357  | 1896 | 7, 575  |
| 1882 | 6, 221  | 1897 | 7, 491  |
| 1883 | 5, 929  | 1898 | 8, 097  |
| 1884 | 5, 798  | 1899 | 9, 150  |
| 1885 | 5, 511  | 1900 | 8, 960  |
| 1886 | 5, 902  | 1901 | 9, 561  |
| 1887 | 6, 077  | 1902 | 10, 029 |
| 1888 | 6, 942  | 1903 | 10, 120 |
| 1889 | 7, 618  | 1904 | 10, 564 |
| 1890 | 7, 801  | 1905 | 12, 288 |
| 1891 | 6, 847  | 1906 | 12, 711 |
| 1892 | 6, 481  |      |         |

<sup>a</sup> *Bulletin de Statistique et de Législation Comparée*, March, 1907, p. 377.

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In the United States the amounts cleared reach a much higher total. In 1906 the 112 clearing houses in the United States had cleared £32,028,000,000, and New York alone £11,092,000,000.<sup>a</sup>

Compared to these figures, those of our Clearing House are very small. Established in 1872, on the model of the English and American clearing houses, the French Clearing House comprises the Bank of France, the Crédit Foncier, the Crédit Lyonnais, the Comptoir d'Escompte, the Banque de Paris et des Pays-Bas, the Société Générale, the Crédit Industriel and Commercial, the Banque Internationale, and others.

*Operations of the Paris Clearing House from April 1 to March 31.*

[In millions of francs.]

| Year      | Presented. | Cleared. |
|-----------|------------|----------|
| 1891..... | 6,003      | 4,721    |
| 1892..... | 4,868      | 3,889    |
| 1893..... | 4,715      | 3,823    |
| 1894..... | 5,379      | 4,360    |
| 1895..... | 6,143      | 5,527    |
| 1896..... | 7,351      | 4,916    |
| 1897..... | 7,549      | 4,874    |
| 1898..... | 8,545      | 5,571    |
| 1899..... | 9,567      | 6,245    |
| 1900..... | 10,655     | 6,948    |
| 1901..... | 10,663     | 7,201    |
| 1902..... | 9,964      | 7,353    |
| 1903..... | 10,816     | 8,023    |
| 1904..... | 11,833     | 8,585    |
| 1905..... | 13,887     | 10,326   |
| 1906..... | 17,855     | 13,507   |

As may be seen, these figures are almost insignificant when compared to the hundreds of billions in England.

<sup>a</sup> *Bulletin de Statistique et de Législation Comparée*, May, 1907, p. 607.

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But if there be added the amounts cleared by the Bank of France, the two results may stand comparison. Several authors, however, claim that the transfers of the Bank of France can not be compared to clearing-house operations, and for this view they give three reasons.<sup>a</sup> In the first place, foreign clearing houses, like the French Clearing House, are available for bankers only, and not for others. But bank transfers represent transactions effected by all holders of accounts, whether bankers or not. Moreover, the clearings made at the clearing houses are gratuitous, while those of the Bank are subject to a heavy charge.<sup>b</sup> Finally, the former are made uncovered; the latter require a deposit on which interest must of course be paid.

We do not wish to tarry over the discussion of these three considerations. It is quite certain that bank transfers and clearing-house operations are not identical, but it is also certain, on the one hand, that if the 200,000,000,000 francs cleared by the Bank could not pass through that channel they would, for the most part, pass through the Clearing House. If, on the other hand, between the two means of extinguishing balances, it is preferred to clear such large amounts at the Bank, it is because this offers the advantage of rapidity and economy.

Moreover, we do not pretend that the relatively insignificant position of our own Clearing House, as compared

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<sup>a</sup> The works in which we have found this opinion sustained with the greatest emphasis are: M. & A. Meliot, "*Dictionnaire financier international théorique et pratique*," Paris, Berger-Levrault & Cie., 1904, under the word "Virement;" and E. Grillon, "*Une nouvelle institution financière*," Paris, Guillaumin, 1895.

<sup>b</sup> We fail to see the force of this objection. We have explained under what conditions the bank transfers are gratuitous. We repeat that the cases where there is cause for charging one-fourth of 1 per cent are very rare. (Cf. *supra*, p. 67, note b.)

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with foreign clearing houses, is explained by this single reason. There are, in our opinion, several others. It must be considered, in the first place, that in France the bank note, owing to its wide diffusion, automatically does the clearing for a large number of balances. In the second place, the still rather restricted use of checks and our practical ignorance of the "crossed check" give the banks less occasion to clear than in England.<sup>a</sup> Finally, France has few international debts to settle, since most of these pass through the London money market. We shall then admit that the Bank transfers, which absorb a considerable part of the clearings, explain the rest.

Thus, in apportioning a share to each of these various factors, it is seen that, even from the standpoint of the clearing system and of the economy in the cost of transporting specie for settlement of balances—which is the useful result aimed at—we need not be envious of England. This situation, again, is due to the Bank of France, which has to such an astonishing degree developed the service of free transfers from one account to another.

## SECTION II. *Popularization of instruments of credit.*

The Bank of France has often been reproached with being a closed institution, accessible only to a few persons, to rich people and great industries, multiplying and complicating formalities, in order to keep the great public away and to confine itself to the profitable business furnished only by rediscounting, by the large manufacturers,

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<sup>a</sup> In France almost all transactions are subject to a time settlement, while in England they are almost all settled for cash—that is, by checks. Cf. G. François, "*Circulation et virements en Banque*," *Journal des Economistes*, June, 1906, p. 384.

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and by the business men who hold large loan accounts. We see that a certain class of customers prefers to the Bank of France the luxurious quarters of the financial institutions, where a courteous staff, with engaging familiarity, places at the disposal of visitors numerous newspapers, exhibits tempting statistical charts, and to all offers the help of shrewd experience. Between the staff of these banks and the customer there is frequently established a kind of intimacy which is flattering and is cleverly kept up by visits as interesting as they are interested. Sometimes the call is from the submanager of the bond department or some higher official of the bank. As compared with these allurements, what attraction is there in the somewhat austere premises of the Bank of France, its staff gravely poring over figures, or busy weighing and packing gold into bags, which at once disappear into the depths of its vaults? Some people see there only a kind of prison for gold or a bank-note factory, having little to do with the usual business of bankers.

How can such a state of mind be met? As the public acquires the habit of frequenting the Bank, it becomes better acquainted with that institution, and personal interest becomes its best educator. This is but natural and right. It is often stated, and not without reason, that certain practices of the Bank keep away a class of people who would be greatly benefited by its services. The practice of requiring three names on paper, of allowing no interest on deposits, etc., is criticized. Now, the Bank would like nothing better than to grant greater facilities for the discounting of commercial paper, to pay interest on deposits, and the rest; but it must be

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remembered that certain difficulties stand in the way. A credit too widely extended is incompatible with the necessity of preserving the metallic reserve. We have been careful, furthermore, to define and delimit the operations which the Bank of France may allow itself to undertake in the distribution of credit without injury to its monetary function. It must, in general, confine itself to those operations which bring no profit, because they do not necessitate the locking up of large amounts, and do not make any demand upon the cash holdings. But without emerging from this sphere of activity, it has many opportunities for abundantly supplying the wants of the public.

It must be admitted that this popularization of credit by the Bank of France meets with little appreciation at home. Derisive laughter often greets him who speaks of the democratic tendencies of this great establishment. It must be acknowledged with regret that our countrymen are almost the last to recognize such benefits, but must listen to foreigners in order to hear them appreciated at their true value. The English, especially, who are very well informed in financial matters, profess the most lively admiration for our great institution of credit, and call attention to the gradual democratization of its services as an astonishing as well as fortunate phenomenon.<sup>a</sup>

But it will be asked how the Bank of France which, owing to the very nature of its constitution, can not

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<sup>a</sup> Cf. especially an article in the *Statist* of February 15, 1908, already mentioned, a translation of which is given by the *Messenger de Paris* in its number of February 20; and another article in the same paper of December 1, 1906, translated in the *Economiste Européen* of December 7, 1906.



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easily popularize credit has been able to win such praise? We have already seen how the Bank helps its customers to make considerable domestic economies by means of the check against a loan account, a popular method which is perfectly accessible to every one. To this subject we shall not revert. Let us recall, however, that the number of small loans, from 250 to 500 francs, was 4,534 on January 1, 1908.

*Small loans (250 to 500 francs).*

| On January 1— | Paris. | Provinces. | Total. |
|---------------|--------|------------|--------|
| 1900.....     | 3,721  | 2,861      | 6,582  |
| 1901.....     | 3,491  | 3,163      | 6,654  |
| 1902.....     | 3,063  | 2,302      | 5,365  |
| 1903.....     | 2,827  | 2,074      | 4,901  |
| 1904.....     | 2,279  | 1,883      | 4,162  |
| 1905.....     | 2,135  | 3,512      | 5,947  |
| 1906.....     | 2,552  | 2,922      | 5,474  |
| 1907.....     | 2,389  | 2,777      | 5,166  |
| 1908.....     | 1,987  | 2,547      | 4,534  |

If there are considerable differences from one year to another, the reason is that these small accounts, unlike the large accounts, are mostly opened for a short period, and that their numbers vary with periods of more or less general prosperity and more or less money stringency.

For the small rentier the Bank, as we have seen, offers not only loan accounts, deposit accounts, facilities for transfers, and letters of credit, but also a department for stock market orders, which transmits all orders received, and even attends to all operations in which securities are concerned. Furthermore, in some of the branches safety deposit vaults have been installed, and boxes may be rented by the month or the year

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for a small sum. These vaults are very interesting to inspect, owing to the security they offer against theft or carelessness. For people availing themselves of this accommodation the Bank collects all coupons, a useful service which the public little appreciates, accustomed as it is to collect its coupons without cost in the financial institutions often before they are due. This constitutes, nevertheless, on the part of the Bank, an earnest and gratuitous effort to serve the public; the Bank, indeed, is not adapted to these operations, nor is its staff.

There is a more important point—that is, the safe-keeping of securities. In consideration of a fee of 20 centimes per year for each share or bond, the Bank of France will hold all securities entrusted to it, and collect the coupons without cost to the holder of the receipt. Watching for drawn numbers of bond issues is another special service performed free of charge.

A department, only recently made self-supporting, for insuring against the risk of the repayment of bonds at par, distributes the risks according to a calculation of probabilities and on a mutual basis as between the depositors who desire to avail themselves of this accommodation. Russian bonds, which were held in France in such great numbers and had flowed into the Bank, enjoy a special privilege. Owing to an agreement between the Russian Government and the Bank of France in 1895, Russian bonds are kept in safe deposit free of charge.<sup>a</sup> All

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<sup>a</sup> These bonds, the number of which steadily increases in the vaults of the Bank, were represented on December 24, 1907, by 97,567 certificates. For this safekeeping, free to the public, the Russian Government pays 10 centimes yearly for each bond, on the yearly average of deposited bonds.

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securities deposited are centralized in Paris and kept in the annex at the Place Ventadour.<sup>a</sup> There, in a remarkable manner, the greatest safety is guaranteed, and the special staff alone is allowed within the gratings. The numbers of the bonds are kept on separate lists for each customer and each kind of security; these lists are signed by the depositors and by the Bank. The originals are kept in Paris, and the duplicates in Havre. Thus the risk of fire is guarded against as far as possible. This department is as interesting as it is important. At the end of the year 1906 the value of the securities thus deposited was 7,233,000,000 francs, distributed among 11,439,839 certificates and 92,508 depositors.

It is still more interesting to see in what measure the small rentiers have been able to benefit by this service. We can not readily obtain an idea of this without taking the average of the entries for safe deposits, as given in the following table:

| Year.     | Depositors. | Average holdings of depositors. |                |
|-----------|-------------|---------------------------------|----------------|
|           |             | Paris.                          | Provinces.     |
|           |             | <i>Francs.</i>                  | <i>Francs.</i> |
| 1897----- | 53,249      |                                 |                |
| 1898----- | 67,111      |                                 |                |
| 1899----- | 70,110      | 67,470                          | 67,948         |
| 1900----- | 73,620      | 69,579                          | 64,791         |
| 1901----- | 77,348      | 67,096                          | 64,463         |
| 1902----- | 82,377      | 63,899                          | 62,604         |
| 1903----- | 85,354      | 62,552                          | 62,834         |
| 1904----- | 88,100      | 60,168                          | 61,047         |
| 1905----- | 89,979      | 58,568                          | 64,280         |
| 1906----- | 92,508      | 58,031                          | 57,427         |
| 1907----- | 93,646      | 58,480                          | 56,454         |

<sup>a</sup> At the present time the branches at Lyons, Lille, Bordeaux, Marseilles, and Orleans relieve somewhat the congested condition of the Paris office.

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The table shows that the average amount of the holdings in safe deposit is decreasing, while the number of depositors is increasing. As each year the number of withdrawals is very small, it must be admitted that new depositors bring to the Bank smaller and smaller deposits, hence the lowering of the average.

The small business man, much more than the small rentier, reaps continually greater benefit from the advantages offered to the public by the Bank of France. Without touching again upon the advantages of the loan account to the small trader, or upon the benefit derived from the low and stable discount rate—all matters well known and mentioned before—we shall simply call to mind the dates of some innovations favorable to the democratization of credit.

January 15, 1824.—Creation of transfer drafts.

April 29, 1824.—Creation of transferable certificates of deposit.

January 13, 1820.—Reduction of interest on loans against bars and coin from 4 per cent to 1 per cent.

1834.—Loans against rentes and public securities.

1837.—Daily discounting of paper except on holidays.

Law of June 30, 1840, article 2.—Option of replacing the third signature, exacted for discount, by deposit of any French public securities.

Decree of March 26, 1848.—Similar option of replacing by warehouse receipts.

Law of November 17, 1897.—Admission of bills for discount carrying the signature of an agricultural syndicate. The minimum for bills discounted is reduced to 5 francs.

There is here a whole series of measures, which, with the assurance of a cordial welcome, should induce the small

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business man to trade with the Bank. Furthermore, the recent law of December 20, 1906, which modifies Article I of the law of July 13, 1905, favors, if not the small business man, at least the short-time bills, by delaying their maturity by one and even by two, three, or four days, when it falls on the morrow of holidays occurring on Friday, or the day before holidays occurring on Tuesday. That is an advantage proportionately more important on short-time than on long-time bills.<sup>a</sup>

It remains for us to furnish positive proof of the service rendered to the small business man. This can be done by means of the following tables which show the increasing number of bills discounted, the decreasing average value of the notes and the shorter average time they run, the increasing proportion of small bills and the constant growth in the number of collections.

Let us add that if the Bank accepts large quantities of small paper with small signatures, it finds itself, on the other hand, in normal times deprived of first-rate paper, of that which, as we shall see, is as good as gold in international commerce. Gilt-edged paper always finds its market at lower rates than in the Bank, and M. d'Eichthal, a regent of the Bank, wrote as far back as fifty years ago: "Whatever may be the discount rate, among the bills discounted there will be found but few with the signatures of the Rothschilds, the Hottinguers, and other houses of the

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<sup>a</sup> There is another respect in which short-time bills are favored. Bank discount being always figured in full (not true discount) the party discounting, when handing in paper tardily, profits in the end by the interest on the interest he would have had to pay. That is, of course, a petty profit, but this reason added to the above may explain why bankers rediscount, by preference, short-time bills and items on which the collection charge would often amount to more than the discount deducted by the Bank.

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same rank. Those are delicacies which always command a premium."<sup>a</sup>

## Bills discounted by the Bank of France.

| Year.     | Number.    | Amounts.       | Average.       |              |
|-----------|------------|----------------|----------------|--------------|
|           |            |                | Value.         | Term.        |
|           |            | <i>Francs.</i> | <i>Francs.</i> | <i>Days.</i> |
| 1890..... |            | 9,609,788,000  | 757            | 27.00        |
| 1891..... |            | 10,018,070,700 | 754            | 27.80        |
| 1892..... |            | 8,415,769,400  | 643            | 25.00        |
| 1893..... |            | 8,922,244,100  | 662            | 24.50        |
| 1894..... |            | 8,725,047,400  | 647            | 24.84        |
| 1895..... |            | 8,621,954,500  | 644            | 25.00        |
| 1896..... |            | 9,924,672,000  | 679            | 27.20        |
| 1897..... |            | 10,364,834,800 | 705            | 27.33        |
| 1898..... |            | 11,032,083,200 | 721            | 27.50        |
| 1899..... | 16,172,162 | 11,745,984,100 | 726            | 27.60        |
| 1900..... | 16,784,993 | 12,247,155,500 | 729            | 26.96        |
| 1901..... | 16,866,855 | 9,936,321,500  | 588            | 21.47        |
| 1902..... | 17,454,223 | 9,555,893,300  | 547            | 21.00        |
| 1903..... | 18,435,938 | 11,684,936,900 | 633            | 21.64        |
| 1904..... | 19,115,498 | 10,834,338,500 | 566            | 23.61        |
| 1905..... | 19,149,506 | 10,967,589,000 | 573            | 20.92        |
| 1906..... | 20,464,594 | 13,980,874,900 | 683            | 24.03        |
| 1907..... | 21,540,925 | 15,769,106,100 | 732            | 26.06        |

## Bills for collection.

| Year.     | Number.   | Amounts.       |
|-----------|-----------|----------------|
|           |           | <i>Francs.</i> |
| 1890..... | 1,181,893 | 552,939,900    |
| 1891..... | 1,293,032 | 606,701,800    |
| 1892..... | 1,488,804 | 665,847,900    |
| 1893..... | 1,606,021 | 614,153,600    |
| 1894..... | 1,637,870 | 599,617,367    |
| 1895..... | 1,801,241 | 576,923,400    |
| 1896..... | 1,804,478 | 553,253,000    |
| 1897..... | 2,054,853 | 570,343,600    |
| 1898..... | 2,151,271 | 557,314,400    |
| 1899..... | 2,416,046 | 593,452,100    |
| 1900..... | 2,480,972 | 625,344,800    |
| 1901..... | 2,450,673 | 544,917,200    |
| 1902..... | 2,576,137 | 531,624,100    |
| 1903..... | 2,734,268 | 508,588,700    |
| 1904..... | 2,867,304 | 552,925,500    |
| 1905..... | 2,621,556 | 570,619,500    |
| 1906..... | 2,725,929 | 561,088,400    |
| 1907..... | 2,914,980 | 555,997,200    |

<sup>a</sup> P. Coq, "Les circulations en Banque," Paris, Guillaumin, 1865, p. 38.

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## Small bills discounted by the Bank (for Paris).

| Year | From<br>5 to 10<br>francs. | From<br>11 to 50<br>francs. | From<br>51 to 100<br>francs. | Total of<br>small bills. | Over 100<br>francs. |
|------|----------------------------|-----------------------------|------------------------------|--------------------------|---------------------|
| 1880 |                            |                             |                              |                          |                     |
| 1881 |                            |                             |                              | 1,160,945                |                     |
| 1882 |                            |                             |                              | 1,224,326                |                     |
| 1883 |                            |                             |                              | 1,349,270                |                     |
| 1884 |                            |                             |                              | 1,581,515                |                     |
| 1885 |                            |                             |                              | 1,590,839                |                     |
| 1886 |                            |                             |                              | 1,592,675                |                     |
| 1887 |                            |                             |                              | 1,668,800                |                     |
| 1888 |                            |                             |                              | 1,820,473                |                     |
| 1889 |                            |                             |                              | 1,931,589                |                     |
| 1890 |                            |                             |                              | 1,943,688                |                     |
| 1891 | 19,350                     | 745,500                     | 1,013,751                    | 1,778,601                | 3,917,320           |
| 1892 | 26,136                     | 886,149                     | 1,155,792                    | 2,068,077                | 3,506,834           |
| 1893 | 26,183                     | 931,002                     | 1,168,292                    | 2,125,477                | 3,743,295           |
| 1894 | 31,783                     | 984,496                     | 1,172,678                    | 2,188,957                | 3,616,817           |
| 1895 | 23,474                     | 826,595                     | 1,016,485                    | 1,866,554                | 3,726,052           |
| 1896 | 24,130                     | 914,093                     | 1,136,318                    | 2,074,541                | 3,790,560           |
| 1897 | 22,910                     | 868,850                     | 966,656                      | 1,858,416                | 3,829,892           |
| 1898 | 190,020                    | 792,210                     | 966,570                      | 1,948,800                | 3,871,986           |
| 1899 | 208,600                    | 822,780                     | 1,070,450                    | 2,101,830                | 3,864,391           |
| 1900 | 69,400                     | 1,153,500                   | 1,105,400                    | 2,328,300                | 3,701,200           |
| 1901 | 89,674                     | 1,409,021                   | 1,181,229                    | 2,679,924                | 3,448,849           |
| 1902 | 90,606                     | 1,434,394                   | 1,169,832                    | 2,694,832                | 3,568,289           |
| 1903 | 99,974                     | 1,559,509                   | 1,241,590                    | 2,901,073                | 3,646,957           |
| 1904 | 165,728                    | 1,710,103                   | 1,299,854                    | 3,175,685                | 3,707,135           |
| 1905 | 167,862                    | 1,776,519                   | 1,336,564                    | 3,280,945                | 3,737,024           |
| 1906 | 232,074                    | 1,893,087                   | 1,389,386                    | 3,514,547                | 3,833,743           |
| 1907 | 236,401                    | 2,010,536                   | 1,399,292                    | 3,646,229                | 3,856,898           |

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## *Proportion of small bills to total bills discounted.*

| Year.     | Total bills discounted. | Per cent of small bills to total. |
|-----------|-------------------------|-----------------------------------|
| 1891..... | 5,695,921               | 31                                |
| 1892..... | 5,574,911               | 36                                |
| 1893..... | 5,868,772               | 36                                |
| 1894..... | 5,805,774               | 38                                |
| 1895..... | 5,592,606               | 33                                |
| 1896..... | 5,865,101               | 35                                |
| 1897..... | 5,688,308               | 33                                |
| 1898..... | 5,820,786               | 34                                |
| 1899..... | 5,966,221               | 35                                |
| 1900..... | 6,029,500               | 38                                |
| 1901..... | 6,128,773               | 44                                |
| 1902..... | 6,263,121               | 43                                |
| 1903..... | 6,548,030               | 44                                |
| 1904..... | 6,882,820               | 46                                |
| 1905..... | 7,017,969               | 47                                |
| 1906..... | 7,348,290               | 48                                |
| 1907..... | 7,503,127               | 48                                |

The Bank has always resolutely undertaken to carry through a whole series of operations which could not show great profit; above all, it has unremittingly aimed to be of service to the greatest number. The preceding tables show that the number of bills discounted grows continuously, while the total amounts, smaller during the most prosperous periods, invariably increase in periods of tight money. The average amount and term of bills is 600 francs for twenty days. This result would be considerably modified, if we were to take into account the bills handed in for collection only, the average value of which hardly exceeds 200 to 250 francs.

For Paris, it is possible to be a little more precise. The table shows that the totals of the smallest bills, from 5 to 10 francs, have steadily grown at a considerable rate, reaching in 1907 the number of 236,401. A similar



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increase has taken place for the total of small bills not exceeding 100 francs in value. The proportionate importance of these bills in the general total is constantly developing; in 1907 it was nearly 50 per cent.

After the testimony of these figures, it appears superfluous to draw any other conclusion than that, by the help which the Bank of France offers to all with increasing success, its solicitude is shown for the interests of the democracy, of which it has become an essential factor.

### SECTION III. *Territorial expansion of the Bank of France.*

With its growth in extent the Bank has not only developed its services to meet new business needs, by providing an increased staff, and larger, more attractive, and better conducted offices, but it has also endeavored to reach a more and more widely extended territory. Indeed, the mere fact that the Bank has entered a place, if only to make collections there, gives a favorable turn to credit conditions; credit becomes cheaper, in that the basis for money rates becomes the official discount rate, because the financial institutions have then a more economical method of replenishing their cash. The smallest provincial town where the Bank has entered is, therefore, in regard to low money rates, as favored as Paris.

Exchange between cities, particularly when joined with a special commission, reaches sometimes a considerable sum. As soon as the Bank opens its branch, exchange is no longer possible. Therefore, whenever the charter of the Bank has been renewed, the legislator, in response to the wishes of the public, has wisely required new territo-

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rial expansion of the Bank. If the Bank has not always taken the initiative in this mode of expansion, it is because it has been restrained by several motives. In the first place, the opening of new offices entails considerable expense. It is necessary to count upon several years of deficit, during which the running expenses, including salaries of staff, are just as high as if the profits were large. We could name several cities which for years have shown constant deficits. It can therefore be understood that the Bank of France, which is already established in the 200 towns<sup>a</sup> most important from a commercial standpoint, and which, by means of its collecting department, touches 265 towns of less importance, extends its service only with caution to new localities, since each new branch must necessarily produce a larger and more persistent deficit. Thus territorial expansion is for the Bank an ever-increasing burden; it is equivalent to an additional tax imposed by the legislature at every renewal of the charter. The Bank submits to this with good grace for the benefit of the public.

In the second place, there is a limit to that expansion, as shown in one of the preceding chapters. Where the Bank has no branches, the financial institutions may take root and develop among a population which appreciates their services. Their profits come largely, it appears, from small towns, where competition is less keen. We have already said enough concerning the service of these institutions in the development of French credit,

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<sup>a</sup> In round numbers. On January 1, 1908, there was the central Bank in Paris; and in the provinces, 127 branches, 55 auxiliary offices, 284 connected towns, which gives a total of 467 banking places, 20 more than on January 1, 1907.

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to show the danger of inflicting upon them fresh injury. On whatever side the Bank desires to expand it finds this limit. If the Bank encroaches a little on all sides, the result may be very appreciable.

The territorial expansion is further perceptibly increased by what is known in the Bank as the exterior accounts. This system, of quite recent origin, allows any person not residing in the town where the branch is established to enjoy the same privileges as residents. Business may be transacted by mail with the aid of certain accounting forms, which often differ from those used for ordinary accounts. Each transaction is the subject of a special report, addressed to the customer by the branch. Not only is the transaction itself reported, but useful information as to the position of the account is also given, thus permitting the customer to follow the movement of the account until the half-yearly statement is sent.

This department is highly esteemed by the suburban public, and renders many services to landed proprietors and to farmers, especially in the cattle-raising trade. Since this trade is confined to a certain time of the year, and with its large initial outlays requires a considerable movement of capital for several months, frequent and important transactions are thereby necessitated.

Thus the direct expansion, which, as has been seen, meets with serious obstacles, is assisted by this indirect expansion.<sup>a</sup>

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<sup>a</sup> The indirect expansion might be increased by wider use of the "crossed check." It will be long before we may expect good results from this practice, since we are as yet too far from the time when this check, almost unknown in France, will be currently used.

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Evidently we are far from realizing the attractive dream of a France no longer deprived in part of banking facilities, but with all bills taken at par because the Bank would reach everywhere. But for the sake of this end, no doubt desirable in itself, is it worth while to go to extremes for a scarcely perceptible advantage, to disturb an institution in other respects strong and useful, and thus perhaps to risk disorganizing the general credit system of France? On the contrary, we should be content with and even congratulate ourselves upon a progress which leads us, slowly perhaps, but surely, toward the realization of credit on low terms everywhere and for all.

## SECTION IV. *The Bank of France and agricultural credit.*

“There is no such thing as agricultural credit, there is only credit,” said M. Dupin in 1845.<sup>a</sup> Matters have not changed since. It is certain, for instance, that Scotland, which for a long time was the classical land of pauperism, owes its prosperity to the banks, which, by developing credit in favor of agriculture, have entirely transformed the soil and the country. Indeed, more than any other, the Scotch farmer needed credit, and more than any other he has benefited by it. It may be said that personal credit is peculiar to agriculture. Thus it suffered as a result of the evolution already mentioned,<sup>b</sup> which, by causing the disappearance of local banks or by giving them a new direction, struck a fatal blow to personal credit.

In order to palliate the socially disastrous results of this defect what is known as agricultural credit was devised.

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<sup>a</sup> *Journal Officiel*, 1845, p. 2471.

<sup>b</sup> Cf. *supra*, p. 40.

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But is this not the more or less exact application to agriculture of the idea of credit pure and simple—that is, real credit? Although, in our opinion, with much effort some good results may be obtained, this branch of industry, so important to the wealth of France, can not be truly developed until it shall have gained to its fullest extent the use of personal credit, until everywhere a country money-lender will be able, upon his estimation of the individual qualities of the husbandman, to place at his disposal the money he needs, and thus animate the labor, activity, thrift, and intelligence so widely diffused in France, even to the humblest cottage. Such business relations, loyally maintained, do not exclude caution and tact. Unfortunately, it appears to us difficult at the present moment to reconcile personal credit with the evolution of banking, which is moving in an entirely different direction, and we doubt whether, until a long time has passed, the efforts of legislation can produce, by means of this form of credit, any very striking improvement in agriculture. Let this suffice to indicate the limits of results that may be expected of new institutions favorable to popular credit. The Bank of France in particular must measure its devotion to this task by the limits of real credit and of its own statutes. But an evident proof of its good will and interest is that in every branch office there must be among the directors a representative of the agricultural interests.

We know that “agricultural credit” includes loans from seed-time to harvest. The first labor done, the first loan made to the land, can only be repaid much later. The average time necessary for agricultural loans is five or

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six months at least. Now, for other reasons the by-laws of the Bank prohibit the discounting of paper having more than ninety days to run. By a special favor which would not be accorded in business, where each loan has a different object, the Bank allows the renewals necessary for agricultural loans, which almost exclusively take the form of bills payable to order. The bill returned to the maker on the day of maturity is renewed the following day. The date of maturity alone is changed.

A very important agricultural industry, which we have already mentioned, is that of cattle-raising. The cattlemen are, for the most part, customers of the Bank wherever it has a branch. This customer of a somewhat special kind appears, by the very nature of his trade, to be indicated as a suitable client for the Bank and not for the financial institutions. His only business with the Bank is discounting, and his only mode of withdrawal is shipping of money, nearly always in the form of bills. The Bank requires the cattlemen to indorse each other's paper, and thus can accommodate them without intermediaries. There results a very useful coöperation, which in no way destroys the competition in production. Moreover, by using the Bank the cattlemen effect great savings, the full value of which they alone can estimate.

After the law of July 18, 1898, and the legislation that followed, it might have been expected that the use of agricultural warehouse receipts would be greatly extended. This legislation makes a serious exception to the common law for the benefit of agriculture. It "constitutes the landowner, so to speak, a public warehouse. It is he who, without any other controlling appraisalment, makes

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declaration as to quantity and commercial value to the clerk of the justice of the peace. \* \* \* In short, the agriculturist enjoys a confidence which so far has been denied to industry and commerce."<sup>a</sup> Notwithstanding this favor, the agricultural warehouse receipts are little used,<sup>b</sup> and the Bank, despite its willingness to take them freely, regrets to find them among its discounts in such very small number.

Our survey would not be complete should we fail to say a word concerning the agricultural credit associations, of which also much was expected and which have only in a very limited measure fulfilled the high hopes of their founders.<sup>c</sup>

For the support of agricultural credit the State draws from two sources the funds required to supply the organs of distribution, the local and regional associations. The first source is the loan of 40,000,000 francs made by the Bank on November 17, 1897, when the charter was renewed. This amount, like the 140,000,000 francs already advanced in 1857 and 1878, bears no interest. The second source is the yearly payment made by the Bank of France on the

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<sup>a</sup> Carpentier, "*Le crédit agricole*," Orleans, 1905, p. 16.

<sup>b</sup> The main reason lies in the numerous formalities which the law of April 30, 1906, has simplified but not suppressed, in the many expenses caused by the organization, and also, it appears, in the inexperience of some of the officials. The clerks of the justices of the peace, intrusted with the delicate and novel functions of registrars of chattel mortgages, are, as a rule, little fitted to perform them.

<sup>c</sup> The model of these institutions came to us from foreign countries; but the foreign differ from ours materially, because of the diversity of their origin. With our neighbors the movement began slowly in the lowest levels of the rural population. With us, on the contrary, the system of agricultural associations began at the top. Thus, these institutions penetrate only with difficulty into the rural districts, where economic education has but just begun.

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profit-yielding circulation. This payment can not be less than 2,000,000 francs yearly,<sup>a</sup> and more often it is in the neighborhood of 5,000,000 francs.

All these sums, intended for agriculture, are distributed by the Government, and are used in endowing the associations of agricultural credit. The regional associations, which are the pivot of the present organization, are self-governing societies, with a capital of their own. This capital, added to the advance made by the State, is invested in first-class securities, which are then deposited in the Bank of France, as discount guarantee to take the place of the third signature, if need be. The local offices send their paper to the regional office, which then takes it to the Bank, as the needs of funds are felt.

Such is the part of the Bank of France in the distribution of agricultural credit. Effective intervention was obviously very difficult, yet the Bank has contrived, even beyond its legal obligations, to give the benefit of its credit to agriculture, which so justly deserves the care it is receiving.

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<sup>a</sup> This yearly payment, independent of all charges, direct taxes, stamp tax on circulation, stamp tax on stocks, tax of 4 per cent on dividends, tax of 4 per cent on the interest of loans to societies, and cost of transportation of currency, is equal to the proceeds of one-eighth of the average discount rate, multiplied by the average of the profit-yielding circulation, which is equal to the quotient obtained by dividing the daily totals of discounts, loans, and bills by the number of business days.





## PART II.

### THE BANK OF FRANCE AND INTERNATIONAL CREDIT.

Credit conditions, as we have considered them thus far, that is, from an exclusively national standpoint, become somewhat modified and more involved, when it is a question of regulating and facilitating the multifarious and complex operations of international credit. Bills drawn against shipments of goods over long distances require much more time to run; the various systems of appraisal of values have not all the same standard of comparison; the degree of confidence accorded to the exporting country involves a more or less extended investigation of the liabilities of that country; the condition of exchanges, sometimes depreciated and always fluctuating, the great differences between offer and demand in one place as compared with another, in short, the state of the balance of trade at any moment, and even of the balance of accounts—all these are important factors which figure in the settlements to be effected. These diverse factors, with many others, give rise to difficulties sufficient to hamper the development of international credit.

This development, though it is constant, is nevertheless behind that of the national credit, and more than the latter, it must be based on the monetary system. And when we say monetary system, the expression must not be taken in the precise sense we have hitherto given to it.

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Legal regulation can here play no part, and in this case, especially, it is strictly correct to say with Turgot "all merchandise is money and all money is merchandise."<sup>a b</sup>

From an international, as well as from a national standpoint, the means of distributing credit are not always those which strictly assure an easy and rapid liquidation through the use of money, the medium of traffic. Certain states, more advanced in the organization of international credit, manage to settle a notable part of the world's operations. Others, more prudent and perhaps wiser, limit their activity in this respect, in order to increase their power of resistance. On shifting ground, the insecurity of which is apparent, a lofty house with poor foundations, which a storm would overthrow and which must repeatedly be restored, is obviously less desirable than one built low and broad, but strong and firm.

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<sup>a</sup> Parliamentary documents published in 1859 by the ministry of finance.

<sup>b</sup> Nevertheless, there exist in international commerce certain wares which are more commonly used for equalizing exchanges, because they have a sure market. Such are international exchange securities, and especially gold. The important part played in settlements by securities quoted on the principal exchanges of the world was for the first time manifest in 1847, when France, threatened by famine, paid for Russian wheat by French rentes sold to the Emperor Nicholas. They were again of the highest importance during the American Civil War and the settlement of the war indemnity in 1871. (Cf. on this subject Arnauné, "*La monnaie, le crédit et le change*," pp. 76 and following.) More recently they were used in the United States during the crisis of 1893. The excess of export of securities from July 1, 1893, to June 30, 1894, is estimated at \$237,000,000. England, in 1890, after the Baring failure, sold a large quantity of stocks and bonds of American railroads. These securities were mostly repurchased by the United States. As for gold, when it is used in international settlements, it is only as a commodity. Each country receives it only on the basis of weight, unless, of course, it should happen to be the local coin. This is the only money that can be exported. Silver coin, from the standpoint of international settlements, is only a sort of bank note struck in silver, instead of being printed on paper. (Cf. *Journal des Economistes*, 1888, p. 265.)

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Our first chapter will be devoted to the explanation of the world-wide inter-relation of the different international markets and to the determination of the place which may be assigned to the Bank of France. The following chapters will show how the two perils of credit, crisis and war, are foreseen by the Bank and what means of resistance it can oppose to them.

## CHAPTER I.

### INTERNATIONAL MARKETS.

#### SECTION I. *International financial solidarity.*

Thus far we have spoken only of the place of the Bank in the national credit, and we have taken no account of the influence of foreign markets on the French market. Such is the method of writers on the theory of credit and especially on the theory of exchange. We must now examine the influence of the international factors on our money market.

Long ago the hamlet or borough ceased to be a self-sufficient economic unit, and expanded in order to gratify constantly growing wants. Commerce early created a community of interests between the different parts of the same province, then of the State. This steady development has now resulted in a close harmony of the interests of the different markets of the world, through the universal solidarity of production and consumption.

This interdependence is manifested in numerous instances which may readily be recalled. Let there be a poor wheat crop in America, as was the case in 1905, and exports cease at once; European consumers are the first to suffer. There is no scarcity, because one can not speak of universal scarcity, but the total supply no longer fully suffices for consumption, and a general rise in prices results. It is also known that the English market, and indirectly

all the others, is influenced by poor cotton crops, which render idle a large part of British industry. It is the rates of exchange which give us constant warning of our position in relation to foreign markets. We need not insist further on the solidarity and harmony of international interests, which has long since been set forth with great clearness by many distinguished writers.

It would be more interesting but much more difficult to discover what forms the basis of this solidarity. No doubt we shall be told that the satisfaction of economic wants is not bounded by country, that these wants tend to become identical in all countries through the diffusion of knowledge, of education, in a word, through progress, and that here is a sufficient explanation. We shall not contradict this statement. But such a moral consideration can not have much weight in the organization of international markets which, like all markets, are governed only by very material causes. Even if we admit that the world-wide unity of science and of economic wants is a reason for international solidarity, it could not furnish the concrete basis or the bond of material union essential for permanence and strength.

What is, then, the basis? It can not be the rate of discount, since, as we pointed out at the beginning of our study, the differences in this rate are, in fact, too large and variable to permit the idea, however pleasing, of its serving in such a capacity.<sup>a</sup>

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<sup>a</sup> It may, however, be recalled that in 1866 the Bank of England, after rates of 6, 7, 8, and 9, reached 10 per cent, where it remained for some time; meanwhile the Bank of France kept the discount at 4 per cent. (Cf. *Journal des Economistes*, 1866, 2, p. 440.)

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It appears that metal reserves alone can form the basis in question. They make business possible. Following a natural current, they bring with them into the organism of markets a flow of invigorating blood. At the same time they furnish assurance of the necessary sanctions, when their influence has been disregarded. A few details may suitably be given on this subject. After the use made of biological methods, applied under the name of sociology to all social phenomena, we may without presumption compare the monetary circulation, not the fiduciary, to the circulation of the blood in the body. A certain amount of metal, as of blood, is required to maintain life. A sufficient reserve of good money is the sign of a flourishing State. A money which is scarce or depreciated induces an anæmic condition of the State. Of this Spain bears witness, since the always precarious condition of her exchanges paralyzes all her activity and renders impossible the progress which ought otherwise to occur. Superabundance of metal discloses the plethora of a sanguine temperament subject to crises. The monetary congestion, so to speak, of Germany after the war and the payment of the indemnity offers a sufficient example. A monetary bloodletting in a healthy and prosperous State may stimulate activity. Proof of this is furnished by the rapidity with which France recuperated after the exhausting drain of a costly war and the payment of the indemnity.

It might be said, to continue the comparison, that there is between all the gold circulating over the face of the earth the same affinity as between the blood corpuscles circulating

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in the organism. The vital processes of both are similar, and in both, to a certain degree, quantity is of less importance than quality. It is therefore needless, from a general standpoint, of course, to attach much importance to the abundance or scarcity of gold. It is only essential that its world-wide distribution be constantly assured in close correspondence with the needs of the given country and the supply of the neighboring state. For this reason M. Aupetit could say: "The metal market is of necessity international. Gold or silver bars circulate across the frontiers, like all commodities, and by these movements their prices reach everywhere a common level."<sup>a</sup>

A given amount of metallic currency cannot, therefore, be thrown at will on any market at any time without the immediate dispersion of this supply over the whole range of markets. To act contrary to this principle would be like attempting to stay the flow of a river. To close the outlets on all sides would be in vain; the water would nevertheless filter through. "When money is brought into internal commerce, it will be employed as a means of remedying every rupture in the equation of international demands."<sup>b</sup>

A country can never succeed in building up gold reserves by artificial means; first of all, it must create the need of gold, and then the international market will of itself undertake to supply its need. It is thus that owing to our late development of the system of checks and transfers

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<sup>a</sup>A. Aupetit, "*Essai sur la théorie générale de la monnaie*," Paris, Alcan, p. 177.

<sup>b</sup>Cf. Bastable, "*Theory of International Trade*," in the translation by Sauvaire-Jourdan, Paris, 1900, p. 72.



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we have created a considerable need of gold, which the international market has had to supply.<sup>a</sup>

Furthermore, it is well known how, for thirty years, the discovery of gold mines has flooded the market with metal, and how the metal increase has been continuous in the different countries. The United States in particular, with a very large population spread over a vast territory, owes the increase of its metal holdings to the increase of the metal holdings of other nations.<sup>b</sup> In this connection, it would be especially interesting to follow one of the most recent and most considerable transfers of specie, the 200,000,000 francs imported into France as the result of the buying out of the Panama Company. These 200,000,000 francs in gold, coming from the United States, originated in large part from shipments made by Japan in payment of purchases of war material. A very large part of this gold, when it had passed into French hands, was absorbed by the Russian loan. M. Aupetit calls attention

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<sup>a</sup> On the other hand, the Latin Union did not limit the coinage of 5-franc pieces until January 31, 1874, while Germany had adopted the single gold standard in 1872. During that time it is estimated that 500,000,000 francs of gold were drawn by Germany from the countries in the Latin Union, to their injury, because of the coinage of silver. (Cf. X. \* \* \* "*Bimétallisme international*," *Revue Politique et Parlementaire*, 1896, 2, p. 589.) However, this monometallic situation, added to the drain on the circulation caused by the withdrawal of 5,000,000,000 francs, had, according to many authors, the advantage of stimulating a new movement of business activity and of enabling us to withstand the crisis of 1873, which raged especially in Germany, the United States, and Austria. (Cf. Juglar, "*Des crises commerciales*," Paris, Guillaumin, 1889.) It may be added that if Germany had required the war indemnity to be paid in rentes, at least in part, she would have secured great advantages for the future, without diminishing her actual power of monetary resistance.

<sup>b</sup> Cf. J. Pallain, "*Des rapports entres les variations du change et les prix.*" Sancerre, Pigelet, 1905, pp. 28 and following.

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to this singular irony of fate, which opens the channels for a movement of money between belligerents.<sup>a</sup>

We may say in conclusion that "the distribution of gold reserves is not susceptible of arbitrary agreement, but is in a large measure the inevitable result of the development of custom and of the financial requirements of the different countries."<sup>b</sup> It appears, therefore, that the monetary circulation may be considered, to a certain extent, as automatic. Each market possesses the amount of gold which it should have, no more, no less. This international distribution is effected, by the very nature of things, with perfect precision. Any act of authority, any arbitrary measure, would be powerless to secure a larger gold supply; this is possible only in so far as new needs are created. Such is, we believe, the indispensable basis upon which the international markets rest. The factor of gold supply, which must be reckoned with, is independent of the speculator, and any operation which should neglect it would lack support and prove to be a dangerous error.

We have added that this system carries with it its own sanction, and can not be disobeyed with impunity. In this regard crises afford a great lesson. When a nation, carried away by the blind confidence of an already long period of easy credit and great prosperity, neglects more and more the metallic basis and the progress of other nations toward a clearing system, and thinks it can for-

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<sup>a</sup> Cf. J. Pallain, *op. cit.*, p. 35, and *Revue Economique Internationale*, A. Aupetit, "*Chronique financière*," June 15, 1904, p. 216.

<sup>b</sup> Georges Cochery, former minister of finance, cited by Aupetit in *Revue Economique Internationale*, 1907, Vol. IV, p. 664.

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ever increase credit and exalt speculation, the crisis is at hand and will suddenly appear; then, as the penalty for ignoring the necessarily slow processes of evolution, it must submit to the humiliation of asking the world for help.

In the constant tendency toward an unattainable perfection in the equation of the world's holdings, exchange rates are the reliable barometer which at every moment indicates the situation of a country with reference to others. If exchange is favorable and if the import gold point is near, the incoming of gold may be counted upon, and in the contrary case gold exports may be foreseen. It is such movements in our favor or to our prejudice which it is important to regulate or to check, but it has been shown that, owing to the multiplicity of interests engaged, this may not always be an easy matter. However, it is all the more necessary to avoid these movements because we know the importance of a strong metallic reserve and the difficulty of maintaining it at a high level. If, indeed, a crisis occurs abroad, it will absorb the metallic currency of the country and will create, besides, a demand for currency as much greater as credit was formerly more extended and business more prosperous.

The country suffering from the crisis will thereupon induce in all the other countries a desire for metal which is sometimes irresistible. This desire will be shown in a very definite form and in the following manner: When money has acquired a considerable value in the country where the crisis exists, foreign capital will not fail to flow in. Capital, it is said, knows no patriotism or country, and no consideration of sentiment or morality will for a

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moment hold it back. Rates of exchange will soon show an enormous falling off, the gold points will be exceeded, and gold, if it is not retained, will overflow the affected market. It is evident that this sudden reaction may hasten its return to normal conditions, but the neighboring markets will have suffered so much, in their turn, that the crisis, like a contagious disease, will infect them also, and the world market will regain some stability only after a general fever which will have destroyed the feebler members of the financial world.

We believe we have thus sufficiently demonstrated what close solidarity, from a monetary point of view, exists between the different markets. In closing, let us revert to our biological comparison. Like the limbs and the organs of the human body, nations may be classified according to their importance in the vital economy, but it is very rare that a disturbance of any serious nature develops in any part without affecting the entire organism; there is much difficulty in localizing it altogether. Before, however, inquiring how in such an organic unity of the money markets the reaction upon others of disturbances affecting one part may be prevented, we shall endeavor to indicate the place occupied by France and its essential instrument, the Bank of France.

## SECTION II.—*Place of the Bank of France in the international market.*

At the beginning of this study we have shown that it is to the interest of a nation to possess an important metallic reserve, and we have just laid down as a principle the automatic character of circulation. Although these two

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rules seem to be contradictory, they are not so in reality; we are therefore brought back to our starting point. France has with deliberation permitted the development of its instruments of credit, especially of its bank notes, and has in this manner created the need of gold to be used as a reserve. It has utilized periods of favorable exchange to build up a reserve which is to-day the strongest and the most important in the world. We need not further insist upon the commanding position of the Bank of France from a monetary standpoint. A study of the situation of our neighbors in this respect would, in our opinion, be more conclusive; we shall also see whether the lack of a similar reserve does not cause them serious inconvenience.

We must remember, in the first place, that the number of international markets is reduced to a single one for each State. It is in Paris that the operations of France with the entire world are settled. The same holds true of London, Berlin, Brussels, etc., for their respective countries. This may be considered as an exact statement of the situation; other financial relations which may exist are confined to very limited amounts and to local transactions of quite secondary importance. The fact that the rates of exchange are quoted simply by the names of Paris, London, etc., sufficiently indicates the significance of markets in international commerce.

Numerous minor countries with relatively small commerce need not be considered. Their transactions pass through the intermediary of a more important neighboring market, or, in case of a colony, through the metropolis.

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It is seen that if the markets of international commerce are heavily burdened with operations for settlements, their number, on the other hand, is very limited. Nevertheless, the equation of the various demands and offers for the whole world can not be solved by transferring all credits indifferently to some one market, and relying upon it to send to other markets all those credits which it alone will have been unable to clear. There is a current, normally established, which leads to the remittance of claims not easily clearable, to the most active and important market, which is able to dispose of them more easily and economically, and most willingly undertakes the transaction.

It is thus that England, whose enterprise and commercial expansion over the entire globe has greatly favored, if it has not created, the development of this special commerce, has always appeared, so to speak, as the chief banker of the world. London has been called "the financial Rome of civilized nations—that is, the world's clearing house and its principal financial market."<sup>a</sup> It is there that almost all international credits are settled "France and Germany, however, are not entirely included in this mechanism,"<sup>b</sup> and the operations peculiar to them are to a large extent subject to direct negotiation.

This incontestable supremacy, this position as the clearing house of the world, imposes a heavy obligation upon England. It must not be forgotten, indeed, that

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<sup>a</sup>A. E. Sayous, Meeting on February 5, 1900, of the Société d'Economie Politique de Paris, reported in the *Economiste Français* of March 3, 1900, p. 271.

<sup>b</sup>Sayous, loc. cit.

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in monetary transactions ultimate solvency is not sufficient,<sup>a</sup> but that the possibility of immediate realization is essential. Even if a bank has assets and liabilities which leave no doubt as to its final solvency, it must above all be able to respond immediately to all demands for cash which may be made upon it. This is the very essence of banking.

Any bank in the world, however skillful in clearing operations, must certainly at times furnish a little cash. Some of its clients will prefer to be paid in gold rather than by means of clearing house settlements. We may obviously regret that education is not sufficiently advanced to eliminate such demands, but in the meantime it is necessary to conform to the habits of our time. These withdrawals of cash, however, are usually made at expected times and for known destinations.<sup>b</sup> England can then meet them, because, within a certain measure, they may be foreseen.

*Gold withdrawals from the Bank of England during September, October, and November.*

| Destination.                  | 1903.        | 1904.        | 1905.        |
|-------------------------------|--------------|--------------|--------------|
| Egypt.....                    | £4, 075, 000 | £3, 020, 000 | £1, 520, 000 |
| South America.....            | 351, 000     | 1, 483, 000  | 1, 543, 000  |
| Germany.....                  | 807, 000     | 1, 358, 000  | -----        |
| France.....                   | 10, 000      | 50, 000      | 28, 000      |
| Other European countries..... | 190, 000     | -----        | 450, 000     |
| United States.....            | 203, 000     | 151, 000     | -----        |
| Various.....                  | 501, 000     | 190, 000     | 264, 000     |
|                               | 6, 087, 000  | 6, 252, 000  | 3, 795, 000  |

<sup>a</sup> Cf. J. S. Nicholson, "Bankers' Money," London, Black, 1902, p. 63.

<sup>b</sup> The greatest demand for cash comes toward the end of the year. Egypt and India, at the times of their wheat deliveries, require important metal payments.

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The above table shows that, even in normal times, there is a drain as serious as it is unavoidable, since it is the consequence of financial supremacy. On the other hand, as soon as there is the least trouble in any market, London is the first place called upon for shipments of metal. Compelled to be the medium of exchanges, the customary purveyor of all kinds of merchandise, London undertakes to meet all demands from abroad made necessary by scarcity of money. The numerous banks of the city are often asked for large amounts for export. Lombard street, therefore, which in a way monopolizes the banking business, and considers itself dispensed from holding a cash reserve because it has large credit balances in the Bank of England, calls for metallic currency with increasing insistence. Thus all demands are found to be made on the Bank of England, which at the same time is restricted by the provisions of the Peel Act. It may be imagined what a metallic reserve the Bank should have at its disposal, in order to provide for such an extensive market.

Thus the fact that a country undertakes international settlements carries with it the obligation of supplying gold. Financial leadership implies monetary leadership, and such should necessitate strong reserves. Is this the case with England? Far from it. Experience shows that England "has made too heavy sacrifices to her classical principle of using a minimum of metallic currency for her payments at home and abroad."<sup>a</sup> London has not a sufficient amount of gold to satisfy the needs of

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<sup>a</sup> Aupetit, "*La vie financière*," *Rev. Econ. Intern.*, 1907, Vol. IV, p. 654.



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Great Britain and to meet the demands of foreign peoples. This deficiency is acknowledged by the English themselves.<sup>a</sup> They have for a long time talked of modifying the Peel Act. At a meeting of the Bankers' Institute, which was held in London in November, 1906, the insufficiency of the reserve was discussed. It was recognized that, in general, the banks do not appear to realize the necessity of having sufficient reserves to maintain the immense credit structure they must support.<sup>b</sup>

An example for the formation of reserves has, however, been given. The Lancashire and Yorkshire Bank undertook some years ago to imitate the French policy. This innovation has yielded highly satisfactory results. It has, however, remained unnoticed,<sup>c</sup> because all the banks, including the Bank of England, too willingly shirk this crushing yet delicate task.<sup>d</sup>

The situation we have just outlined, which particularly concerns England, but which partially affects all great markets, can not fail to cause some anxiety, and we have

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<sup>a</sup> Mr. Goschen wrote that it is a dangerous and deceptive system which leads to reliance on services to be expected, in case of a crisis, from the Bank of England. Arnauné, *La monnaie, le crédit et le change*, 1st ed., Paris, Alcan, 1894, p. 394.

<sup>b</sup> Cf. *Moniteur des Intérêts Matériels*, October 26, 1906, p. 3523; November 16 and 26, 1906, pp. 3778 and 4291.

<sup>c</sup> Cf. *Messageur de Paris*, February 20, 1903, "*La Banque de France et l'opinion étrangère.*"

<sup>d</sup> It is comprehensible that the private banks should rely on the bank of issue and consider the credit at their disposal as available cash. But it seems hazardous for the Bank of England itself to count on the others; yet this actually takes place. To give but a single instance, let us recall that it insists upon a certain regulation of the use of the available funds of Lombard street. When it finds that Lombard street uses too much money it forces the banks to raise their rates. For that purpose the Bank itself horrows on the consols it owns, and thus monopolizes a large portion of the available funds. (Cf. Rozenraad, "*Le marché de Londres,*" *Revue Economique Internationale*, 1906, Vol. II, p. 79.)

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witnessed during the last few years the almost universal regret that a stronger metallic reserve was not provided. The last crisis has especially drawn attention to the general scarcity, and every country has perceived that it lacked gold.<sup>a</sup> The remedy for this state of things would necessitate a revolution in well-established financial systems. On the first return of prosperity optimism becomes general and causes the dark days to be soon forgotten. "English financiers are too conservative to appreciably modify an antiquated structure or to devise some new system."<sup>b</sup> It is not, therefore, very surprising to note that the financial supremacy of England tends to decline.

France and Germany, as we have said, are, in a certain measure, emancipating themselves. "In 1890, at the time of the Baring failure, the question could be asked whether London would not at once lose its position as the financial center of the world and whether the English market was not undermined."<sup>c</sup> It would be sufficient for France to become monometallist in order to capture the direction

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<sup>a</sup> The president of the London Bankers' Institute, at the opening meeting of the annual session, regretting the insufficiency of the reserve, and showing its increasingly indispensable character, proposed the formation of a special fund, which would permit £5,000,000 to £10,000,000 to be shipped to New York, without causing a rise in the rate of exchange. (Cf. Raffalovich, "Marché financier en 1907," *Journal des Economistes*, January 15, 1908.) Germany is also aware of its lack of gold. Various methods have been used of late to increase the reserves by a systematic depletion of the circulation. (Cf., *infra*, p. 128, note *c*.) In order to reduce the demands for gold, which became alarming, a circular was sent at the end of December, 1907, to all public officials, recalling another circular, quite recent but already forgotten, which advised officials to take their salary in bank notes and not to insist upon gold.

<sup>b</sup> A. E. Sayous, meeting on February 5, 1900, of the Société d'Economie Politique de Paris, reported in the *Economiste Français*, March 3, 1900, p. 271.

<sup>c</sup> An often repeated phrase of Mr. Goschen. Cf. *Bulletin de Statistique et de Législation Comparée*, February, 1891.

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of credit, Paris then becoming the international money market. The possibility of this succession possesses a significance which is fully appreciated, but it is not certain, especially now when English policy appears to be turning from extreme colonial expansion, that such a succession would be entirely advantageous. Instead of this very lofty, but none the less dangerous and insecure position, would it not be preferable to maintain the calm and safe place we occupy in the financial world?

*Conclusion.*—If the Bank of England is for the present the great clearing house of the world, the Bank of France is and remains the general gold reservoir. This monetary supremacy assures us a highly privileged situation even from the standpoint of international credit, which, moreover, it is not necessary to control more fully.

## CHAPTER II.

### THE BANK OF FRANCE AND CRISES.

There is perhaps no economic subject more discussed at present than that of crises. We may suitably indicate, first of all, in what measure crises which do not result from monetary conditions may be of interest. We shall then see what are the classical means by which the banks can avoid them. We shall finally study the present policy of the Bank of France in this regard.

#### SECTION I. *Monetary crises.*

This very complex subject has been often treated by economists, legislators, and financiers who have vied with each other in scientific zeal, in order to determine accurately the physiology of crises. The causes of the evil must first be known before the remedy may be indicated. In this arduous quest, impelled by the logic of fascinating systems, theorists often assign to crises not only very different causes, but also very different characteristics.

The word crisis has no sufficiently definite meaning of its own, and for want of a previous agreement as to the sense in which it should be used, discussion is endless and turns solely upon an ambiguity. It is not our intention to throw new light on such a complex question. This would demand not only a competence to which we could not pretend, but also a space devoted to this part of our work greater than is permitted by its narrow limits. Our only aim in stating what we mean by a crisis is to determine

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the cases in which the Bank of France might intervene. For that purpose alone we must classify crises and recall the elementary divisions, which, in our opinion, are too often lost sight of.

In the first place, from the standpoint of their extent, there are local crises, national crises, and world crises. The first are restricted to a certain region, like the recent crisis in the wine-growing regions, or limited to a special industry, like the one which was felt but lately in the automobile industry. Everyone will find, within his personal recollection or experience, numerous instances of the same kind.

National crises are more complicated and more serious, from the very fact that they affect the economic condition of a country in its entirety. The disturbance of the exchanges in Spain furnishes a concrete example; all commerce and industry suffered from it.

World crises result from the interdependence of the different international markets. This is so close that a violent disturbance in one commercial nation must react upon foreign markets. Like a rapidly spreading epidemic, it will surely affect other nations to an extent which is sometimes very serious. For a long time world crises have been recorded and carefully studied.

From another point of view a distinction can also be made between crises resulting from growth and crises resulting from contact. Attention has frequently been called to the former because they reveal youthful enterprise in production. Such is the crisis which too strenuous America has recently experienced. Nations, like men, are not immortal. If but little thought is given to

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the possibility of their extinction, it is because our own individual existence is only a minute period of theirs. But, like us, they have their youth, their maturity, and their decline. For a nation which has reached maturity, crises resulting from growth are no longer to be dreaded. If they should still occur, they are rare and of little severity, and they can not happen unless a return of youth, a certain access of vitality, leads to some recklessness. Then comes the period of crises resulting from contact, which are due to that solidarity of which we have just now spoken. We shall presently have occasion to remark that, except ephemeral crises, only crises from contact are now experienced by us, and even these are much attenuated. We do not mean to imply that our country enjoys to-day the sorry privilege of "escaping the diseases of youth; this would be almost an avowal of senile decay. Let us rather say that since it is a question of sickness there may be remedies, and that the object of our study is precisely the examination of the means, if not to avert crises, at least to diminish their intensity.

This would be our answer to M. V. Pareto's<sup>a</sup> highly interesting question: "If it were possible to prevent crises altogether, would it be advantageous to do so?" He himself answers as follows: "Proper measures for diminishing the intensity of crises may be beneficial; but to suppress entirely a certain movement, or, in exceptional cases, to endeavor to attenuate its violence, are essentially different things." If, to become strong, it is well to be accustomed to all seasons and hardened

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<sup>a</sup> Vilefredo Pareto, "*Cours d'économie politique*," Vol. II, p. 297.

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to all inclemencies, there is at any rate no necessity of courting colds and bronchitis.

So far we have made no mention of monetary crises and of crises of production. This distinction is the most important for our subject, and it is also the one which leads to the greatest misunderstandings.

It is well understood that the crisis of production, resulting from the lack of correspondence between the curve of production and the curve of consumption, the disastrous effects of which Malthus endeavored to suppress by his advice as to the increase of population, has a very close relation to the monetary crisis. They must not, however, be confused; in many instances they are perfectly distinct. Just here is the cause for the differences of opinion among authors. In general, they tend to explain the noncorrespondence of the curves, that is, overproduction or underproduction, by various theories which depend upon differences of temperament.<sup>a</sup> But usually, as the sole basis of all these theories, only the relation between production and consumption is considered. The division which we have above indicated, elementary as it may appear, shows sufficiently that this basis is not wide enough.

It is indisputable that there are crises which are exclusively monetary, such, for instance, as crises of exchange. On the other hand, there are commercial or industrial crises of production or overproduction—the word matters little—which are not monetary in character. The monetary crisis itself is almost always only an episode

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<sup>a</sup>Cf. Lescure, "*Des crises générales et périodiques de surproduction.*" Bordeaux, 1906, Chapter II, Sec. II, pp. 455 and following.

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of the general crisis. The former has too often been erroneously considered as the cause of the latter. On this false notion was based the Bank Charter Act of 1844.<sup>a</sup>

In one of the greatest crises which could be instanced, and which, moreover, is still very present to our minds, that in the United States, it has been possible to observe very clearly the phase of a production crisis. On this point, M. Paul Leroy-Beaulieu writes: "As to the lack of money, and the defective organization of national banks, they have been merely accessory, and have played no part until after the crisis had begun; they may have somewhat intensified it and widened its scope, but they remain only secondary elements."<sup>b</sup>

This distinction between monetary crises and commercial crises is, therefore, not artificial. They have been, however, so persistently confused that some people, often taking the effect for the cause, are ready to throw upon the poor organization of credit and of banking the heavy responsibility for the whole crisis. It would appear to us more logical and more useful to seek a remedy for both sides at the same time. The banks can correct the bad effects of crises only so far as these, after affecting credit, disturb the monetary harmony.

As for the correction of crises from an economic standpoint, legislators and economists may devote themselves

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<sup>a</sup>This refers to the so-called Peel Act, which organized the Bank of England by starting from the principle that convertibility is not in itself a sufficient safeguard against overissue of notes, and that this overissue being a cause of crises, all danger would be averted if a proper proportion should be maintained between reserves and circulation.

<sup>b</sup>*Economiste Français*, November 30, 1907, p. 766.



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to the regulation of production and consumption. The subject under discussion on February 5, 1902, by the Société d'Economie Politique de Paris was the question whether great public works could avert or cause crises. This discussion followed the proposal of a law on March 1, 1901, by M. Baudin, the minister of public works.<sup>a</sup> More recently MM. Viviani and Vaillant have discussed in the Chamber of Deputies a plan for the distribution of public works in such a way as to avoid unemployment during crises.<sup>b</sup> In other countries, on the other hand, trusts and manufacturers' agreements hope, by regulating production, to avert crises.

Such is the train of ideas which could be developed by studying the methods of meeting commercial crises. But our aim here is to inquire into the part played by the banks in monetary crises, and to prevent confusing these crises with others. Is it not asking the impossible to demand of the banks that they should cause the specter of crises, of whatever nature they may be, to disappear forever?

The modern tendency to subject everything to a rigorous determinism has led to the conjecture that crises obey a law of immutable periodicity. The clue to this has been sought in the most diverse and unexpected causes, even in sun-spots.<sup>c</sup> In continuation of M. Juglar's long and

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<sup>a</sup>Cf. *Economiste Français*, February 22, 1902, p. 245.

<sup>b</sup>Cf. *Journal Officiel*, Chamber of Deputies, session of November 11, 1907, pp. 2, 129 and following.

<sup>c</sup>Theory of Stanley Jevons, repeated by many distinguished economists. See especially J. S. Nicholson, "*Bankers' Money*," London, Black, 1902, p. 80.

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authoritative enumeration,<sup>a</sup> new crises have been, without hesitation, predicted for 1900-1907.

We do not deny that during this period there have been severe disturbances which were the cause of almost world-wide crises, but from our national point of view an exception might have been made. The famous crisis of 1900 started in Russia, and this country was the first to give the alarm. Germany suffered especially.<sup>b</sup> In France, beyond some slight labor disturbances, a result of the Exposition, which caused the well-known strikes, what monetary crisis was noticeable? On this point, even M. Siegfried<sup>c</sup> was forced to express some doubt: "The

<sup>a</sup> Juglar, "*Des crises générales et de leur retour périodique.*"

*Table of crises according to Juglar's system.*

| France. | England. | United States.    |
|---------|----------|-------------------|
| 1804    | 1803     | ----              |
| 1810    | 1810     | ----              |
| 1813    | 1815     | 1814              |
| 1818    | 1818     | 1818              |
| 1826    | 1826     | 1826              |
| 1830    | 1830     | ----              |
| 1836    | 1837     | 1837              |
| 1839    | 1839     | 1839              |
| 1847    | 1847     | 1848              |
| 1857    | 1857     | 1857              |
| 1864    | 1864     | War of secession. |
| ----    | 1866     | War of secession. |
| ----    | 1873     | 1873              |
| 1882    | 1882     | 1884              |
| 1891    | 1890     | ----              |

The author gives the above list of crises. Each line corresponds to a crisis and indicates the date of its reaction on the three markets described.

<sup>b</sup> On the effects of the crisis of 1900-1901 in Germany, cf. Depitre, "*Le mouvement de concentration des banques allemandes,*" Paris, Rousseau, 1905, p. 104.

<sup>c</sup> M. Siegfried, whose name is well known to those who at present pay some attention to political economy, is self-confessedly the most earnest as well as the most accurate interpreter of the Juglar theory, of which he is the continuator.

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crisis, \* \* \* if we are to call what took place in 1900 a crisis, for this crisis was much lighter than those which preceded, and we might almost call it the liquidation of 1900."<sup>a</sup> Is not this an admission? What would M. Siegfried say concerning the crisis of 1907? Nevertheless, to trust to his barometer, there should have been hard times in 1900, as well as in 1907.

It does not seem to us possible to find in France an economic reaction from this last general crisis. Beyond some uneasiness in the stock market, which, as is well known, is extremely sensitive, the recent and indisputable rise in prices of certain commodities should be attributed to an entirely different cause. We assert, in the first place, that this rise can not have been the sign of a crisis for the excellent reason that, on the contrary, a fall in prices would have been observed, since metal would have become scarcer and would have then acquired a greater purchasing power. The very fact of the rise would suffice to show that we did not suffer from a crisis. Furthermore, a perceptible movement in the prices of commodities is the sign of a crisis only when it is temporary. Now, the present rise is acknowledged by all to be permanent. It is accounted for almost entirely by the labor laws recently put in force, by the enormous taxes imposed on manufacturers, etc. The considerable increase in general expenses resulting therefrom can not remain a charge on industry, and the necessary shifting of its incidence takes the form of a rise in prices.

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<sup>a</sup> *Bulletin mensuel de la Fédération des Industriels et Commerçants Français*, April, 1907, p. 533.

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Not only has there been no commercial crisis, but there has been no monetary crisis. Credit accommodations have in no wise been affected, and the momentary rise of the official discount rate, explained, moreover, by another cause, can not point to a disturbance in our monetary conditions. The reserves, furthermore, have not diminished.<sup>a</sup> This last crisis, to which very precise limits have been assigned, from Wednesday, October 23, 1907, the beginning of the crisis, to Thursday, January 2, 1908, when the English discount rate was lowered, has certainly not been for us a period of affliction, and the smiling sun at the end of December, 1907, did not appear as the irony of fate to a wretched and starving people.

From that which precedes two conclusions may be drawn. On the one hand, it is important to distinguish between the economic and the monetary phases of crises, and not to demand that the one shall correct the imperfections of the other. On the other hand, if it is undeniable that crises have hitherto tended to be universal

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<sup>a</sup> The economic and commercial situation remains fundamentally most prosperous, as evidenced by the general increase in foreign trade, the railroad receipts, and the tax collections. The crisis in the United States resulting from considerable overproduction, from a wretched financial system, from shameful speculation and too frequent frauds, was certainly a calamity, but it may be said that the general situation has not been seriously affected. Cf. George Moreau, "*La crise américaine*," *Le Censeur*, February 29, 1908; Germain Martin, "*La crise américaine*," *Revue d'Economie Politique*, March 15, 1908, p. 203; Raphael Georges Levy, "*La crise économique de 1907 et les Etats-Unis d'Amérique*," *Revue des Deux Mondes*, December 15, 1907, p. 805.

The same can not be said of Germany, where everything discloses a decline of prosperity. Customs receipts have fallen off, taxes have shown a serious deficit, and it seems that the consequences of the crisis, more gradual in that country, are for it the sign of a progressive decline.

and periodic, for some time past, at least, they have spared France.

We have thus reached the object we had in view, since the above considerations of themselves indicate the limit of that which can be obtained from the Bank of France when its intervention is demanded to allay crises. We see also that for the last fifteen years this intervention has been able to banish all crises and all reactions of crises from our national market.

## SECTION II. *Customary measures of defense against crises.*

Like a vigilant nation which keeps itself always on the costly footing of armed peace, a bank of issue must always be powerful enough to avert the numerous perils which from all sides are incessantly threatening. Just as the good condition of arms and supplies may sometimes prevent the horrors of war, so may a strong reserve suffice to avoid the monetary difficulties, which are the precursors of crises.<sup>a</sup>

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<sup>a</sup> The symptoms are well known. Crises are always ushered in by a contraction of credit. Credit, poorly established on an insufficient metallic basis, totters and falls wholly or in part; transactions then tend more and more to a cash basis. From all parts money is wanted for the settlement of obligations already incurred. If the bank of issue, regulating credit, is able to resort to such an undertaking, it will throw on the market the amount of metal which the emergency requires, taking credit bills for its own account, and the panic will thus be averted.

If, on the contrary, the bank can not act thus, more and more pressing demands will assail its reserve and will tend to absorb it. We shall then have the prospect of the discredited bank note, bankruptcies, and all the horror of a general panic, with the alternative, in case of insufficient reserve, either to let gold go out to allay the storm, with the risk that the impoverished bank may find itself discredited and may carry the entire market down in its ruin, or to defend the gold reserve, and thus by aggravating the conditions of an already weakened credit to hasten the disasters of the crisis. The dangers to be averted are, therefore, the drain of metallic currency by foreign countries, the indefinite lowering of the reserves, and the impossibility of continuing to discount, or at least of maintaining a reasonable rate.

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A study of the customary measures for mitigating crises may appear superfluous, since the Bank of France, owing to the formidable reserve which we know it possesses, presents an unprecedented power of resistance to all attacks capable of overthrowing credit. It is the Bank which provides that reservoir of reserves of which so much has been said, and thanks to which, for the last fifteen years, even the possibility of the outbreak of a crisis has disappeared. The greatest treasury, if intrusted to unskillful hands, could not, of course, render much service, and while it is true to say that our holdings are in themselves sufficient, yet much depends on the manner of directing their advantageous use.<sup>a</sup> These means of resistance, which for the most part have long since been carefully studied, we shall now pass rapidly in review.

As soon as the cash holdings of the bank of issue begin to be exhausted, as soon as it is no longer possible, without extreme prudence, to allow the reserve to be further diminished, then the monetary crisis commences. It is then also that all the efforts of the bank, the resources and credit of which will diminish at the same time, will tend toward facilitating the collection of funds and restricting the outgo. Like a reservoir which, after having for some time distributed more water than it receives, is soon exhausted or becomes useless for want of pressure, so the holdings of a bank require that the receipts and outgoes of currency be properly regulated. And for the sole purpose of avoiding the lowering of the reserves,

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<sup>a</sup> To be convinced of this it suffices to remember that the United States and France have reserves about equal as far as amount is concerned, and yet their powers of resistance are quite different.

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efforts will be made either to replenish the holdings with larger receipts, or to avoid causes for withdrawing the metallic currency.<sup>a</sup>

Among the measures to replenish the holdings we find, in the first place, the purchase of gold bars. This does not refer, of course, to the daily purchases which form one of the current transactions of banks,<sup>b</sup> but to the increase of these purchases by offering a certain premium, and, if need be, by importing from abroad. This exceedingly costly system is in principle universally abandoned. Nevertheless, it has been greatly in favor in every country. The most characteristic historical instance is when the United States, from 1878 to 1893, purchased for its monetary needs, 459,949,701 ounces of silver for about \$464,000,000.<sup>c</sup> In France the Bank had to purchase abroad in the three years from 1855 to 1858, 1,384,553,000 francs gold, which cost a premium of 15,893,000 francs. In 1858 it abandoned this system, but had to resort to it again in 1864, and during the crisis of that year purchased 229,000,000 francs in gold.<sup>d</sup> In

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<sup>a</sup> We shall speak only of measures applicable to a system with a bank of issue similar to ours. The study of the present American system would lead us to mention, among other things, the various expedients which tend to give the banks a little elasticity, such, for instance, as the creation of clearing-house certificates. Such a study, however interesting it might be, would carry us outside the limits which we desire to assign to this work.

<sup>b</sup> The Bank of France buys gold bars and pays at once, without discount, as at the mint. This method was suspended in January, 1906, owing to the fear of exceeding the limit of circulation, and resumed again as soon as the law of February 9, 1906, was promulgated. In Germany, also, the Reichsbank is bound to purchase all fine gold bars offered at the price of 2,784 marks per kilogram.

<sup>c</sup> Cf. L. Poinard, "*Questions monétaires contemporaines*," Paris, A. L. Charles, 1899, p. 300.

<sup>d</sup> Cf. Cl. Juglar, "*Des crises commerciales et de leur retour périodique*," p. 427.

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Germany the Reichsbank has purchased altogether, from 1876 to 1905, 3,312,000,000 marks in gold.<sup>a</sup> The Bank of England, during the last crisis, reconstituted its reserve mainly by purchases of bars in the London open market, to the amount of £20,000,000.<sup>b</sup> Spain and Belgium could also be mentioned as instances.

Another system consists in putting a premium on gold.<sup>c</sup> This can only be applied in bimetallic countries, which, as such, put the two metals on a parity in payments,<sup>d</sup> It consists in offering silver, a metal depreciated from the standpoint of international relations, and in refusing to part with gold, except in return for a certain premium.<sup>f</sup> This most interesting system would deserve a much more thorough study than we can here give to it. After being

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<sup>a</sup> Cf. Dr. Louis Katzenstein, "*La Banque de l'Empire allemand*," *Revue Economique Internationale*, 1906, Vol. IV, p. 524.

<sup>b</sup> Cf. Aupetit, "*La vie financière*," *Revue Econ. Intern.*, 1908, I, 180.

<sup>c</sup> Bastable discusses the policy of the premium on gold. He assimilates it to a tax on currency, at importation or exportation, and considers that it is in reality a seigniorage. Cf. Bastable, "*Theory of International Trade*," in the translation by Sauvaire-Jourdan, Paris, 1900, pp. 171 and following.

<sup>d</sup> On this application in most of the bimetallic countries, see the *Economiste Européen* of January 24, April 25, September 26, 1902, January 3 and February 13, 1903.

<sup>e</sup> M. Houdard, "*Essai sur le service des billets de banque*," Paris, 1891, p. 18, shows that the discount rate comprises three elements, the charge for the services of the Bank, the interest on the capital loaned, and the premium on gold, the only element which varies according to different circumstances. He draws the conclusion that a rise in the discount rate is nothing but an extra tax corresponding to the gold premium, and as he would like to see it paid solely by those who desire gold, he demands a uniformly low and steady rate.

<sup>f</sup> Though generally very small, in 1885 this premium rose to 227 per cent in the Argentine Republic. Cf. *Revue de Statistique*, April 29, 1900, p. 48.



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highly esteemed for many years, it became the object of violent criticism, which has caused it to be abandoned.<sup>a</sup>

We shall not attempt its rehabilitation, for we are too well aware of its serious drawbacks, and, moreover, there is something much better to take its place. It seems, however, to be as justifiable as the conversion of rentes, an operation deemed admirable, yet none the less an imperfectly concealed spoliation, which, however legal, is usually preceded by highly artificial even though legitimate quotations.<sup>b</sup> This policy of premiums on gold, moreover, alarmed no one, neither the public nor the banks; and the bank note, even when the premium was in force, continued to be received on a par with gold in almost all the banks of the world, although it was legally redeemable in silver only. Furthermore, there are special cases, such as systematic and constant drains of metallic currency at some point on the frontier, in which the propriety and efficacy of a defensive premium is incontestable. Thanks to the lowering of the normal gold point, owing to the reduction of distances, a profitable and

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<sup>a</sup> The present Spanish system rests upon a somewhat similar idea. Good money having been driven out, the bank note is used. This has no forced circulation, but on presentation is redeemable in silver. It accordingly suffers a heavy depreciation, which allows our notes or our gold to command an enormous premium. Nevertheless, though Spain finds this system inconvenient, it has managed hitherto to endure a considerable depreciation in its exchanges. It would not be considered as such if an exact ratio was made between the value of their money and ours.

<sup>b</sup> It should be remembered that the investments in French rentes which are made obligatory by law are very numerous. Without speaking of the reinvestment of dowries, etc., the Caisse des Dépôts et Consignations must invest all its available funds in rentes. For this reason, there is a considerable demand for rentes which will tend soon to absorb them, and which suffices to explain the high rate at which they are quoted.

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undesirable business can be transacted which a local premium would destroy.<sup>a</sup>

But the great drawback is that England and Germany stand in the way of a system which is impracticable for them.<sup>b</sup> This does not exclude a certain regret on their part at their inability to avail themselves of this policy, as is evident from the existence at the present time of a bimetallist movement.<sup>c</sup>

Some people, among whom are numbered certain professors of law, would like to see the policy of the gold premium restored.<sup>d</sup> As far as we are concerned, it is enough to recall that this was the policy of the Bank of France up to 1897, and the system could not have been as obnoxious as might have been believed, since some people regret its disappearance. It will be seen that we have adopted in its place a system which is far preferable, and which our neighbors are content to admire without being able to imitate.

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<sup>a</sup> Cf. Meyer, "*Les banques suisses d'émission et le drainage des écus.*" Lille, Le Bigot frères, 1903.

<sup>b</sup> Germany, being monometallist since 1872, cannot adopt the premium system, but the Reichsbank replaces it by a measure certainly more vexatious. It does not refuse gold for export, but it ceases to aid the exporters; their discounts are rejected and their accounts closed, if need be. (Cf. Ansiaux, "*Les problèmes de la circulation,*" *Revue Econ. Intern.*, 1907, Vol. IV, p. 277.) One frown from the director will repress any idea of withdrawing gold. This system of brutal absolutism does not, of course, prevent withdrawals from the circulating medium.

<sup>c</sup> This bimetallist movement is just now especially marked in Germany. All the evils of the recent crisis are willingly attributed to gold monometallism, and a comparison is made between the difficulties in the midst of which the German market is struggling and the calm which the bimetallist French market has preserved. On January 14, 1908, Count Kanitz put a question before the Reichstag, the purport of which was that "a wall of silver be built around our gold, in order to prevent the latter from leaving us."

<sup>d</sup> Cf. *Bulletin Mensuel de la Fédération des Industriels*, April, 1907, p. 524.

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We shall not speak of certain arbitrary measures which belong to other countries and other times. There is an occasional revival of the old ideas of brutal domination cherished by the mercantilists, who fancied they could prevent the escape of metallic currency by a mere prohibition, as if gold or silver would ask the authorities for permission, or were likely to do aught but follow their own interest.<sup>a</sup> These systems of taxes on imports or exports are very old, and have long since been abolished.<sup>b</sup>

Another expedient is to limit bank-note issues so that, since a smaller metallic counterpart is required, the reserve may be allowed to diminish. This system is very efficacious when a weakened reserve causes the depreciation of the bank note. Thus recourse to forced currency may be avoided. On the other hand, if the bank note does not suffer any depreciation, the expansion of issues results in an increase of circulation, and may dissipate the crisis. This was the purpose of the suspension of the Peel

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<sup>a</sup> We find a typical instance in the following decree promulgated in August, 1903, by the President of the Republic of Nicaragua:

"Whereas there exists no known means of preventing the disappearance of silver coins the export of which is detrimental to the national treasury; and whereas the continual exporting of silver coin is the principal cause of the depression of the national paper money, and in order to preserve the equilibrium of value which each coin represents for the nation, the President of the Republic decrees:

"ARTICLE 1. The exporting of silver coin is prohibited from the date of the present decree. Consequently, it shall be considered as contraband goods, and the penalties shall be imposed as for that offense.

"ART. 2. The customs superintendents, the fiscal authorities, and the police shall most carefully examine the luggage and parcels of travelers leaving the Republic.

"ART 3. The present decree cancels all previous decrees which might be construed in another sense." (Cf. *Economiste Européen*, September 11, 1903.)

<sup>b</sup> Cf. Levasseur, "*La question de l'or*," Paris, Guillaumin, 1858, pp. 300 and following.

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Act in England during the crises of 1847, 1857, and 1866, when such a procedure was found necessary.

The cash holdings can also be replenished by issuing very small fractional notes, which effect a withdrawal of the unused portion of the circulation. This system was applied in France in 1870-71. The note of 25 francs was authorized by the law of August 12, 1870, the note of 20 francs, by the decree of December 12 of the same year the note of 5 francs by the law of December 29, 1871.<sup>a</sup> <sup>b</sup> In Germany much has been recently said about withdrawing gold from circulation by various methods, especially by issuing notes of 50 and 20 marks. However, the question is not new.<sup>c</sup> In England, Mr. Goschen, chancellor of

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<sup>a</sup> The note of 50 francs dates only from June 9, 1857, and the note of 100 francs from March 15, 1848.

<sup>b</sup> Toward the end of the year 1870 the scarcity of gold and silver was such that all transactions, even the smallest, became well-nigh impossible. Neither could bank notes be counted on to make small payments, because fractional notes had not yet been legally authorized. There was, in short, the greatest need of a medium of exchange for small transactions, and no means of creating them. Private initiative, in a certain measure, was able to meet this need. Thus a syndicate of bankers and merchants in Chalon-sur-Saône was formed, which deposited in the branch of the Bank of France in that city a certain sum, not less than 100,000 francs, in notes of 1,000 francs. The syndicate issued notes of 1, 5, and 10 francs for an equal amount, and these fractional notes, accepted with confidence by the people, were of genuine service to the communities of Chalon and the neighborhood.

The fractional note of 1 franc was rose-color. The 5-franc note was a little larger and was green. The 10-franc note, which was larger still without, however, reaching the size of the 5-franc note issued the following year by the Bank of France, was blue. The numbers of the series and of the notes and the two signatures were affixed by hand when the notes were detached from the stubs. The signatures were those of M Antoine Chevrier, a merchant, as president, and of M. Henry Druard, banker as secretary.

We might also mention the instance of the "siege notes," such as were issued during the war by order of General Roland, governor of the city of Besançon.

<sup>c</sup> Cf. *Pour & Contre*, October 15, 1905.

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the exchequer, proposed in 1891 to issue notes of £1 each for £20,000,000, in order to increase the cash holdings of the Bank. This amount would be set aside, and, in time of crisis, would serve to cover not only the £20,000,000 already issued, but also the additional £10,000,000 in fractional notes which would then be issued.<sup>a</sup> In the United States also, more than a year before the crisis, there was already talk of issuing bank notes of \$5, \$10, and \$20.<sup>b</sup>

A similar procedure for withdrawing a part of the monetary circulation consists in making popular the use of the substitutes of the bank note, such as the check.<sup>c</sup> But this is no longer a question of a temporary measure, and its effects are permanent. It is conceivable, however, that a period of monetary stringency could be utilized to bring about this popularization.<sup>d</sup>

We have just seen how it is possible to act directly upon the cash holdings by endeavoring to replenish them. Let us now see how they may be kept at a high level by restricting the causes of withdrawal. There exists a whole series of rather ineffective measures, which at most can

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<sup>a</sup> Cf. *Journal des Economistes*, 1891, Vol. I, p. 400.

<sup>b</sup> Cf. *Economiste Français*, November 23, 1907, p. 723.

<sup>c</sup> In Germany, in imitation of Switzerland and Austria-Hungary, the aim is to increase the use of the check, and a great deal is said about introducing postal checks. In Austria postal checks and transfers, reserved to holders of savings-bank books, were created by ordinance of October 29, 1883, December 1, 1883, September 1, 1884, and then definitely organized by the law of November 19, 1887. Substantial services were thus rendered. There are 100,000 depositors, with a movement of 19,000,000,000 crowns. These checks are received at the public offices and are admitted to clearance through the Austro-Hungarian Bank. In Switzerland a similar system was created by the federal law of June 16, 1905. Germany is seeking along this line the means to remedy the insufficiency of her metallic resources.

<sup>d</sup> Cf. *Economiste Européen*, October 25, 1907, p. 516; *Revue Economique Internationale*, October, 1907; *Journal des Economistes*, January 15, 1908.

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meet only a slight and temporary strain. We note, in the first place, that the two exits by which the metallic currency leaves the bank are discounts and loans. These may be closed more or less to benefit the cash holdings.

Very numerous limitations on loans may be devised, such as forbidding the opening of accounts and new credits, and especially raising the rate on loans. Naturally this rise is effected long before a rise in the discount rate can be thought of. Indeed, the rate on loans is determined by that prevailing for stock market operations.<sup>a</sup> At the first warning, the Stock Exchange, the most sensitive barometer of credit, is strongly affected. The rates for carrying over rise rapidly and must influence the rates for loans. Thus it was that in the middle of January, 1907, the Bank of France was obliged to raise from 3½ to 4 per cent the rate for loans in order to curb speculation, which, after the rise in the rate for carrying over, relied upon borrowing from the Bank at 3½ per cent with the object of using the funds thus obtained to carry stocks till the next settlement.

Likewise for discounts, it is possible more or less to close the exits by which the precious metal to be husbanded goes into circulation. This can be done by measures such, for instance, as the reduction of the maximum limit

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<sup>a</sup> Loans are less than formerly, but still very often, like stock-market advances, granted for speculative purposes, the pledge for which consists of securities which can be realized only for what they will bring. The difference between loans and stock-market advances lies only, for the latter, in the delay for repayment, in the rate, which is more variable, and for the former, in the margin between the price of the security quoted on the Bourse and the loan granted. But these two operations are so similar that it is impossible to perceive any marked difference between their respective rates.

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of maturity of paper discounted.<sup>a</sup> This system was the rule at the Bank of France up to 1853. It was used for restricting operations and for keeping the discount rate unchanged.<sup>b</sup>

The really standard and effective measure is to raise the discount rate. The effects of this are certain, because in this way, by diminishing the advantage that may be had from allowing capital to leave the country, the resulting interest of foreigners in bringing their funds to us is increased. This system, at present unanimously approved in spite of its grave defects, has not always been unreservedly accepted. The Bank of England was the first to employ this policy in discounting. The commission of inquiry appointed in 1848 by the House of Lords, after the crisis of 1847, insisted upon the necessity of raising the bank rate. Since then the Bank of England has remained faithful to this policy, and employs it whenever the metallic reserve falls below one-third of the combined accounts of the treasury and the public services, and of individuals. "For England a rise in the discount rate is no longer the heroic remedy resorted to in desperate extremity; it is a kind of prophylactic which is applied as soon as the faintest symptoms of danger are manifested."<sup>c</sup>

In France the Bank first adopted this system in 1858, but it hampered itself by following too closely the discount variations of the Bank of England, which is differently

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<sup>a</sup> Cf. Juglar, "*Des crises commerciales*," Paris, Guillaumin, 1889, p. 138.

<sup>b</sup> Cf. Courcelle-Seneuil, "*Les opérations de banque, Traité théorique et pratique*," 9th ed., Paris, Alcan, 1905, p. 260.

<sup>c</sup> Arnauné, "*La monnaie, le crédit et le change*," Paris, Alcan, 1st ed. 1894, p. 392.

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constituted, a practice which in 1864 it was obliged in part to relinquish in favor of a policy of greater stability of rates. "Experience proved, moreover, that the bank rate could be different in Paris and in London without immediately causing export of money from one place to the other." <sup>a</sup>

There are evidently in every country special reasons why the rate should be high or low. The relations between the rate of exchange and the rate of discount are undoubtedly numerous, but this does not necessarily imply that they must always remain closely and unalterably linked in order to permit a normal and sufficient circulation. "The bank rate has not the power to regulate the national monetary holdings. A moment's reflection shows that, under such conditions, each country would have its proportion of metallic reserve when its discount rate was on the same level as that of other countries." <sup>b</sup>

This very effectual method <sup>c</sup> of defending the national cash holdings is nevertheless fraught with danger.<sup>d</sup> It causes commerce alone to bear the brunt of all demands for currency. To apply it means to contract credit, to check business, and perhaps to disturb the development

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<sup>a</sup> Courcelle-Seneuil, "*Les opérations de banque*," 9th ed., Paris, Alcan 1905, p. 262.

<sup>b</sup> Pallain, "*Des rapports entre les variations du change et les prix*," Sancerre, Pigelet, 1905, p. 38.

<sup>c</sup> Certain special conditions might, however, be named in which the discount rate is ineffective. Cf. Meyer, "*Les banques suisses d'émission et le drainage des écus*." Lille, Le Bigot frères, 1903, p. 270.

<sup>d</sup> V. Pareto, "*Cours d'économie politique*," Vol. I, p. 389, views this situation with great fortitude. He says, "Those who can not afford to pay the price corresponding to the equilibrium must naturally fail and disappear. The safety of the whole country makes this necessary."



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of prosperous industries. In a word, since this measure is most often taken to ward off foreign demands for funds, it is, so to speak, administering an energetic remedy to our national commerce when the only trouble lies in having sick neighbors. It is therefore obvious that the Bank, though sometimes forced to resort to this expedient, only uses it in case of extreme necessity, and that it taxes its ingenuity to find certain devices which may defer the rise in the discount rate.

It would still be possible at certain periods when exchanges are momentarily strained to have recourse to another system. The very needs of international credit justify the existence of large banking houses which make a specialty of exchange transactions and control the commercial relations with foreign countries. They constantly keep open accounts with each other. It is easy for them to accept a bill of exchange <sup>a</sup> against a check, that is to say, a document payable at maturity against another payable on demand, and to turn credit into cash, thus modifying the true balance of accounts to give the greatest possible stability to rates of exchange. This system <sup>b</sup> of international checks and of international bills from one bank to another can not, however, render any considerable service, because it necessarily depends on private initiative.

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<sup>a</sup> In international commerce the bill of exchange is not only a means of clearing, but an instrument of credit. Not only does it allow the accumulation of reciprocal balances to an equal amount, but it also avoids the settling of differences by giving to the debtor country the power to defer payment until it becomes a creditor for a similar amount. B. Nogaro, "*Le rôle de la monnaie dans le commerce international et la théorie quantitative*," Paris, Giard et Brière, 1904, p. 89.

<sup>b</sup> Cf. *Economiste Européen*, July 8, 1904, pp. 37 and following. A. Conant, "*Les changes extérieurs*."

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The discounting of foreign bills, much discussed of late, tends to give stability to exchange. This practice is the rule in Belgium, where the paper discounted is almost all French. When exchange becomes unfavorable, the Bank sells its bills on Paris, London, Berlin, and Amsterdam, and thus influences the rate of exchange. These holdings of foreign bills are replenished later, at periods of the year when the demand for bills falls off. It is thus possible, to a certain extent, to regulate the rates of exchange. The National Bank of Belgium is, however, the only one which has made this negotiation of foreign bills a settled policy.<sup>a</sup> According to its by-laws its reserve must equal one-third of all its sight obligations. For a long time, at least one-half of this reserve has been represented by foreign bills.

But that which is feasible for the Bank of Belgium, as a satellite of the Bank of France, ceases to be possible for a great bank. Belgium can invest its reserves in purchases of foreign bills, because it will always find more powerful banks able to replenish its coffers. It knows the organization of the Bank of France, and considers that the possession of French paper exempts it from holding metal. But it would be difficult to imagine the Bank of France adopting this line of conduct unless in exceptional cases.

The idea of holding foreign bills in France is, however, not a new one. In 1865, during the inquiry on the monetary and fiduciary circulation, this system had its adherents. When the Bank charter was renewed, M.

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<sup>a</sup> Cf. R. G. Lévy, "*Les grands marchés internationaux.*" *Revue Economique Internationale*, 1905, p. 491.

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d'Hubbard suggested that this be made a special policy of the Bank. M. Burdeau showed that the system could not be employed as a rule in normal times, but that it could be resorted to in exceptional or special cases.

Much has also been said for some years past about the holding of various international securities, which, when exchange rates are unfavorable and in order to readjust them, could be thrown on the foreign markets instead of currency, thus avoiding the shipment of metal. This very attractive proceeding does not appear to us to be practical. It will be impossible, by distributing the purchased securities in numerous divisions, to avoid a general depreciation when they are sold. Since the various markets are subject to the same impulse, if exchange rates necessitate the forwarding of securities in order to avoid a shipment of cash, there will be a considerable depreciation in whatever market they are disposed of. This will occur just at the time of falling prices, the moment when, with every one selling, quotations are low, and when it would be advisable to buy.<sup>a</sup>

Finally, if the situation is so serious that the bank of issue has become unable to redeem on demand the numerous notes, which no longer possess the confidence of the public, the legislator will decree a forced currency.<sup>b</sup> This is the very calamity which all the measures we have exam-

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<sup>a</sup> Another drawback of this system is that it throws upon future generations the burden of paying a debt of the present. It only defers the time of settlement, and exchange will be much higher at the fixed dates, when the interest on the securities is due.

<sup>b</sup> Sometimes endeavors have been made to defer the date of suspension of payments by keeping only one window open for the redemption of notes, at which the slowest clerk is instructed to redeem as slowly as possible the notes presented. It is needless to remark on the lamentable weakness shown by such a procedure.

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ined aim to avoid. We have, unfortunately, had an experience of this kind in France. Cautious as the Bank has been, it was only at this cost that it was able to weather the storms of 1848 and 1870, but it is well known with what rapidity it recovered and with what strength for the future.<sup>a</sup>

It must not, therefore, be claimed that the Bank has never been forced to yield before the storm, but we shall see that its power of resistance has only grown, and that it is more than ever ready to meet emergencies.

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<sup>a</sup> The decree of March 15, 1848, established a forced currency and fixed the limit of the issue. The law of August 6, 1850, repealed the two provisions of that decree. In establishing again a forced currency, the law of August 12, 1870, also fixed a limit for the issue. But when the law of January 1, 1878, again abolished the forced currency, it allowed the limitation of issue, which was a consequence of it, to continue. It is proper to recall that the total of the loans made by the Bank to the State during the war amounted to 1,470,000,000 francs. This sum, which does not include the 210,000,000 francs loaned to the city of Paris, by virtue of the decree of February 11, 1871, the 16,500,000 francs requisitioned by the Commune, and of which but 9,500,000 francs were reimbursed, or the 60,000,000 francs previously advanced in accordance with the law of June 9, 1867, was dealt with in the agreement of July 3, 1871. The loans were as follows:

|  | Francs.       |
|--|---------------|
| July 18, 1870..... <sup>1</sup> -----    | 50,000,000    |
| August 18, 1870-----                     | 50,000,000    |
| August 19, 1870-----                     | 40,000,000    |
| September 24, 1870-----                  | 75,000,000    |
| December 5, 1870-----                    | 100,000,000   |
| December 5, 1870-----                    | 100,000,000   |
| January 11, 1871-----                    | 400,000,000   |
| March 13, 1871-----                      | 50,000,000    |
| March 30, 1871-----                      | 90,000,000    |
| April 15, 1871-----                      | 75,000,000    |
| May 17, 1871-----                        | 150,000,000   |
| June 10, 1871-----                       | 50,000,000    |
| July 3, 1871 (paid only on the 9th)----- | 210,000,000   |
| Loans from Metz to Strassburg-----       | 30,000,000    |
|  | 1,470,000,000 |

These loans were not finally repaid until March 14, 1879. The Bank, nevertheless, had redeemed its notes at sight since 1874.

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## SECTION III. *Present policy of the Bank of France.*

The Bank of France, since 1858, has always employed the discount policy. How could it do otherwise? Unanimously adopted, fortunate in its effects, extolled by theory, imposed by the interdependence of discount rates between the various countries, this policy was inevitable, notwithstanding its well-known and serious drawbacks. Moreover, since 1864 the Bank has always endeavored to mitigate the dangers of this policy by employing it only as a last resource, as under compulsion, and by substituting for it, as far as possible, a less radical procedure.<sup>a</sup>

Let us recall once more the unprecedented strength which France possesses, thanks to the colossal holdings of the bank of issue. These holdings place us in a quite special position, singularly favorable for resisting crises. Domestic crises are not to be feared, but those coming from abroad, with the inevitable reaction resulting from the cosmopolitan character of capital, may reach our market, though only in a weakened form.<sup>b</sup>

Up to 1897 the policy of the gold premium was combined with the discount policy. This system, which we

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<sup>a</sup> In the same way, the Reichsbank has endeavored for several years to complete its discount policy by making loans without interest on gold imports. This measure, however, can be of but little help.

<sup>b</sup> There exists another force of resistance, which is also due to the Bank of France. Crises, as we have seen, are always accompanied and even preceded by a general decline on the Stock Exchange. But, at a period of crisis, the shares of the Bank of France, far from following this movement, tend on the contrary to rise. Prices on the Stock Exchange move together, upward or downward. The result is that the shares of the Bank of France, in resisting the movement of general depression, tend to diminish its intensity.

This is not the case abroad, where the banks of issue, much more vulnerable, sometimes see their shares not only following the decline of other securities, but even leading and intensifying that decline.

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have previously explained, resulted in a certain increase of the number of grades in the discount rate, and rendered them less noticeable. Since 1897 the Bank, with new men, has apparently entered into a new path, which we shall endeavor to define, though it appears as yet somewhat obscure.

We have just said that it is not so much the outbreak of a national crisis which France has to fear as the reaction from a world-wide crisis which may affect our market, despite its resistance. Since this influence can not be altogether avoided, it becomes apparent that no remedy can be of benefit to us as long as we keep in view only our national market. The only way for us to meet the effects of the evil seems to be to attack it at its source. Thus the remedy for us consists in bringing relief to the afflicted neighbor. This is a singularly delicate proceeding, since the first step is to find the sensitive point where the remedy may be applied to the best purpose. From some obscure origin the disease develops, and if the instability of any market offers favoring conditions, it soon spreads through the world, scattering on its way desolation and death. To bring relief to all who are stricken is impossible, but in the midst of the general depression there are found some who, being less affected and possessing more power of resistance, need but a helping hand to rise again, and, by their return to health, may promote and hasten the general recovery. If it is a delicate matter to discover these vital points, it is still more difficult to gauge the measure of assistance it is proper to give. And those who bring the relief should not be disturbed when public opinion, for want of the information which it is not at all fitted to

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receive, sometimes goes astray and objects to the wisest measures of preservation.

Have we succeeded in showing what appears to us to be the present policy of the Bank of France? With a comparatively small sum, with which it can temporarily assist a solvent and well-managed foreign concern, for the moment in difficulties, it is able to take an effective part in the relief of international markets, and to avoid the disastrous effects of the contagion on our own market. It is scarcely easier, as we have said, to make the public comprehend this system than to carry it through to completion. If, for instance, announcement is made of a shipment of currency abroad, and a few days later there follows a rise in the rate of discount,<sup>a</sup> many people will declare that they can not understand this policy, that if money is dearer, it is because of its scarcity, and therefore it should not be exported. This reasoning is very natural, but it dates from a period when nothing was known of the international character of capital and of the practices resulting from world-wide relations.

Reflection can only increase admiration for this policy, since, in fact, it reveals a financial organization of immense power, and permits us to be justifiably proud of calling ourselves, in a way, the monetary physicians of the world. It is thus that the Bank appears to us to have replaced the obsolete premium system, not used since 1897. But it is well known only to those who have astonished the world by this wise and happy audacity.

The history of such temporary loans guaranteed by paper of undoubted character is brief. "On July 16, 1839,

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<sup>a</sup> As happened in the month of November, 1907.

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the reserve of the Bank of England fell to £3,000,000, and that institution found itself compelled, in order to strengthen its position, to ask for help from Baring Bros., even at that time one of the first banking houses in the city. They succeeded in borrowing for the Bank of England from the Bank of France £2,000,000 in gold."<sup>a</sup>

After this occurrence, in order to remedy the failure of the Bank of England to resist the crisis, the Bank Charter Act of 1844, more commonly known as the "Peel Act," was passed. It is well known that this measure, which still governs the Bank of England, has not always been happily applied. The act had to be suspended in 1847, 1857, and 1866. It would have been again suspended in 1890, had it not been for the loan of 75,000,000 francs in gold which the Bank of France made to this great institution. In fact, the house of Baring Bros., though it enjoyed considerable credit, was heavily involved in Portuguese and South American speculations, and in November suspended its payments. The Bank of England gave such help as it could, but was not able to prevent the flurried and anxious English market from flooding the Paris market with international securities.<sup>b</sup> Checks on London rose to 25.40, at which rate the Bank of France could not maintain the discount rate at 3 per cent. In London, the discount rate remained at 6 per cent only because all paper was closely scrutinized and credit was

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<sup>a</sup> Rozenraad, "*Le marché de Londres*," *Revue Econ. Intern.* 1906, 2, p. 70.

<sup>b</sup> Cf. Théry, "*La France économique & financière*," p. 286; *Moniteur des Intérêts Matériels*, November 18, 1906, p. 3811; "*Le régime monétaire de la Banque d'Angleterre*," *Journal des Economistes*, 1891, I, p. 398; Moireau, "*La Banque de France, prorogation du privilège*," pp. 101 and following, Paris, Perrin & Cie., 1891.



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often refused. It was then that the Bank of France furnished the Bank of England with 75,000,000 francs in gold, repayable at three months, with a promise of renewal, and secured by exchequer bonds. It seems that these 75,000,000 francs were not only returned to the Bank of France with seals unbroken, but that they did not even cross the channel. It was enough that the public was conscious of such moral and material support for the frenzy to disappear.

The difference in the power of resistance of the two establishments was then clearly visible. The Bank of France had just endured unflinchingly the downfall of the old Comptoir d'Escompte, while the Bank of England, in like circumstances, found it necessary not only to raise its discount rate to 6 per cent but to ask for foreign help. England then fruitlessly resolved to modify the act of 1844. The Bank of France was severely criticized on account of this loan, even in the Chamber of Deputies.<sup>a</sup>

In these two instances of 1839 and 1890, when the Bank of France helped the Bank of England, first through Baring Bros. and then because of Baring Bros., it seems to have done this only under the pressure of business necessity, just as any other bank might have done. Russia, indeed, also assisted the English market, and evidently had no notion that in this she was following any special policy.<sup>b</sup>

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<sup>a</sup> Interpellation and answer of M. Rouvier, minister of finance, in the Chamber, January 17, 1891.

<sup>b</sup> The same applies to the aid furnished in 1898 by the Bank of England and the Bank of France to the German banks, temporarily embarrassed. Cf. *Revue d'Economie Politique*, 1899, Vol. XIII, p. 165.

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These are the only two cases of assistance given abroad by the Bank of France up to the renewal of the charter. From that time on we shall see this assistance becoming more frequent and assuming apparently a different character. The Bank, already regulating the French money market, after being forced by urgent necessity to regulate the money market of the world, seems thereafter to apply itself assiduously to this new task. Until then, gold shipments had only been considered as the result of simple practical necessities; no theorist had expressed the idea of making them the object of a financial policy. The two recent instances of 1906 and 1907, and the explanations furnished on this subject in the reports to the shareholders, have sufficed to reveal that there was here something more than a normal banking operation.

In the autumn of 1906 <sup>a</sup> a general and considerable monetary stringency affected the London market, where the demand for gold became intense, especially on the part of the United States. The Bank of England had also to meet considerable demands from Egypt<sup>b</sup> and Brazil. The Bank of France did not hesitate to furnish it with 75,000,000 francs in gold by discounting English commercial paper. It also brought indirect aid by releasing £200,000 for shipment to Egypt. Let us remark, however, that the Bank of France did not let any of its

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<sup>a</sup> Cf. *Moniteur des Intérêts Matériels*, November 9, 1906, p. 3679; *Economiste Européen*, "Chronique monétaire," December 7, 1906; *Pour & Contre*, "Revue du Marché," 1906 and 1907.

<sup>b</sup> Egypt, in addition to her usual requirements of currency at the end of the year, was beginning to suffer from a severe financial crisis. Cf. Arminjon, "La crise financière actuelle," *Revue des deux Mondes*, September 1, 1907.

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gold go to New York, and that for two reasons. In the first place, America, with abundant currency, was engaged in a general and frenzied speculation, which assistance of this kind might have intensified and rendered still more dangerous. And furthermore, since it was in the power of the Secretary of the Treasury very effectively to intervene, he should be the first to give support. English public opinion for a moment believed that the Bank of France would intervene, but it was deceived in this expectation. The reason is, as we have said, that the Bank did not believe in giving its gold except to good purpose, nor in directing it elsewhere than to the points where it would be really effective.

One year later, in the fall of 1907,<sup>a</sup> the same demand for gold reappeared in intensified form. The Bank again lent its assistance to the English market. In answer to a mere telegram it forwarded to London 80,000,000 francs in gold eagles of the United States. Some days later the reaction of the crisis forced the Bank to raise its discount rate. It was at the time of this developing crisis that the Bank of France was unreasonably reproached with its indifference to the monetary situation in the United States, and with its refusal to give aid. The critics forgot that the Bank was prevented by its statutes from the direct shipment of sums for which the Federal Government refused to become responsible, and that, nevertheless, it forwarded 80,000,000 francs in American coin, which

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<sup>a</sup> Cf. *Economiste Européen*, November 29, 1907, p. 676; Raffalovich, "La crise américaine," *Bulletin Mensuel de la Fédération des Industriels et Commerçants Français*, No. 52, p. 126.

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merely passed through London. Certain negotiations took place at that time between the American Government and the Bank of France with a view to dealing directly without the intervention of the London market. It is only because that Government would not or could not offer such guarantees as the Bank of France considered adequate that it made use of the London market, which has a much greater interest than ours in the prosperity of the United States.

The occasions which we have just mentioned are not the only ones in which the Bank of France has had to intervene. In the first days of May, 1906, it loaned 40,000,000 francs to the Bank of England in order that the latter might avoid raising the discount rate. In September, 1906, it sold several millions in American eagles, with the knowledge that they would at once make their way to New York. More recently, in the very midst of the crisis, the Bank released many millions of eagles and sovereigns under similar conditions. It would therefore appear that this policy of relief has been definitely adopted by the Bank of France.

The discounting of foreign bills has already been discussed.<sup>a</sup> This system, applied as it is by the Bank of France to the momentary regulation of rates of exchange, and with the especial object of giving valuable and effective aid to the points most affected by pressing demands for currency, appears to yield excellent results. It can not, however, be considered as constituting a special

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<sup>a</sup> Cf. *supra*, p. 133.

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policy, because it can only be of temporary service,<sup>a</sup> and for the most part merely accompanies the policy of gold shipments, which we have just explained.

Thus the Bank succeeds in diminishing to the greatest possible extent the reaction of crises on our market. In working for the prosperity of France it may also be justly proud of being the indispensable financial organ of the prosperity and progress of the world.

### APPENDIX TO SECTION III. *Project for an international bank.*

The weakness of many markets and the great strength of ours, added to the growing cosmopolitanism of capital, was bound to suggest the idea of creating an international institution in order to establish obligatory mutual assistance as between the different markets. This idea has been duly formulated.

A few well-known men have canvassed the question of assigning a special international market for international money transactions. At the time of the monetary conference of Brussels in 1892, M. de Foville presented the idea of creating an international storehouse for gold on neutral territory. International shipments would thus be avoided since it would be sufficient to transfer the ownership of a portion of the gold deposits. In 1895 M. Poincard

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<sup>a</sup>For a number of years the foreign exchanges have been almost always favorable to us, and therefore hardly need to be defended. (Cf. J. Faure, "*La Banque de France et le portefeuille étranger*," *La France Economique et Financière*, December 22, 1906.) If recently they have sometimes ceased to be favorable, it is the result of an abnormal withdrawal of money, thus revealing a very strained situation abroad. More effective measures must then be employed, and the appearance of foreign bills is only the natural consequence.

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developed the conception of an international money, comprising gold, silver, and bank notes.<sup>a</sup> M. Paul Leroy-Beaulieu is inclined to believe in the future appearance of an international money distinct from domestic money.<sup>b</sup> The plan which M. Luzzati is now endeavoring to introduce is more complex. It would involve an international agreement between banks of issue or government treasuries for the purpose of making permanent and obligatory such financial relief as, during recent years, we have seen voluntarily extended by the Bank of France. Such was at least the essence of M. Luzzati's plan.<sup>c</sup> But, as thus outlined our National Bank would be forced to adopt, as an obligatory rule of conduct, a measure which, after all, is employed only as an exception, and at such times as it deems opportune. It is easy to foresee what would happen under such a system. France, financially the strongest country, would have very little to expect from abroad, while it would find its aid urgently solicited at the least alarm of its neighbors; its position as moderator, from being voluntarily assumed as it is now, would become obligatory and subordinate, and this would be evidently unacceptable.

M. Luzzati's initial plan has therefore been modified; it has become more restrained in form, more philosophic, more attractive, but the substance remains unchanged. As a corresponding member of the Academy of Moral and

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<sup>a</sup> Poincard, "*Questions monétaires contemporaines*," Paris. A. L. Charles, 1899, pp. 253 and following.

<sup>b</sup> Session of the Société d'Economie Politique, of November 4, 1905, reported in the *Journal des Economistes*, 1905, p. 248.

<sup>c</sup> Cf. Raffalovich, "*Notes sur la crise américaine*," *Economiste Européen* November 29, 1907, p. 683.

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Political Sciences, M. Luzzati presented his views before that learned assembly on January 18, 1908.<sup>a</sup> He now proposes international conferences between banks and treasuries, in which the various financial arrangements would be examined and compared, thus leading naturally to the reform of what might be found obsolete or erroneous. It might then be possible to come to an understanding as to the measures for mutual assistance. In this altered form it is not difficult to recognize the initial idea of the learned economist. It does not appear very attractive for us in France, because it would always tend to create for the world a certain claim on our reserves. We give because we choose to do so, but by no means do we intend to be forced to give, even with the advantage of a promise to reciprocate. It does not please us that under this pretext foreigners should enter our councils; that would be dispossession in their favor.

It would be quite another thing to create a clearing house on neutral soil, with means for international action. But nothing is said of this; that would be dispossessing London.

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<sup>a</sup> Cf. *Journal Officiel*, January 23, 1908, p. 593.

## CHAPTER III.

### THE BANK AND WAR.

Everyone knows what an admirable part was played by the Bank of France in the settlement of the war indemnity imposed by Germany in 1871.<sup>a</sup> It was thanks to the Bank that M. Thiers was able to effect that early liberation of French territory, which so greatly surprised our victors. The confidence in the Bank, already great, increased still further, and from that time, in remembrance of the services rendered, it has been regarded as the keeper of the war chest. We have no intention of re-writing, after so many others, that sad but glorious history. Our aim is to show what numerous and sometimes unnoticed services this great institution performs or can perform now that the fighting power of a nation seems to have no other limit than the financial effort of which it is capable.

Wars become increasingly expensive. Each man under arms costs more and more money, while the number of those who would be subjected to active service constantly grows. During the war of 1870-71 the average cost per soldier was 7.50 francs per diem. We can no longer

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<sup>a</sup> France had to disburse nearly 6,000,000,000 francs, divided as follows:

|   | Francs.       |
|---|---------------|
| War indemnity.....  | 5,315,758,853 |
| Amount paid Germany for maintaining the army of occupation..... | 248,625,000   |
| Indemnities of cities.....                                      | 251,000,000   |
| Amount directly collected by Germany as taxes.....              | 62,580,000    |
|   | 5,877,963,853 |



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count on making war at such low cost, now that England and Germany, in their recent campaigns in South Africa and China, have exceeded the figures of 17.50 francs per diem for each man. The effective forces are also increasing, and merely as the result of her new military regulations, without taking account of the increase of population, Germany will have available in 1922 at least 10,000,000 men subject to military service. To keep such an army in the field would require over 76,000,000 francs a day, more than 2,000,000,000 francs a month, or over 27,000,000,000 francs a year. And even these figures neglect the inevitable increase in the price of food and the numerous expenses imposed by the necessity of sustaining an entire population reduced to poverty.

Under the present conditions of war, these expenses, which it would be impossible to disregard, would reach a figure too enormous to estimate. Not only is there no financial organization strong enough to warrant undertaking a long war, but the inevitable expenses of all sorts are so great that they rigorously limit armaments. "Obligatory military service merely constitutes a reservoir of men, which can be drawn upon only to the extent of the available financial resources. But, nevertheless, the financial preparation for war can not be considered as complete unless this eventuality has also been foreseen."<sup>a</sup> It is therefore true to state that nowadays the fighting power of a nation seems to be strictly limited by the financial effort it can endure. More than ever governments must base their plans for military mobilization on a most

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<sup>a</sup> Captain Painvain "*La préparation financière et la guerre*," *Revue du Cercle Militaire*, December, 1902, and January, 1903.

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carefully prepared financial mobilization.<sup>a</sup> Financial plans exist in every country, but are kept jealously guarded like everything pertaining to national defense.

Let us, however, consider for a moment of what effort Germany is capable, that great military nation the development of which particularly interests us to-day. To meet the very numerous expenses which we have briefly indicated, the Reichsbank may, in time of war, issue an additional 1,000,000,000 marks. But in order to avoid being discredited, it would be at the same time prudent to cease publishing its weekly reports.<sup>b</sup> On the other hand, the system of requisitions, many of which could not be paid for, would constitute the normal way of obtaining supplies.<sup>c</sup> German forecasts even count in the largest measure upon requisitions of food and money to be made in the enemy's country.<sup>d</sup> Thus, financially speaking, Germany is conscious of being unable to carry on a modern war with all the required development, unless it be on the express condition of operating in the enemy's territory. Financial mobilization would compel Germany to invade, at any cost; in no case could it sustain a war for any length of time in its own territory.

Since, in determining the sources whence the colossal sums required may be derived, reliance can be placed only

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<sup>a</sup> A. E. Sayous goes so far as to say: "It is perhaps as much to its financiers as to its generals that contemporary Germany owes its greatness and power." "*Les banques allemandes*," *Revue Politique et Parlementaire*, 1899, III, p. 311.

<sup>b</sup> Cf. Raffalovich, "*La mobilisation financière*," *Semaine Politique et Littéraire*, December 7, 1901.

<sup>c</sup> Is not the result of this at once to exasperate the population, and after starving it: to incur the heavy burden of later assuring its subsistence?

<sup>d</sup> Cf. Painvain, *op. cit.*

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to a very small extent upon the national taxpayers, it will be necessary to resort to loans and to various credit operations. But "among the most precious instruments of which the State is obliged to make use must be placed good and sound money resting upon a solid basis, and a central bank of issue provided with a strong metallic reserve, without an excessive note circulation, thus permitting the domestic channels of trade to be fully supplied with gold."<sup>a</sup> The advantages of a perfectly solvent bank of issue, which is able to avoid forced currency or redemption of its notes, are obvious. To maintain confidence and to develop stronger credit conditions is indeed a necessity for that unstable period when the abnormal expansion of credit results almost certainly in a crisis, and thus complicates the difficulties of war by domestic disturbances.

In this respect, Germany has but little power of resistance. We are aware of the moderate size of its cash holdings, and we have witnessed the monetary uneasiness which troubles it while in the midst of peace. We may therefore say that the weak point of its military organization is the monetary side. The entire German press is the first to recognize and to deplore this fact.

The recent Russo-Japanese war, for which financially Russia was as well prepared as, from a military standpoint, it appeared to be poorly prepared, furnishes a striking example of what may be expected in time of war from a firm financial organization. During that distant and costly war, despite disorders at home, Russia was able to

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<sup>a</sup> K. Raph, "*La Banque Impériale d'Allemagne en cas de guerre*," *Economiste Européen*, October 27, 1905, p. 323.

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maintain its credit at a high level by reason of its immense holdings of gold, only little impaired, and at the same time to acquire, on advantageous terms, all that was necessary to meet the imperious needs of war.

To provide for such an eventuality, which must never be lost sight of, France appears to be armed as well as possible by the enormous reserve held by the Bank of France. There is every reason to believe that a credit even stronger than ours would long have been shaken while we would still be offering resistance. And who knows but that these sinews of war would save us? "War carried on without good provision of money has but a mere breath of vigor. Money makes the sinews of war."<sup>a</sup>

The constitution and the employment of this force are, we may say, mere details of internal organization, regulated by the plans of mobilization. These are not known, but it is evident that in time of war the Bank of France, covering the entire territory by its numerous branches, the cashiers and managers of which are not subject to military service, would be entrusted with the duty of meeting the financial needs of the army, by distributing currency or notes to the military units in accordance with their requirements. It would also be obliged to distribute the metal reserves over the entire territory in order to diminish the chances of their falling into the hands of the enemy.

From a political and even from a diplomatic point of view the indisputable strength of France places us in a peculiarly advantageous position. When there exists

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<sup>a</sup> Rabelais, Bk. I., Chap. XLVI.

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between two states the relation of creditor and debtor, or, what is better still, when one of them possesses a kind of pecuniary supremacy, has not the stronger the very justifiable right to use its superiority in order to obtain political concessions or economic advantages? Although this factor has no recognized weight in international relations, it nevertheless carries "a prestige, which, on many occasions, may be valuable for our diplomacy. From this point of view, the position of France is particularly enviable. It is courted by all foreign nations."<sup>a</sup>

The resources of France may not only assure pleasanter relations, in a general way, with foreign countries, but even bring about effective intervention. "At the time of the Algeiras conference the financial groups of Berlin had used all their influence to induce their government to recede from its uncompromising attitude."<sup>b</sup> This is, indeed, a pleasing instance of direct intervention. The Berlin bankers, who better than anyone else were aware of their insufficient preparation for war, and of our great financial strength, are entitled to unanimous gratitude for having prevented this scourge.

Even before this, "if war had broken out between France and England at the time of the Fashoda incident, what would have become of the German banks?" The withdrawal of considerable amounts would have had very serious consequences.<sup>c</sup> It would perhaps not be inaccurate to state that, even on this occasion, the German finan-

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<sup>a</sup> Lewandowski, "*Le marché de Paris*," *Revue Economique Internationale*, 1906, II, p. 223.

<sup>b</sup> Lewandowski, *op. cit.*

<sup>c</sup> André E. Sayous, "*Les banques allemandes en cas de crise ou de guerre*," *Revue d'Economie Politique*, No. 13, p. 149, note 2.

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cial groups influenced international politics in favor of the friendly agreement at which we arrived.

It may therefore be said that at the present moment the question of armament in its full sense is more and more a question of finance. It is money which limits the expansion of credit; it is also money which limits the expansion of military force. Here again we see that, as always, the race is to the richest, not in imponderable treasures, but in money. The centuries have not yet accustomed us to this sad philosophy, which nevertheless must be acknowledged and endured. If man, taken individually, has the right to be altruistic, he is none the less bound, from a social standpoint, to take every means of guarding against foreign invasion, since he must defend his hearthstone, his family, his very existence. It is our duty jealously to preserve our National Bank, which is our strength, to glory and take pride in it, never forgetting what we may expect from it. Some will say that this is a policy of selfishness. Perhaps, but it is a national selfishness which the exigencies of foreign politics will impose upon us for many years to come despite ourselves and despite M. Luzzati's proposals.

## CONCLUSION.

There exists a close correlation between monetary holdings and the credit system. Their importance and their quality constitute its entire power. This fundamental idea, which we expressed at the beginning of this work, is also its conclusion and should be clearly evident. If we have attained our object, we have shown that the formation and maintenance of the powerful Bank reserve is the

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safeguard of French commerce, the guaranty of our prestige abroad, the palladium of our independence.

We have seen how the Bank of France increases the gold reserve of which it is the guardian, how it watches over its quality, and assures for circulation an abundance of sound money. Thus, in its gold supply, France is the richest of countries, and this unshakable strength will permit the gradual elimination, though not the entire abolition, of silver, which as a monetary medium is depreciated but in some respects is still useful. It is because we have relied on the reserve that we have taken such a decided stand on the question of bimetallism, and that we have declared ourselves for the *statu quo*.

The immediate consequence of our superior monetary position is the low discount rate, and, in this respect, as we have pointed out, France enjoys the greatest stability and the best money market. It is this same condition which permits the Bank to act as guardian both of national and international credit.

An examination of the physiology of the agencies for distributing national credit has shown us that it often needs to be purified. We have seen that by the evolution of banking methods the weakening or even the disappearance of any one of our great financial institutions should not be considered as *a priori* impossible. For this reason it has seemed to us that the social interest demands a tutelary institution always ready to intervene in their behalf. The examples we have given of the intervention of the Bank are neither isolated nor accidental. They are the normal manifestation of the part the Bank designs to take in the work of distributing credit. We have shown that

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under all circumstances it knows how to fulfill this lofty mission without trammeling the freedom of action of other banks. It confines itself to serving them as regulator, and intervenes only so far as is necessary to curb speculation, and thus to protect credit against all dangers.

Through its reserves the Bank is also able to encourage the development of the instruments of credit, especially of checks and transfers, and to make itself accessible to the small dealer, the small rentier, and the plain husbandman. We have seen how its territorial expansion is further increased indirectly by the recent institution of outside accounts, and what efforts it makes in favor of agricultural credit. This is certainly one of the most interesting indications of its position as guardian of the metallic holdings. It assures low rates for money to everybody, everywhere, sometimes at the expense of its own interests, but always for the greater benefit of national commerce and industry.

It accomplishes even greater and better things in the markets of the world through that preponderant influence of its reserve, the importance of which must constantly be emphasized. We have been obliged, in this connection, to take up the study of monetary questions in order to show that international financial solidarity has no other basis than the metallic holdings. Since France is in this respect so rich, its position appeared to us then as exceedingly privileged.

Our reserve has such a powerful influence upon the international financial situation that it is able to avert foreign crises and to furnish effective means of preserving France from dangerous reactions by bringing relief to the foreign source of disturbance. In order to formu-



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late properly this serious question of crises we were obliged to use a somewhat detailed classification; but it alone could lead to the definite conclusion that, whatever their character, they may be successfully combated by the banks, in so far as they become monetary.

Since 1893 France has experienced no crises. Such is at least our claim. The means employed by the banks to avert them held for a time our attention, and permitted us to form a sufficiently correct idea of the present policy of the Bank. It is apparent that, with a view to modifying the harshness of the unavoidable discount policy, it has abandoned the policy of the gold premium for another, that singularly happy device of internationalism, which we have just characterized. Admiration must be accorded to this policy, which is a great credit not only to the Bank but also to all France.

Its strong reserve, admirably managed, is not only our insurance against crises but also our surest guaranty against the recurrence of great wars. We have shown that the fighting power of a nation has now no limit other than the financial effort of which it is capable. It is not going too far to state that the formidable cost which a war would involve has more than once caused our possible enemies to recoil, and that in the settlement of political or diplomatic questions the nation which is richest in gold is always the one which commands the most respect.

Gold is always the great motive of human activity. It is above all the soul of credit; from this point of view it is indispensable, and we have no apology to offer for having given it such an important place in this study.

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It is owing to its wealth in gold that "France need not fear the considerable progress made by the commerce and industry of the surrounding countries,"<sup>a</sup> and the formidable cost of armed peace. Recognizing the great importance of monetary questions in political and social economy, we know that while our advance may be slow and must not, indeed, be unduly hurried, we are assuredly on the road of progress.

A large part of our power of resistance we owe to the institution of the Bank of France, as guardian of our enormous monetary reserve. But what would become of this reserve without the wise and firm management of men who join to experience of affairs the science of distinguished economists? It is to the Bank and to its eminent staff that our respects are naturally addressed in concluding this study of their labors.

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<sup>a</sup> J. Siegfried, "*Expansion commerciale de la France*," *Revue des Deux Mondes*, June 15, 1907.

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French Savings and Their Influence  
Upon the Bank of France and  
Upon French Banks

By

ALFRED NEYMARCK

· Editor of "Le Rentier"

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# FRENCH SAVINGS AND THEIR INFLUENCE UPON THE BANK OF FRANCE AND UPON FRENCH BANKS.

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## I.

### SOME FACTS AND FIGURES.

In view of the monetary, financial, economic, commercial, and industrial crises which break out almost periodically in all countries, and with the destructive force of a cyclone sweep everything before them, the question has been asked how France has escaped these disturbances, or at least has been able to meet with ease their reaction. Many reasons have been given, some of which could not be passed over in a careful examination, for the scientific and mathematical truth of the resulting conclusions is so clearly evident. These reasons are in our opinion:

(1) The large amount of French savings and of available capital.

(2) The increase and distribution of French and foreign securities held in France.



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(3) The influence exercised upon the rate of interest, the discount rate, and upon the banks, their reserves and deposits, by this wealth of resources.

Many volumes would be necessary to develop these few facts in all their details, but we shall confine ourselves to their demonstration by brief and precise figures. This will be our contribution to the thorough investigation which is being conducted by the National Monetary Commission of the United States and in which it has asked us to collaborate.

### 2.

#### FORMATION AND DEVELOPMENT OF FRENCH SAVINGS. THE PSYCHOLOGY OF FRENCH RENTES.

There are in France 10,000,000 electors, almost all taxpayers. All or nearly all save their money with the intention of putting something by for their old age. There are savings in the special organizations called savings institutions, in the mutual benefit societies, in banks and securities, in lands, unimproved property, and in houses, improved property. Such is the composition of the private wealth of France, a wealth which is infinitely disseminated. It can be proved, in fact, that of these 10,000,000 electors 9,000,000, at least, have a book at some savings institution, a government rente, a railroad or Crédit Foncier bond or some other security, a strip of land, or a house, whether large or small. And this is not all. The French rentier does not invest everything he has, but always keeps by him some available means in gold, silver, or bank notes to provide for sudden

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emergencies. He wishes thus to avoid having to realize his investments either in whole or in part, since to sell his securities is a resolution he takes only in case of absolute necessity.

### 3.

#### SAVINGS INSTITUTIONS.

What is, then, the situation as regards savings in France? How is the capital arising from savings divided and distributed? That is the first question which must be answered.

On January 1, 1908, there were in France 4,976,000,000 francs deposited in the savings institutions and divided among 12,828,847 books, representing an average of 387 francs per book. In these figures, 395,000,000 francs and 1,797,542 books are counted in Paris and the department of the Seine.

According to the statistics as to the distribution of books, of these 12,828,847 books more than 4,000,000, that is to say more than one-third, were for 20 francs or less; almost 2,500,000 were for 21 to 100 francs; about 1,100,000 were for 101 to 200 francs. This is the democratization of savings in its most extreme form. Of sums for 1,001 to 1,500 francs, which is the highest amount authorized for deposit in the savings institutions, there are less than 1,100,000 depositors. It can not be said that these 5,000,000,000 francs, in round numbers, deposited in the institutions for savings belong to the wealthy class. It is not the wealthy who resort to such institutions for the investment of their capital, but people of modest means who gather a little property, franc by franc,

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and lay it aside in order to use it later, either in temporary or in definite and more profitable investments.

The development of these interesting small savings can be clearly shown by three figures. In 1850 there were deposited in the savings institutions 135,000,000 francs; in 1869, 711,000,000 francs; to-day the sum is 4,976,000,000 francs. In the nineteen years from 1850 to 1869 the increase was 576,000,000 francs; in thirty-eight years from 1870 to 1908 it has been 4,265,000,000 francs.

### 4.

#### FRENCH RENTES.

Let us take the case of a small investor who has placed his first earnings. When he obtains new funds to invest he turns to government rentes. He determines to possess a French rente and to make it the basis of his holdings. The following situation results. There are, in round numbers, 26,000,000,000 francs worth of French 3 per cent rentes, part perpetual and part redeemable. From these 26,000,000,000 francs there must be deducted 3,800,000,000 francs of redeemable rentes which are found in the hands of large investors; also, 1,000,000,000 francs of rentes belonging to the great insurance companies, endowments, and various associations, leaving 21,000,000,000 francs. It has been estimated that these 21,000,000,000 francs are in great part in the holdings of 1,500,000 investors. The attempt has even been made to determine the average amount of rentes which these investors might possess, but as averages are always disputable we shall not pause to discuss them. What is certain is that three-fourths of

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these 21,000,000,000 francs of rentes consist of registered certificates. Of every 100 francs of rentes in circulation, 75 francs are in registered certificates and 25 francs in certificates payable to bearer. It is interesting to note, then, as a sign of the confidence with which the credit of the State inspires the French democracy, that of 10,000,000 voters 1,500,000 persons hold a government rente, and that there are more than 12,000,000 persons, adults or minors, who have a book at some savings institution.

### 5.

#### LOTTERY BONDS.

The third stage to which the French investor advances in placing his savings is the acquisition of a lottery bond. Everybody desires to leave the door open to fortune, and the smallest holdings, as well as the largest, contain a lottery bond of the city of Paris, of the *Crédit Foncier*, or of some provincial town, or some foreign lottery certificates negotiable in France, such as the Austrian bonds of 1860, etc.

We possess 6,000,000,000 francs in lottery bonds, representing 17,000,000 certificates outstanding, and yielding annually 30,000,000 in lottery premiums. The capital invested in these bonds results again from the economy of small investors and represents part of the savings of the democracy. Neither in England nor in the United States is there found such a use of funds, for there is not in those countries, as in France, an army of people who put by small savings.

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If, now, we recapitulate this first division of the popular savings, we have 5,000,000,000 francs in savings institutions; 21,000,000,000 francs in State rentes; 6,000,000,000 francs in lottery bonds.

This constitutes a first total of 32,000,000,000 francs in investments essentially of the nature of savings belonging to millions of persons.

### 6.

#### RAILROAD BONDS.

Let us ascend a step further in the scale of capitalists and small investors. We shall then have before us those pieces of paper called railroad bonds, and, higher still, railroad shares. The capital represented by railroad bonds amounts to 14,500,000,000 francs, while that represented by railroad shares amounts to 3,500,000,000 francs. Now, to whom do these 18,000,000,000 francs belong? To more than 700,000 families, numbering more than 2,000,000 persons. These 18,000,000,000 francs are in certificates payable to bearer and in registered certificates. The registered certificates exceed 900,000. We have, then, including the railroad bonds, 50,000,000,000 francs invested from savings and 55,000,000,000 to 56,000,000,000 francs if we add the rentes belonging to the great holdings. It is certain that there can nowhere else be found a similar accumulation and dissemination of wealth invested in securities yielding such low interest—1 to 1½ per cent in the savings institutions, 3 to 3½ per cent from railroad bonds and shares, and 1 to 2½ per cent from lottery bonds.

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But this is not all, for we now come to what may be called the fourth degree in the scale of investments, French securities of variable revenue, and foreign rentes and securities of fixed revenue and of variable revenue. Furthermore, among these varieties of investments belong the funds placed in mutual benefit societies and funds deposited in financial institutions, to say nothing of those which every person keeps by him without investing to provide for unforeseen expenditures or needs. Let us examine these different classes to see what the exact statistics may tell us.

### 7.

#### TOTAL OF SECURITIES BELONGING TO FRENCH CAPITALISTS.

On December 31, 1908, the total of French and foreign securities, including government bonds, negotiable only on the Paris Bourse, without counting securities negotiable either at the banks or on the departmental exchanges, amounted to 133,383,000,000 francs, of which 65,738,000,000 were in French bonds and securities, and 67,645,000,000 were in foreign bonds and securities. Together with the securities negotiable on the market, at the Bank, and on the departmental exchanges, the total of the securities negotiable in France is not less than 155,000,000,000 to 160,000,000,000 francs. At the present time French capitalists possess 105,000,000,000 to 110,000,000,000 francs in bonds and securities, yielding them annually from 4,000,000,000 to 5,000,000,000 francs, for the income from these investments must be estimated not according to the present reduced rate, but according to the rate at the

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time when the investments were made. To these 105,000,000,000 to 110,000,000,000 francs must still be added the capital invested abroad in banks or various enterprises, the capital described as deposited in the savings institutions, and that which has been paid into mutual benefit societies, an amount exceeding several hundred million francs. There must finally be added what may be called the floating funds of savings—that is, capital deposited in current accounts or accounts subject to check in the banks and financial institutions—which, year in and year out, are above rather than below 2,000,000,000 francs.

### 8.

#### ANNUAL SAVINGS.

Thanks to the abundance of its resources, of its economies, and of its available funds, France—that is, the French investors—saves annually on the average 1,500,000,000 to 2,000,000,000 francs (more rather than less), whatever may be the inclemency of the seasons, whatever the political crises at home or abroad, whatever may be even the speculative crises and the losses which, from time to time, are borne by capitalists in hazardous investments such as the Panama Canal or the gold mines. Such losses, however extensive they may be, produce only a temporary effect, because they are divided among a large number of persons. It is seldom that a capitalist loses all he possesses in a single venture; he loses something, to be sure, but not all that he has put by, just as he does not make his fortune by engaging simply in one prosperous and successful enterprise.

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## 9.

### IMPROVED AND UNIMPROVED PROPERTY.

To this wealth, consisting of movable securities, must be added that consisting of immovable securities, improved and unimproved property. A single statement will suffice to make this situation clear. Of 12,000,000 households in France, there are 9,000,000 each possessing and occupying its own house without renting from others. As for unimproved property, there are 150,500,000 parcels of land and 62,000,000 town lots, while the number of proprietors is estimated at 8,500,000.

## 10.

### INHERITANCE STATISTICS.

France is a country of financial democracy. The inheritance statistics show that there are less than 20,000 millionaires. There were altogether 401,574 inheritances declared in 1907, which may be tabulated according to the amount of the inheritance as follows:

|                    |                        |         |
|--------------------|------------------------|---------|
| 1 to.....          | 500 francs.....        | 116,323 |
| 501 to.....        | 2,000 francs.....      | 106,807 |
| 2,001 to.....      | 10,000 francs.....     | 114,691 |
| 10,001 to.....     | 50,000 francs.....     | 47,967  |
| 50,001 to.....     | 100,000 francs.....    | 7,703   |
| 100,001 to.....    | 250,000 francs.....    | 5,018   |
| 250,001 to.....    | 500,000 francs.....    | 1,713   |
| 500,001 to.....    | 1,000,000 francs.....  | 814     |
| 1,000,001 to.....  | 2,000,000 francs.....  | 360     |
| 2,000,001 to.....  | 5,000,000 francs.....  | 134     |
| 5,000,001 to.....  | 10,000,000 francs..... | 33      |
| 10,000,001 to..... | 50,000,000 francs..... | 7       |
| 50,000,001 to..... | .....                  | 7       |

Hence, if we should use a pyramid to represent the gradation of inheritances according to their importance,



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allowing the breadth of a millimeter at the summit to indicate inheritances under 50,000,000, this pyramid would enlarge rapidly until it reached a base besides 16 meters broad, indicating the number of small inheritances in proportion to large inheritances.

## II.

### THE IMPORTANCE OF FRENCH SAVINGS AND THEIR CONSEQUENCES.

It is clear, therefore, without the necessity of further emphasis, what enormous strength is imparted to the country by the extent of its savings.

(1) Since France is everywhere a creditor and nowhere a debtor, each year brings in, under the form of interest and of repayments, the capital which has been loaned abroad and which is then invested anew.

(2) As France puts aside every year 1,500,000,000 to 2,000,000,000 francs, it has no need to borrow abroad, but has abundant means to supply its own requirements.

(3) Since, as we have seen, the total of the French holdings in foreign securities and bonds yields a yearly average of 1,500,000,000 to 2,000,000,000 francs, this sum, which is paid to us annually, comes back in the form of gold, and, allowance being made for the new uses to which we put a part of these returns of the yellow metal, increases our gold reserve.

(4) As we utilize a portion of our savings to make new investments abroad, the income of these new investments is added to the old and increases by so much the sums which are annually paid to us in gold by foreign borrowers.

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These simple facts explain why the stock of gold possessed by France (the most considerable that it has ever had) automatically increases every year.<sup>a</sup>

This stock would diminish—

(1) If one or more poor harvests should make it necessary to export gold for the purchase of cereals.

(2) If, on the other hand, foreign loans effected in France should take on a greater development.

(3) Or, again, if for any reason we should be obliged to purchase a larger quantity of commodities abroad, and if the sum of these purchases should not find a full or practical equivalent in the sales which we should effect.

(4) It must also be said that the visible stock of gold might diminish in the event of a serious political crisis abroad.

(5) But as things are, simply by the natural play of economic and financial laws and facts, and as long as France remains a creditor abroad, gold will continue to

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<sup>a</sup> The following table indicates the triple movement of gold, silver, and notes of the Bank of France within the last ten years.

[Amounts are expressed in millions of francs.]

| End of December— | Gold.   | Silver. | Bank notes. |
|------------------|---------|---------|-------------|
| 1898.....        | 1,810.4 | 1,205.5 | 3,754.1     |
| 1899.....        | 1,866.4 | 1,156.6 | 3,937.8     |
| 1900.....        | 2,334.3 | 1,099.5 | 4,146.4     |
| 1901.....        | 2,449.0 | 1,096.8 | 4,072.2     |
| 1902.....        | 2,519.2 | 1,098.4 | 4,304.3     |
| 1903.....        | 2,357.4 | 1,100.0 | 4,244.2     |
| 1904.....        | 2,650.2 | 1,098.9 | 4,257.7     |
| 1905.....        | 2,864.3 | 1,071.2 | 4,151.1     |
| 1906.....        | 2,671.9 | 993.5   | 4,689.4     |
| 1907.....        | 2,676.1 | 917.6   | 4,800.6     |
| 1908.....        | 3,489.2 | 883.3   | 5,225.5     |

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increase in the country normally and automatically. Contrary to what might be thought, and to what has been stated in several foreign journals, we do not purchase and we do not need to purchase gold abroad. This gold, as has been said, comes to us naturally in payment of the interest or capital of debts. And such will be the case, we repeat, as long as France remains a creditor abroad and not a debtor.<sup>a</sup>

(6) This, furthermore, explains the fact that from 1898 to the close of 1906 the difference in favor of gold imports into France was 2,613,000,000 francs. In 1907 the excess of imports over exports—although the customs statistics as to the precious metals must be used with caution—was 296,000,000 francs. This would give, then, a total of about 2,909,000,000 francs in gold, which in the natural course of business entered France between 1898 and the close of 1907.

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<sup>a</sup> According to our latest valuation the foreign securities held by French capitalists (government bonds included) reach the minimum figure of 30,000,000,000 francs. The distribution by countries is as follows:

|                                  | Billions<br>of francs. |
|----------------------------------|------------------------|
| Russia .....                     | 9-10                   |
| England .....                    | ½                      |
| Belgium, the Netherlands .....   | ½                      |
| Germany .....                    | } ½                    |
| Turkey, Servia, Bulgaria .....   |                        |
| Roumania, Greece .....           | 3-4                    |
| Austria-Hungary .....            | 2                      |
| Italy .....                      | 1-1½                   |
| Switzerland .....                | ½                      |
| Spain, Portugal .....            | 3½                     |
| United States, Canada .....      | ½-1                    |
| Egypt, Suez .....                | 3-4                    |
| Argentine, Brazil, Mexico .....  | 2½-3                   |
| China, Japan .....               | 1                      |
| Tunis, the French colonies ..... | 2-3                    |

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The economic, monetary, and financial strength of France, which protects it from crises, is therefore clearly shown by the facts which we have presented.

(1) An abundance of exportable securities. We possess 30,000,000,000 francs in foreign bonds and securities, of which 20,000,000,000 to 25,000,000,000 in international bonds are negotiable on our markets and upon the exchanges of those foreign countries which are our debtors. This is a great advantage to us, for these debts, as long as they are regularly settled, guarantee us favorable conditions of exchange and are the equivalent of an addition to our exports of commodities yielding a good profit.

(2) A considerable metallic reserve; that is, again, an amount of exportable money which at any given moment can, and always should, procure us important economic and commercial advantages, not to mention political compensations and advantages.

(3) A great abundance of floating funds issuing from our savings. These funds are continually renewed, for each year, whatever may be the political or other crises or the unfavorable character of the seasons, France saves 1,500,000,000 to 2,000,000,000 francs (some even claim that these savings exceed 2,500,000,000),<sup>a</sup> so that we are able not only to provide for our own needs, but also to lend a portion abroad.<sup>b</sup>

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<sup>a</sup> "*L'épargne française et son développement annuel. À combien s'élèvent annuellement les placements de l'épargne française.*" Communication to the Société de Statistique de Paris, March 26, 1906. Published 1906.

<sup>b</sup> "*L'épargne française.*" Discussion of the Société Amicale de la Marne, October 28, 1908. Published 1908.

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(4) An indisputable credit, as shown by two circumstances. First, the French 3 per cent rente sells for 11 francs more than the German rente. Furthermore, when recently the the minister of finance, M. Caillaux, raised the rate of interest on treasury bonds, payable from three months to one year later, by only one-half of 1 per cent, more than 200,000,000 francs entered the treasury within twenty-four hours. No one will suppose that the increased interest attracted the subscribers, nor will it be maintained that unless the credit of France were unquestionable such a large amount of capital would be confided to the treasury.

(5) The fact that France is everywhere a creditor and nowhere a debtor<sup>a</sup> explains also the return of capital which under the form of arrearages or repayments comes in from all sides, while France owes nothing, and so has nothing to pay anywhere.

(6) France is the only country in the world in which the public debt has not increased for the last ten years.<sup>b</sup>

This assertion, incredible as it may seem to those who do not study our budgets and the financial statements annexed to them, is absolutely true, although in other countries the public debt has grown. In the *Rentier* of November 7, 1908, we have given the proof of this apparently bold affirmation, together with figures and documents to support it. The growth of the budgets is, indeed, inevitable, for, in the words of our regretted teacher, M. Léon Say, "Our democracy tends to transfer to the State

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<sup>a</sup> "La situation financière de la France." Discussion of the Société Amicale de la Marne, October 23, 1907. Published 1907.

<sup>b</sup> "L'exposé des motifs et la discussion des budgets de 1907 et 1908."

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many functions with which it was not formerly burdened." <sup>a</sup> But, despite this fact, the budgets of France show, on comparison, the least increase.

And, finally, it is in France that the quotations of government bonds have been most stable, maintaining with English consols the highest level of prices.

### 12.

#### THE SUPREMACY OF THE FRENCH BANKS.

All these facts explain the constant support given to the great French banks and the financial institutions which have been established.

The supremacy of the French banks in national and international finance is to-day undeniable. The principal French banks, the Crédit Lyonnais, Comptoir National d'Escompte, Société Générale, Banque de Paris et des Pays-Bas, Banque Française pour le Commerce et l'Industrie, Crédit Industriel et Commercial, and the Union Parisienne, had at the close of 1908 a nominal capital of 1,095,000,000 francs, of which 785,000,000 were paid in; they had, besides, more than 250,000,000 francs in reserves. The French banks abroad and in the colonies had a nominal capital of more than 800,000,000 francs, while the French and foreign Crédits Fonciers had a capital of nearly 600,000,000 francs without counting the reserves, etc. The paid-in capital of these different French banks, operating in France and abroad, is therefore not less than 1,300,000,000 francs. In this respect few English or American banks can be compared with them.

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<sup>a</sup>Léon Say, Chamber of Deputies, October 27, 1890. Cf. our "*Vocabulaire manuel d'économie politique*," Colin et Cie.

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## 13.

### THE BANK OF FRANCE.

The strength of the French banks has, then, its source first, as we have said, in the magnitude of French savings; second, in their own internal and external organization; and third, and above all, in the effective organization of the Bank of France. The great French banks know that they can count upon it to rediscount their paper. For, to use the expression of M. Léon Say, the difference between the Bank of France and all the other banks and financial institutions is that it could liquidate them all, while not one of them could liquidate it. The Bank of France regulates the monetary situation of the country; it releases the banks from all fear regarding internal circulation and, consequently, regarding domestic commerce. The fixed and stable value of the notes of the Bank of France, the credit which they enjoy at home, and the favor with which they are received abroad, on an equality with gold, give to the domestic and foreign affairs of the country, in financial or commercial transactions, the greatest security.

A single comparison will make this apparent. If there had been in the United States a central bank operating on the same basis and according to the same principles as the Bank of France, the crisis which recently occurred there could never have reached so acute a stage as it did, for the banks and the bankers of the United States would have found means to have their paper discounted or to procure part or all of the capital which they needed. A healthy circulation of the notes which a bank of issue

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can put out is the basis of a healthy condition of banking; the proof of this economic fact has been given by the Bank of France. The example which it has furnished ought not to be ignored in countries where the banks have a circulation out of proportion to the metallic reserve.

But it must be recognized that the excellent condition of the Bank of France and of the large financial institutions and private banks in France has been aided by that wonderful system of small savings so widely disseminated over the country, and each year renewed and increased. If, in any part of the world, the attempt should be made to establish a central bank of issue with the same statutes and regulations as those of the Bank of France, in the hope of obtaining the same results, the experiment might end in failure if there should be lacking in the country that spirit of thrift and saving which governs the French capitalist, large or small, the rich as well as the most insignificant bourgeois, and the humblest laborers, peasants, and clerks.

Such, then, are the facts which we have endeavored to establish in this brief study of the diffusion of French savings and their influence upon the successful operation and the prosperity of the Bank of France.

















