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U. S. NATIONAL MONETARY COMMISSION

German Bank Inquiry of 1908-9

Stenographic Reports

Vol. II

Proceedings of the Entire Commission on
Point VI of the Question Sheet
(The Deposit System)



Washington : Government Printing Office : 1911

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NOTE.

The English translation of this volume, and of the preceding volume comprising the proceedings of the German Bank Inquiry Commission on Points I to V of the Question Sheet, was prepared for the National Monetary Commission by Louis Heilprin, Julia Franklin, and Margaret Franklin.

LIST OF THE MEMBERS OF THE BANK INQUIRY COMMISSION.

CHAIRMAN.

Havenstein, president of the Reichsbankdirektorium, Wirklicher Geheimer Rat.

VICE-CHAIRMAN.

Doctor von Glasenapp, vice-president of the Reichsbankdirektorium.

MEMBERS.

Von Cetto-Reichertshausen, Freiherr, director of the Bavarian Landwirtschaftsbank, E. G. m. b. H., Munich.

Fischel, Arthur, banker (Mendelssohn & Co.), Berlin.

Fischer, Ernst, Kommerzienrat, Privatier, chairman of the Chamber of Commerce, Reutlingen.

Von Gamp-Massaunen, Freiherr, Wirklicher Geheimer Ober-Regierungsrat, Member of the Reichstag and of the Prussian House of Delegates, Hebron-Damnitz, Kreis Stolp and Massaunen, Kreis Gerdanen.

Gontard, Friedrich, manufacturer (Gontard & Henny), Leutzsch near Leipzig.

Heiligenstadt, Dr. Carl, president of the Prussian Zentralgenossenschaftskasse, Berlin.

Kaempff, Johannes, Städtältester, president of the German Handelstag; president of the deans of the Merchants' Association of Berlin; vice-president of the Reichstag, Berlin.

Von Kanitz, Count, Chamberlain, captain of cavalry, retired; Member of the Reichstag and of the Prussian House of Delegates, Podangen near Tüngen (East Prussia).

Lexis, Dr. W., Geheimer Ober-Regierungsrat, professor of political sciences in the University of Göttingen.

Mommsen, Karl, assistant judge, retired, director of the Mitteldeutsche Kreditbank, Member of the Reichstag, Berlin.

Müller, Richard, manufacturer, Stadtrat, Member of the Reichstag, Fulda.

Peter, Karl, director of the Vereinsbank, Karlsruhe (Baden).

Raab, Friedrich, porcelain painter, Member of the Reichstag, Hamburg.

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- Riesser, Dr. Jakob**, Geheimer Justizrat, honorary professor in the University of Berlin.
- Roland-Lücke, Ludwig**, landed proprietor, formerly director of the Deutsche Bank, Sonnenburg, near Freienwalde on the Oder.
- Schinckel, Max**, chairman of the Hamburg Chamber of Commerce, partner in the Norddeutsche Bank in Hamburg, partner and director in the Diskonto-Gesellschaft in Berlin, Hamburg.
- Schmidt, Dr. A.**, member of the directorate of the Friedrich Krupp joint-stock company, Essen on the Ruhr.
- Singer, Paul**, Privatier, member of the city council, Member of the Reichstag, Berlin.
- Ströll, Dr. Moritz**, director of the Bayerische Notenbank, Munich.
- Wachler, Dr. Paul**, Ober-Bergrat, retired, member of the Herrenhaus, Berlin-Charlottenburg.
- Wagner, Dr. Adolph**, Wirklicher Geheimer Rat, professor of political sciences in the University of Berlin.
- Von Wangenheim, Freiherr**, landed proprietor, chairman of the Bund der Landwirte, Klein-Spiegel, near Gross-Mellen, Regierungsbezirk Stettin.
- Weber, Dr. August**, director of the Löbauer Bank, Member of the Reichstag, Löbau (Saxony).

LIST OF REPRESENTATIVES OF THE IMPERIAL GOVERNMENT AND THE FEDERATED GOVERNMENTS.



From the IMPERIAL MINISTRY OF THE INTERIOR:

Dr. Richter, Under Secretary of State.

Müller, Geheimer Ober-Regierungsrat, vortragender Rat.

Von Sanden, Königlich Preussischer Gerichtsassessor, kommissarischer Hilfsarbeiter.

From the IMPERIAL MINISTRY OF JUSTICE:

Dr. Struckmann, Geheimer Ober-Regierungsrat, vortragender Rat.

From the IMPERIAL TREASURY:

Dombois, Geheimer Ober-Regierungsrat, vortragender Rat.

From the REICHSBANK DIREKTORIUM:

Dr. von Lumm, Geheimer Ober-Finanzrat, member of the Reichsbankdirektorium.

From PRUSSIA:

From the Ministry of Finance—

Dr. Busch, Geheimer Finanzrat, vortragender Rat.

Dr. Schroeder, Geheimer Finanzrat, vortragender Rat.

From the Ministry of Commerce and Industry—

Dr. Göppert, Geheimer Regierungsrat, vortragender Rat, Staatskommissar at the Berlin Bourse.

From the Ministry of Agriculture, Public Lands, and Forests—

Von Falkenhausen, Freiherr, Geheimer Regierungsrat, vortragender Rät.

Von Massenbach, Freiherr, Geheimer Regierungsrat, vortragender Rat.

From BAVARIA:

Dr. Wolf, Königlich Bayerischer Ober-Regierungsrat, deputy plenipotentiary to the Bundesrat.

Meinel, Königlich Ministerialrat in the Ministry of the Royal House and of the Interior.

From the KINGDOM OF SAXONY:

Härtig, Königlich Sächsischer Geheimer Rat, president of the Royal Bureau of Duties and Taxes, deputy plenipotentiary to the Bundesrat.

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From the KINGDOM OF SAXONY—Continued.

Stiglich, Königlich Sächsischer Geheimer Regierungsrat, vortragender Rat in the Ministry of the Interior.

From WÜRTTEMBERG:

Dr. von Köhler, Königlich Württembergischer Ministerialrat deputy plenipotentiary to the Bundesrat.

From BADEN:

Weingärtner, Grossherzoglich Badischer Ministerialdirektor in the Ministry of the Interior, Geheimer Ober-Regierungsrat.

From HAMBURG:

Dr. Sthamer, Senator.

QUESTION SHEET FOR THE HEARINGS OF THE EXPERTS.

[Made the basis of the proceedings of the entire Commission.]



VI.^a—Does it seem warranted in the public interest (and upon what grounds?) to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings?

What measures to this end should be taken under consideration, and what effects might be expected from them?

In particular, would a provision of law be desirable that should impose on those institutions (banks, cooperative institutions, and savings banks) that undertake to receive deposits the obligation—

1. With reference to the covering of these moneys, to subject themselves to fixed regulations guaranteeing not only security but also fluidity? If so, what should these regulations be?
2. To make and publish, within definite periods of time, detailed balance sheets of prescribed forms? If so, what should those periods be? (Yearly, half-yearly, quarterly, monthly?) And how should the forms of the balance sheets be constructed so as to serve the purpose in view?

^a The proceedings of the Commission on Points I to V have appeared in a separate volume.

OUTLINE PROPOSED FOR THE DISCUSSIONS OF THE BANK INQUIRY COMMISSION ON THE QUESTION OF THE DEPOSIT SYSTEM.

The following scheme is intended to serve only as a general guide; in detailed discussion it will be desirable to distinguish, so far as possible, between banks, corporative institutions, and savings institutions:

I. General discussion of the question.

1. The interest of the public in the disposition of the question.
2. The safety and the fluidity of the investment of deposits and savings.
 - (a) Nature of deposits and savings, and their relation to outside moneys generally.
 - (b) The safety of investments.
 - (c) The fluidity of investments.

II. Discussion of proposed measures and their prospective effects.

1. The establishment of legal normative requirements for the acceptance, management, and investment of deposits and savings.
 - A. Does the establishment of such requirements seem practicable and advisable?
 - B. What should they comprise?
 1. Regulations as to acceptance:
 - (a) Limitation to certain institutions.
 - (b) Limitation of the total amount to be received.
 2. Regulations as to separate management (preferential rights of deposit and savings creditors).
 3. Regulations as to investment:
 - (a) Fixing of a percentage of cover.
 - (b) Investment in bills and other fluid resources.
 - (c) Investment in State loans and similar securities.
 - (d) Investment of the surplus.
 4. Other suggestions.
2. The publication of balance sheets:
 - (a) Is it desirable to require the publication of detailed balance sheet at prescribed intervals and conforming to a fixed scheme?
 - (b) When and where should this publication take place?

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II. Discussion of proposed measures and their prospective effects—Contd.

2. The publication of balance sheets—Continued.
 - (c) Content of the published balance sheet:
 1. Model form for the annual balance sheet.
 2. Model form for an intermediate balance sheet or for a statement.
 - (d) The bimonthly balance sheets published heretofore.
3. Other measures.
 - (a) The depositing of a fixed percentage of the outside moneys at the Reichsbank.
 - (b) The establishment of government institutions for deposits.
 - (c) The undertaking by the Reichsbank of an interest-bearing deposit business.
 - (d) The establishment of a bureau of supervision for the banking system.
 - (e) Other measures.
4. What are the most effective means, legislative or other, of protecting the public against the dangers connected with banks and bankers that attract deposits and savings through advertisements, solicitation by letter, or agents? [Resolution of the Reichstag, May 14, 1909.]
5. Other remarks and proposals.

BANK INQUIRY OF 1908-9.

TUESDAY, NOVEMBER 23, 1909—10.15 A. M.

The Chairman, Wirklicher Geheimer Rat HAVENSTEIN,
President of the Reichsbank direktorium:

GENTLEMEN: In opening the conference which is to consider the last section of the questions presented to the bank inquiry commission a year and a half ago, I take pleasure in welcoming you, as I did then, to the halls of the Reichsbank; and I wish to express my hearty thanks for your presence and for the readiness with which you place your ripe judgment, your experience, and your discriminating counsel at our service in this last and also very important question.

Gentlemen, the debates of last year made great demands upon your devotion, but they have, as I perceive in looking back upon them to-day, as well as upon the debates in the Reichstag linked with them, achieved a great measure of success, which I now acknowledge with redoubled thanks. On the basis of strictly positive evidence, you illumined, moderated, brought into closer harmony the views regarding the more acute Reichsbank problems under discussion at the time; views that had previously been widely and harshly antagonistic, that had largely been formed under the confusing impress of the fresh and vivid memories of the trying and extraordinary experiences of the year 1907; that were partly influenced, too, by party animosity and favor. And to you is due the greatest

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share of thanks and acknowledgment that the debates upon the supplementary bank bill, too, were subsequently carried on and brought to an almost unanimous conclusion on the basis of a thorough consideration of the actual facts.

The question now presented to you is no less important; and it is more difficult and complicated than a great many, at least, of those discussed by you before; for it extends far beyond the sphere of the Reichsbank, and is of great significance for our entire economic life, with whose intricate threads it is bound up at many points.

It may be, gentlemen, that many within and without the circles of the commission and of the experts have, in considering the debates of last year, been unable to obtain a simple and clear answer to the question: How can we permanently avert crises such as traversed the world in 1907? And this question, at a time following so close upon such grave experiences, may have seemed the first, the most important thing to be considered. It may be that the only conclusion reached has been this: The Reichsbank is only a single member of our economic body and of our credit system; it alone can not accomplish that; its province is to remain strong and sound, in order that it may do its part, within the sphere of its power and influence, in striving for that result and solving the problems that arise.

It may be, gentlemen, that the answer to that question will likewise not be supplied by the present debate upon the subject of deposits; though, comprising as it does the broader sphere of our entire credit system and a part of our general economic system, the question,

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if ever justifiable, might with a greater show of reason be asked in connection with this subject. And the question can not be answered because against general developments and phenomena, proceeding not from our own soil and our own economics alone but from the entire economic condition of the world, and against such elemental occurrences as came to a head in 1907, no panacea, no prescription may all of a sudden be found, that shall permanently prevent them; because our present national economic development and the development of our money and credit system are closely interwoven with those of the world at large; because they represent a highly complex fabric produced by innumerable threads and independent forces; a fabric of which we must first of all understand the constitution and growth, the significance of the individual forces and their cooperation, and the causes of any possibly threatening phenomena; and try, from that basis, to find for the future a corrective, or better system—to be introduced only gradually, however, in individual points and for individual forces which have been recognized as entering into the matter. And, gentlemen, this of itself would be a great gain; for to recognize and comprehend a danger means to diminish its importance and enable us to resist it.

If, then, these debates may likewise not yield a short and simple answer to that question so often propounded, I cherish the hope—and permit me to join this wish to my greetings and thanks—that your deliberations upon this single but most important field of the deposit and credit systems—a problem in itself—will carry us far ahead; that, though you may not fully solve the problem at the

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first blow, you will elucidate it and bring us nearer to its solution. And now, gentlemen, let us enter upon our deliberations. [Applause.]

Gentlemen, in regard to the composition of the commission, I will state that on the part of the government commissioners the following changes have been made:

For the imperial ministry of the interior, Herr Gerichts-assessor von Sanden has taken the place of Herr Gerichts-assessor Doctor Fastenau, retired. Doctor Richter, under secretary, chairman of the former subcommission concerned with the system of deposits, who at that time represented the Prussian ministry of commerce and trades, likewise represents the ministry of the interior.

As representative of the imperial ministry of justice, Geheimer Ober-Regierungsrat Doctor Struckmann has been appointed.

For the Prussian ministry of finance, we have Geheimer Finanzrat Doctor Schroeder in place of Geheimer Finanzrat Dickhuth, retired.

For Bavaria, Ober-Regierungsrat Doctor Wolf, acting as proxy in the Bundesrat, has taken the place of Staatsrat Ritter von Burkhard.

His excellency, von Schicker, who has hitherto represented Württemberg, is deceased; he has been replaced by Ministerialrat Doctor von Köhler, proxy to the Bundesrat.

Of the government commissioners, Doctor Richter, Freiherr von Falkenhausen, Meinel, Härtig, Weingärtner, and Doctor Sthamer are, as they have informed me with expressions of earnest regret, prevented by urgent duties from attending our sittings to-day, and it may be for some days to come.

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Of the members of the commission, the following are excused: Herr Fischel, Herr Kaempf, Freiherr von Wangenheim, and Herr Müller of Fulda. Herr Kaempf will presumably take part in subsequent sessions, perhaps also Herr Fischel and Herr Müller of Fulda. Freiherr von Wangenheim has expressed his regret that important sittings, at which he is obliged to preside, and which he could not defer, engross his entire attention. He has, therefore, transmitted a brief written opinion upon the question, with which I shall take occasion to acquaint you later on, so as to incorporate his judgment and advice in the minutes of the proceedings.

In the way of printed matter, you received in the course of the summer Doctor Fastenau's lucid and comprehensive digest of the opinions given by the experts on the question of regulating the deposit system; furthermore, statistics of the German stock banks, by Alfred Lansburgh; and with the invitation to to-day's session, a memorial, "Gesetzliche Regelung des Depositenwesens in Deutschland" (Legal regulation of the deposit system in Germany), by Dr. Georg Obst; there have also been transmitted to you within the last weeks and days some publications^a from the statistical department of the Reichsbank; in particular, a paper entitled "Zur Frage der Regelung des Depositenwesens" (On the question of the regulation of the deposit system)—intended to supplement the work of Doctor Fastenau—which comprises a systematic arrangement of the most important utterances in the bank inquiry itself on the one hand, and con-

^a These publications appear in a separate volume under the title "Materialien zur Frage des Depositenwesens."

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tains, besides, the most significant opinions voiced in literature, the press, and Parliament; and seeks to give a comprehensive survey of the whole of this many-sided question.

This work is allied to another, "Zur Frage der Verstärkung der Goldreserven in England" (On the question of the strengthening of the gold reserves in England), describing the status of this question, which arouses lively discussion in England also; furthermore, a paper, "Zur Frage der Emissionsstatistik" (On the question of the statistics of flotations), and, finally, two publications, "Zur Bilanz der deutschen Kreditgenossenschaften" and "Tabellen zur Bankstatistik." There was a widely expressed desire for the first-named survey, "Zur Frage der Emissionsstatistik," incident upon last year's debates, particularly on the part of Freiherr von Gamp; a work which, starting from a number of different standpoints, and treating the subject with greater completeness than the private publications—whose accuracy and credibility have been widely questioned—have hitherto done, aims to put the statistics of flotations upon a more trustworthy basis. I may add that to-day a final work has been completed, "Zur Bilanzstatistik der deutschen Banken" (On the statistics of the balance sheets of the German banks). The statistics themselves are in your hands and furnish you a comprehensive survey—such as has not in like completeness hitherto been forthcoming—in the first place, of the statements of all the existing German banks for 1908, including the 458 joint stock banks as well as 127 banks in the form of partnerships with limited liability; and, beyond that, give a comprehensive survey of the interim

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balance sheets published by a large number of great and medium banks in the course of the year 1909. I assume that all the members as well as the commissioners are in possession of this printed matter, and would request anyone who is not, to inform Bank Director Doctor Arnold of the fact.

And now, gentlemen, I will ask you to begin the proceedings.

Doctor RIËSSER (on the order of the day). Gentlemen, it seems requisite to me that we should, as his excellency, our president, remarked, conduct our discussions, and particularly the discussions of the present session, strictly upon the basis of a consideration of actual facts—these debates on the question of the proposed reforms of the deposit system, which, to my surprise, suddenly constitutes, according to page 7 of one document, the most important point in the entire deliberations of the bank inquiry. Now, I have been charged by gentlemen with whom I have spoken, to emphasize the fact that the gentlemen who are still directly connected with banking concerns—as well as I, who am now a professor, but was formerly a bank director—consider themselves in no wise as representatives of a party, as representatives of certain interests, but that we look upon our task as one submitted to experts whose concern it is to make the common weal the prime consideration. We believe also that the experts connected with banking interests who were examined by us took a like standpoint, and we do not, therefore, regard it as just that they should be characterized on page 8 of the document, treating of the regulation of the deposit system, as “representatives of banks, Genossenschaften

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(coöperative institutions), and savings institutions” who “are most directly interested in the solution of the problem.”

We object, further, to remarks of this same document which claims to be a “digest of the most important utterances,” etc., and was produced in the statistical department of the Reichsbank. We take exception to certain remarks on pages 7, 28, and 63, and that because they seem to go far beyond the appropriate limits of a statistical bureau, and do not, therefore, compare favorably with the purely objective digests repeatedly presented by Herr Fastenau.

The passage on page 7 reads:

“But if we follow the historical course that the public examination of this question has taken, and if we consider the widening circles that occupy themselves with it, it may be clearly discerned that the voices calling for the necessity of some solution of a problem whose far-reaching significance is more and more recognized, are gaining in number and weight. The impression produced is that the question must continue to be the order of the day until a satisfactory solution is found.”

We believe that the proper bounds of a statistical bureau have here been transgressed—in regard to a problem, too, which hardly falls within its province—in measuring votes not only according to number but also according to weight; thus pronouncing a judgment upon the solution of a question which we have been invited here to solve, for we must first be heard on the subject. I deplore this and the following utterances, which I shall proceed to mention, for the reason, too, that our president

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has hitherto been so strictly impartial in conducting the proceedings, and since this document is authorized by him, he is placed in a position which, as chairman of our expert commission, he is, in my judgment, assuredly unwilling to occupy.

Another assertion to which we object is found on page 28:

“All these questions are, of course, of far-reaching importance to the problem, and will require a further far-reaching elucidation if a legal regulation is to be attempted. It does, however, seem as if the difficulties of these definitions and the demarcation of the moneys in question should not in themselves offer an insuperable obstacle, provided legislative interposition should, in principle, be deemed desirable.”

This, too, in our judgment, transcends the competence of a statistical bureau, involving as it does the assumption of a position, which is the business for which we are convoked here; and we can not approve of it.

Finally, on page 63 of this same document, it is remarked:

“The problem is a difficult one, yet it does not seem insoluble. Whether its solution can and will be accomplished at the first throw can not to-day be predicted.”

This last is an observation to which we do not, of course, object in the same measure as to the foregoing ones, but we do attach importance to the two preceding passages being expunged from the document; because this document will go to the Reichstag and the impression created there would be that the direktorium of the Reichsbank and its president have assumed a certain position before

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the members of the commission have been heard, and this, naturally, must be avoided.

Finally, we request that in printing the statistics of flotations, which have likewise been included, the publication be limited to Table 4, where correct statistics of flotations have been attempted on the basis of the proceeds from the stamps upon securities. On the other hand, my colleague, Herr Schinckel, will present our objections regarding pages 26 and 27; while Table 3—which is based merely on the estimates of the *Frankfurter Zeitung* and the *Deutscher Ökonomist*—has already been characterized in our examination of the experts and in other quarters, as requiring copious correction, and has been attacked for its errors. Flotation figures have been frequently cited without any attempt to determine what part has remained in Germany; while, in fact, the question how much of the foreign issues was really placed in Germany plays an important part. We shall return to this in the special debates.

Lastly, we should like to point out that if we should express opposition to certain propositions, our attitude is not a negative one; that we have, on the contrary, specially exerted ourselves to bring about the issuing by the banks of interim statements, which has, in fact, been in operation since as far back as last February; and I consider this a very positive action and one that is likely to have beneficial results.

If I may add a personal remark, I would say that I attach special importance to what I observed in the first place in regard to our character as experts, on account of the fact that Freiherr von Wangenheim, who is unfortu-

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nately absent, characterized me a few days ago as a "*syndicus* of the Berlin great banks," or as a paid and consequently dependent employee of those Berlin banks. I am not that, nor ever have been, but the honorary president of the Central Union of German Banks and Bankers, which comprises not only the Berlin and other great banks, but also the provincial banks, and banking concerns on a medium and lesser scale as well. This honorary office will not prevent me, particularly as I am also a man of science, from making the general welfare the sole consideration in forming my judgment.

Freiherr von GAMP-MASSAUNEN (on the order of the day). I, for my part, should like to express the profound gratitude we feel toward the Reichsbank for the material which it has laid before us. I find in it such a wealth of labor and thorough knowledge of the subject that, even though some of the observations do not tally with my judgment, that fact would not prevent me from giving a warm expression to that gratitude. [Applause.] Nor have I received the impression that this material contains anything prejudicial in any way to the Reichsbank or, going beyond that, the president of the Reichsbank. The remarks in the document, objected to by the previous speaker, on the question of regulating the deposit system, have, as I can show here, been blue-penciled by me also. They indicate, of course, the position of the editor; but I believe it would be impossible to produce a scientific work—nor is this, in my judgment, a requirement of a scientific work—which should be wholly uninfluenced by the editor's views. For the rest, I must say that I con-

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sider the remarks objected to as entirely correct; nor do I see how my colleague, Herr Riesser, has any occasion, from his standpoint, to raise objections against them.

When it is said, "The voices calling for the necessity of some solution of this problem have increased in number and weight," this must be acknowledged as absolutely true. I shall only remind you of the debates in England concerning the question of strengthening the gold reserve. If opinion in England is at present almost unanimous that something must be done to increase the gold reserve, while but a few years ago people there would have nothing to do with the question and repelled all efforts in that direction, then we may, we must, indeed, say, without departing from the objective standpoint, that the voices that call for some solution of the question as a necessity are multiplying in a remarkable degree in number and weight.

Nor can I see any objection to this sentence, on page 28:

"It does, however, seem as if the difficulties of these definitions and the demarcation of the moneys in question should not, in themselves, offer an insuperable obstacle, provided legislative interposition should, in principle, be deemed desirable."

It is not detrimental or prejudicial to anyone's view, and I feel convinced that if such formal objections should be insisted on, no one will regard them decisive in themselves. My colleague, Herr Riesser, and the other gentlemen will presumably agree with me that the difficulty of differentiation can not by itself form a hindrance "provided legislative interposition should, in principle, be deemed desirable." The editor has thus expressed himself as guardedly as possible.

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And now, finally, the remark on page 63 which Herr Geheimrat Riesser himself declared weighed less heavily as an objection:

“The problem is a difficult one, yet it does not seem insoluble.”

Well, if the idea were entertained anywhere that the problem is insoluble, then I think it would have been a good thing not to set the whole machinery of the bank inquiry in motion. I believe that all of us who have taken the trouble to take part in the commission as experts share the opinion that the problem is indeed difficult, but that it is not insoluble.

Gentlemen, I merely wished to convey by what I have said my acknowledgment of the assiduity, the remarkable knowledge of the subject, and the great impartiality of the editor of all this material, and I believe that many members of the commission will coincide in my opinion.

Doctor HEILIGENSTADT (on the order of the day). I should like to add a few remarks to those of the two preceding speakers, mainly in order to signify that I should consider it quite expedient to have the statistics of flotations, after the correction of any possible mistakes, published as they stand. I think that the objections that have been raised would be met by adding an appropriate note to Table 3. It is, as has frequently been pointed out in the commission, the publications, taken essentially from the Frankfurter Zeitung, and hitherto generally the only sources of information, that are in question. Whoever wishes to work in this field in a scientific spirit will be grateful for being enabled to make comparisons with the previous information given by the financial press.

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I attach great importance, therefore, to the table in question being published with the other matter. As far as the other table is concerned, its practical and scientific value could be enhanced by the addition of a footnote; but here, too, I consider it very important that the material should be published, because I believe that the matter that issues from the bank inquiry will supply a great number of facts important for the purposes of scientific investigation. What is involved is a great wealth of material which is, in part, made available for the first time for scientific elaboration. The publication of this material will give to scientific workers a great incentive to fruitful activity, and it is this scientific activity which we shall subsequently have to thank should a considerably greater degree of clearness and insight generally prevail regarding these delicate fields of inquiry. It is precisely the fact that in the bank inquiry practical men may express themselves along with theorists, which I consider the essential thing, and I regard it, therefore, from my point of view—standing as I do, in a manner, midway between practice and science—as extremely desirable that the table should be made available to science, providing it thereby with desirable material for further elaboration.

Mr. SCHINCKEL (on the order of the day). Since the question of the statistics of flotations has been broached here, I should like to make a few brief remarks in regard to it. We are, naturally, greatly indebted to those who have done this very laborious work; I, for my part, too, wish to give expression to that feeling; nor, assuredly, did Herr Geheimrat Riesser wish to deny

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it. When, however, it was remarked that the compilation of the statistics of flotations should be specially employed for scientific purposes—and it may be assumed that not only would-be scientists, but also men of business, and among the latter many who will not penetrate deeper into the matter, will concern themselves with these statistics—then the editor was right in being very cautious in the preface; he says over and over again that these statistics are not to be absolutely relied on; we find this on every page of the preface. But, gentlemen, from page 26 on, this compilation is, in my opinion, positively misleading, and here I would concur in the proposition that it should be revised once more before it is made public. From page 26 on, namely, there is a specification of the foreign securities at the German exchanges—the conversions not being noted—and that is something that will be of unusual interest to the practical man, or, I should say, to the majority of the members of the Reichstag. [“Very true!”] If, however, these statistics shall remain as they are, they will, I repeat, be positively misleading. The foreign loans are entered at their full amount. I shall briefly cite a few of them: The Japanese loan at 612,000,000 marks. As is well known, it can be easily verified in the stamp bureau how little of the 612,000,000 marks has been placed in Germany. Furthermore, the Pennsylvania Railroad shares are entered here at 1,680,000,000 marks. Anyone in touch with the actual facts knows that only a few hundred thousand Pennsylvania Railroad shares have really been handled in Germany. The shares of the Deutsch-Asiatische Bank are also entered as foreign

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bank shares on the merely formal ground that the bank is located at Shanghai. The Deutsch-Asiatische Bank was, however, established, at the desire of the German Government, by the German Haute-Banque in Berlin, and its shares are strictly German domestic securities.

These statistics, then, gentlemen, I will frankly say, are greatly in need of revision, and I very willingly offer my services, in case the gentlemen of the Reichsbank shall agree to make such a revision. During my secretaryship I had compilations made on a certain day which, in themselves, show what erroneous figures are, unfortunately, recorded in these statistics. Canadian Pacific Railroad shares, for example, are entered twice at 118,000,000 marks; once, because they were listed in December, in Berlin, and a second time because they were listed in January, in Hamburg; each time at 118,000,000 marks. Consequently, if this table is to stand and be made public, the amounts that were actually placed in Germany would have to be printed alongside the figures given here. This could easily be done with the aid of the stock-stamp offices, as there are not many of them. If this is not done, the figures running into the billions will stick in the memory of the public, while in reality it is an affair of only a few millions. If you compare the really correct figures given in the margin, where the amounts actually stamped are stated, with our domestic flotations, you will find the foreign securities to amount to very little, probably less than the domestic issues which have found their way abroad. But if you read the whole thing as it stands here, especially, from page 26 on, the impression produced is that many billions

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of foreign securities have in the last years found their way to Germany; and that would be entirely misleading.

Freiherr von GAMP-MASSAUNEN (on the order of the day). I should like to remark that among the members of the Reichstag there must certainly be at least enough intimate knowledge of the subject for them to know perfectly well that the 612 millions and the 1,680 millions that are cited here are not sums that have come to Germany in their entirety; for if such sums had been transferred abroad from Germany, our balance of payments and our economic balance would have long since been bankrupt. I, for my part, however, shall be very thankful to my colleague, Herr Schinckel, if he should take the trouble to establish, where it can be established, what amounts have actually come into Germany, for I likewise attach great value to the determination of objective truth. Nevertheless, I find that "last year," for example, very large amounts were involved—quite aside from the Pennsylvania and the Canadian Pacific Railroad shares—of which it must be said that a considerable portion remained in the country; of many loans it must be said positively that they have remained exclusively, or almost exclusively, in the country, and these alone amount to such considerable sums—I shall not go into it further here—that one can not simply dismiss the matter. I would therefore request that the pages from 26 to 30 should not by any means be eliminated; for when this information has been made public it will be made accessible to wider circles, and the Reichstag will also have to occupy itself with these statistics. But, as I have remarked, I am grateful to all the gentlemen who

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direct attention to mistakes and take the trouble to correct the figures.

The CHAIRMAN. Gentlemen, I should like to add a few remarks on this question. I desire in the first place to express my thanks to the gentlemen, and particularly to Freiherr von Gamp, for their acknowledgment of the labors of our statistical department. Gentlemen, what a mass of self-sacrificing labor and devotion are embodied in these publications does not appear from a glance at the little volumes before you. We of the Reichsbank direktorium know, however, with what painstaking assiduity and unselfishness the gentlemen labored throughout an entire year over this work; and I gladly seize this opportunity to express my most sincere thanks, and those of the direktorium, to the gentlemen of the statistical department, for what they have accomplished this year. [Applause.]

Now as to the remarks of Herr Geheimrat Riesser. I can assure him that the statistical department was animated by the unqualified desire to proceed with the strictest objectivity and impartiality. I can tell him, furthermore, that these productions of our statistical department were most carefully examined by Herr von Lamm, as well as Herr von Glasenapp, and, finally, by myself, with a view to ascertaining whether they violated that paramount principle, the principle of impartiality. We submitted the sentences pointed out by Herr Geheimrat Riesser likewise to the same particular examination; but, gentlemen, we, on our part, came to the conclusion that those sentences did not violate the principle. I must say that I was simply astonished at how completely this scientific work kept aloof from any sort of partisanship; and

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if the passage on page 7 of the paper: "Zur Frage der Regelung des Depositenwesens" (On the question of the regulation of the deposit system), which states that the forces urging a solution of this problem have increased, is objected to, the truth of the matter is that that statement is only an expression of what has actually been historically established beyond doubt. To give a brief example: At the head of our question sheet we have the question as to the public interest in the security and the fluidity of our deposits. If you follow the historical development, you will see that formerly this whole question was dealt with almost exclusively from the standpoint of security, but that the question is being shifted, and that to a steadily increasing extent, quite parallel with the changes that are taking place in our credit system and in the development of our credit institutions; that interest in the soundness and fluidity of the credit system and of our economic organization are coming to the front in place of the question of the security of the depositors. The resolution of the Reichstag of 1896 on the Arnim bill and the resolution of the Reichstag of 1909 are a striking illustration of this change of views, and a striking example in particular of how the question of security is receding, and how, while it controlled the whole question in 1896, now, in 1909, it confines itself essentially to the wish that the inexperienced should at least be guarded against solicitation; while in the foreground—we have observed this, too, in all the discussions with our experts—we find the public interest in the development of our credit system.

The passage on page 28, too, was carefully scrutinized by us, but we did not consider it objectionable, because,

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as Freiherr von Gamp has already remarked, here likewise the principle of impartiality is thoroughly observed, the question whether legal measures are regarded as desirable being left wholly in abeyance. It is only qualifiedly mentioned there, and it is expressly remarked that *if* legislative interposition should be deemed desirable for the solution of this great problem then it would seem as if the difficulty of these definitions of deposits ought not to offer an absolutely insuperable obstacle. I hold that this utterance can not be regarded as nonobjective and partisan; and now, gentlemen, as regards the final passage, it really only points out the difficulty of the question, and that it seems doubtful whether the debates of the inquiry commission—convened to examine and discuss any possible questions, because these questions have been projected more and more into the foreground by the public interest and have been recognized as specially difficult and complex—will result in a complete solution. And the desire and hope are expressed, just as I have expressed them in the conclusion of my introductory remarks, that even if we shall not succeed in solving the question at once it may at any rate be elucidated and brought nearer to a solution. I really can not see that those few sentences offer any serious ground for objection.

Now as to the question of the statistics of flotations. They were meant, gentlemen, as an attempt to remove the doubts expressed concerning the statistics that have been given in private publications. Statistical surveys are not to be taken by themselves, but, to be understood, must be read in connection with explanatory remarks,

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and the work is merely an attempt to attack the question from many points of view; it characterizes itself, indeed, expressly as such an attempt; it calls attention throughout to the defectiveness of its sources; and, as far as the statistics of the foreign loans admitted into our country are concerned, it is explicitly pointed out that it should not be concluded from these admissions that the German money market was actually drawn upon to the extent of the figures cited, but that the demand on the money market must be inferred from the foregoing tables. But that a real interest attaches to having a record made of the foreign loans admitted into our country and to making it public was shown in several quarters in the previous debates, for this admission makes it possible for foreign countries to enter the German market at any moment. It was from this point of view that a certain significance was at that time attached to those statistics, and it is a point of view from which such a record can not be denied importance. This record, then, possesses interest, at any rate, and it may be expected that he who reads these statistics, and, furthermore, should wish to draw conclusions from them, will by all means take cognizance of the accompanying explanatory remarks, which alone, indeed, make the reading and comprehension of the statistics possible.

Gentlemen, I forgot to refer to the remark on page 8 of the digest concerning the deposit system, which, speaking of the representatives of banks, *Genossenschaften*, and savings institutions, who have in the main taken a negative position before the inquiry commission, says:

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“They are the most directly interested in the solution of the problem and would be the first and most seriously affected by any injurious consequences that might result from inexpedient measures.”

Gentlemen, it is a matter of course in an inquiry, that even though every expert be desirous to take and retain an impartial point of view, his statements should reflect the impressions produced by his practical experience with the matter in hand, representing, at the same time, his own interests; that he is not biased by these conceptions, yet is subject to their influence because they have become a part of himself. This is quite natural, and no more than this was intended to be implied. That the gentlemen meant to be partisan is out of the question; nor can anyone gather this from the remark in question. I believe, therefore, that this passage also will be hardly subject to misconception.

If there are errors and defects in the statistics of flotations, we shall be most grateful should you kindly correct and supplement the statistics. I believe, likewise, that the edge of the misconception regarding the compilation of the foreign admissions, which Herr Geheimrat Riesser apprehends, would at once be taken away if we pointed out explicitly in a footnote to that survey that these admissions do not, of course, represent the extent to which the German money market was drawn upon, but that the extent of that drain must be gathered from the preceding tables.

Doctor WAGNER (on the order of the day). I can not help concurring completely with Herr von Gamp, particularly in his remarks in opposition to Herr Geheimrat

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Riesser. Nor can I convince myself—and in this respect I coincide with what his excellency, the president, has said—that the principal paper shows bias of any kind. I have examined it very carefully with this question in view, and have not been able to find that it shows any leaning to one side or another; and I would question, too, whether the statements of Herr Geheimer Justizrat Riesser have furnished proof to the contrary. The passages mentioned represent essentially the result of the organized investigation which the statistical department has with praiseworthy industry and in an impartial spirit devoted to the subject. If the paper states that there has been an increase in the strength of the opinion that a certain interposition in this field is desirable, I believe that this is an actual fact. If Herr Geheimrat Riesser replies that the weight and not the number of the voices is the thing to be considered, then I may say that opinions differ as to the weight of the voices. It would not be admissible to regard the standpoint of the practical men, who in one respect are always somewhat biased, as alone decisive; it will have to be admitted that other points of view also should in this matter be taken into account. I should say, therefore—if I understood Herr Geheimrat Riesser correctly—that there is no ground for changing the main document: “On the question of the regulation of the deposit system.” As regards the statistics of flotations, the criticism that has been made is doubtless justified. I can only say that the statistical paper contains everything that is essential; and it must, indeed, be assumed of a person who deals with statistics, that when hundreds of millions of foreign securities are

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spoken of he knows that they are not all floated in Germany. It is true, however, as his excellency, President Havenstein, pertinently pointed out, that being once admitted, they can enter the German market; and to ascertain how large a part of them do enter the German market is a matter of importance also. That could be readily added, and we should be very thankful to the gentlemen connected with the banking business if they would lend their aid in doing this. For the rest, I can but express the wish that the statistics, essentially as they stand, should be made accessible to a wider public.

Doctor RIESSER (on the order of the day). In replying to his excellency, our chairman, I should like to say, in the first place, that I had to carry out certain instructions with which, indeed, I, on my own part, agree in every particular, and that the statements which we have heard can not induce me to retract even one word of what I have said. Nor can I concede that the question should be shifted, and that, as a reply to objections raised against individual passages of the papers, the excellence of the work of the statistical bureau should be dwelt upon, for I have shared and do share the opinion expressed in regard to the work as a whole.

And I wish to emphasize another point: We are all interested in having a sound credit system; have given practical proof of that interest, and intend to give further proof of it. But that is not the question *now*. The reason why I did not call especial attention to the fact that we are all heartily grateful to the statistical department for its work, is that my instructions were to bring up certain things, within the scope of the order of the day, for

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debate; while I had made up my mind to give personal expression, in delivering my opinion, to the thanks we all owe to the statistical department. But I stand by the criticisms that I have made, because I do not consider it the business of a statistical bureau, which presents the requisite data to the expert commission designed to examine the questions, to express definite views on its part. Had the matter proceeded from the Reichsbank Direktorium, we should, of course, have had to accept it at once, but should even then have accepted it with regret, because we believed, and still believe, that a decided attitude is assumed here, and that a decided view has been expressed. It is also repeated in the conclusion that utterances in literature and in practical life were at hand which confirm what was said in the preface; and that is what, in my opinion, a statistical bureau in particular has no right to do, and what Herr Gerichtsassessor Fastenau, in the previous digest, rightly avoided with care. It is asserted with the utmost positiveness that the impression created by the views expressed is that this question will not disappear until it shall have been satisfactorily solved.

It is stated on page 28—I can not by any means agree with Freiherr von Gamp that it is a self-evident fact—that it appears “as if the difficulties of these definitions and the demarcation of the moneys in question should not in themselves offer an insuperable obstacle;” but this is highly questionable, and very different opinions may be entertained on the subject. We have been called here, as I take it, to express our views freely and uninfluenced by this or that preconceived opinion. I hold, therefore, that this statement, too, far transgresses the limits which have

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hitherto, under the full sanction of the president of the Reichsbank, been observed; and I can state it as a fact—and it is a fact that can not be controverted—that it has created a painful impression, and I was consequently instructed to give expression to the feeling it has aroused.

As regards the statistics of flotations, I am thankful to his excellency, our chairman, that he wishes to obviate any misleading conclusions by means of a footnote to the tables on pages 26 to 30. I should like to point out, however, that these erroneous inferences have already been drawn within the Reichstag, as well as outside of it, since it is the estimates of the *Frankfurter Zeitung* and the *Deutscher Ökonomist* that are in question, which had long been known and from which inferences have been drawn by treating them as the figures of the foreign securities that are circulating in Germany. This has been extensively done in the Reichstag and out of it; of that I am ready to offer proof.

Mr. SCHINCKEL (on the order of the day). I must revert for a moment to the statistics. I should not like to appear here as a grumbler, but I consider it our bounden duty, should we actually find any gross errors in the statistics in regard to foreign securities, to expose and criticise them. What the consequences are if erroneous statistics are recorded, Herr von Gamp's remarks have shown us. I look upon Herr von Gamp, after his having attended the inquiry, as the greatest expert in this field in the Reichstag, and he has remarked that the figures of 1908 had caused in him a feeling of alarm. I must, therefore, permit myself to subject these figures of 1908 to criticism.

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Freiherr VON GAMP-MASSAUNEN. Nineteen hundred and nine.

Mr. SCHINCKEL. But you said before, 1908. On page 29 there is an entry of 112,000,000 marks of securities of the Jutland Real Estate Credit Association. Everyone familiar with the facts knows that only an insignificant part of this came into this country. The 112,000,000 of securities were to be only granted admission into Germany; the figure is quite correct. I should wish, however, that it were stated, in addition, how much of this was disposed of in Germany. The loan of the Chinese State Railway is given correctly. The figures of the Hungarian Government rentes, of which far from the whole is in Germany, are otherwise correctly stated. Then comes the gold loan of the province of Buenos Aires at 199,000,000. According to the scheme of the tables, conversions should be excluded. Now, all these 199,000,000 marks are not placed in Germany, but scattered all over the world, and they do not belong to the statistics, because it is only conversions that were involved.

A VOICE. Had the conversions already been admitted in our country?

Mr. SCHINCKEL. They had been listed at Hamburg; these 199,000,000 should therefore have been omitted altogether. The loans of the province of Buenos Aires at 30,000,000 are in themselves correct, but they are not all held here. Then we have the shares of the Canadian Pacific Railway, which, however, belong to the preceding year, and thus 118,000,000 marks fall away. Then come once again the 112,000,000 of the Jutland Real Estate Credit Association, which had already been entered.

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These also, then, fall away. There remain, therefore, *de facto*, only a few hundred millions, and Freiherr von Gamp speaks of alarming figures.

Freiherr VON GAMP-MASSAUNEN. I have repeatedly said that I meant to say 1909.

Mr. SCHINCKEL. There I can show you the same thing. These certainly are errors that evidently need to be corrected, and I consider it my duty to express my opinion at the outset that the statistics ought not, in their present shape, to be made public.

The CHAIRMAN. The errors we shall, of course, gladly correct, and I should be grateful to Herr Schinckel if he would have the kindness to inform the statistical department or us of any mistakes that may have appeared for other years; it is to our own interest to give correct figures.

Doctor WACHLER (on the order of the day). I should not attach the importance which Herr Riesser has ascribed to the faults of the various sentences in the paper on the question of regulating the deposit system, to which exception has been taken. We have seen that different opinions may be entertained as to the meaning of the sentences objected to by Herr Geheimrat Riesser; but I believe that those sentences can not, in reality, bias our judgment of the questions we have to decide here, nor be in any way prejudicial to their further treatment. I submit it to you, therefore, whether it would not be best for us to pass over them. As regards the statistics, I, too, must say that I can not admit that the statements as they appear on pages 26, 27, and 28 can be of any importance in scientific statistical investigation; I hold,

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on the contrary, that if it must be admitted that these statistics are erroneous, it would by all means be better that they should not be made the basis of scientific investigations, because, otherwise, erroneous conclusions will be drawn from an erroneous basis. The correction of this statement is, then, necessary at all events, in so far as it can be made. For me, however, these statistics were of special value, in spite of their defects, because they showed what enormous errors were involved in the figures used by our expert, Doctor Ruhland. If you compare his statements on page 19 of the compilation which he has given us, you will find that his account of the foreign flotations makes them about two or three times as great as those still erroneously given us on pages 26 and 27. Since the opinions which have been formulated by various experts, even if they are not made public by the inquiry commission, do, nevertheless, in a measure become public, it is of great consequence, in my judgment, if this statistical compilation serves to show upon what a false basis the conclusions expressed by certain experts rest. I must, therefore, say that even the uncorrected statements which have been given us here are, in my judgment, of value; but they will be of far greater value if they shall be corrected in the manner proposed by Herr Schinckel.

Doctor HEILIGENSTADT (on the order of the day). I believe, in the first place, that it is most expedient that this question of statistics should be discussed as it has been upon the instigation of Herr Schinckel. I think that if our debates were made public they would help to elucidate things. I therefore welcome Herr Schinckel's

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criticism and regard the assertion that these statements contain mistakes as just. It would, in my judgment, then, be very desirable, as Herr Schinckel has already remarked, that the gentlemen who are in a position to do so should give the necessary information to the Reichsbank direktorium. For the rest, I hold that the statistics, even as they are given here, are of an importance not to be despised. In the domain of financial statistics we are, in fact, more or less dependent upon conjectural statistics, and it is consequently very important that all possible material be collected upon which the people who are called upon to do so may form their own judgment. I can not agree with Geheimrat Wachler, who asserted that the figures in themselves were erroneous. Formally erroneous these figures are not by any means—for they relate to the admission of foreign securities—but they may perhaps be falsely interpreted as to their substantial significance. For in the statistics of flotations a variety of things is involved: First, the statistics of the securities actually placed in Germany; and, second, the statistics of admissions. The latter furnish the economic writer with material useful to him in an inquiry into the German banking business in judging to what extent the German banking business is interwoven with international business, etc. That errors may occur here is a matter of course, and whoever has worked in the field of financial statistics knows how very difficult it is to secure a statistical basis for every individual fact. Just as I say that I accept the statistics of the flotations which, though formally correct, are practically misleading, so I say the same thing of the statistics of the Genossenschaften

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[cooperative banks]. I have carefully looked over the statistics of the Genossenschaften submitted to us and I consider them, as they are put and explained, erroneous, for the same reasons that Herr Schinckel adduced in regard to the statistics of flotations. I am entitled on this point, I think, to speak as an expert. We occupy ourselves—and the president will confirm what I say from his own experience—very actively with this matter; for fifteen years we have been making the most strenuous efforts to obtain correct statistics of the cooperative-bank system. I have not dared to come out officially with the material. I likewise have expressed my objections to this or that point of the document before us, prepared for the commission by the Reichsbank direktorium, but I have not closed my eyes to the importance of the fact that it is extremely valuable as material for criticism and that it then becomes a matter for those connected with the Genossenschaften to bring their criticism to bear upon this material. I wish to add right here that the estimates of the fluidity of the Genossenschaften and of the security of bills issued by them do not at all agree with the facts; they may, indeed, be formally correct, but in substantial effect they are absolutely incorrect in every respect. As far as the Genossenschaft bills, in particular, are concerned, I may state positively that they are, in general, as safe and redeemable as any other bills. I spoke more at length here a year and a half ago in regard to the form and character of commercial bills. The comparative value of the Genossenschaft bill is much greater than is generally assumed. The strictures that have been passed here in the commission, and likewise in this report, upon the fluidity of the savings institutions and the Genossenschaften

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I must characterize as substantially unfounded, for the same reasons that the two preceding speakers have given. Nevertheless I do not feel inclined to discard entirely the statistics before us, for I say that the statistics are formally correct and we must understand how to read them properly, and that is why I welcome this very discussion before we enter upon the real order of the day, for by its means the value of the material is justly indicated and it is made clear to everyone who wishes to consult these facts as a basis for his conclusions what conclusions he can and may draw from them.

The CHAIRMAN. President Heiligenstadt was perfectly right when he said that it is very difficult to read statistics, and I can corroborate his remarks—for I, too, have been connected with the Genossenschaft system for fifteen years—as essentially correct. But here, also, it is supposed that the explanatory remarks to the Genossenschaft statistics, which give only cold figures, shall be read, and that the significance of the figures will by their aid be correctly understood. It is true, as President Heiligenstadt says, that the fluidity of the Genossenschaften must not be judged by these rigid figures alone; and that is why it is expressly pointed out in the explanatory remarks that precisely in the Genossenschaften a certain fluidity is guaranteed on one hand by the partly limited, partly unlimited, liability; and, in the case of rural Genossenschaften beyond that by their association in unions, by the union funds, and, above these, by the strength of the Prussian Central-Genossenschaftskasse. These things must not be overlooked in reading the statistics of the Genossenschaften

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and in making comparisons between them and those of the banks.

Freiherr von GAMP-MASSAUNEN (on the order of the day). Not only every Prussian, but every member of the bank inquiry commission, is, of course, entitled to express his opinions freely and frankly, and just as I do not naturally wish to limit Herr Geheimrat Riesser in this right, I, on my part, likewise claim that right. But it is another question—and I think Herr Geheimrat Riesser, too, might recognize and acknowledge it to be so—whether a member of the commission is privileged to bring before the commission instructions with which he has been charged by others. Who, indeed, has the power to give Herr Geheimrat Riesser instructions? He says that he received this commission from outside.

Doctor RIESSER. No; from members of the bank inquiry commission.

Freiherr von GAMP-MASSAUNEN. Then I would request him to communicate to us the names of those by whom he was commissioned, so that it may be known who stand behind him. I am ready to admit that if members of the bank inquiry commission are in question, the discussion would be simplified if Herr Geheimrat Riesser were to say: "Doctor Weber, Herr Mommsen, Herr Schinckel, etc., have instructed me, and with a view to curtailing the debate, I shall summarize their instructions;" but to receive instructions from other quarters, I should not consider admissible.

A VOICE. Nor should I.

Freiherr von GAMP-MASSAUNEN. Very well, then; we agree here again. [Laughter.] Now, I should like to

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make a remark in reply to Herr Schinckel. If I made a mistake and said "1908," I corrected it just as soon as he described the conditions of 1908. Herr Schinckel apparently did not hear me call out the correction, though it was very audible, for he has not accepted it. According to the stenographic report, I did not speak of the securities admitted in 1908, but of those "of last year."

I should like to point out that I also, as stands to reason, queried the 112,000,000 marks of securities entered twice in the paper. The data for January to October of the current year were of special value for the reason that the remarks state under what conditions the securities were introduced, who handled them, and what object they serve. Now the matter stands thus, that outside of certain emendations the thing is to distinguish between admission to the operations of the Bourse in Germany and actual absorption by the German market. To have these statistics is of great importance. These figures are, as a rule, correct and not misleading, and they serve, in my judgment, to place our dependence on the foreign market in a proper light. If the 1,600,000,000 marks of original shares of the Pennsylvania Railroad Company in Germany are admitted to the operations of the Bourse, then these 1,600,000,000 can, in case of a gold crisis, which may, perhaps, even surpass the one we experienced in the German gold market in the year 1907, be thrown on the German market.

A VOICE. On the contrary.

Freiherr von GAMP-MASSAUNEN. No; they can be thrown on the German market if they are admitted. I wish to say that we are all certainly greatly obliged to

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Herr Schinckel for the correction of mistakes, and I should think that we could have a reprint made of the information on page 26 and the following pages, in which the errors would be eliminated. I would, then, by all means, request that both sets of figures be given; first, the statistics of the foreign securities admitted to the Bourse—these figures can not be objected to in any quarter, for they are well established—and, second, the figures, based upon estimates, showing to what extent they were taken up by the German market. If in floating a foreign loan 100,000,000 marks of it found their way into Germany there is a possibility that the next year 100,000,000 marks, and in the year following another 100,000,000, will again find their way here. These are but estimates which must be more closely characterized.

If Herr Geheimrat Riesser has criticised but a few points in all the vast mass of material presented to us in the printed matter—

Doctor RIESSER. No, no; I reserve the rest for the general debate.

Freiherr von GAMP-MASSAUNEU—then I think I ought to give expression to my gratification that even he acknowledges the essential correctness of this digest.

Mr. MOMMSEN (on the order of the day). The remarks of Herr von Gamp in regard to the statistics of the securities admitted to the Bourse induce me to make an observation. I have for many years been connected with the admission office here and know that the admission office in Berlin and those in other great financial centers are extremely anxious that if foreign securities are to be admitted here it should be not only the small amount taken by the

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German banks to be disposed of here that should be admitted, but the entire issue. In this matter changes have repeatedly taken place; and that is why the statistics are somewhat misleading here also. But now the point is strenuously insisted on, not for the reason adduced by Herr von Gamp that securities held in foreign countries are thrown on the German market, but because the salability of securities held in Germany is, naturally, very seriously affected if they can not be thrown on the foreign market; for it has been found that, as a matter of fact, many such securities placed here first gradually returned abroad. We can not, therefore, draw the conclusions from these high figures that Herr von Gamp draws, and that is why I share Herr Geheimrat Riesser's view, that it is hazardous to publish this kind of a compilation, even after it shall have been corrected. If you utilize such statistics in the way Herr von Gamp does, you bring pressure to bear on the admission offices, so that the admission of the total loan will no longer take place, and thus you harm the German buyer instead of benefiting him.

Doctor HEILIGENSTADT (on the order of the day). I will address still another request to the chairman, and that in regard to the publication of additional matter. I attach great importance to making the present debates as widely known as possible, in order to make accessible to a larger public an adequate discussion of the subject. I believe that this wish can not fail to be shared by all. I should think it would be expedient for the entire material to be systematically printed and published anew, so that it might have as wide a circulation as

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possible; above all, the statistical matter and likewise the stenographic reports of the hearings of the experts. I regard this as extremely important. And from a scientific standpoint, I hold it to be proper that our material be made available for scientific research, for it is by means of such research that we shall really make progress. How far it will be possible to make public the stenographic reports of the hearings of the experts at some future time, I can not judge, since it was promised that the statements would be held confidential. At any rate, I request that the remarks of the members of the commission and all the other matter, including the matter received by or laid before the commission, be subsequently made accessible again to the members of the commission as well as to the Reichstag and other interested parties. The material which came to us in the shape of separate publications has been in part marked up by us with annotations; in part, it may have been lost. I request, therefore, that the material, systematically arranged, with all the papers submitted, be republished and made accessible to the members of the commission.

The CHAIRMAN. Gentlemen, the proceedings of last year, as far as the commission itself is concerned, and the papers connected with those proceedings have already been made public, having been published here by E. S. Mittler & Son. I assume that the same will be the case with the proceedings that are now going on and likewise with the papers which are the basis of those proceedings.

We may, then, gentlemen, begin the actual discussion of the subject. I have permitted myself to hand the members a syllabus of the points to be considered as a

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general guide to the debates, and would beg you to adhere in general, as far as possible, to the scheme thus outlined in the interest of the clearness and order of our proceedings. I hope that the debates will show that this is possible and useful. It is naturally not my object to prevent members, in expounding their views—particularly in the first great general question, which is the central point of interest—while discussing the grounds upon which in the public interest a betterment of conditions in the domain of our credit system appears desirable, from referring briefly to particulars comprised in the subsequent groups of questions and measures. But I would request that the discussion be directed separately to each of these special questions and to the specific measures which are suggested in the proceedings of the experts, and that this opportunity be taken for the expression of any individual desire in the matter. If the members agree with me in regard to this treatment of the matter, I would now ask them to take up the discussion.

Mr. SCHINCKEL (on the order of the day). Would it not be possible to lay down more definite lines, so as to keep the debate within bounds? I call your attention to the fact that when the inquiry commission was convoked we were, for instance, informed by the Government that the system of mixed banks, which had been tested, should not be tampered with; that a separation of the banks should not be thought of. Could not that, for example, serve as a guide, so that subjects that we are not at all called upon to treat should not be discussed? I believe, moreover, that I was not wrong in assuming

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that it was the resolution of the Reichstag of May of this year that occasioned the resumption of the inquiry commission at this time. This resolution of the Reichstag has its limits, however; otherwise I can not see why we did not treat the subject more fully last year. But, if I should be mistaken in the matter, if we are actually to enter once more into a full inquiry into such far-reaching questions, then I would ask how many weeks are we to sit here? For since the Reichstag convenes on the 30th and a part of the members of the commission are likewise members of the Reichstag, the matter will be rendered vastly more difficult. I think, therefore, that we should have a somewhat more circumscribed field of discussion laid out for us than appears in the syllabus that has been presented. We should then, I believe, advance more rapidly.

Freiherr von GAMP-MASSAUNEN (on the order of the day). I should think that too much time would be taken up if we should follow the proposal of our honored president and treat each question separately. Nor can I even conceive the possibility of such a sharp division. How, for instance, can one take a stand on the question of security and fluidity without at the same time taking a stand upon what is understood by fluidity and the means by which fluidity is meant to be brought about? I believe that if we confine ourselves to showing clearly, in systematic sequence, the standpoint that each one occupies on this question, the proceedings would, in my judgment, be greatly shortened and at the same time be more comprehensible. We should have an utterly disjointed discussion if the members were to speak first of what is

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meant by public interest, by fluidity and security, and if, days after, they were to speak about the means by which fluidity may be secured, and again, days after that about how the balance sheets of the banks are to be made up.

These are really all only means of producing a greater degree of fluidity. The object of these balance sheets is that the public be informed of the condition of the bank, and that the banks may find in them reason for adopting better methods. It was a different thing with the other question sheet; entirely isolated groups of questions were involved there, toward which one could and had to assume a stand. But now it is only the deposit system that is left, and I think it would be desirable to take a position on the whole question and not dismember the discussion into ten or fifteen main and subsidiary questions.

The CHAIRMAN. The questions, gentlemen, that occupy us to-day constitute the second division of the questions laid before the bank inquiry commission by the Bundesrat a year and a half ago; and I think we shall not be able to avoid a settlement of these questions, nor to confine ourselves to what Herr Schinckel has kindly indicated, namely, the wishes of the Reichstag. It was not the wishes of the Reichstag that caused the adjournment of the commission; the wishes of the Reichstag were made known only this spring, while the adjournment of the commission took place last year, and it was due to the circumstance, as Herr Schinckel probably knows, that a new element had come into the case, which interfered with a final judgment on the whole question—an element affecting one-half of the question, namely, our view of the policy and organization of the private banks, which is a necessary part of

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the foundation of any conclusion on the question as a whole. This new element was the decision of the Berlin great banks to publish their intermediate balance sheets; and another reason was that it was impossible to sift the comprehensive and intricate material which the proceedings of the experts brought to light, and prepare a lucid compendium of it for the members of the commission. And finally, the third reason, gentlemen, was that a series of publications of the statistical department, which were to serve likewise as the basis for the deliberations of the commission, had become desirable, but could not be completed in a few days. These were the causes that made the adjournment necessary, but which can have no influence upon the range of the subject we are debating here.

Doctor STRÖLL (on the order of the day). I should like to put a question. A year and a half ago the Government made a declaration, in the form of a programme, which tended in a certain direction. When the sessions of the commission were opened it was emphasized in the opening speech that the Government did not favor the separation of the deposit banks from the stock banks, etc. I may assume—I have heard nothing to the contrary—that the Government and our honored chairman still occupy the same ground. If this should be confirmed by the president of the Reichsbank, there is a great mass of discussion that becomes irrelevant. If the adoption of a law concerning deposits, and in particular of regulations governing them, is to be discussed, then the question of this separation is of the highest moment. For a separation of the deposit banks from

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the stock banks [*Effektenbanken*] there is, in my opinion, no historical foundation, and I would by no means advocate it; but if it is eliminated from the discussion at the outset—and I think it must be eliminated—then the debates concerning the kind of normative regulations it might be desirable to make for deposit institutions would be confined to comparatively narrow limits. The disposition that the president of the Reichsbank has proposed appears to me appropriate and expedient in every respect.

Freiherr VON GAMP-MASSAUNEN (on the order of the day). I would ask you, gentlemen, not to make the attempt to fix definite limits at the outset on the basis of an authoritative declaration of the president of the Reichsbank. I must say that it did not strike me pleasantly, even the last time, and I think that precisely in this question—I believe, for that matter, that no such suggestion will come from any other quarter—we should avoid anything of the kind. I am very doubtful whether it would be expedient—nay, I regard it, on the contrary, as inexpedient—to say that the Imperial Government does not contemplate a separation of the deposit banks, and that it is therefore not to be discussed.

A VOICE. But this has actually been stated in the paper intended as our programme.

Freiherr VON GAMP-MASSAUNEN. By whom has it been stated?

A VOICE. In the name of the Imperial Government.

Freiherr VON GAMP-MASSAUNEN. But the Reichstag, too, has its initiative, and I think you do not render any service to the cause if at the start you wish in a way

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to muzzle us. I have no intention of making a suggestion in the direction of a separation of the banks, nor do I believe that it will proceed from any other quarter, but I think a most disagreeable and painful impression would be created at the outset were the Imperial Government to declare that it does not wish to have any opinions on the subject.

A VOICE. It has so declared.

Freiherr VON GAMP-MASSAUNEN. If you will kindly refer to the stenographic report, you will find that it does not say that it was in the name of the Bundesrat, which, after all, is one of the two factors of legislative power, nor in the name of the "Imperial Government"—I do not know what Doctor Ströll understands that term to mean——

A VOICE. I beg pardon; that was a slip.

Freiherr VON GAMP-MASSAUNEN—that such a declaration was made.

I consider the question sheet proper and would express myself against entering into discussion—first, under No. I-1, upon the public interest in the regulation of the question; then under No. I-2, upon security and fluidity; then under No. II-1, upon normative provisions; for I am of the opinion that we must take a stand systematically on the whole question.

The CHAIRMAN. I beg permission to make a few remarks. At the opening of the bank inquiry it was certainly declared that the imperial chancellor, and, if I remember right, the Bundesrat, did not contemplate a separation between the deposit banks and the mixed banks. This declaration is just as valid to-day as it was

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then, and will, I assume, exert some influence upon the commission in the way of a certain moderation in the discussion and judgment of this problem. The questions that occupy our attention are, however, of such an exceedingly complicated nature that I do not intend to cut short every word that may be spoken beyond this narrower subject. We have, as a matter of fact, been placed in similar circumstances in former proceedings, where individual members declared that they would on the intrinsic merits of the case, for such and such reasons, advocate a separation of the deposit banks; but that if this can not be accomplished, then they would pronounce in favor of such and such measures, which, while perhaps not as good, are, at any rate, advantageous. Nor do I believe, gentlemen, that there is any disposition in this inquiry commission to actually separate by law our deposit banks from the credit banks. ["Very true."] Meanwhile I am of the opinion that the disposition is not in favor of regulating our entire credit system organically by a comprehensive law regarding deposits, and of putting it on a different basis; that the commission is aware of the gravity of the question; that conditions which penetrate so deep into our economic life, which are still wholly in a state of flux, and are woven of such multiform threads, can not be regulated offhand and at once by a legal decree; and that, perhaps—I do not wish to enter into any criticism, I merely point out a possibility—the only thing for individual members will be to propose separate measures, be it of a legal, administrative, or voluntary nature, regarding separate points which they think need amendment; and that the chief consideration will be to indicate

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clearly the points in our economic development and in the development of our credit system where, in the individual's opinion, flaws have been exhibited; to place the finger on the wound, and then, perhaps, wait to see whether the pressure exerted by the disclosure of those conditions upon the parties concerned and also upon the supervising authorities has not of itself meanwhile exercised a salutary effect; and, gentlemen, I feel convinced that the pressure of your votes in that direction will, indeed, be a strong one.

But if Herr von Gamp asks what may be discussed or should be discussed under Point I of the general discussion of the question, and whether it would not be better to enter at once into a discussion of the separate measures, I would submit it to your judgment whether such a course would be right. It appears to me, according to the entire impression produced upon me by the proceedings of the experts, that the separate measures can not be judged at all without making clear to ourselves whether or not injuries wrought by our economic system and by our credit system, that require amendment, have actually been disclosed—and for this reason, gentlemen, since in our opinion this whole question is the crucial point of the matter, we must perforce enter into the general discussion first.

On the one hand, the question at issue is the credit institutions peculiar to our credit system: *Genossenschaften*, savings institutions, banks. I would request you, in discussing the general question, as well as the separate measures, to keep these three kinds of credit institutions apart. But, gentlemen, I should like, in order to give

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at least a brief reply to Herr von Gamp's question, without wishing to indulge in any sort of criticism, to make a few remarks. The first question that will be considered in the debates will, I should say, presumably be the credit system of the banks; it occupied the foreground in the proceedings of the experts and likewise in public discussion; and along with it in the foreground we shall have the question of the maintenance of the fluidity and soundness of our credit system and of our economic life. Now, gentlemen, that the organization and development and policy of our banks are intimately connected with our entire rapidly advancing economic development is surely beyond doubt. Many foreign countries envy us for the efficacy of our banks, and even in England this view, as opposed to the separation of the credit from the deposit banks, which obtains there, and which was often held up to us formerly as a model, is being advocated more and more widely; and it is ungrudgingly recognized—I may indeed say without any serious contradiction—that our economic development has been vastly advanced and in part only made possible through the development and activity of our banks. Gentlemen, this, too, is a consequence of the ever greater concentration of capital in the banks, of the steady increase of deposits, or—if, owing to the uncertain and fluctuating character of this term, I may replace it by the more general term—of outside moneys. And this we must not forget when we shall come to consider this question. But, gentlemen, with this development, the banks, as has been pointed out in many and important quarters, have become more and more the guardians and custodians of the fluid working capital of

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the German people and of our economic interests generally. This constitutes them responsible powers in our public life and imposes duties upon them. And just here, gentlemen—and these are the points that I would at least indicate as an answer to Herr von Gamp's question—it is pointed out in many quarters that elements did nevertheless make themselves felt, most particularly at the time of the last great crisis, which admonish us to caution and suggest misgivings; misgivings bearing on the public interest.

I can only go into the matter briefly. On the one hand, the danger is pointed out that the vast capitalistic power conferred by the outside moneys has led to an excessive sinking of what should be fluid working capital in our economic life, in permanent investments and long-term credits, as, for example, in the supplying of permanent working capital; that this danger is further heightened by an immense and unsound increase of bank acceptances and bank drafts in so far as they do not proceed from mercantile transactions, but serve again merely as credit grants; and that here again there is danger that, owing to the ease with which credit may be obtained, great numbers of our people stretch their credit to an inordinate extent, and that this overstraining of credit represents a continuous burden on our money market and may lead to an unwholesome and dangerous development.

On the other hand, gentlemen, it is contended that, owing to the growing power of the banks in the money market, and to this development based upon overextended credit, the position and influence of the Reichsbank itself have experienced a change, as has likewise happened to

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our great western neighbors—it being the reason why in England this question has recently been absorbing so much attention—and that the very great and, under certain circumstances, dangerous strain upon the Reichsbank is connected with these circumstances.

Furthermore, gentlemen, to take up another point, it has been indicated that to this development the strong reform movement in favor of the introduction of checks—of substituting cash-saving devices for cash payment—has of late been added; but that every step whereby we approach these ends, which are by all means desirable, involves other dangers; the danger which in England, too, is specially emphasized, that the credit structure will grow apace with increasing rapidity and the metallic basis upon which it rests become steadily narrower. England has come down to the single-reserve system, which is to-day regarded as dangerous by many authorities in England, and that is why I have laid before you the interesting compilation of English opinions on this subject.

Gentlemen, I confine myself to these suggestions. I merely wished to show that enough elements of a general nature are before us, and have been set forth in the proceedings and the opinions of the experts, to justify placing a general section before you first, in order to probe those considerations, to elucidate the economic development of our credit system in Germany, and to find the basis here upon which we can form a judgment on the question: Are the existing evils so great that interference should be resorted to; and, if so, what measures should be taken?

I should think, therefore, gentlemen, that it is the right thing to take up these general questions first—and there

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are, besides, a whole series of others—and center into special debates only later on. But here, too, it rests with you to set forth any opposing views, so that we may come to a clear understanding as to the course of our proceedings.

[I would add, furthermore, that if it meets the wishes of the members, I propose to have the sessions in the morning until about half past 1, as last year; then a recess of about two hours; and in the afternoon at half past 3 or 4, just as the members may desire, to continue our debates, which, since gentlemen are apt to have so many engagements in the winter season, will probably close at about half past 6 or 7.

Mr. SINGER (on the order of the day). I regard the arrangement, as it is presented to us, as most satisfactory, and agree with the president that it is absolutely essential to enter into a general discussion, because I believe that if in this general discussion it is determined in what special fields the abuses and evils occur, the special deliberations will be more useful and effective. If we begin at once with a consideration of the special questions, we shall unavoidably have very frequent repetitions, while with a preceding general discussion the special debates will assume a clearer and more practical form. If it is found in the general discussion that, on the whole, there is agreement in the commission upon certain necessary measures, we shall be in a much better position, in the special discussions, to reach an agreement as to ways and means, because the answer to the question whether legal measures should be resorted to will already have been given in the general discussion.

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I regard it, therefore—I wish to express myself only on this point—as positively requisite that we enter upon a general discussion, in order to draw the conclusions required for the special consideration of individual points.

I shall, however, venture to make a remark here concerning the possible adoption of a deposit law. This question must be made to depend upon the course of the debate, upon the determination that such a law is or is not required; and I believe that one of the speakers of the commission misunderstood the president in interpreting his remarks to mean that the inquiry commission was to be prevented from expressing its opinion upon the necessity, or it may be the inexpediency, of a deposit law. That, in my judgment, would be absolutely at variance with the functions of the inquiry commission. I think that the commission should be in a position to make suggestions to the Government without restriction. I can not conceive that the Government is resolved in advance to pay no attention to such suggestions if it can be convinced of their justice. We should not at this stage, I think, assume that a deposit law is proposed or, on the other hand, that such a law is not to be considered, but should make all propositions dependent upon the course of the debates. But I do not regard it as the duty of the commission to confine itself strictly to the questions put before it, for it must naturally be entitled to make such proposals as it may deem necessary in relation to our system of banking and credit.

In order to make the work of the commission really fruitful, a general discussion seems to me very desirable. The more fundamental, comprehensive, and effective this

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general deliberation will be, the shorter and more to the purpose will be our treatment of the separate propositions, and I can not conceive that the time of the commission would be economized by cutting out a general discussion and yet having in each individual question to return to the general points of view, for the necessity of any specific measures must be based upon those points of view.

I should, therefore, recommend that the scheme of our proceedings presented to us by the president be accepted.

The CHAIRMAN. Gentlemen, if no opposition is manifested, I shall assume that you will at least make an attempt to begin the discussion under the guidance of this scheme, and I would request members to give me notice of their intention to speak.

Doctor LEXIS. The first question to be considered is whether there is a public interest in the regulation of the matter before us for debate, and I wish to state my views on that point.

For the great body of the people the object of greatest interest, as is well known, is that of preventing the owners of small savings from being enticed by the offer of high rates of interest from taking their savings to the banks and bankers in order to obtain higher interest than is given by the savings banks. That such things happen is beyond doubt. We saw, also, notably in the year 1907, that in many quarters, particularly on the part of small bankers and small banks, very high rates of interest were offered; they were published in the papers, too, and many people of slender means were

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thus induced to place their savings in that way. At that time this did not, as a rule, result in embarrassment or loss to the people; the small banks and bankers raised the rate of interest on their loans to from 7 to 8 per cent, and could consequently pay from $4\frac{1}{2}$ to 5 per cent on demand deposits. But these were, in great measure, business men, who could in reality hardly lay claim to the name of bankers; small money-changers who, however, by calling themselves bankers, are invested in the eyes of the masses with a certain prestige, and often thus actually attract considerable quantities of savings. This is unquestionably bad, and it is a thing to be discussed whether some sort of measures might be adopted to protect the great mass of people of small means. It will, in my opinion, hardly be possible, but the question can be discussed later, and this would be one subject that certainly represents a general public interest.

Next to this the public is interested, it appears to me, in securing for the prospective development of the check system the most positive guarantees possible for that part of the public that does not belong to the business world, yet wishes to avail itself of the check system. We must, therefore, distinguish between those real deposits of savings consigned to banks and bankers by people of moderate means, with the object of actually saving, and check deposits consigned to banks by non-business people. In the latter case there is not the danger inherent in the case before mentioned. Here, namely, no promise of high interest can be made; our check deposits will, under any circumstances, command only very moderate rates of interest, and, altogether, we have

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not the danger here that people—and they are, besides, persons of a wealthier class—will be induced by enticing promises of interest to take their money to the banks. The question, then, that would come up for discussion here would be simply: What precautionary measures should be adopted in case of a great development of the check system so as to render moneys of that kind secure for non-business people? In my judgment nothing in that way could, indeed, be practically done; nevertheless, the question might be discussed, particularly as here again some smaller banking concerns or bankers, as they term themselves, might, perhaps, use the opportunity to attract moneys.

Then, there is a third point which also, and that to a higher degree, might touch the public interest, the question of the relationship between account-current debtors and account-current creditors. In this case the business patrons of the bank only are involved; one could, therefore, define the class very sharply and say that the only persons in question are those entered in the commercial register who, according to the bourse law also, occupy in other respects as well a particular position.

It might be said that business people having accounts with a bank form a group by themselves, and the account-current creditors and account-current debtors are, indeed, very intimately connected with each other; the creditor may become debtor, and vice versa. Here comes in the question, How is the working capital of the business world in general managed? The current-account creditors are, for the time being, holders of fluid, temporarily unapplied capital, which is in the banks; their credits are not

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savings deposits; they are deposits of another kind, which it would be best not to call deposits at all, or to call credit deposits. These may, to be sure, be jeopardized, as happened, for instance, in the striking case of the Leipziger Bank, by the investments made by others (with the aid of this temporarily disposable capital) being ill judged, by their being in some way tied up—in other words, it may be that the debtors of the banks do not stand in a proper relation to the creditors. The chief danger, which seems to me to represent the kernel of the question before us, must be recognized in this: Is the fluidity of the debtors as opposed to that of the creditors rightly gauged in the accounts current? Here, then, we should have another question of very great general significance; much more important than the first question which, economically considered, would, after all, jeopardize relatively only very small sums, while here far greater possible dangers might be involved.

I would, for the rest, remark that it is not by any means inherently necessary that there should be a disproportion of that kind between credits and debits. As a matter of fact, as I wish to state at the outset, we see from the statistics of the assets and liabilities of the banks communicated to us, that precisely in the case of the largest banks almost exactly the same sum is found in the balance sheet for account-current credits as for account-current debits; in the case of the other banks, on the contrary, the amount of debit moneys is greater than that of credit moneys, and, indeed, considerably greater. But this would lead to the special questions themselves. I shall not go into the matter any further.

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This question of the proper relation of debits to credits in the accounts current—consequently in the affairs of business in which only business men are concerned—would again represent a distinct and perhaps the most important side of the problem before us. With it, furthermore, is allied the question: Are these outside moneys employed for purposes which have perhaps no connection at all with German economic activities? Are they employed, namely, in foreign business, in foreign promotions, syndicates, loans, and the like? That is a question that is often insisted upon with exaggerated emphasis. In my opinion it is very desirable that we should have as many safe investments abroad as possible. This question, however, is not directly connected with the deposit question, for Argentine railways are not built with deposit moneys—deposit moneys are not directly applied to that; at most, then, it can only be a question of temporarily employing the deposits for the purchase of newly issued shares or foreign obligations. That, however, is only a passing employment of the moneys whereby the average fluidity of the outside moneys in the banks need not be at all imperiled. But at any rate a point is presented here which might be discussed.

Doctor WACHLER. I think that in view of the fact that since the year 1857 in the joint-stock banks alone the credits increased from 90,000,000 marks to over 5,500,000,000 at the end of 1908, and the deposits from 110,000,000 to over 2,750,000,000, and the credits and deposits combined at the close of 1908 in the Kreditgenossenschaften amounted to nearly 3,000,000,000, the deposits of savings in savings institutions to over 15,000,000,000, that the

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consideration of the deposit system touches the public interest in a very great measure.

Along with this, as a matter of course, the next and most important things to be considered are the *security* and the *fluidity* of the investments made with the deposit and savings moneys.

This question, as the president has pointed out, was originally publicly agitated chiefly in connection with the question of insufficient security. Passing gradually from arguments upon security, other points—inadequate fluidity and the management of the moneys—were taken up. Perhaps they were taken up only because it was seen that the objection of inadequate security, especially in the case of the joint-stock banks, was without foundation, and yet the critics, having begun to find fault with the deposit system as carried on by the credit banks, did not feel disposed to drop the subject altogether.

Now, it appears from the tables of the bank statistics that in the case of the credit banks, particularly those having a capital of over a million, in view of their spare capital and surplus and also of their easily realizable resources, no danger can be apprehended either to the security or to the fluidity of the deposits and outside moneys. In the case of credit banks with a working capital of less than a million these conditions are, to be sure, not as favorable, but, then again, smaller quantities of deposits are here in question. The experts who have been questioned have almost without exception—only Doctors Ruhland, Kreth, and Vorster desired still further provisions for the security and fluidity of deposits—acknowledged that on the part of the credit banks adequate security and fluidity of deposits are offered.

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On the basis of the opinions of the experts we must, accordingly, answer the question propounded under Point VI unreservedly in the negative, the question being:

Does it seem warranted in the public interest to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings?

Nevertheless, some of the experts have in their opinions spoken of a limitation to the extent that—

1. They recognize existing conditions as satisfactory only under the present managers of the credit banks, but perceive danger should these managers be replaced by inferior ones, and desire such danger to be counteracted by legislation.

2. They see, irrespectively of this, a danger in the concentration of the great banks.

3. Even if they have no misgivings as to the security and fluidity of the deposits, they nevertheless take decided exception to the kind of uses to which these funds, representing the national working capital, are put, especially by the great banks, and desire a more satisfactory economic utilization of these funds.

As regards the remark that confidence may be placed in the present managers but that there is danger that other people may in their management of the banks misuse such funds, I would make the following observation:

It is recognized in England and France, as well as at home, that the development of the German banking system has for many decades been most admirable. This development the banking system owes to the predecessors of the present managers; and just as their predecessors found capable successors who have furthered the work begun by

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them, it may be assumed that the present managers will, in their turn, find and attract successors who shall know how to continue their activity in a salutary way. No legislation would be capable of securing qualified people. ["Very true!"] But to limit by legislation the activity of the managers, which is regarded as efficient at the present time, and confine it within rules, would be both perverse and futile. Financial conditions are affected to a most far-reaching extent by every incident in the economic concerns not of Germany alone but of the world at large, and their treatment requires the utmost freedom of motion. Moreover, any legislative requirements would be evaded by dishonorable and unscrupulous persons, and in fact no legal measures can secure the absolute protection of depositors. If it were possible, without doing injury to our economic interests as a whole, to secure a part of the deposits by certain measures, though it were by transporting the funds to some sort of a *Juliusturm*, this would affect only such a minute fraction that no security would thereby be created for the deposits which could in the remotest be compared to the injury that free economic activity would suffer from such legislative experiments.

As for the fear of the concentration peril, it has been playing a great rôle recently in our economic life, but I can not understand how scientific men, who have gained a wider insight into economic conditions and are able to compare the events of the past and the present with a fair, critical judgment can share such a feeling. We all know the proverb that trees can not grow up to the sky, and we know from the history of nations and of the

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development of states, how in these fields concentrations of various kinds were developed, but also that when these agglomerations went beyond the limit of wholesomeness they disintegrated of themselves. It is barely for two decades that we have witnessed here in Germany a strong movement of concentration in the economic sphere—industrial as well as financial; and I believe that the movement has been entirely justified and has thus far been a wholesome one.

Just consider the development of our trade, our commercial relations with all the leading countries of the world; cast a glance at the progress of our shipbuilding, our mining, our electrical industry; lately, too, the utilizing of water power; and recognize from this what vast demands have been thereby made upon our iron industries and machine shops in order to produce the magnificent machinery and other elements that have been necessary. In all other departments of industry and business, in building, in municipal life—elevated and underground railways, colonization, canalization, etc.—conditions have changed in every way on so grand a scale that it should be no matter of surprise to anyone if in industry and in the domain of finance a considerable concentration has been developed. I regard it as an inevitable necessity, and I look upon it as a piece of good fortune for our country that farseeing men were quickly enough found who recognized the needs of our day in good time and acted in accordance with them. No one, I should think, can doubt that if our industrial and financial world were still in their dwarfed condition of about fifty years ago, they could not do justice to the demands of to-day, and that if we had

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maintained the old and more patriarchal point of view, we could not have advanced to our present political development either.

Nobody, it may be presumed, will wish to dispute this. But now come the anxious and the omniscient, who perceive in this development excrescences and abuses for the future, and think, therefore, that they can, by way of precaution, establish by legislative means regulations which will guard us against such dangers. That is a mistaken idea. It is precisely economic development—which, along with the ever-changing views and necessities of life, is in a constant state of flux—that can least suffer legislative regulation; it can be regulated only by the sound sense pervading our social and national life, not by legal paragraphs, which can have only a detrimental and obstructive effect and can not possibly serve any useful end. I would refer to the trusts and syndicates. In that field, too, many politicians perceived the danger of abuse and wanted to anticipate it by legislation and government control. A decade has elapsed since measures considered appropriate were discussed, and, finally, further development was left, after all, to run a free course. The dangers apprehended not only did not materialize, but the National Government and many business interests are resorting to every means to secure for the potash industry the continuance of a syndicate. In the domain of financial management, too, then, matters may be calmly left to develop themselves, and people will become convinced that the concentration now objected to will continue to progress in a wholesome way and prove useful to our economic life.

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But, finally, the main objection raised by some experts against the accumulation of great quantities of deposits proceeds from the idea that the great banks do not dispose of these moneys in an economically desirable way, nor in accordance with the intentions which the depositors would probably wish to see carried out.

Were this reproach justified, a remedy for such an abuse would, indeed, have to be considered necessary in the public interest and the question considered whether legislative interposition might not be requisite and expedient, or what other measures would have to be adopted.

But, to begin with, the assertion that the great banks dispose of the deposits in a different way from that desired by the depositors appears altogether vague, absolutely unsupported by any proof. Whence do the critics gather how the depositor wants his funds to be employed? No actual material of any kind for the proof of such an assertion has been brought forward by any expert. Such a presumption is, indeed, entirely incompatible with the facts; if a depositor in a great bank were to signify how he wished the bank to employ his money, the bank would either unqualifiedly comply with that arrangement or decline the deposit altogether. It appears from the statistics of the German joint-stock banks that the deposits in the credit banks rose from 119,712,000 marks in 1872 to over 2,500,000,000 at the close of 1908—increased, therefore, about twenty times. One must naturally conclude from this that the depositors were not of the opinion that the banks employed deposits in a way contrary to their wishes, for otherwise they would undoubtedly have taken their funds not to the

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great banks but to other institutions, such as the Seehandlung, the Preussische Zentral-Genossenschaftskasse, the Provincial-Credit institutions, the agricultural banks, the communal banks, etc.

Still more serious is the charge that the great banks do not employ the funds consigned to them in an economically desirable way. The great service that the banks have rendered by attracting and utilizing the disposable funds of the people, contributing thereby in such great measure to the increase of the national wealth of Germany, is universally acknowledged. Diametrically opposed to this view is that of the experts—very few of them, to be sure—who hold that the deposits have not been managed in an economically desirable way.

Such a false conception can be explained only on the score of the peculiar economic and political attitude which these experts represent.

These gentlemen take an altogether one-sided, agrarian point of view, and demand that the deposit moneys should be withdrawn from the great banks because they misuse them by granting too much credit to industry and commerce, while the money ought to be applied to the strengthening of productive agriculture and the raising of the market price of government securities. They see in the deposit moneys of the great banks a means of bringing about an overstraining of credit in industry and commerce; of keeping up, on the part of the Reichsbank, a high rate of discount, to the detriment particularly of the middle class and of agriculture, and notably also the floating of foreign securities to the detriment of domestic needs, and the strengthening of foreign competition

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against productive domestic industries. In my judgment, such a view, founded directly upon jealousy of industry, commerce, and the Bourse, is wholly erroneous, and completely lacks any real and objective basis. It is altogether incorrect to say that the great credit banks intentionally withhold credit from agricultural concerns in the interest of industry and commerce or of speculators on the Bourse. Agriculture is more than sufficiently provided for by the Provincial-Credit institutions and the Zentral-Genossenschaftskasse, and it is well known that in spite of the immense increase of all land values in the last decades, landed property is burdened to excess with debts——

Freiherr VON GAMP-MASSAUNEN. Only too true.

Doctor WACHLER—so that efforts are being made to free landed property from debt by means of legislation. Personal credit has been granted to agriculture in quite adequate measure and with very favorable conditions through the Zentralgenossenschaftskasse, as the yearly accounts of that institution show. The statement, therefore, is erroneous that our economic equilibrium suffers from the use of the deposit moneys by the great banks in favor of industry and commerce. Another thing to be considered is that besides the deposit moneys in the great banks, amounting, according to the bimonthly statements, to almost one and a quarter billions, nearly 2,000,000,000 marks in deposits in the cooperative credit banks and over 15,000,000,000 marks in deposits in the savings banks must be taken into account, of which a very considerable part is employed in the interest of agricultural credit, so that there can by no means be any question of a

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disturbance of the economic equilibrium to the detriment of agriculture. That no prejudicial influence at all is exercised by the great banks upon bank discount, and surely not by their manner of employing the deposit moneys, Herr Fischel has heretofore set forth, and it has likewise been established in many ways, by those professionally qualified to decide, that there has been no detrimental flotation of foreign securities. In the document presented to us dealing with the question of the statistics of flotations it is convincingly shown, too, that all statistics in regard to the flotations of foreign securities are thoroughly unreliable, because they are based solely upon the reports of the admission offices, which exhibit merely the total amount of the flotations and not the sums actually taken up by us, and recently upon the information gathered from receipts of stamps upon securities, which, however, do not tell what part of the amounts taken up passed out of the country again. Hence it follows that all statements concerning the flotations of foreign securities, especially the kind prepared by Doctor Ruhland, give figures that are entirely false and much too high. The statement in the pamphlet dealing with the statistics of flotations which I have just mentioned shows, for that matter, that operations in flotations of foreign securities have diminished very considerably since 1905, and in 1906 and 1907 did not attain even one-third of the amounts given by Doctor Ruhland, and in 1908 also were estimated to be under a billion.

As to measures aimed at the utilization of deposit moneys to raise the market price of domestic government loans, that point will be discussed further in another

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connection. Here I would only remark that the Government has, I should assume, no sort of legal right to any such interference in the private affairs of the credit banks to compel them to invest the deposit moneys, in whole or in part, in domestic government securities; that the market price of government loans suffers, on the contrary, from the circumstance that great quantities of new loans are put on the market every year; and that an artificial raising of the market price would, in the event of a crisis, result in losses so much the greater to the holders of government securities.

It must, indeed, strike everyone as an exaggeration to hear an expert declare, in the last communications transmitted to us, that our economic life is based upon the unsound constitution of our money market; that, owing to the unbounded license in the investment of money, brought about by the banks, perfect anarchy holds sway; particularly as the same expert must acknowledge that, notwithstanding such a state of affairs, Germany has worked its way up in the economic world in a way that has aroused the envy of all rival nations.

It must, on the contrary, be concluded from this development that it was precisely the great banks that, by their efforts to attract great quantities of deposits and utilize them in our economic life in general, even if in greatest measure in industry and trade, have signally contributed to furthering the growth of our economic life; and the conviction must therefore be reached that it would be entirely ill judged and prejudicial should measures of any kind be resorted to that would disturb the situation.

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Various opinions can, to be sure, be entertained as to what, economically considered, would be the most expedient way of managing deposits; but no one assuredly, can doubt that it would not do to submit the decision to some official authority that can never be as familiar or as closely connected with the movements of economic life as are the managers of the different banking concerns. The introduction of such an authority would only have the effect of promoting concentration, and a mistaken view on the part of such an authority would in critical times lead to altogether unsuspected catastrophes.

Recognizing the great credit due to the banks for the improvement of our economic condition—achieving that object in spite of their activity having, in some respects, been impaired by bourse and tax legislation—it would evidently be most dangerous to follow the advice of those few experts who view the question from a limited, agrarian standpoint and wish to make it appear that the present conditions are thoroughly unsound, while they themselves must admit that they have vastly promoted the national prosperity. The National Government ought to recognize that such propositions can proceed only from a false conception of conditions or from selfish motives, and take a most determined stand in opposition, if it does not wish to conjure up serious dangers to our further favorable economic development. The banks have thus far stood the test perfectly, even in critical junctures.

These are the general points of view upon which I base my position on the question at issue. If it be thought

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advisable to bring forward those points also that were discussed by the experts as determining their general attitude, and which the president has referred to in his remarks, I would state my position as follows: I deny, along with the great majority of the experts, the expediency of issuing normative regulations concerning the acceptance, management, and investment of deposits, and would regard such regulations, for reasons adduced by the experts, which I fully approve, as very disadvantageous, particularly for the reason that the subsistence of the provincial banks and private bankers would by any such measures be impaired to no inconsiderable extent and thus concentration, which many consider objectionable, would only be promoted.

I would limit myself to this general reference to the hearings of the experts, not entering into the separate reasons adduced by them because only a general discussion is called for now. Against the publication of statements at shorter intervals I have no sort of objection. A number of great banks have already undertaken such publication. I would consider it well to leave the further shaping of this publication to the banks and to professional judgment. I do not deem it advisable to prescribe a scheme, but would leave it to the public judgment and the sagacity of the banks interested to find the proper form of publication, one that would afford an insight into the state of business without injuring the interests of the bank.

I would mention in addition that the public does not concern itself at all about the statements; while, for the judgment referred to, the form favored at present

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suffices to yield a correct conclusion as to the security and fluidity of outside moneys in the banks.

As regards the various measures of another kind, aimed at banks that receive deposits, I would just remark that in so far as such measures should be based upon the idea of promoting security and fluidity, I could not support them, if only upon the ground that I believe—and this belief is borne out by the statistics and recognized by a great majority of the experts—that absolutely no misgiving exists, at least as regards the larger banks, as to security and fluidity.

If another justification is further sought in the idea that such measures contribute toward raising the market price of government loans, then I hold that, aside from the fact that that object would not be promoted to any appreciable extent, I can not perceive any just ground for asking the banks to devote themselves to such an object simply because third parties, in consideration of a proper rate of interest, hand their money to the banks to be managed and used by them. The Government does not give the banks any sort of advantage in connection with the receiving of deposits; it can consequently make no just claim to any advantage to be derived on that score from the banks.

Nor can I recognize any just ground for an obligation to place a given proportion of the deposits in the Reichsbank in order to strengthen its working capital, although it may, indeed, be urged that the Reichsbank furnishes the other banks indirectly with money. But it does that for all other discounters and money lenders as well. For the rest, I subscribe to the objections raised by the experts against such a measure.

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Against the establishment of additional state deposit banks I should not raise any material objections. A necessity for such an arrangement I can not, to be sure, recognize, since we have state and municipal institutions where funds may be deposited with perfect security in every city and in every district, in sufficient numbers to satisfy even the most anxious. Besides, I would not pronounce in favor of creating additional competition to the private banks by such measures, which would be prejudicial, above all, to the business interests of the provincial banks.

I fully concur in the objection shared by nearly all the experts against the acceptance by the Reichsbank of interest-bearing deposits and in the convincing grounds adduced against such acceptance.

To the establishment of a supervisory bureau for the banking system, I must declare myself as most decidedly opposed.

Such a measure can not by any means be justified by an analogy with the mortgage and insurance companies. The mortgage banks are granted authority to circulate debentures; and the insurance companies are engaged in a kind of business in which they receive money from the public for a long series of years, paying out a sum of money on the occasion of a definite event or granting a life interest on payment to them of a capital sum. In reference to a peculiar and definitely limited business of this kind under a charter from the Government, the establishment of government supervision is of course justified. Such reasons, however, do not enter into the banking business, which every citizen of the State may follow as a free branch of enterprise.

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Moreover, it does not seem very consistent to me that in a State in which everybody is regarded as politically mature an ever-extending tutelage is sought to be spread over the economic field, ostensibly for the protection of the inexperienced public. Government supervision would not really look after the inexperienced public at all, but only the institutions themselves, which are able to conduct their own affairs, which, as a matter of fact, it would prove incapable of watching over or safeguarding, and which are indeed in no need of guardianship. The alleged inexperienced and unprotected public will in spite of such supervision dispose of their money as they like, and lose, too, under certain circumstances. The supervision would exert an injurious effect upon the banks, crippling them, perhaps, by interposing in their operations at the wrong time; and it would exert an injurious effect upon the public by lulling them into a sense of security and misleading them, by reliance upon the supervision, to neglect examining things themselves. Instead, therefore, of having an educational value in the direction of making the public more self-reliant, such a scheme would promote and maintain their dependence.

That government supervision can not in fact save the public from loss has been shown in the case of the mortgage banks; and yet the supervision in their case is much simpler and easier than in that of the credit banks. The thing is of no real value. But, strange to say, it is of the spirit of the time to demand every possible kind of government supervision, and thereby extend the administrative apparatus and strengthen formalism and bureaucracy—

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Freiherr VON GAMP-MASSAUNEN. Very true.

Doctor WACHLER—while at the same time it is declared to be an urgent necessity to make government administration simpler and less expensive. [“Very true.”]

As to other measures, such as the creation of an imperial board to manage long-term deposits secured by state bonds, or the creation of an imperial deposit-insurance institution, I shall not enter into them here, since the suggestions for such measures that have thus far been made are, in the form indicated, certainly not practicable.

My remarks refer primarily to credit banks. I believe, however, that on the whole, unanimity prevails on this point, too, that at least so far as savings banks and *Genossenschaften* are concerned, they are presumably sufficiently *safe*; that in the case of these institutions, if there be any misgivings, they relate only to the question of fluidity. But we must take into account that fluidity in these institutions must be judged from entirely different standpoints from those applying to the case of credit banks, and the experts intimately acquainted with the circumstances have held that even in the former, owing to the peculiar nature of their business, the necessary fluidity is provided for. Where it does not exist in adequate measure redress may be had by administrative means, since the management of the savings institutions—owing to their communal character and to the fact that the taxable resources of the respective communal associations are pledged for their operations—is under the control of the state government.

Finally, another question to be discussed would be how the public might be guarded against loss through bankers

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who, by public or written appeals or by means of agents, entice people to make deposits. This question, of which Professor Lexis likewise spoke, should, however, in my opinion be more closely discussed only in the special debates.

Economic opinion regarding the free development of business activity on the one hand and the undertaking or supervision of business enterprises by the State on the other has changed in no inconsiderable measure from that which was dominant thirty years ago.

Freiherr VON GAMP-MASSAUNEN. Very true.

Doctor WACHLER. But whether increasing governmental interference in the business affairs of private individuals promotes the national welfare is still a matter upon which opinion is greatly divided. Undoubtedly during the period of business freedom a very great advance has taken place in every department of our economic life. This economic development is steadily manifested in a lively activity and assumes the most varied and frequently changing forms, so that it will always be difficult for legislative action to follow this brisk evolution without retarding it by rigid forms. Legislation in the economic field requires, besides, in an especial degree, along with a delicate and just appreciation of all economic requirements, the greatest impartiality and freedom from political agitation. The bourse legislation has undoubtedly been injurious to German economic life. Economic questions are to-day of the greatest importance in world politics. The German bourses have evidently lost in international influence since the enactment of the bourse legislation. In spite of the greatest efforts on the part of the bourse, of industry and commerce, they have

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certainly not gained ground in international business. That is a great loss to the political power of Germany. The advantages gained and the peaceful victories achieved by means of our industry and commerce are the best foundation and greatest aid to the extension of our political power; even more effective, perhaps, than the increase of the army and navy. But it is precisely in international business that commerce and industry require the support of the German banks and exchanges. It is therefore exceedingly hazardous to adopt measures that would in any way interfere with the free activity of our financial and banking world.

Legislative measures of other countries that may be cited can not serve as a criterion for us at all, because the material premises in the various countries—the conditions of capital, the habits of the people, trade relations, and likewise the banking system—have been developed and formed in a totally different manner, so that a transference of arrangements which suit England or France would not by any means be appropriate to our circumstances.

The tax legislation passed in the last session of the Reichstag has heightened the discontent with the previous legislation concerning economic affairs, increased the tension between the political parties, and materially altered the position which they had occupied toward each other. These circumstances, in particular, clearly show that the time is altogether inopportune for the interposition of legislative measures in economic affairs, especially in the domain of the deposit system, since it is precisely there that the agrarian tendencies are in sharp opposition to the other economic tendencies.

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If, according to this, our time has not exhibited a specially happy faculty for lawmaking, all the more urgent should the warning be against legislative experiments, where opinions are still so sharply divided. The financial burden on commerce, industry, financial and bourse business has just recently been directly and indirectly increased and the taxable capacity of the country has been strained in a considerably increased measure for the urgent needs of the Prussian and German fatherland, so that it would be extremely dangerous to come forward just at this time with a legislative act which might not only impair the capacity of the chief sources of taxation, but is avowedly meant to reduce it.

These are the various considerations which lead me to answer the question put under VI, whether it would be advisable to adopt legislative or new administrative measures for the further regulation of the deposit system, in the negative.

The CHAIRMAN. Gentlemen, I abstained from interrupting the previous speaker at several points, but should nevertheless like to remark that in a number of instances—for example, in regard to the question of supervision—he entered into an amount of detail that would carry us too far from the subject. I would request that the subsequent speakers observe some restraint in that respect.

I would, in the next place, gentlemen, give the floor to Freiherr von Wangenheim, so as to bring his judgment to bear also, and make his voice and his views a part of our proceedings.

Herr von Wangenheim, since he is permanently prevented from taking part in the deliberations, has

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transmitted to me the following statement regarding Point VI of the question sheet:

"I gained the impression at the very beginning of the debates in the bank inquiry that the numerous specific questions, useful as they might be in directing the course of the debates, must find their chief usefulness in connection with the consideration of the technical points of banking. The discussion of general points of view would suffer from them. Thus, though the individual parts were in the grasp of the members during the debates, the spiritual bond to unite them was lacking, and consequently also the power of passing judgment on the functions of our banking system in the life of the people. Our bank inquiry, however, should bring to the 'life of the people' something out of life. It has always seemed to me, therefore, a doubtful proceeding to enter so deep into details that there would be danger of not seeing the forest for the trees.

"This impression is specially strong in considering the questions now before us under Point VI.

"The starting point of the whole bank inquiry was the crisis of 1907-8. The great body of the people are looking for an answer to the grave question: 'How can the recurrence of such crises be prevented in the future?' With this in view, I have given a connected general exposition of my opinions on Points I to V, in pages 496 to 539^a of the bank inquiry already published, and would refer to it here also in its entirety. Judging from the questions now before us under Point VI, the impression

^aThese are the pages of the translation as issued by the National Monetary Commission.—TRANSLATOR.

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created is that the Bank Inquiry Commission was convoked for the sole purpose of increasing the safety of the moneys intrusted to the banks. I must, however, emphasize particularly that that is only one of the secondary questions which, when the main question is solved, settle themselves. But if this main question—How in the future can the recurrence of great, general crises be avoided?—is left unanswered, then it is, in my opinion, of little practical value to trouble one's self about separate, technical improvements relating to a secondary question.

“The matter that has appeared in print concerning our question since the publication of my statements in the report of the commission, to which I have referred, has only confirmed my views. If, for instance, the *Frankfurter Zeitung*, in its well-known observations on the result of our inquiry, says that crises are the ‘necessary corrective of the haste to get rich,’ that quite agrees with my view of the matter. I differ with the *Frankfurter Zeitung* only in this, that I would check this evil, the haste to get rich, at its source and anticipate its consequences by demanding that banking legislation be framed which will have the effect of admitting to the market only such credit as is economically covered and excluding purely speculative and baseless credit; while the *Frankfurter Zeitung* is content to leave this evil, the haste to get rich, undisturbed in the future and to note again, at the next recurrence of a general crisis, that it is the inevitable result of the haste to get rich.

“I also demanded in the memorandum mentioned an imperial bureau of supervision for our banks and their

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credit transactions. But I can not agree with the view of Professor Fassbender, who would have this bureau cost as little as possible. The Reichstag had under consideration, with material participation of the Center, the question of insuring wage-earners against crises, and it was calculated that 80,000,000 marks of the national resources would annually be required for that special purpose. Now, if it is not difficult to perceive that prevention is by far the best insurance against such crises, and if this prevention of crises rests preeminently with an imperial bureau of supervision over the credit transactions of our banks, then, in my judgment, it is impossible that it should be desired to carry on this bureau with only 200,000 marks, while actual readiness was shown to appropriate 80,000,000 marks yearly as insurance against crises. The question of economy must not enter into the creation of such a bureau. For its responsible management only a certain small number of persons, whom almost anyone could name, can be considered. Their salary should be very ample; but they should be obliged to resign their office as soon as they shall have failed to prevent the occurrence of another crisis [laughter], unless the lawmaking bodies had failed to carry out their proposals of reform. In that case the entire responsibility for that crisis would fall upon those bodies. In this way only will it be possible to interest eminent specialists in helping to organize a modern credit system which will redound to the well-being of every section of the people engaged in productive labor."

Mr. MOMMSEN. Gentlemen, only a few words. I am not present in the afternoons, and should like to make at

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least a few remarks, especially relating to the views expressed by Herr Geheimrat Lexis. If I do not enter into a discussion of the views set forth by Herr von Wangenheim, it is solely because I, personally, do not wish to take part in the consideration of an absolutely insoluble problem. I regard it as absolutely impossible to find a means of preventing economic crises through legislation, a bureau of supervision, or in any other way; and I do not see why I should take up the time of the commission with the consideration of such a question.

I had requested permission to speak when Professor Lexis expressed his views. To begin with, I start, of course, from the same standpoint, that public interest does undoubtedly attach to the question how deposits and savings are managed. Whether this public interest also includes regulating the present management of these savings by legislation or otherwise, I have very strong doubts. I do not think that such an interest exists in the circles that are actively involved; that is, the people who take the money to the banks—I am speaking, first of all, only of the banks. For we should bear this in mind: Our question relates to deposits and savings. We are speaking here to-day—and, as it appears, indeed, with intention—about banks only in their aspect of accepting deposits and savings; and, as a matter of fact—I think every person engaged in banking will confirm this—the amount of the deposits and savings, in their real sense, especially in the case of the greater institutions, is infinitesimally small in comparison with the total of outside moneys.

We must not be misled by the statistics and publications of the banks themselves, for in the hearings of the

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experts it was made as clear as day by the individual experts that no definite line can be drawn between deposits and other outside moneys; it is an absolutely arbitrary distinction. If here, to be sure, the Deutsche Bank, or the nine Berlin great banks, state deposits at about one and a quarter billion marks and credits two and a half billion, and if some method could be agreed upon which would determine what constitutes a deposit of money and what savings—if these sums, amounting to nearly 4,000,000,000 marks, could be separated accordingly, then genuine deposits and savings would be found to be a quite infinitesimally small quantity. It is very clear that the division is a purely mechanical one. It was, indeed, explained to us at the time, that, for example, the Deutsche Bank or the Dresdner Bank separated deposits and savings from the other debits by classifying all the credits of deposit institutions and exchange offices as deposits and everything else as credits. That is, of course, not a true classification. The central and branch banks may also have deposits and the deposit banks may have credits, and in both cases the credits will generally predominate. Consequently, I believe that if only the question of the security and fluidity of deposits and savings is to be considered, the larger establishments—not only the great banks, which are precisely the ones upon which our economical development has in part depended and continues to depend—really do not enter into the question at all. Where it is that large quantities of such deposits and savings are to be found, the statistics help us to ascertain; it is in the smaller and, in part, the smallest institutions; there the securing of a certain security and fluidity

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is, of course, a desideratum. But if, on the other hand, we introduce definite restrictive measures and thereby lower the rate of interest, it is precisely these smaller institutions, whose maintenance is requisite to our economic development, upon which we shall inflict an immense injury; to the great ones we shall do no harm; they will not be impeded in their development, though their profits may, perhaps, be somewhat reduced.

Freiherr von GAMP-MASSAUNEN. Very gratifying.

Mr. MOMMSEN. Very gratifying—why?

Freiherr von GAMP-MASSAUNEN. Of course it would be very gratifying.

Mr. MOMMSEN. If they were reduced? Oh!

Then Professor Lexis takes up the relation of account-current debits to account-current credits and assumes here that these embrace the debit and credit items of business men only. That is an entirely false assumption. Among the debits, as among the credits, there are, naturally, debits and credits of private people as well as of business men, and up to the present no bank has come to the point of separating these different moneys or debits according to the status of the individual; it would, indeed, be practically impossible, since the one item often passes over into the other.

Professor Lexis was of the opinion that the relation between these account-current debits and credits should be differently treated according as they were private or business accounts, because the employment of credit items—that is, of the moneys belonging to business men—constitutes an entirely separate question in our economics. I believe that he errs on that point. He errs

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not only in the interpretation of those items, but also in thinking that those who have their business credits in the banks feel a very special interest in the question of how this business credit is managed and employed. They have only one interest, like everybody that takes money to a bank, and that is to be able to get it back when they want it. That is the whole thing, and for that I can neither devise a law nor do anything else; the banks themselves must be managed with that in view. As long as you can not make a law that a bank should be conducted in a certain way, it is useless to consider legislative measures tending in that direction.

Now, in the compilation which we have received, in the views of the press, of the experts, etc., and also in the remarks of Professor Lexis to-day, reference has been made to the law concerning checks, and the question has been raised whether it should not be declared a duty of the lawmaking power, or of the banks, to provide special safeguards, more than ever, for the check credits, which are now under legal protection. In the case of check credits, likewise, no distinction can be made between those of private individuals and those of business men; it can not be ascertained what is industrial working capital—which is always in question here—and what is the cash holdings of private individuals. There are check accounts, too, where there is no credit at all; we must not forget that. If the law pertaining to checks shall be used to impose additional duties upon the banks in regard to the investment of their outside moneys, then you will be taking a dangerous step. Ask any bank manager. In the check law the banks have no interest

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whatever—the greater the bank, the less the interest—and if you carry this matter to an extreme, it may happen to you that some fine day the nine Berlin great banks will meet around a table and say: “Since the check law is used, entirely contrary to the predictions and alleged purposes of the lawmaker, to throttle the banks, we shall, in a body, declare some fine day that we shall issue no more checks and shall allow no more checks to be issued.” And this would go, too. We shall thus probably save a great deal of money; but, of course, the economic advantage pertaining to the check system, which is now obtained in great part at the expense of the great banks, will not be secured.

But I would warn you against creating new burdens on the strength of the existence of the check laws, which are alleged to yield great advantages to the banks. Gentlemen, the check credit of every individual is so absolutely safe with the larger banks—I do not mean only the great banks—that unless some uncommon circumstances arise (which may happen even if you pass the most beautiful laws) it is entirely unnecessary to devise any additional special measures.

I do not at present wish to enter into particulars which Oberbergrat Wachler has discussed. But I think that we should not allow the occasion of this inquiry to pass without making it unmistakably clear to the public that no laws are really of any use in these economic questions; all that is necessary is to bring about a good organization of the banking system of Germany. The basis of that organization is to be found in our commercial code, and, furthermore, in the element of personality. We can not

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do anything beyond that; and I would earnestly warn against the advocacy of any changes by this commission. We should thereby only inflict a vast amount of injury, and could do no good whatever.

Freiherr von GAMP-MASSAUNEN. Gentlemen, that public interests are involved in this matter I feel is beyond doubt. Our entire money and credit system is so closely bound together that it is impossible that mistakes and evils that may occur in one department should fail to affect the whole of our economic life. But I do not conceive this public interest to consist in providing an absolute guarantee that every individual will be guarded against loss; that is impossible, and it is not the function of legislation, either in this or any other field. Hundreds of millions are lost through bankruptcy, because the buyer or the seller did not keep his eyes open, and engaged in business transactions with unreliable persons; and losses will likewise occur if the same carelessness is committed in depositing savings. On the whole, we may say: The losses in savings are comparatively slight, and, from this point of view, there can be, in my judgment, no ground for legislative interposition. [Hear! Hear!]

One remark in this connection. Why are the losses in savings deposits so slight? The largest amounts are held by the public savings banks. The savings banks are absolutely safe by reason of government supervision; they are safe because the disposal of the funds is given the widest publicity; because a certain number of persons naturally keep track of these matters. If 30,000 or 20,000 marks are given to some one on a mortgage upon a certain piece of property by the savings bank of any

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district, any community, the entire public has its eye on the matter, and if this sum is not secure it is immediately discussed and the remedy resorted to. Besides the savings banks are backed by the communes, which have thus far in Germany proved themselves perfectly capable of fulfilling their duties.

The Genossenschaften (cooperative banks) also I would credit with absolute security; for, whether they are Genossenschaften with limited or unlimited liability, the guarantee is considerably greater in every Genossenschaft than the amount of the obligations. There have, as a matter of fact, therefore, been no material losses of savings in the Genossenschaften.

Mr. MOMMSEN. Is that so?

Freiherr von GAMP-MASSAUNEN. Some of the members of the Genossenschaften have lost their money there; but that is quite another matter, into which I do not wish to enter. But through the auditing arrangements, through the supervision of state authorities, and particularly now through the Preussenkasse, there is brought about such a safeguarding of the obligations of these institutions that losses to depositors are hardly possible. The Preussenkasse, and likewise the Genossenschaften, inquire so closely into the personal circumstances of the individual cooperative members that it hinders many from joining the Genossenschaften, since they object to having all their financial and property concerns made known to outsiders.

Thus, gentlemen, security in my estimation is so well provided for that the interposition of legislation is absolutely unnecessary here.

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But how about *fluidity*? The savings banks, gentlemen, really seldom have actual fluid resources. In speaking of fluidity we must distinguish between real fluidity and fluidity as it is understood in ordinary life. Short-term bills, state securities, debentures, etc., are spoken of as means of securing absolutely the fluidity of an enterprise. That is, in my opinion, a mistake. I can not always dispose of a bill. For state and municipal securities, to be sure, a purchaser may be found any time that one wishes to dispose of them; such papers, then, are means of bringing about fluidity, but this is not true of bills, even though they be absolutely safe, which can be realized on only by taking them to the Reichsbank. The savings banks, Genossenschaften, banks, etc., do not wish, however, save in exceptional instances, to sell the state and municipal securities, but to use them as collateral for money which they temporarily need. For such loans on collateral they can count with certainty only upon the Reichsbank. But in the same measure in which the Reichsbank accepts bills from the savings banks or the Genossenschaften or advances money to them on consols, etc., in order to secure their fluidity, it weakens its own resources, which it requires for the fluidity of its own obligations. Thus, gentlemen, it is not an assured fluidity for the savings banks or the Genossenschaften to have government securities, bills, etc., at their disposal; fluidity must be brought about in some other way.

How, then, is the fluidity of the savings banks to be secured? For this purpose it would, in my opinion, be expedient to provide that the savings that may be withdrawn at any time or those that can be withdrawn at

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very short notice shall not exceed a certain percentage of the total deposits. I think that such a restriction would not be at all prejudicial to the economic interests of the public. A person who to-day takes his money to the savings bank is asked by the bank official: "Do you wish it to be payable to you at any time or upon notice?" "Well," says he, "I would rather have it payable at any time."

[An interruption by Mr. Mommser.]

Freiherr VON GAMP-MASSAUNEN. But it is withdrawable at any time.

The CHAIRMAN. There is no uniformity on that point.

Freiherr VON GAMP-MASSAUNEN. There are, of course, people who want to be able to withdraw their money at any time, and some of the savings deposits would not be made if they were not withdrawable at will. In that respect the savings banks ought to be subject to certain regulations, so that the demands which have to be satisfied at any time should not attain too great proportions. Precisely in the case of savings banks a disturbance rarely exerts any material influence upon the general credit and money system, because the runs upon savings banks are mostly, or exclusively, traceable to local causes. If there is a run upon a particular savings bank, it happens because certain reports are circulated in the city that the manager is not reliable, or that some irregularities have taken place; but, except in case of international troubles and wars, this disturbance will not spread all along the line, and will, therefore, not produce any serious effects upon the general money and credit system of the nation.

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The fluidity of the Genossenschaften and the savings banks, then, is not sufficient. It must be demanded that both shall have at their disposal at all times a certain portion of their savings deposits in ready money, and that another portion shall be put into investments that may be realized on at any time, such as bills and government securities.

In the case of private banks, gentlemen, the circumstances are quite different. I recognize perfectly that not only the great banks but also nearly all the middle-sized and even smaller banks are admirably managed, and that, viewed from this standpoint, the necessity of imposing such regulations upon them can hardly be urged. But the effect upon the money market if a serious run on a great bank were to take place would be so momentous and entail such grave consequences upon our business affairs in general that we can not pass this question by lightly and carelessly.

Herr Mommsen remarked that for the great banks such a reserve would mean a slight diminution of their income.

Mr. MOMMSEN. I did not speak of this point!

Freiherr VON GAMP-MASSAUNEN. It was to this that my "gratifying" referred. But I think that if the having on hand a certain amount of cash reserve, of moderate proportions, is not a vital question for the banks, but signifies only a slight diminution of their income, which it actually does, the great banks can not, in good truth, be absolved from that obligation. But that in the case of the small banks, gentlemen, there are serious objections against the holding of large amounts of savings

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deposits, I would ask you to gather from these statistics. If 82 small banks—banks with a capital of less than 100,000 marks—have 10,500,000 of their own and 98,500,000 of outside moneys, and of this last 96,500,000 are deposits, then these are very serious considerations. These small banks have a tenfold amount of deposits on an average. Some of them, therefore, must have a much larger quantity still of outside money in proportion to their own resources. It is by all means necessary here to ponder these things seriously. It ought to be provided that the amount returnable at any time on demand shall not exceed a certain percentage of the bank's own capital. In the case of the great banks this is provided for by their natural business requirements. The Deutsche Bank has 200,000,000 of capital and about 450,000,000 in deposits; thus, these are normal conditions. But if the deposits of a bank are ten times as great as its own capital, it is a very serious matter, which legislation can not overlook.

Now, gentlemen, the following question was exhaustively discussed in the previous deliberations also: Can a distinction be made between deposits and credits? May both be treated alike? The two categories present, of course, very considerable differences, both as to their origin and in regard to their economic significance to the persons concerned. But in one respect no difference exists between them. Credits that may be withdrawn at any time or upon very short notice require a fluidity just as great as deposits that may be withdrawn at any time. If I were to declare my position, therefore, as to legislative measures, to which I shall recur later on, I should not make any difference in that respect between deposits and

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short-term credits, and should provide that all obligations of the bank subject to demand without notice or upon very short notice be treated alike, so far as security and fluidity are concerned, and that for these two categories—actual deposits and the short-time credits—certain regulations should be instituted, about which I shall express myself later.

The CHAIRMAN. Gentlemen, it is half past 1 o'clock. I would propose that we take a recess and reassemble at half past 3.

[Recess.]

The CHAIRMAN. Gentlemen, we resume our deliberations. I request Herr Doctor Ströll to give his views.

Doctor STRÖLL. Gentlemen, there is not the slightest doubt in my mind that the German deposit system is a subject that possesses a high degree of interest for the public. The simple fact of the gigantic amount of capital involved—if we include all classes of deposits, it amounts to perhaps 25,000,000,000 marks—is a sufficient justification of that interest. To watch over this enormous capital, to observe the channels from which it flows, how it distributes itself, how it is directed and administered—these are undoubtedly economic problems that are most intimately connected with the national welfare and the welfare of a vast number of the citizens of the state. The deposit problem enters very profoundly into the progress of the national production and the weal and woe of the individual business man.

As for the question of the security and fluidity of deposit funds, the question of security may, perhaps, be eliminated

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for the present. If the deposits are fluid, they are likewise safe; fluidity is a heightened degree of security. On the other hand, some investments are not characterized by absolute fluidity and yet are perfectly safe. Let us, then, take up the question of fluidity first. The question of security, in so far as it will not be answered of itself, is a thing to be considered separately.

In investigating the subject of fluidity a distinction will have to be made between the theoretical and the practical side of the question.

Fluid in the abstract, theoretical sense, German deposit funds certainly are not, or, at most, only an infinitesimal part of them—the part, namely, that has ready money for a cover. All other deposits that have other covering—the great mass of them, therefore—are theoretically non-fluid; for these other kinds of cover must in case of necessity look out for a way of being converted into cash, and, what is the main point, be able in the given instance to find it, too. Theoretical nonfluidity is, consequently, with few exceptions, the rule.

Nevertheless, this condition of affairs is not, as every practical banker knows, specially menacing, for, in spite of the theoretical nonfluidity, it is quite possible that for all practical purposes the fluidity may be quite sufficient. Such practical fluidity is all that we need be concerned about, and it may be regarded as actually prevailing in the great majority of cases.

The two greatest German credit institutions, the Reichsbank and the Deutsche Bank, have gigantic obligations of the short-term variety resting upon their shoulders, obligations referring to their circulating notes and their

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deposits respectively. Either institutions would be embarrassed if it were called upon to redeem these obligations by a sudden presentation of its entire issue of bank notes or a sudden withdrawal of all its deposits. I take this extreme example to show the vagueness of all theory, for theoretical possibilities are often practical impossibilities. Life, however, reckons only with practical possibilities and draws its conclusions from them alone.

Life and the business world reckon with facts of experience extending over many years, with average estimates and calculations and with computations of probabilities. Were this not done; were, instead of a moderate optimism, a crass pessimism to hold sway, all the national savings, all business reserves, and in general all capital which, temporarily unemployed by the owner, is placed with others on call, would be simply shut up in safes and could not be put out at interest. ["Very true!"] The economic and cultural employment of the savings of the nation would thereby be made impossible. And from the modern economic system there would be eliminated one of its most important factors, credit and the reciprocal business confidence of all in all. ["Very true!"]

Gentlemen, in speaking in a general way upon the question of the fluidity of the banks, savings, institutions, and Genossenschaften, there is another consideration of great practical importance to be taken into account; one which, in my opinion, was touched upon far too lightly in the hearings of the experts.

In the modern economic organization, where all the various credit organisms are linked with each other in a thousand ways, it will not by any means do to regard

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each separate institution—in our case the individual depositary—by itself and, in a manner, to dissect it; this would lead to erroneous and far too unfavorable conclusions. The individual must, on the contrary, be regarded and estimated as part of a whole, or at least as a member of the category to which he belongs. All the members jointly are united into a whole; they mutually guard, sustain, and support each other like the celestial bodies in the planetary system. Over the individual there extends the protecting arm of the whole. If one member falls there is a crackling through the entire structure, a premonition of a threatening general disaster.

This, gentlemen, is of immense and far-reaching practical importance, for, from the structure just described, we obtain, as a practical application, the mutual support, the reciprocal giving of aid on occasions of need and stress which threaten the individual organism within the limits of his own category. This aid, moreover, is by no means given solely in the interest of the person in danger or prompted by feelings of altruism, of mutual consideration; no; it is often prompted by selfishness and egotism, by regard for one's personal welfare, inasmuch as, in an enforced solidarity, we must stand by one another lest in the fall of one individual all, or at least many, be dragged down with him.

To cite instances of this half compulsory, half voluntary solidarity, I feel is unnecessary in an assembly of experienced, practically informed men. We are, indeed, very familiar with these conditions: The diversified chapter of aid given, of painless liquidations, etc., is known to us all, I might almost say, only too well. Based upon the

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consciousness of this absolutely essential solidarity, there have been developed, as you know, various permanent, protective institutions, which the community has established in the interest of the individual, and which are a sheltering roof over the organisms of a certain category: Bank associations, syndicates, central institutions, auditing bureaus, clearing houses, etc. In short, protective organizations and protective unions of all kinds, partly of a preventive, partly of a restrictive character—an extensive protective apparatus, therefore, evidencing the lively interest of the whole in the welfare of the parts. This point will, perhaps, be considered in greater detail in discussing the three classes of deposits spoken of in the question sheet.

And to these concrete agencies, whose function it is to guard the fluidity of the individual depositary, and to guarantee it as far as possible, are joined valuable intangible factors. I mean the instruction, enlightenment, observation, and critical illumination which have for a number of years been furnished by the professional press and in the literature of the subject; furthermore, the ever-increasing publicity of banking affairs. All these circumstances must serve to impress the managers of the deposit institutions, be they termed what they may, more and more with the necessity of occupying a position of unexceptionable fluidity, and to quicken their conscience. Most assuredly the effort to attain the greatest possible fluidity is to be seen everywhere.

I lay special stress upon the words greatest possible fluidity, for no institution, as has already been explained, can, in my judgment, pretend to absolute fluidity; for to do so it would have to lock up all the outside moneys that

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it receives in a safe and wait until they are demanded back. The depository satisfies the demands of fluidity if it keeps on hand an equivalent of the outside moneys entrusted to it; a small fraction in cash, the main part, however, in what are known as easily realizable assets—that is, according to current acceptation, in bills, good securities, and debits; and even here, as far as possible, not only such as are simply realizable, but such as are realizable at once. Realizable; in other words, convertible into cash. But convertible where, and convertible by whom? And here we come to the crucial point of the matter; to the pivot, indeed, upon which the whole question of fluidity turns.

Neither with bills nor first-class securities can a deposit-debtor at once procure by his unaided efforts the means to pay back deposits demanded suddenly and in unexpectedly large quantities. He needs here, in fact, in so far as he may be short of cash, a potent intermediary who will discount his bills and ledger-claims and buy his securities or advance money upon them. These intermediary services are, in normal times, gladly and willingly rendered by those who furnish credit, and in the case in question by the banks, from the smallest to the greatest. It is through this interposition of rediscounters and acceptors of collateral that the fluidity of the individual deposit-debtor is guaranteed. The final and supreme agency, however, upon whose shoulders everything ultimately rests, upon which everything converges, which represents the general reservoir of the means of payment, and must be ever ready when all else fails; this, the great rediscounter and acceptor of pledges, and chief sponsor of the

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general economic fluidity, can only be a central bank provided with an elastic power of note issue, and operating throughout the country by means of its branches, such as, fortunately, Germany possesses in the Reichsbank. ["Very true."] The powers of this sponsor of fluidity have just been considerably increased by the last supplementary bank act, and will, it is to be hoped, always be sufficient to enable it to meet all legitimate and just demands.

Gentlemen, where the national credit system has well-organized, efficient bourse arrangements at its disposal and can point to a powerful central bank of issue as its pivot and center, the question of fluidity must be judged entirely differently and infinitely more favorably than where such supports are lacking. It is only necessary to recall the American crisis of 1907, which was very instructive precisely in this respect. In normal times the business of a country stands in comparatively slight need of a supreme credit institution; fluidity is then sufficiently cared for and guaranteed by the lower and middling agencies; in normal times pretty much everybody is all right as to fluidity, while in critical times scarcely any one is—possibly not even the Reichsbank, or if so, only because it may in case of need resort to forced circulation. Anyhow, the Reichsbank can create lawful money and distribute it with a lavish hand and thus the specter of nonfluidity, of individuals and of business interests as a whole, may be exorcised. In the case of the individual only so far, of course, as he has the benefit, either directly or through an intermediary, of access to the Reichsbank, the general reservoir of the circulating medium.

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The degree, therefore, to which the individual depositary can have recourse, in case of need, to the general source of money, is the measure of its fluidity in a time of disturbance. I take no account here of the possibility that the individual depositary may be the possessor of realizable international paper. The possibility of obtaining access to the resources of the Reichsbank is fixed by law. The Reichsbank is obliged to discount and to advance money on collateral; it can not evade this legal obligation. Whoever, then, wishes to make use of the Reichsbank must offer it good bills for discount or first-class securities for advances of money. The bill must be good, that is, be redeemed at maturity, otherwise it will go back and the fluidity of the depositary concerned will rest on a slender basis. As to what constitutes a good bill, one that will be rediscounted by it, the Reichsbank is the supreme judge. And consequently the Reichsbank is the final arbiter as to the fluidity of every deposit-debtor, be he ever so great and powerful. In 1901, 60,000,000 marks in deposits were withdrawn from the Dresdner Bank. Had not the Reichsbank intervened in a helpful way with great rediscounts, embarrassments might have arisen.

Summing up, gentlemen, I wish to emphasize this point: In examining the question of fluidity, the individual depositary must not be regarded as an isolated, or at least as an altogether isolated, organism; it must be regarded rather as occupying a place in its class as a whole, in its environment; it must be regarded as a part, and in a certain measure as a beneficiary, of all the important economic institutions and mechanisms that contribute to

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the maintenance of fluidity. If we do this in regard to the Germany of to-day the result of our observation must, speaking broadly, be distinctly favorable as to the conditions prevailing in this regard in our deposit system.

I have considered these preliminary remarks to be necessary and important, and beg your pardon if I have been somewhat discursive. I can, on the other hand, be so much the more concise in considering the different classes of depositaries.

Our question sheet states these classes to be: Banks, savings institutions, and Genossenschaften—a trio, therefore, very dissimilar in character and circumstances. Dissimilar in economic purpose, in historical development, and in internal organization; dissimilar especially in respect to the part played by their own funds—a point of such importance in the deposit problem—their own cover at their disposal from their own resources, as distinguished from outside resources. In this important point the banks occupy the strongest position, the savings institutions the weakest, while the Genossenschaften occupy a middle ground.

Before considering the different classes of depositaries I shall say just a few words in regard to the German deposit system as a whole. The statistical figures are generally known. Conclusive statistics we do not, indeed, have, if only for the reason that there is no definite idea as to what the term "deposit moneys" signifies. Figures, for that matter, are perhaps of minor importance. What is above all important is to determine the general situation, the general trend; and the direction of this general trend is perfectly clear and undisputed. Well known, in

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particular, is the fact that the deposits in the banks have increased enormously in the last decades, while in the case of the savings banks and the Genossenschaften the increase has been on a smaller scale. Equally well known is the keen competition for deposits that prevails in the banking world, this being further promoted by the decentralized organization of the banks and by other circumstances. Conspicuous, moreover, is the general tendency toward concentration of deposits in the great banks, and above all in the Berlin great banks. It is known to everybody, furthermore, that the investigation which has been inaugurated regarding the deposit system is specially aimed in the direction of the banking world of Germany.

The banks, therefore, form the most interesting chapter. Allow me to linger over them a while. They have over 8,000,000,000 marks of outside moneys in their hands—a mighty sum. But mighty also are their own resources in share capital and reserves, standing as security and guarantee for the outside moneys. And the way that deposits are generally covered is entirely unexceptionable, and in accord with the fundamental principle of banking management that the asset business must be in keeping with the liability business.

A single speaker can, of course, give only a general outline of things here, a bird's-eye view, and can not enter into the particulars. For the extremely interesting particulars I refer you to Lansburgh's recent publication, "Das Deutsche Bankwesen von 1857 bis 1908" (The German banking system from 1857 to 1908), which gives a searching analysis of the condition of the great banks,

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the middle-sized and small banks, and presents the results arrived at in a broad and comprehensive way.

Now, gentlemen, how is it in regard to the cover of the deposits held by the banks? Have the banks readily realizable assets at their disposal as against outside moneys that are payable on demand? Have they access through these assets to the general reservoir of circulating medium, the Reichsbank? These questions may, as a rule, be answered in the affirmative. Outside moneys are covered in a small part by cash, in a far greater part by bills and debits. And, indeed, it is generally regarded as an axiom of banking and carried out in practice that 40 per cent of the deposits shall be covered by cash or bills, 60 per cent by debits; while the bank's own resources are utilized in the less fluid and more risky business connected with the handling of stocks and promotions. Lansburgh states further that the proportion of their own resources to outside moneys is favorable in the case of the great and middle-sized banks; least favorable, comparatively, in the case of the small banks.

The 40 per cent cover in bills above mentioned constitutes, in the event of an extensive recalling of deposits, the most fluid part of the cover; more fluid than the debits, because, although bills may be rediscounted at the Reichsbank, ledger accounts can not be. The cover in bills must, therefore, be considered along with securities which can be used as collateral, as the *pièce de résistance*. And this it actually is, provided an essential condition is fulfilled, namely, that the quality of the bills is good; that is, that they are such as will be redeemed at maturity or that before maturity they will be rated by the Reichsbank as good enough to be rediscounted.

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Upon this very important point, gentlemen, I must say a few words. Opinions as to the quality of the German bill circulation are, notoriously, divided. It is pointed out that the German bill circulation is decidedly more extended and greater relatively than is the case in neighboring countries. Moreover, that in Germany many a transaction is carried on in the shape of bills, which shape it should never have assumed, because it does not fit into it. And yet—it is further said—this great and at times artificial and nonfluid mass of bills is not sufficient to satisfy the great demand, emanating for the most part from the banks, that exists in the bill market. This urgent demand gives rise on its part to a supply of illegitimate bills. Thus the thing goes on in a vicious circle, and from this unhealthy condition there results a deterioration of the German bill circulation in general, which, increasing in quantity, is constantly losing in intrinsic quality.

Gentlemen, these criticisms are not altogether without foundation. I conclude this not only from my own professional experiences, but from what seems a very striking fact. The highest authority passing on the character of our bill business, the Reichsbank, found itself called upon last year to restrict the range of the paper which it would rediscount, and other rediscounting banks have followed its example. From this it may be inferred that not every German bill portfolio is of such fluidity that it might be marked "interest-bearing cash." You know, gentlemen, that the step taken by the central bank was much discussed and assuredly furnished food for thought.

Now, it may be that in our bill business there are some things that are not as they should be—it may be that in

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Germany some transactions take the form of bills which, strictly considered, should not do so; but there is no particular occasion for any exaggerated fears—that is, so far as the question of fluidity is concerned, for it is not necessary, in order to guarantee the fluidity of deposits, for every bill in every bill portfolio to be fluid. The fluidity of a fraction of them would suffice for this purpose. In practice, for that matter, everyone who regularly discounts at the Reichsbank examines his bills, so as not to risk a refusal. And it is not as if the fluidity of the deposits depended exclusively upon the bill portfolio; the deposits have other props and guarantees of fluidity besides—money, debits, securities available as collateral, international paper, etc. And if the bills were really of as doubtful a character as they are said to be, it would become noticeable not only in the number of protested bills, but particularly in the shape of losses in the bill business of the banks. So far as I have been able to observe, neither the one nor the other is the case. And as for the more rigid censorship on the part of the Reichsbank, it would, in critical times, in its own interest, as well as with a view to the general good, have to guard against bending the bow too far by exercising too severe a censorship.

On the whole, gentlemen, I have not the impression that there is much the matter with the fluidity of the banks in Germany or the outside moneys handled by them. The general observance of sound banking principles, the adaptation of assets to liabilities, the access of the banks to the Reichsbank through their bill holdings, the mutual protection that the banks must extend to each other by

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reason of a self-interest well understood, the connection of nearly every institution with some greater concern or syndicate, and the consequent increased capacity of resistance enjoyed by each, the high degree of publicity and supervision that exist in our banking system—all these, gentlemen, all these varied circumstances and facts, these protective arrangements, all this in its combined operation and its resultant effect causes the German banking world as a whole to present, in my opinion, not an unsatisfactory, but on the whole a thoroughly satisfactory picture. That, in spite of this, we have from time to time very distressing manifestations and very regrettable experiences in the domain of banking, gentlemen, is inherent in the imperfection of all things and all men. No legislation can prevent that.

And now, gentlemen, as to the *Genossenschaften*. Here we are dealing, at least in great part, with a *terra incognita*. Up to the present there have been no comprehensive statistics, at least so far as I know, of the German *Genossenschaft* system, with all its various forms and methods. The total amount of the deposit moneys handled is said to be 2,500,000,000 marks. We have had reliable estimates only in regard to certain States of the Empire, and in these particular regions the *Genossenschaft* system can, to be sure, point to excellent authorities upon the special conditions there. We have, indeed, three such men among us here—Herr Doctor Heiligenstadt, who is not here just at present; for Bavarian affairs my esteemed compatriot, Freiherr von Cetto; and for conditions in Baden, Herr Peter. How, indeed, would it have been possible to get a thorough knowledge of the

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German Genossenschaft system? We can, if necessary, obtain a general view of the few hundred joint-stock banks, but hardly of the 16,000 Genossenschaft institutions with all their various methods, for they are hardly under strict legal requirement to make a statement, not to speak of any obligation of regular publicity. Just at the right time there comes a work giving comprehensive balance-sheet statistics of the German Kreditgenossenschaften, transmitted to us by the Reichsbank; a thoroughly lucid, precise, and fine piece of work, which has filled in the happiest manner a gap in the literature of the subject. This memoir contains much numerical matter and abstains, except on one point, which relates to the rediscountability of bills, from drawing conclusions. The conclusions are obvious enough. The memoir, as a result of its exact investigations, fairly confirms the view which has hitherto, one may say instinctively, been entertained in regard to the fluidity of the German Kreditgenossenschaften.

Everybody has instinctively felt that the fluidity of the Genossenschaften does not stand on a level with that of the banks. The assets are less fluid, the proportion of outside moneys to their own resources less favorable; the liabilities, on the other hand, are less urgent and dangerous because they are for the most part subject to demand only upon notice. Bills less fluid, owing to their origin, and not rediscountable; less cover in the shape of securities; on the other hand, assets in the shape of valuables of various kinds left as collateral, but not always of the first quality. Credits in dribbles, granted in large part to people of small means, with the inevitable

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accompaniment of numerous and frequent extensions. Occasionally, lack of careful business management and inadequate training and experience in business matters. And, along with these things, something of local patriotism, some vestry-interests, and what we call in South Germany *Vettermichelei* (cousinly feeling), a certain inclination to act with neighborly and cousinly kindness. All intangible things, which are fostered and heightened by the local, restricted sphere of activity of the small *Genossenschaften*.

Fortunately these circumstances, which are rather unfavorable to the fluidity of the German *Genossenschaften*, are more than neutralized by other factors which have an entirely opposite and a decidedly favorable effect. There is, for one, that most potent and fundamental principle of cooperation, which links the members and the associations in town and country in a brotherly bond and, with its guarantee of solidarity, furnishes the associations to a notable degree with a strong basis for credit. "Each for all, all for each," is a motto not only of ideal potency, but of practical efficiency; and that is the source of the cooperative activity which, meant to affect only a certain circle, is directed toward that end alone; to it is due, furthermore, the obligatory and constant supervision of the affairs of the associations introduced for the protection of the members, which has such a salutary effect; this supervision embraces not only the formal, but the material, character of the business, and is conducted by experts acting as examiners and advisers. It is the cause, too, of the solidity of the cooperative institutions, of their firm hold on the locality in which they are situated,

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and of the intimate familiarity of the members with the circumstances and needs of their fellow-members. And, finally, the development of this idea of cooperative aid has brought about the creation of protective establishments of all kinds throughout Germany, which gather the separate institutions under their wing and cover them like a sheltering roof—protective unions, central loan institutions, clearing houses, exchange brokers' and disbursing concerns, or whatever all these arrangements may be called in the different parts of the country. Though all these organizations are of importance in the regular course of business, they are especially important as bulwarks at critical junctures, when the stress of the times threatens the *Genossenschaften* and their fluidity, for then the potent and well-accredited mediative agencies indirectly affect the access of the cooperative organizations not only to the banking world, but above all again indirectly to the great, powerful central bank. And it is precisely this, as I have already often emphasized, that is of decisive importance in the matter of fluidity. ["Very true!"] The small local *Genossenschaften* can not apply for general bank credit because, as the memoir shows, the bills they hold are not, as a rule, such as can be directly rediscounted. This must be and is done through intermediaries, and in this way the activities and benefits of the central monetary institution, the *Reichsbank*, penetrate indirectly into the remotest channels and are, in due proportion, of service to those who do business on a very small scale.

I may in this connection refer to my professional experience, and I recognize in the credit-granting feature,

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which I have just described, an extremely important and valuable guarantee of the fluidity of the Genossenschaften in general. Naturally I should like to see in addition that the strengthening of their own capital by the individual Genossenschaften should not be neglected. An increase in their capital and surplus is doubtless greatly needed and would tend to increase their fluidity.

I now come to the third of the main species of German receivers of deposits—the savings institutions.

On the subject of the German savings institutions, which manage such a vast amount of deposit-capital, nearly double that of the banks, I can express myself briefly.

The moneys in the savings banks are extremely safe and just as extremely nonfluid. They are safe because, as a rule, the communes or districts stand behind the savings banks as sponsors, and there can, therefore, be no question of inadequacy. A case of bankruptcy of a communal savings bank is, indeed, practically inconceivable. The savings banks are nonfluid only because their assets are not as readily convertible as is to be desired in relation to deposits payable on demand.

Of assets in the shape of bills, the savings banks have little or nothing, although more in securities, yet by no means enough; a great deal, on the contrary, in mortgages, 60 to 70 per cent, in which the bulk of the deposits is invested, and, moreover, partly in highly nonfluid second mortgages, in spite of "control" and "pupillary security." In addition to this, the cumbrous bureaucratic administration, the lack of publicity, and the small amount of the banks' own resources must be

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added as unfavorable factors; the obligatory auditing of accounts by the commune and board of trustees, on the other hand, stands as a favorable factor.

This condition of affairs would, but for the subsidiary guarantee of the municipalities and districts, mean not only nonfluidity but positive danger; that guarantee settles the question of security, but not by any means that of fluidity. A certain thoroughgoing modernizing would in the case of the savings banks be really no luxury. I would remark, quite incidentally, since we are engaged upon an imperial inquiry, that the savings-bank system does not at present fall under the imperial jurisdiction, but under that of the separate States. In particular, the savings banks are completely debarred from possible admission to the Reichsbank, a thing which may become very critical in a time of stress. On their mortgages they can not get a brass farthing from the Reichsbank. Securities and other effects upon which money can be borrowed, they do not possess in sufficient quantity, at least in the case of any sudden and widespread trouble. This condition of the German savings banks constitutes a deplorable defect in our financial preparedness for war, and I fully understand the view of the Prussian Government, which wished to compel the savings banks, at first by legislative requirement—unfortunately in vain—to hold a greater quantity of first-class securities, and now seeks to attain the same end by administrative means. I wish this proceeding would serve as a model for all Germany and find imitators; otherwise communities may experience serious embarrassments in critical times.

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For the rest, it must be admitted that even without compulsion the conditions referred to have improved, there having been a considerable increase in the percentage invested in securities. For Bavaria I have characteristic figures at my disposal, which I may be able to communicate later. In Bavaria savings banks have been granted permission to invest in bills, particularly in bills indorsed by certain banks. There are, of course, two sides to this, for the demand for bills becomes steadily greater in consequence, and that is a thing to which there are objections.

I would now permit myself briefly to sum up my views. The deposit moneys intrusted to the depositaries referred to, amounting to perhaps 25,000,000,000 marks, I regard, in the aggregate, as safe. In respect to the degree of fluidity, there are considerable differences and gradations. Here the palm must undoubtedly be accorded to the banks, on account of the nature of their assets. Then follow the *Genossenschaften*, and only after them the savings institutions. However, the *Genossenschaften* and the savings institutions have guarantees in the background which the banks lack. I pointed out, moreover, that in some cases what appears as theoretical nonfluidity when considered in isolation is nevertheless practically transformed into fluidity by intervening circumstances and protective agencies. The degree of fluidity prevailing in normal times may, on the whole, be characterized as satisfactory. In abnormal times, on the contrary, the fluidity of every concern must, to a certain extent, be regarded as diminished, and depends upon the degree of access it possesses, and makes use of, to the

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central bank, at least in so far as it has no realizable international securities at its disposal. The savings institutions and Genossenschaften have as good as nothing of such holdings. The Reichsbank, gentlemen, is and remains the prime sponsor, not only of the fluidity of individual depositaries, but of that of our entire economic system. ["Very true!"] This is my firm conviction, and just because I entertain that conviction I must, in closing, emphasize one point most expressly.

Gentlemen, this guarantor of fluidity must not be misused by the lower concerns ["Very true!"]; the Reichsbank must not be sinned against. If, as sometimes happens, the numberless intermediary credit concerns do not hesitate, when circumstances suggest such a course, to unload everything on the shoulders of the Reichsbank ["Very true!"], then I, as the director of a bank of issue, who professionally stand, perhaps, somewhat closer to these conditions, would call to the Reichsbank: "Landgrave, be stern!" ["Very good! "Quite right!"] In looking over certain recent returns of the Reichsbank, one involuntarily feels somewhat doubtful whether the necessary discretion and the necessary restraint are everywhere observed in relation to the central bank. It is quite needless, gentlemen, to name any individual offenders. I regard that as entirely superfluous, for here it may really be said: *Peccatur intra muros et extra*. For how can one preach self-restraint to business concerns and the banks if the imperial treasury itself sets a bad example by making excessive demands upon the central bank? ["Very good!" "Just so!"] But I refrain from going into further details.

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Gentlemen, from the whole drift of my remarks it may be gathered that I am not inclined toward a great degree of legislative interference in the domain of the deposit system. But by this I do not at all mean to say that in particular instances this or that specific measure, such as those mentioned in the syllabus of the president of the Reichsbank, may not be very useful. But that will be discussed later.

Mr. GONTARD. Gentlemen, I am in agreement with a great deal of what I have heard to-day; particularly with the admirable remarks of the last speaker. If I do not deliver the elaborate opinion which I have prepared, it is only out of regard to your time, and not in any way because I deem it not worth while.

In considering the first question: Does it seem warranted in the public interest (and upon what grounds?) to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings? the further question at once suggests itself as to what legislative measures might be useful. I think I shall eventually give an affirmative reply to that question in one direction or another, but I am fully aware of the responsibility that rests upon this commission. I do not think that it is necessary to settle the matter in such great haste; the whole question must be treated with the greatest calmness and the greatest impartiality.

One reason that chiefly inclines me toward possible legislative regulation does not indeed apply to the security and fluidity of the money institutions at all. But since so much has been said to-day on that point, I, too, may perhaps be permitted to make a few remarks upon it. I

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mean the relation of the power of the great banks to that of the Reichsbank. It has been somewhat painful to me—I am recurring here to what one of the representatives of the banks said this morning—that we have assembled here again after our inquiry developed, contrary to general expectations, into something like a commission of investigation directed against the great banks; and still more painful is it to me that we, in a way, approach the great banks in this assembly with the request: “Be so kind as to furnish us with the weapons with which the Reichstag can proceed against your own interests.” [Assent and laughter.]

However, gentlemen, sympathy for the great banks is perceptibly diminished on hearing assertions such as we heard from Herr Mommsen this morning. I must say that I had a feeling—Herr Mommsen was speaking about the check-system—as if his utterance contained a kind of mild challenge. Increased rights, increased duties! I hope that the great banks are conscious of their mission, to support the Reichsbank in every respect; and I hope, in particular, that the Reichsbank is supported by the great banks in its efforts to attract gold. As regards activity in this direction, I have grown somewhat doubtful, because I have heard nothing further about Herr Fischel’s fine plan concerning the establishment of a gold market here in Berlin.

After this digression, permit me to say a few words as to the relation of industry to the banks, since I am here in their midst as an industrial in a small way. I know quite well that if the power of the banks were to be somewhat curtailed, in one way or another, it might have the

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effect of restricting industrial credit. To be sure! But I say to myself, there might be developed other kinds of money institutions to provide industry with money, and then I say, further, that if measures were adopted which would lead to a greater uniformity in discounts and as a consequence in rates of interest, then the benefit to industry would, under certain circumstances, be far greater than the injury produced by a slight restriction of credit. I am, anyway, of the opinion that it is not well for industry to be too dependent upon the banks. And if I may be allowed another slight digression, I would say that I have already suggested in industrial unions—unfortunately without success—that the industrials should combine for the purpose of placing the shares of the Berlin great banks controlled by them in charge of a central board, which would represent them in the general meetings of the banks, with a view to securing in this way some insight into the bank's affairs and procuring the election of members of the supervisory councils who would not represent merely the interests of the great banks, but who, more than hitherto, would put the economic and the national point of view into the foreground in the management of the great banks.

I hold it a general principle, also, that all legislative measures whose execution can not be effectively supervised are practically worthless. I may say in this connection that I regard it as impossible for credit banks to be effectively supervised by a bureau of supervision. The supervision must come from within. And just here I would request our delegates in the Reichstag to see to it that steps be taken, particularly so far as banks are

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concerned, toward procuring legislation bearing upon the supervisory councils. It has been pointed out to me by various parties, whose judgment I regard as more conclusive than my own, that this question does not belong here. I shall, therefore, not dilate upon it further, but I wished to draw attention to it once more.

The weightiest arguments for the interposition of legislation are so well put in the publication "*Zur Frage der Regelung des Depositenwesens*" (On the question of the regulation of the deposit system) that I shall only say that I agree essentially with the views expressed under "A," pages 9 to 15. I know, of course, that the managers of our great banks are at present honorable men and open to no criticism, but I am afraid that, under certain circumstances, this might not always be the case.

So far as to-day's debate is concerned I can only say that I am decidedly of the opinion of those gentlemen who hold that it is hardly possible to make any essential distinction between deposits and most other outside moneys.

As regards security, I know very well that our great banks are most remarkably safe to-day; they are decidedly the safest institutions we have. The small banks are not quite as good, although I know quite well that there are a great number of private bankers who are likewise irreproachable in that respect. The *Genossenschaften* I consider as less safe than the banks. On the other hand, the security of most of the savings banks is quite unexceptionable—placed beyond all doubt. As for fluidity, I feel as if—all this, to be sure, is a matter of individual feeling—the degree of fluidity of the great banks is not

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as yet as great as it should be. The smaller banks often show still less fluidity. The Genossenschaften—in whose case other factors, for instance those that have been cited, must, of course, be considered—occupy a lower position still as regards fluidity, and most of the savings banks have no fluidity at all. But in the case of savings banks the question of fluidity is not so important. I hold, just as the preceding speaker does, that legislation bearing on savings banks is a matter that appertains primarily to the separate States; but still I would point out this lack of fluidity in the savings banks.

I hope, with our honored president, that our deliberations will prove of great benefit to the people; and I hope also that a way will be found that will be satisfactory to all concerned, including the great banks.

Mr. SINGER. I would begin my brief exposition with a remark which bears upon Herr von Wangenheim's communication read to us by the president; the paper was communicated to us officially, and Herr von Wangenheim presumably wishes that his views should be discussed in the commission. As to that paper, I can only say that I have not as optimistic an opinion of the wisdom and power of the commission as Herr von Wangenheim; I have never believed that the bank inquiry commission would have the effect of preventing or averting economic crises. That is a conception of the duties of this commission which betokens, indeed, a great degree of naiveté. I think that Herr von Wangenheim, also, should know that crises are an immanent law and are necessary consequences of the present economic order; if Herr von Wangenheim wants to avert crises he must

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abolish the capitalistic economic order, as Social Democracy demands. [Laughter.]

While Herr von Wangenheim takes the view that we are in a position, within the bounds of the existing social order, to make suggestions and to adopt effective measures to prevent crises, this transcends my horizon; I regard it as quite out of the question and as a futile effort. I merely wish to express the hope that the views of Herr von Wangenheim will be included in the report of our proceedings, so that others, too, may experience the pleasure which I felt while that curiosity was being read to us. [Laughter.]

The question, gentlemen, whether the conditions of the credit system which are under discussion affect the general public, and whether the general interest is involved in the correction of abuses and the putting of these matters on a sound basis, I can, without hesitation, answer in the affirmative. It is, in my opinion, quite beyond doubt that the interests of our entire economic life, and consequently of the general public, are deeply involved in the efforts to remedy the evils which have been and still are to be found in this domain.

It is not a question merely of measures which shall guard the public against losses through mistaken and bad management of deposit funds—which, also, to be sure, is in the public interest—but rather the taking into account of the economic connection which beyond doubt exists between the domain of the credit system and all the other economic domains, and, therefore, the economic interests of the whole people. Thus the general interest is positively involved. Effects and reactions upon industry,

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commerce, trades, and agriculture absolutely demand consideration of the deposit system.

Now, gentlemen, I shall take the liberty of expressing myself very briefly on the question of separation of the deposits. I think a very sharp distinction must be made between the three categories which have been pointed out to us. In speaking first of savings banks, I would say that, from my point of view, I do not consider it the business of savings institutions at all to engage in credit transactions; savings institutions have an entirely different object. Nor can I admit that the single example that has been brought forward—where the watchman goes to the savings bank to draw out his deposit, but can not get it—should induce the savings banks to invest their moneys in any way but that which is absolutely safe. I believe that precisely because the maintenance of the savings banks and their security and fluidity are of essential, great, and general interest, it should be provided that the savings banks shall, as respects fluidity, receive support from the State. Their activities should, as far as possible, be promoted, and competition with them avoided; but the savings banks should, on their part, stick to their own business. If, then, it is possible to keep savings banks out of reach of the effects of a crisis, I should consider it very desirable. But in order to make this possible the savings banks must, naturally, not be granted freedom to enter into all sorts of transactions in which it is not so much a question of insuring the safety of the deposits for their depositors as of making bigger profits and assuming the risks connected with them. I should, therefore, be not at all sorry if the savings banks would withdraw from the “Konzern,” and

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not occupy themselves with the investment of deposit moneys. The savings-banks ought to be left to work quietly by themselves; their security should not be impaired by credit and other money transactions. If defects appear in the savings-bank system, it is the place of the communes and of the Government to see to it—and by legislative means if necessary—that those defects be corrected. But to draw the savings banks also into the public credit system I do not consider right, because their business does not lie in that field at all.

The case is quite similar as regards the *Genossenschaften*. One may be a great advocate of the *Genossenschaften*, as I am, but he need not for all that approve all the manipulations and transactions that the *Genossenschaften* engage in, in their endeavor to handle millions. It would be very desirable in the case of some *Genossenschaften* if they were somewhat more restricted in this respect. And if we must finally perceive from the opinions of the experts and from the statistical tables which we have received that some *Genossenschaften*, with a capital hardly worth mentioning, engage in transactions involving hundreds of thousands and millions, then, gentlemen, how do you propose to take measures which will, on the one hand, guarantee the security of the deposits placed with the *Genossenschaften*, and, on the other, provide for fluidity?

The main question, after all, then, with which we must concern ourselves relates to the banks—the middle-sized and great banks; perhaps also the small banks. And here it appears that in general as regards security and fluidity there is much less danger in the case of the great banks than in that of the small institutions. For the great banks are in a position, by reason of their surplus, their

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accumulations, by reason of the credit they possess, by reason of the seriousness to the community of the collapse of a great bank—in short, the great banks are in a position to obtain assistance from outside much more readily at a critical time than any single small institution whose security and fluidity do not affect such wide interests. If, therefore, measures in that direction are to be adopted it must not be forgotten that if there is danger to the security and the fluidity of deposits at all it is likely to be fully as great in the small institutions as in the great banks. Perhaps the great banks and their management may, in general, even be credited with a broader view and superior sagacity in the investment of their own and outside moneys.

In answering the question, gentlemen, whether it is in the public interest to resort to legislative measures, one must be extremely cautious. In my opinion, you will not be able to devise a law that will satisfactorily accomplish its object, and least of all will you be in a position effectually to enforce the observance of the law through an official bureau of supervision. We certainly are not suffering, gentlemen, in public life and in public administration from a lack of supervising officials, and yet these arrangements often prove ineffectual. The phenomena which are the occasion of our discussions are inherent in the prevailing system, are the attendant manifestations of the capitalistic economic system. I must say that from my standpoint there are only two ways: Either one is an opponent of the present social order and its institutions, and then one is bound to advocate the creation of other, and that socialistic, foundations for society; or one is

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satisfied with the ruling principle of our economic order, and then the phenomena against which complaint is made here must be taken into the bargain, for they are only a consequence of the capitalistic method of carrying on production and business, and inseparably connected with it. If the present economic system is to fulfill its functions it must be free from fetters, which can not affect the essence of the matter, but only the outward manifestations. It seems to me, too, that a so-called bourgeois policy is sought to be followed here, which—with the best intention of shielding the small people from the injuries of capitalistic development—vainly searches for legislative remedies, and, in ignorance of the real relations of things, sees the remedy in the creation of a new governmental authority. I can not possibly conceive that a bureau of supervision could effect anything. How, for instance, do the gentlemen imagine the accounts of the Deutsche Bank are to be examined? How should the Deutsche Bank, which has, I suppose, several hundred thousand accounts, be examined? What is your idea of the organization of this bureau of supervision? How many hundreds of officials are to constitute the force of the bureau?

Herr von Gamp has suggested that safety should be secured by depositing a portion of the capital with which the banks operate in the Reichsbank as a guarantee.

Well, I don't know what gentlemen hope to gain by that. Let us assume that it is a considerable part of the capital; then this capital will, of course, be withdrawn from general business. For, if I am not mistaken, it is intended to strengthen the gold reserves at the same time by this measure; the Reichsbank would, therefore, have to simply

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let it lie in gold, and that part of the capital would be withdrawn from business. If, however, it is an inconsiderable portion, where is the security for those for whom this thing was planned? If you do actually tie up one or two per cent of the bank's capital, then those that first lay claim to it, or who have a preference, may perhaps have their demand satisfied out of the capital and surplus. But if one starts out with the idea that these deposits with the Reichsbank will be sufficient and will answer the purpose of settling any possible losses of the creditors, then, gentlemen, I think you yourselves must see that such small deposits can not accomplish that object. I have, besides, no intimation whatever as to how, when, and by whom the amounts to be deposited could be collected. I think that one view—assuming that legislative experts would succeed in doing something with it—might perhaps be entertained. It might be said—there are average computations for such things—that in granting institutions that do a credit business a sort of concession, the condition should be imposed that they shall not go beyond a limit conformable to their capital, in their credit and business transactions. If an institution, for example, is working with a capital of a million marks, it might perhaps be provided that it may not extend its business enterprises beyond 3,000,000 marks. I mention these figures merely by way of example; whether it would be possible, I do not know; for the present it seems doubtful to me. But I can imagine that it would afford a certain protection, because, in my judgment, the possibility of loss is undoubtedly increased with the expansion of the operations of these institutions without their having an

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adequate surplus, sufficient resources of their own. One might assume the position that if a certain legal restriction is prescribed here, which must be observed, and the observance of which can be actually enforced, it may perhaps serve to mitigate some evils; but of much use this will not be either.

I believe, therefore, to sum up briefly, that unless legislative measures that can be easily executed are devised we shall have to leave a bureau of supervision and legislative interference out of consideration. For, gentlemen, mere general desires do not get us forward in this kind of question. One may be filled with sympathy for those who lose money through the fault of others. If, for instance, it is now said that measures should be taken that the public shall not be allured by agents, advertisements, etc., it must be borne in mind that the boundary lines between legitimate and illegitimate business are very faint, and it is difficult to distinguish them. And then he who wishes to get a high rate of interest or to make gains on the stock market must take the possibility of loss into the bargain. You will, in my opinion, then, accomplish nothing by means of legislation. It will not be possible to exercise effective control of the working of such legislation, and at the utmost the question will be—one that will probably be discussed in taking up subsequent points—whether it would not be possible to establish regulations which will have to be observed by the institutions engaged in money transactions. But even here I do not conceal from myself the fact that any control of the execution of such regulations will be excessively difficult. The opinions delivered to us by the experts are

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so contradictory that I, for my part, have not been sufficiently enlightened by the study of these opinions to be enabled to say what really should be done. I can only find one thing in these expert opinions—that those gentlemen endeavored to make clear such evils as had come to their knowledge, and that they tried, each from his own economic standpoint, to suggest changes, but that their suggestions really offered no remedies for the evils they deplored. These views are indeed so bound up with the general economic life of to-day that no special medicine, at least no effective one, can be found among them. I am very ready, should our deliberations crystallize into definite propositions, to support all efforts calculated to lead to economic improvement. But I can not convince myself that the suggestions that have been made will supply a remedy.

Doctor LEXIS. I should like to say, in the first place, in relation to Herr Mommsen's remarks, that in expressing my views this morning I had by no means the intention of advocating decisive measures at this time. I wished merely to sum up the points in the questions before us, which, in my opinion, touch the public interest; these points can, I believe, then be brought up for discussion. But, as I have observed, I had no intention of expressing my opinion at this time and saying that I favor compulsory measures or any special supervisory regulations. I do not wish to enter into that at all.

I discussed, for that matter, only the first point of the first question, and shall right here add my opinion in regard to No. 2 of question 1: "The meaning and nature of deposits and savings, and their relation to outside

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moneys in general." I indicated this morning that it seems to me that it is possible to distinguish between those deposits or outside moneys which proceed from merchants who are entered in the commercial register—that is, between current-account credits of registered merchants—on the one hand, and on the other hand deposits which proceed from private individuals, from such, then, as are not entered in the commercial register. Under the latter, again, the distinction could be made as to which are savings properly so called—such, namely, as are deposited by nonmerchants, subject to at least a week's notice. It might be declared, too, that all those moneys that proceed from private individuals, not merchants entered in the commercial register, are savings if they are not intended to serve as a basis for checks. Now, it has been said that this differentiation according to the mercantile quality would not be practicable, would be much too complicated; but still I would assert that there is in any case a certain group consisting of private persons who are not entered in the commercial register and who bring moneys to the banks which they do not wish to consider as a basis for checks. That seems to me to be a clearly definable class of people, and precisely the kind of people that are more or less in need of the protection that is claimed for them—that is, the small people who are allured by advertisements, etc., to take their money to the bank. I do not say that protective measures would be expedient and feasible; I only say that the category can be distinguished and has a special significance.

That would be one category, and a second would be formed by all those—I leave out further differences—who

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have an account current with a bank. They form a class by themselves, and may be private people who are not merchants. For there are private capitalists who have regular account-current transactions with the banks. There is still a third category: Such private persons, or merchants for that matter, as have a check account which is to be used solely as the basis of check transactions. Thus it seems to me that at least three categories could here be distinguished, namely, the pure savings deposits, according to my conception of them, then the account-current deposits or account-current credits, and, finally, the check deposits. These three different classes could be variously treated, but it is not at all my intention to advocate measures to that effect.

As regards the check system in general, however, it seems to me that it would be in place here to discuss a general question, for it has been repeatedly said that the check is more and more taking the place of bank notes, and that it will be necessary, therefore, to regulate, and perhaps limit, the check system as the note system has been limited. The check, it is urged, is becoming more and more a bank note, or a means of payment like the bank note, and, therefore, measures must, of course, be taken to safeguard the interests of the public here as was done in the case of bank notes. Now, I would reply that the check will never be anything like the bank note; the check is not a means of payment; the Reichsbank note is legal tender; the check, on the other hand, is never a means of payment but an order for a payment, which the bank may carry out in any way it pleases. And there is the additional consideration that, if not exactly in

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contradiction, it is not in harmony with the check system for the check to be used as a circulating medium in the broader acceptance of the term; to be circulated and go through various hands until it is either taken up, or—a thing that would be the most desirable—balanced in the clearing house. That is not at all in harmony with the real essence of the check, and consequently, it will never be possible to say that the check is a medium of payment in the same way as a bank note, and that, therefore, a limitation of the check system—and therefore likewise of deposits, which serve as the basis of the check system—would be desirable. That in America the banks of issue are so stringently regulated, while, as a matter of fact, the deposit debt of the banks of issue is about three times as great as their issue of notes; that there the national banks are obliged to keep constantly a reserve covering 25 per cent of their deposits—the special reason of this is that the national banks are banks of issue; they circulate \$600,000,000 in bank notes anyway, even though they may have \$1,700,000,000 to \$1,800,000,000 in deposits. A special safeguard had to be established for the \$600,000,000 of notes, which, though they are covered by the deposited bonds, must, nevertheless, be redeemable at any time; no conclusion, therefore, can be drawn from this in respect to pure deposit banks. This appears to me, then, a general consideration, which may be well worth discussing at this point, since, as has been said, even experts have remarked that checks are more and more taking the place of bank notes, and that, therefore, the pure deposit banks that carry on a check business must be treated like the banks of issue.

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Doctor WEBER. Gentlemen, to-day's debate has presented the interesting spectacle of the gentlemen of the commission arguing upon an entirely different basis from that upon which the experts proceeded as regards the main issue. According to the opinions presented by the experts, their attention was turned chiefly upon the great banks, and the great banks, as far as the security and fluidity of deposits and other outside moneys are concerned, are to-day entirely eliminated. Some of the experts explained their position upon this whole question of the public interest by saying that the concentration of capital in the great banks had steadily put more and more power into the hands of the great concerns; that these great concerns had, in part, not employed this power in the right way; that this capital had been "crammed"—as some one remarked—above all into industry and commerce, and that this sort of activity of the great banks required counteraction through governmental measures. If, in the first place, one fixes one's attention upon this question—and I can, perhaps, do that—it must be admitted that in the opinions of the experts there is a great error, and it is the following. The gentlemen say that the great banks have "crammed" capital into industry and commerce. Now, I believe that the problem presented to the Germany of to-day is a quite peculiar one. Our great increase in population demands that capital shall assume an activity which shall bring bread and sustenance to this increase in population. ["Quite right."] We can not, therefore, speak of a "cramming" into industry and commerce, but must say that it has been precisely the great banks, perhaps, that rightly conceived and

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rightly accomplished the solution of this great problem, and that without this concentration and the far-seeing leadership of these great banks we should not have been in a position to give the increase in our population the employment, the sustenance they have had, keeping Germany thereby upon its old level. ["Very true."] It must, indeed, be admitted that Germany's level—due in no small measure to the activity of the great banks—has not sunk, but that in spite of the great increase in population it has been raised. I interpret a number of these opinions as indicating that a great many opponents of the activities of the great banks had been actuated by a certain animosity to mobile capital. I take it that we have in all this rather the manifestations of a political movement than a discussion of purely economic questions. The case is, indeed, very clear, gentlemen. In the last few years, and this year as well, it has been again and again pointed out, particularly by the representatives of agriculture, that not sufficient money at suitably low rates of interest is placed at the disposal of agriculture. Gentlemen, a great error is involved here. There is truly no country on earth where the mobility of the ownership of land is as great. The ownership of land is mobilized in the highest degree by means of negotiable securities, and I do not regard it as desirable to provide agriculture with still more capital. I would declare quite openly, too—even at the risk of its being made public—that I estimate the danger that here and there 100,000 or even 1,000,000 marks may be lost by some individuals as far inferior to the great danger there would be in checking and restricting by legislative measures the present

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development of the movement of capital. It is quite beyond dispute, for example, that if you consider the measure proposed by President Heiligenstadt and Herr Bernhard, if you decide to have a certain part of the outside moneys deposited by the banks in the Reichsbank, then you withdraw it directly, in the first place, from the economic uses which it has hitherto served; and if by this means the Reichsbank is put in a position to increase its stock of gold and to prevent this money from entering economic life, then I would ask, How would it be possible with our growing population to give people employment? What is to become of industry? How will it be possible to satisfy our increasing needs, remembering, as we must, that we are under a great strain, owing to the excess of imports over exports and that, altogether, our circumstances are such as can not be compared with those of other countries which people are so fond of citing as examples. To-day, for instance, our attention was called to the example of England, which is always held up to us, but not to that of France; but no one complains in France, which has no laws in this domain. And if you say, further, that you here in Germany will have to establish a bureau of supervision—perhaps a bureau of control, such as Herr von Wangenheim has described in writing—in order to supervise the entire business of our banks and to lead them into other channels, this measure would, considering our entire situation, be likely to prove an absolutely futile beginning. And the man who would be placed at the head of such a bureau of control would, my word for it, never be in the position to do what Herr von Wangenheim would require of him to prevent a crisis of any consequence,

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and even should there be a change of heads, a crisis could, for that matter, not be averted by anyone occupying that position.

Now, I would, as a matter of principle, eliminate the savings banks from the discussion. Gentlemen, a person who takes his money to the savings banks wants to deposit it there, merely wants to draw interest; only exceptionally does he draw the money, or he draws it only temporarily and puts it back again. And if in critical times demands are made upon a savings bank it always has securities in its possession which enable it to help itself in one way or another. It has also been asserted in the opinions presented by practical men who are intimately acquainted with the conditions that there has as yet been practically no deficiency of fluid resources in the savings institutions. I eliminate them, therefore—only in so far, of course, as they do not engage in pure banking business. Unfortunately, some savings banks, notably in the Kingdom of Saxony, engage in such business. For example, there appeared some time ago in the Chemnitz *Allgemeine Zeitung* a long article about a Saxon savings institution, in which emphatic objection was made to this institution engaging on a large scale in bill transactions, thereby destroying its qualification as a savings bank and passing over to pure banking business.

I should, however, like to see the Kreditgenossenschaften brought into our discussion. If, on pages 28 and 29, gentlemen, you compare the statistical figures given, you will be surprised at the proportion that their own resources bear to the outside moneys of the

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Genossenschaften. In the Imperial Union of the German agricultural Genossenschaften it is 4.4 per cent! All the safeguards, gentlemen, that President Heiligenstadt has referred to can not do away with the fact that this is a dangerous condition, and if a supervising authority were to be established it would have to take cognizance of this; the Kreditgenossenschaften could not be exempted from its operations.

Then, gentlemen, the check law has been under discussion. Herr Gontard, if I am not mistaken, misunderstood Herr Mommsen. Herr Mommsen's remarks did not by any means convey the idea that he wished to make a threat against the check system. What he said was only that the passing of the check law ought not, on the other hand, call forth legal measures on the part of the Government or the community, directed against the great banks or the banks in general; for if it did, the enactment of the check law would turn out a failure. For the banks the check law is really no joke, of that I can assure Herr Gontard; for in the check business there is no profit under any circumstances; most banks, on the contrary, lose by it.

I should say, also, that Herr Lexis has slipped into an error. Check deposits are put out at interest exactly like other ordinary deposits; there is no difference between them.

DOCTOR LEXIS. In America.

DOCTOR WEBER. But here in Germany it is not the case. From the fact, too, that checks are entered under credits you can see that they bear the same character as other deposits. Then, another point: You [to Herr Geheimrat

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Lexis] stated that at times $4\frac{1}{2}$ per cent interest is paid on check credits. You must not forget, however, that we had at that time a discount rate of $7\frac{1}{2}$ per cent. I would remark further that if we have a low rate of discount in Germany, Austria usually enters into direct competition in Silesia and in the Kingdom of Saxony. I can demonstrate to you that German money in Austria, subject to withdrawal on demand, is yielding as high as $4\frac{1}{2}$ per cent, reckoned from the day the deposit is taken; and the manager of an Austrian savings bank recently said to me that on certain days he simply could not keep out German deposits offered in German money. This, gentlemen, is another great objection to any legal measures whatsoever. If you make regulations that impede the free action of our German banks, you may depend upon it that the money will go out of the country, just as it did after the bourse law of 1896. The bourse law of that year undoubtedly did have this effect; any expert will tell you so, and the Reichstag itself recognized the fact. The very same thing will happen in the present instance if any such law is passed.

Then, too, Herr Geheimrat Lexis has adduced the relation of this matter to the question of foreign loans. You said [turning to Geheimrat Lexis] that no deposit moneys would be invested in foreign loans except temporarily. I should rather say that even as it is our dealings with foreign loans are to a certain extent under government supervision. At present, even though a foreign bond issue may be offered for admission at a given bourse, yet the Government has it in its power, through its right of supervision, to forbid such admission. When the Government wishes

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to do so it can adopt this measure. We need not, therefore, make any further legal provisions. I admit that a bank here and there has made a mistake; there have undoubtedly been occasions on which money has been turned into wrong channels. But, gentlemen, if the Government wishes to prevent an excessive flotation of foreign loans, it has it in its power to pronounce its veto at the proper time.

Herr Geheimrat Lexis made a distinction between deposits made by private individuals and such as come from people who are entered in the commercial register. I do not think this distinction could be legally established. All those small tradesmen, for instance, who now have themselves entered in the commercial register would be discriminated against as compared with those who are not entered, and I think this can not be the purpose of the legislation. The only important effect of this measure would be an injurious one.

Now, gentlemen, with reference to the statistics that have been submitted about the small banks, it has been said that there are banks that have ten times as much in deposits as they have in capital. I, too, know such a bank; the Oldenburg Spar- und Leihbank has to-day a capital of 4,000,000 marks and deposits of about 45,000,000. But if you look closer into the matter, you will be obliged to admit that not all of this consists of savings; for it consists also of temporary investments, and from statistics like these surely no general conclusions can be drawn with regard to the administration of the whole banking business.

Freiherr von Gamp, who, by the way, contradicted himself by leaving out the savings banks altogether in

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one part of his discussion and making them the cornerstone of the whole matter in another part, approved of the suggestion that a certain sum be deposited at the Reichsbank, and then, on the other hand, recommended that if occasion should arise the bank should have the right to withdraw the money. But, gentlemen, in that case no end would be served. What is it that he has in mind? Certainly this will give the people who have deposited their money in the bank no assurance whatever of its being safe.

And the suggestion made by Herr Singer that a bank should not receive more than a certain amount of deposits in excess of its own capital seems to me quite out of the question. If you wish to make such a rule, you must fix upon a certain sum—let us say twice as much as the bank's capital. If you do this, you will bring immediate and complete ruin upon 11,780 agricultural Kreditgenossenschaften. And the Deutsche Bank, which, if I remember correctly, has a capital of 200,000,000 marks and a surplus of 100,000,000, will be permitted to receive not more than about 600,000,000 marks of deposit moneys [interruption]. I simply take these figures as good enough, and finally you will not be able to make any distinction on the ground of prudence of management; whereas the capital of one great bank may be administered with extraordinary prudence, and that of another may not be managed so well.

Doctor RIESSER. The surplus must also be taken into account.

Doctor WEBER. Yes; but counting the surplus, it comes to only 600,000,000 marks, and there is no telling

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what would be the result upon our economic conditions if this scheme were put through.

Gentlemen, we are on the way toward putting everything under supervision, under control; you yourself [to Herr Singer] have referred in a jesting spirit to that written proposal of Herr von Waggenheim's about a "bureau of crises." We want to put everything under control, and imagine that if we do so, everything will be in good order. Gentlemen, if we do not have confidence in the managers of our great banks, although they have always shown themselves in every way worthy of it, then we shall not have confidence in a supervisory bureau, if such a thing is instituted. In the opinions of the experts, and in to-day's discussion, too, the talk has all been about the interests of the public, and we have acted as if these interests had been in some way or other not sufficiently considered. If you will look up the statistics for America, and even for England, you will find that wherever you look there have been more failures than there have been in Germany. And why should we chase after laws of this kind, we who have not a single valid reason for doing so, when we know that any such law is bound to have unforeseen economic consequences? When we consider our whole economic development, there is really no reason for our adopting any such legal measures. At the very most, one might maintain that the overextension of credit stands in need of a remedy. But, gentlemen, is it not true that this overextension of credit must have been brought about by our general condition? Must not technical improvements have advanced more rapidly than the formation of capital? And this is why the

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formation of capital, always called forth by an increase in the population, has not kept pace with industry and trade. Now I am convinced that the consequence of all this will be that we shall do just what we did in the seventies and eighties; we shall send our excess population into other countries, and thus create competition against us abroad. I believe we should give up all idea of arbitrary interference, and that we should never institute legal regulation when there is not the slightest occasion for it. After all, some sound reason must be adduced for such a policy; it will not do to go back every time to the case of the Leipziger Bank (in point of fact even there 70 per cent was finally distributed) and to demand on that score that everything be put into fetters.

Then, too, it has been said that we should consider the possibility of instituting a system of supervision modeled after that of Austria. I believe, on the contrary, that through the bills that are presented to it, the Reichsbank can even now exercise a most extensive control over business, and that this control, if made use of, may in certain cases be very opportune. I think, therefore, that any legal regulation in this domain would be a great mistake, and that any additional protection it might confer upon this or that deposit creditor would be more than offset by enormous economic disadvantages.

Gentlemen, I must say just a few words about the distinction between savings and deposits. My view is that no distinction can be made. Deposits and savings merge into each other in all sorts of ways. I should say that this question can not be settled at all. I don't think there is a man here in the commission, either a theorist or a

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practical man, who can give an exact definition of the terms deposits, credits, and savings.

As for safety of investment, I have been delighted to find that the members of the commission agree in thinking that there has been on the whole very little complaint in this regard, and I have been much interested in learning from the proceedings of the experts that a large number of them are of the same opinion.

I wish to make objection, however, to one remark. It has been stated that the power of the great banks develops at a constantly increasing rate and takes under its wings industry and trade. Gentlemen, in a certain report of business—I think it was that of the Dresdner Bank—it was quite correctly remarked last year that the power of the great banks will not increase, but, on the contrary, will show a falling off, inasmuch as the industrial interests can confront them with another power by combining into cartels and syndicates. I do not think that the power of the great banks can be shown to have increased in relation to industry and trade. Indeed, I believe that industry and trade are in a position to counteract the power of the great banks by means of cartels and syndicates. Doctor Schmidt shakes his head. It was, I think, the Dresdner Bank that expressed the very opinion that I have just brought forward.

In summing up I will say that I am opposed to every kind of legal restriction and regulation in the domain of the deposit system, especially when this would encourage an investment of money in state paper. And the resolution passed by the Reichstag, besides being in itself of very little value, has very little relevance to the case of

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Germany, since it can be proved by the statistics for all bank failures within recent years that in the last five years at most 3 per cent of the failures among banks and bankers of any magnitude worth considering can possibly be included in this class of soliciting bankers or the like. I am therefore of the opinion that we should refrain from trying to alter arbitrarily the movements of capital in Germany, especially as there is no sort of need of our doing so.

Mr. ROLAND-LÜCKE. It is of the utmost importance to the community that the savings of the general public be invested in ways that will secure practical fluidity, and also that they be so used as to subserve the economic interests of the country at large; but it is just as important for the community that we should persistently refrain from allowing laws to be made which, while they are designed for this purpose, do not really have the desired effect, laws which, on the contrary, are harmful to the community and finally are a direct cause of danger to the depositors, as I shall later on show them to be.

I will now take up a question which has already been almost fully settled. Can we or can we not determine just what, in the different depositaries, should be accounted as savings—can we determine it, I mean, with such precision as would be necessary for the formulation of an actual working law? The gentlemen that I have listened to so far are on the whole at least doubtful whether this could be done—if, indeed, they are not agreed that it would be impracticable. My honored neighbor [Geheimrat Lexis] suggested that the distinction might be drawn between money deposited by firms that

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are entered in the commercial register and money from other depositors. Well, gentlemen, just look about you in this very room. I think there are few among us who are entered in the commercial register, or who belong to firms that are so entered. Are we who are not among these few—are we the persons who for the sake of the national welfare must be protected in the employment and investment of their money? And the great number of agriculturists, officials, scholars, artists, and men who live on their incomes, can they be relegated to an inferior class in respect to the ability to turn money to account? I do not think that this was Herr Geheimrat Lexis's intention. Indeed, he afterwards modified his proposal and said that we may leave it to the public to find a method; people will make the decision for themselves when they deposit their money; a man will say, "I should like to have a sort of guardianship account." Let us just look closely at this point for a minute; how did these terms—deposit account, giro account, check account—really arise in Germany, and how are they used by the bankers? All the profound expositions that scientific writers have made of them are not really borne out by practice. That which in Hamburg is called *Girokonto* is called in Berlin *Depositenkonto*, and in Braunschweig *Scheckkonto*. Since some of you are in a manner laymen as regards the banking business, I will give you a rather useful formula: As a general thing, a man carries a deposit account, a giro account, or a check account when he can transact a considerable part of his business with the bank orally, either in person or through a deputy. If he can not do

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this, he generally has an account current; but this does not prevent his having at the same time another account current, which is also called a check account. Thus the two things can not be kept apart in practice. It has been stated that one gets higher interest on an account current than on a check account. Of course that is so. The whole management of a check account is in some respects comparatively simple. Certainly there is higher interest in the case of a current account, but then one has to pay commissions. To sum up, I should say that no definition of the term "savings" can be found which shall be practically applicable by law in the case of the great banks or the middle-sized banks, but that such a definition is practicable in the case of the small banks, the *Genossenschaften*, and such institutions as are authorized to act as depositaries of moneys thoroughly secured, for the various classes that form the clientèle of these institutions.

Now, it has been asked whether we can imagine a method by which safe and fluid investment of their holdings by the different classes of money institutions can be brought about and made sure by law. Least of all can we make it sure by a law requiring that a safety fund, bearing a definite ratio to the total of demand liabilities at the time, shall be deposited at the Reichsbank. So far as the Reichsbank is concerned, or the monetary circulation, the effect of this would be simply zero. Any institution that had occasion to make up its required safety fund would take the proper amount of its bill portfolio to the Reichsbank. The Reichsbank lets these bills expire; when they fall due, it must renew them

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directly or indirectly by accepting other bills, with the effect that the portfolio of the Reichsbank is permanently enlarged. The only thing that might be subject of dispute is whether the discounting of bills by hundreds of banks instead of by the Reichsbank is to be looked upon as a system economically less desirable.

Would the security of the bank be increased even in a general way? The safety fund is of course a fund that can not be got at offhand. If a bank wants to get at this safety fund it has to enter into special explanations with the Reichsbank. Otherwise this safety deposit would in large measure fail to fulfill its purpose. Suppose, for example, that a provincial institution finds itself confronted with this question: In the next few days heavy demands will be made upon us; shall we go and ask the Reichsbank for the use of our safety fund? In a great many cases the result will be that the mere discussion of the question will itself create in the public an attitude of anxiety and distrust toward the institution.

Herr von Gamp also suggested that it might be specified that a certain percentage be held in government loans (I assume that he meant to include loans of the separate states of the Empire), because these loans are better adapted than bills for the raising of money when needed. I think, gentlemen, that those of you who are merchants will question this statement, except as applied to certain exceptional cases. When I have a bill in my pocket with sufficiently well-known and unimpeachable signatures, I have an absolute assurance of receiving money in six weeks or twelve weeks. Now, if times are hard and I need money, it will take me much less time to find someone

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who will buy a claim that will soon be converted into money than one who will buy a paper when he has no means of judging its future market price and knows that he is taking a risk. In the case of such a bill as I have described the question of the rate of discount is absolutely the only thing that has to be considered. Herr von Gamp says that all this is no concern of the general public—if a bill is handed in, the Reichsbank is obliged to discount it; but if a government obligation is offered for sale, the Reichsbank need have nothing to do with it. Gentlemen, I do not know whether I had better say anything more on this subject. The effect on the Reichsbank is exactly the same in both cases. Herr von Gamp always makes what seems to me to be a very strange assumption—that in Germany large numbers of people go about with 10,000 or 20,000 marks in their pockets which they have no intention of using at an early date. I have very seldom come across these people. Of course there are people here and there who are occasionally found to have kept very considerable amounts of cash in their old stockings. But these are certainly not cases to be considered in connection with the subject of bills or government loans. But let us suppose for a moment that an investment in government loans were legally required. In point of security certainly an excellent arrangement; but here, too, if you think of how the law is to be formulated and how it is to be carried out, you will at once come up against the drawback that has already been pointed out. If the thing is to be of any use, it will not be enough to prescribe that a certain proportion be held in government loans, for of course this paper will have to be deposited in a safe place. If you

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do not make this provision, you must expect to find, when at some future time you look to see whether these holdings are on hand, that in a great many cases they are no longer at the institutions in question, but are at some larger bank that acts as a reservoir from which the smaller banks can draw. Well, then, the holdings must be deposited somewhere. If they are so deposited, the question naturally arises, What happens in case of need? Herr von Gamp is surely not thinking only of those cases in which a bank has suspended payments and in which as a matter of course these holdings would furnish a definite security for all depositors. Surely, in order to protect the credit and fluidity of the bank he will wish to make sure of its having these reserve holdings at its disposal in case of need, without rigmarole and without uncertainty. I come now to the point I referred to above. Here you at once create a danger for the bank. If the bank goes to the Seehandlung or the Reichsbank, or whatever other institution you have fixed upon for this function—goes and demands the money it has deposited, negotiations must be entered into, and the same thing will happen that I spoke of above in connection with the disposal of the safety fund at the Reichsbank. Either there will be a run on the bank because it was not aware a day or two beforehand of the danger that threatened it (otherwise it will have the outward appearance of being prepared); or else it is anxious and foresees the danger and begins negotiations with the depositary in question in order to obtain the securities it has deposited, in which case the rumor at once arises that the bank is in difficulties. Through this rumor you will bring about that very run on the bank which your

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measure was designed to prevent; only the run will be more serious, and sometimes the bank will suspend payment, and the depositors will be in danger of loss.

I think that in this division of the subject we should confine ourselves strictly to the consideration of such legislative measures as are feasible and suited to the purpose. I have said what I could on these lines. As for what it is possible and advisable for us to do, apart from legislative measures, we shall come back to that later on, and we shall then consider the various proposals and suggestions. And I take my stand firmly on the ground that if we have any opportunity of this kind—even if there is only the slightest chance for an improvement—we ought by all means to make every effort to contribute toward any such improvement.

The CHAIRMAN. Gentlemen, do you wish to continue the sitting? Count Kanitz is also on the program for to-day.

[Motion to adjourn.]

Count KANITZ. Your Excellency, I beg that my speech be put off till to-morrow.

The CHAIRMAN. Then I will close the meeting for to-day, and request you to assemble to-morrow at 10 o'clock.

[Close of session, 5.44 p. m.]

WEDNESDAY, NOVEMBER 24, 1909—10.45 A. M.

The Chairman, Wirklicher Geheimer Rat HAVENSTEIN, President of the Reichsbank direktorium. Gentlemen, we shall take up our discussion where we left it yesterday, and I give the floor first to Count Kanitz.

Count KANITZ. There are two principal reasons, to my mind, for answering in the affirmative the question of whether the safety of deposits and savings is a matter for public concern. In the first place, it is unquestionably a matter of interest to the community that the deposits, the hard-earned savings, of the man of small means should be protected against careless or fraudulent use. Misfortunes of this kind, though lately, to be sure, of rare occurrence, were formerly quite frequent. Fifteen or sixteen years ago there was a case in Berlin where two great banking houses went into bankruptcy, and countless depositors, especially the lesser ones, lost their money. These happenings were the occasion of the Bourse Inquiry Commission, which met at that time, and held its meetings for two years in these very rooms, under the chairmanship of the worthy predecessor of our present Reichsbank president. I am just now the only person here who was a member of that commission; Herr Geheimrat von Gamp has not yet arrived. Even at that time the chief problem before us was how distressing occurrences of this kind might in future be prevented; but we could not at that time make any attempt at a law regulating deposits; the possibility of doing so was always dismissed and regarded as a last

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resort, and the final result of our deliberations was the bourse law of 1896.

Gentlemen, the bourse law does not concern us here, but some of the speakers, especially Herr Wachler and Herr Mommsen, spoke of it yesterday and laid special stress upon the harm it has done. I hope, therefore, that you will permit me to say a few words on the subject, since I was not without some share in the drafting of it.

Gentlemen, I do not agree with Herr Mommsen in thinking that the bourse law has forced our money into other countries. On the contrary, I am inclined to think that in the whole history of the German bourse there has been no such flourishing period as that of this very bourse law. If it were true that the bourse law has had the result of sending our money into other countries, then this money would now be flowing back, and the German bourse would be better off than it is. All that is now left of the work we did then, all that is left of the whole bourse law, is simply the *Staatkommissarius*. [Laughter.]

So much, gentlemen, for the bourse law.

Gentlemen, I come now to my second reason for believing in the necessity of a legislative measure to secure the safety of deposits for the community. I do not think it is a good thing that many capitalists, large and small, should intrust their fortunes to banks and bankers that promise high rates of interest, and should thus be prevented from investing their money in paper that is safe, even though the rate of interest be lower. The low market prices of our imperial and state loans, and

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of obligations incurred by our provinces, districts, and cities, are in my opinion due in part, though not of course altogether, to the fact that a great many small capitalists are persuaded to invest their money in banks that offer high rates of interest. In this way the demand for safe paper is considerably decreased. Herr Oberbergrat Wachler said yesterday that in agricultural districts the need of credit is fully satisfied even as matters now stand; I should like to remind him that in Prussia $3\frac{1}{2}$ per cent mortgage debentures stand on an average at 91 or 92. The agricultural landowner, therefore, gives up the best part of his credit, the surest things in his land holdings, in order to obtain a loan on which he loses at the outset 8 or 9 per cent. This being so, I doubt whether the agriculturist's need of credit is altogether satisfied.

It was stated yesterday, especially by Herr Geheimrat von Gamp, that a distinction must be made between savings banks and cooperative institutions (Genossenschaften) on the one hand and the regular banks on the other. That is true; public savings banks are as a rule on a sound foundation, being backed by the whole resources of the district, the province, or the city, so that one may regard them as absolutely safe, and I believe the cooperative institutions are also perfectly safe. A distinction may properly be made, therefore, between the treatment of the regular banks and the treatment of the savings banks and cooperative institutions.

On the other hand, I think no distinction need be made between savings and deposits. I see no reason for treating them differently. What are savings anyway, as

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distinguished from deposits? Whether the little business man or the working man has carefully saved up his hundred marks or has won them in a lottery (in which case they certainly are not savings), it comes to the same thing in the end—in either case it is to the man's interest to have his deposit safely placed.

I come now to the question of fluidity, on which some of yesterday's speakers laid special stress. I do not in the least underrate the importance of this point, but I think that here too we ought to proceed with caution. Those institutions which have invested their holdings chiefly in mortgages will be obliged to stipulate for longer notice since, as you know, it is customary to make mortgages calling for a three months' or six months' notice; and when an institution finds itself in the situation of having to pay back a large deposit within a very short time—to pay back money that it has invested in mortgages, it may fall into difficulties. I think, therefore, that this, too, is a matter of interest to the public. The mortgage business ought not to suffer injury. We have here a matter that concerns not only country real estate, but city real estate as well. The city savings banks, as you all know, prefer to invest in city mortgages, and I should expect injurious consequences to both country and city real estate if this negotiation of mortgages through savings banks and Genossenschaften were in any way interfered with.

I lay no special stress, then, on the question of fluidity. The man who brings his money to the savings bank knows, to start with, that he can not get it out again very quickly. I am inclined to think, therefore, that we

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should not lay very much emphasis upon the question of fluidity.

As for the question of checks, Herr Mommsen, as well as Doctor Weber, said yesterday that the check business was not of the slightest use to the great banks. I am extremely sorry that Herr Kaempf is not here. Doctor Weber knows, he having been in the Reichstag, that Herr Kaempf advocated the check law and the establishment of the check system with the greatest zeal—not only because Herr Kaempf himself is the chairman of the Berlin Kaufmannschaft [Merchants' Guild] but simply on public grounds, since he believes that the check system and the check law would considerably facilitate the whole of our financial and mercantile business. If that is so—and I think I must agree with Herr Kaempf—I should think that the great banks, too, would derive no harm, but even a certain advantage, from the check system, just as from any other means of facilitating and simplifying the operations of finance and trade. I can not, therefore, agree without reservation to what was said on this subject by the gentlemen who spoke of it yesterday. Moreover, I do not think we are here called upon to examine very closely the workings of the check system; the check law is already in existence and is not to be changed in a moment.

A good deal of consideration was given yesterday to the relations of our great industrial concerns to our great banks. Herr Gontard deplored, and to my mind rightly deplored, the excessive dependence of our industries upon the great banks. Doctor Weber, on the other hand, expressed the opinion that the increase in population has given rise to an enormous increase of activity in our

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industrial world, and that if, in spite of the tremendous increase in population, it is true not only that our industries have been fully equal to the occasion, but that our whole standard of living has actually risen to a higher plane, these developments are to be attributed primarily to the fertilizing activity of the great banks, by which he meant, of course, only their fertilization of the great industries. In a certain sense I admit this is so; I fully recognize the fact that the great banks furnish the great industries with the necessary capital; for it goes without saying that, when the industries are obliged to supply the wants of a rapidly growing community, they must expand. For this expansion money is necessary, and this money must be obtained through the medium of the banks. Much as I sympathize, therefore, with Herr Gontard, I must admit that the attitude of Doctor Weber has a certain justification. We can not dispense with the activity of the great banks in supplying the industries always and everywhere with the necessary funds. I merely deplore the difficulty we shall have in keeping this dependence within bounds. Gentlemen, it is nowadays absolutely impossible for our imperial loans, our state loans, our safest papers and bonds, to be brought upon the market without the mediation of the banks. Unhappily, therefore, it would be no simple matter for the industries to escape from their dependence on the great banks. I should be very grateful to Herr Gontard if he would some time explain how this relation of dependence could be modified to its betterment.

Gentlemen, we were told yesterday—and that by Herr Roland-Lücke himself—that our industries are most

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likely on the eve of hard times; he spoke of England and the new elections that may take place there, at which the English people will have to decide whether to keep up free trade or to adopt a protective system such as other countries have. Herr Roland-Lücke might have referred also to America and the Payne tariff. ["Quite true."] But as for England, we shall probably have to consider that question very carefully in the Reichstag in the next few weeks; we shall then have to take up the question of the extension of the provisional commercial agreement with England. For my part, whenever this provisional agreement has been extended, I have been unreservedly in favor of it. And in the economic committee, in which I always had this matter to report on, I advocated the simple extension of the agreement. Herr Roland-Lücke is perfectly right when he says that the present situation is a very good thing for our industries if the English free-trade system is retained. But, gentlemen, I am afraid that system will not be retained much longer. Whether there is a general election in England or not, the English are at any rate finding out that the present system can not be kept up, that England can not remain a free-trade country when almost all the other countries of the world have gone over to the protective system. Gentlemen, the state of affairs in England seems to be in many ways desperate. The number of the unemployed is already reaching the hundred thousands, and Englishmen are naturally asking, Why are these hundreds of thousands running around without work? The millions of English laborers who used to find employment in farming are now without a trade and are

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being driven to emigration. Even the Englishman must see that this situation can not go on; I think, therefore, that there is nothing for it but that England should adopt a protective system—a very moderate one to start with, of course.

Gentlemen, it was said yesterday that we should take care that we do not revert to the condition of a purely agricultural country. What is meant by a purely agricultural country? Let me remind you of the saying of England's greatest political economist, Adam Smith—the home market is the best market. England has injured her home market; she has absolutely cast aside the teaching of her greatest political economist; now she is taking the consequences, and at last she is beginning to perceive that the home market is the best market.

And as for us, gentlemen, I think that, in view of the possible injurious consequences that threaten us from England's adoption of a protective system and from the Payne tariff, we should make it our business to increase the purchasing power of our own people and to improve the home market. This is the easiest way of enabling our industries to look with equanimity upon the possible diminution of their exports.

Doctor Weber also expressed an opinion with which I can not but agree; he said that in Germany the creation of capital has not kept pace with the increase in the population. That is true, but it remains for us to ask why it is. I am inclined to think that here in Germany too large a fraction of the values that are created by the national labor are absorbed by taxes and expended in unproductive activities; I believe that the weight of taxes

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upon the German people is too heavy. I believe, furthermore, that the boundless projects of social improvement that we undertake must also militate against the creation of capital, so that what Doctor Weber said on this point was fully justified. I think that the enormous burdens that our social legislation lays upon us, especially upon our industrial enterprises (I say nothing whatever about agriculture)—I think these burdens are certainly a factor to be taken into account in this connection; I think they are directly prejudicial to the creation of capital.

Finally, gentlemen, we must, after all, take up the question of what is to be done about it. Most of the gentlemen that spoke yesterday will not hear a word of any legislative measures with regard to the deposit system. Ah, gentlemen, but the question can not be dismissed so easily. Let me remind you of the resolution passed last May by the Reichstag, asking that the imperial chancellor draw up a bill for the Reichstag to consider. You know the resolution; it is among your printed documents. The chancellor, therefore, will have to comply with this decree of the Reichstag and submit some sort of bill; the question then arises, Shall we declare at the outset that no legislative measures of this kind are worth considering, or shall we make some suggestion in the matter? Gentlemen, do you realize that this resolution was carried in the Reichstag by a very large majority? In the committee the vote was 17 to 4, and in the general body of the Reichstag the proportion was about the same—only the Freisinnigen and the Social Democrats voted against it. If you keep this in mind, you will see that in face of this large majority the chancellor

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is surely obliged to submit a bill, and I think it should be our task to shape this bill in such a way that it will conform as much as possible to the interest of our industries, and also, I gladly add, to that of the banks.

Now, of course, if we are to make any preparations at all for meeting the evils that undoubtedly do beset us, the simplest way of doing so would be to adopt the proposal made yesterday by Herr Singer, and revolutionize the whole order of society. Then, to be sure, the banks and bankers would be got out of the way; then we should have a *tabula rasa*; then there could be no more talk of abuses in the banking world. But I should prefer not to try this cure *à la Doktor Eisenbart*; I should prefer to reckon with the facts as they stand. It is our duty, gentlemen, to make definite proposals, and I hope we are not going to dismiss this duty with a simple negation.

I should think that the very smallest measure we could possibly propose would be that the balance sheets of the banks and bankers be published. In fact, the Reichstag did not look for much more than this, since it knows very well how dangerous it is to interfere by means of legislation with the independent activity of the banks. But this small measure, gentlemen, is not a thing to be lightly dismissed. To be sure, I do not expect it to have very far-reaching consequences. If you will glance over the compilations that we have before us in the documents—if you will look at the published balance sheets of the great banks, you will see that even if the balance sheets were published there would be very few people among the general public who would know how to read them. Whatever the balance sheets may contain, the

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general public, and especially the great number of small investors, is perfectly helpless when confronted with these balance sheets; it does not know what to do with them. Only here and there, when a man obtains the advice of an expert, will the balance sheets occasionally be of some use; the expert may say, "Take care; I do not feel quite sure about this." Well, then, as I have said, I do not look for great or far-reaching consequences from this measure. But this is, to my mind, absolutely the only proposal that we can make. I do not think that a board of supervision in connection with the publication of the balance sheets would accomplish much. ["Very true."] It would only lead to a further enlargement of our already overgrown bureaucracy. ["Very true."] But, gentlemen, I know of no other proposal we can make, and I therefore entreat you to set your approval upon this one, so that we may not disperse without having accomplished anything at all. ["Applause."]

Doctor HEILIGENSTADT. Gentlemen, according to the wishes of our president, our discussion should in the first instance pertain to the general aspect of the question before us. Most of those who have spoken hitherto, like the gentleman who has just been speaking, have treated it chiefly in its general aspect; but I think it would be a very good thing if we were also to discuss its more strictly economic side. I think that many questions may come up that can not be settled until we have a fairly thorough grasp of the technique of the banking business as it has developed in Germany.

Gentlemen, I have concerned myself for some time with questions of banking theory and practice, and what

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I wish to tell you about now is chiefly the impressions and experiences that I have collected in my twenty years or so of practical activity in the banking business. I refer especially to observations that I have been able to make in the post that I now occupy—observations with regard to the credit system of the *Genossenschaften*—which has a great influence upon the credit business of the great banks, the bourses, and the general money market.

If, before going into the question in detail, I were to say at the start whether I consider some regulation or ordering of the deposit system to be to the interest of the public, I should have to reply in the affirmative, and indeed you will not expect me to do otherwise, since I have already expressed myself in public on this subject. I believe that in a political and economic system such as we have in Germany the money and credit system is eminently a public affair. The classes that are directly affected by the public money and credit system are becoming larger and larger, and more and more people have an interest in the effective handling and regulation of this system. The greater the concentration in industry and in the whole business world becomes, the more progress the state makes in this direction and the more bureaus it inaugurates, the more necessary will it be in the interest of the public to have adequate banking arrangements for the effective maintenance and further development of economic production.

As I have said, I regard a proper organization of our money and credit system as distinctly a public matter—a matter that ought constantly to be submitted to public

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criticism. At the same time, I do think that in this sphere, in which the activity is and should be chiefly that of private individuals, there ought not to be very strenuous legislative interference if it can possibly be avoided.

It would be superfluous for me to take up this whole question in more detail, since my views on the subject have already been set forth in an article that appeared some time ago; nor have I found any reason to revise my opinion since that article was written—it was about two years ago. In particular the economic developments that have since then taken place have not caused me to change my mind; on the contrary, I think that what has happened in the money and credit market has shown my view to be justified.

Gentlemen, under this same general question there is in the list a subsidiary sentence (sec. 1, No. 2), in which the commission is asked to express an opinion with regard to the safety and fluidity of the investments of deposits and savings. In the first place, we have to consider, in my opinion, not only savings and deposits, but also—as appears from the monograph before us, which I must say has made a very deep impression upon me—the so-called credits. On page 27 it is stated that the credits are no less important than the deposits. I am convinced that the credits, pure and simple, have a much more important bearing on the public interest than the deposits, especially than the savings deposits, which to my mind do not properly fall within the limits of our discussion.

This section speaks of the safety and fluidity of investments. Much more important to my mind than the question of the safety and fluidity of deposit moneys is the

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question of what part the so-called outside moneys shall play in the general economic life of the country, in our whole system of production. Gentlemen, as for the safety of deposits and savings, I have already had occasion earlier in the summer, at a convention of agricultural *Genossenschaften*, to observe that, on the whole, no fault can be found as to the safety of the deposit moneys, and that the criticism that is often made in country circles, especially in communities where there are agricultural *Genossenschaften*, of the use made of deposit moneys by the banks and money institutions is not altogether well founded. In my opinion we should not draw large inferences from single cases. There is no safeguard in the economic world against dishonesty and deceit. I do not approve of the severe criticism often made in banking circles of the conduct of the *Genossenschaften* when some one of these institutions has happened to go into bankruptcy, and I disapprove just as much of a hasty criticism of the banks. Surely we are a conscientious people; in our business circles, as well as elsewhere, sound conscience and a true sense of duty prevail, and we may depend upon it that most of our business is conducted in a conscientious way.

As for the fluidity of the banks, I have often on other occasions had an opportunity of giving public expression to my opinion on this point. On the whole, I agree with the view expressed some time ago in the *Bankarchiv* by Herr Geheimrat Müller. Fluidity consists in the preservation of a certain arithmetical relation between assets and liabilities. With the modern organization of the money and credit system as it exists in Germany, England, and France, it is impossible to keep on hand an actual

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cash cover for all liabilities. It is the function of the credit system to convey capital to the places where it can be rendered most productive, and to do this so far as possible without the use of actual cash. The whole money and credit system of a country may be compared to a modern suspension bridge, the very existence of which depends on its holding itself together. If you take out a single portion the whole thing falls to pieces. So it is with the modern money and credit system: If you take away one link from the chain of credit connections the whole edifice may be endangered. Therefore in such cases everything depends upon our at once repairing the slightest break in our credit system, so that the construction may remain an organic whole. This is proved with special force by the history of the English crises. The history of the Bank of England may serve us as an example to show that in critical times the best thing that can be done is for every person or institution concerned to preach tranquillity—each, from the top downward, affecting in this way those lower in the scale.

I do not by any means wish to imply that what is generally designated as fluidity is really unquestionably fluidity; on the contrary, I think that this is a matter that constantly requires the greatest watchfulness on the part of those concerned. But, gentlemen, I regard legislative interference in the matter as impracticable, since most of the elements in the case are not subject to control. The character of the assets in a balance sheet can be judged—and here again I speak from my own experience—only by one who has himself closely examined the specific investments. What is needed is that

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criticism should bring about a general understanding, accepted by all as binding, as to what shall be regarded as a lower limit for a margin of safety. For this reason I consider the publication of balance sheets a matter of urgent necessity—and publication in such form as will enable the financial journals to give them effective criticism. Any man through whose hands many balance sheets have passed knows very well how extremely difficult this is. At the same time, publication of the balance sheets and the public criticism that would go with it are not for this reason superfluous; on the contrary, they are all the more necessary, since they will educate a larger and larger public in matters of banking practice and make them more competent critics than they have generally been hitherto—and this, again, is a thing which I am convinced would also be to the advantage of the banks themselves.

Gentlemen, in section 1, No. 2a, there is a question about the nature of deposits and savings and their relations to outside moneys in general. I consider this to be a very important point.

In the paper before us—and if I am not mistaken mention has been made of this point by Herr Geheimrat Müller, of the Dresdner Bank, and by others also—it is stated that at the Dresdner Bank, and I think also at the Deutsche Bank, those moneys are designated as deposit moneys which are paid in at the so-called deposit offices. This is a purely arbitrary distinction. The accident of a customer's coming to the deposit office or to the central office determines here the classification of the moneys that are paid in.

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Now, how is it in actual practice? A customer—a manufacturer, for instance, living on the Oranienstrasse, which is the habitat of the metal industry—goes to the near-by deposit office. Why does he go there? Because his business is small; he is just a small manufacturer and he has need of the bank and its credit only within certain narrow limits. That is why he uses the deposit office that is close at hand. On the other hand, a large metal firm, with considerable export business, will go to the central office, which can also manage for him without loss of time his business in securities and the collection of international claims. In both cases the persons in question are manufacturers; the economic nature of their business is the same; it is only in point of quantity that they are distinguished.

An exact knowledge of the character of moneys deposited in banks is often of great importance. I have often found it to be of great importance in relation to my own official activities. For many years I have tried to make up my mind as to what is the distinctive character of the so-called outside moneys with which we have to do in the credit business. My chief purpose in doing this was that I might decide to what uses these moneys ought to be put. I hope you will permit me to tell you now about the experiences I have had and the theories I have built upon them. Of course, I must leave it to your own judgment to decide whether you agree or not with what I shall say. For my part I can only say that for about ten years I have held to this classification; that during this time I have passed through a great many very difficult situations in the conduct of my official business; that in the light of this theory I have examined many ques-

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tions that are to-day in the foreground of public interest, and that in my opinion this theory has provided me with a very good basis for the answering of these questions.

In order to understand the nature of outside moneys, it is best, I think, to start with a classification that is based upon the nature of man's economic activity. The economic activity of men has two poles, production and consumption, and the interests of producers and consumers often conflict with each other to a very great degree. Now, if you will permit me to classify the outside moneys of the banks according as they have their origin in the ranks of producers or in the ranks of consumers, then I think I shall be able to adduce many considerations that will throw light upon the whole situation.

First, gentlemen, I will take up the moneys that come from the ranks of what are called the consumers. There is now everywhere a propaganda in favor of the use of the check system for the making of deposits by the class of people who are not themselves directly engaged on their own account as entrepreneurs in the production of goods as a business. The number of people in this class is constantly increasing in consequence of the growth of large-scale industries. The sums in question are extremely large; I need only remind you what enormous sums the Prussian Government has to pay out in salaries four times a year. Then there are also the salaries of private employees and officials. Gentlemen, the primary fact about these moneys is that they represent the means by which the recipients of them support themselves for considerable periods of time. They are moneys of which the chief function is to minister to consumption. Whether in the

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form of interest, of salaries, or of professional fees, these consumption moneys, if I may use the term, constitute the recompense for economically valuable services of all kinds. Moreover, in many instances they come in at fairly regular intervals and in fairly equal amounts; mostly, too (and this is a very important point), in the form of cash. This last fact involves, in case there are not adequate banking facilities, the frequent withdrawal of large amounts of cash from economic production. This cash—and on this point there can hardly be any doubt—forms a part of the national working capital, as to the necessity of which for the maintenance of our national production there can certainly be no manner of question.

The larger these sums become the more imperative it is that they be conveyed back again as quickly as possible to the sphere of production. This is to the interest, not only of production, but of the whole economic system. Therefore the efforts that are being made by the Imperial Government and the Prussian Government to persuade their officials to open deposit accounts can but be welcomed as in the interest of the whole economic life of the nation.

I might discuss the matter at greater length, but I think that all that was necessary just now was to offer this basis of distinction. I should like to add, however, from the purely technical standpoint of the banker, that these moneys actually have the character of pure *depositum irregulare*. And in the so-called deposit conditions, which the bankers get people to sign when they open accounts, there is from a technical standpoint nothing but a stipulation about a *depositum irregulare*,

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and, apart from promises of interest, about which I shall speak later on, there are no subsidiary stipulations of any kind. And technically the account has no debit side, but only a credit side. If any loan business happens to come up, it is generally treated as *Konsumtivkredit*, which is entered on an entirely different page, and with which we have at present no concern.

To be sure, the private individuals who engage in speculations occupy a peculiar position. My view of the matter is that since speculation creates time-and-place values, it is in so far a part of production. The accounts of *professional* speculators, therefore, should unquestionably be treated as production accounts, whereas occasional speculations in connection with the management of property should unquestionably be entered on deposit account.

In contradistinction to these moneys we have the deposits of all such persons as are engaged, on their own account, as entrepreneurs, in the production of commodities. The moneys that come in in this way are the proceeds of productive economic enterprise. They are distinguished from those that come from the consumer and nonentrepreneur class by the fact that they do not often come in as cash. They generally come in directly or indirectly by way of the discounting of bills, especially in Germany, where, as has often been emphatically pointed out in the inquiry commission, the discounting of bills plays a particularly large part. That these moneys are working capital is an incontestable fact.

Now, gentlemen, these deposits are technically known as account-current moneys proper. Their deposit is

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made on the basis of a special form of contract, the account-current contract, which is distinguished from the contract of the *depositum irregulare* proper by the fact that it is fundamentally connected with a credit contract. In the French statement of the terms this point is made particularly explicit. The account-current contract is there designated as "comptes courants avec faculté d'escompte," or "d'avance." Naturally, therefore, the entrepreneur account, the account-current account, has a debit side also; must have one. For it is the function of the entrepreneur to unite capital and labor in productive activity.

In another respect also the moneys of these two provenances are somewhat sharply distinguished. In the case of moneys paid into the banks by consumers it is not the bank that performs any special economic function, any special service. But in the account-current business, on the contrary, the bank does perform a special economic function in giving credit to the man that has an account; in this case, therefore, it is not only the right, but even the duty, of the bank to charge a commission. For this reason the account-current account is naturally always an account for which a commission is exacted, whereas the deposit account is an account free of commission. And this rule is not infringed by the fact that for certain reasons some account-current accounts are carried on that are said to be free of commission—for example, check accounts. These apparent exceptions are merely a kind of account-current account entered into by business people who, having large numbers of payments to make, wish to make the charges on these ostensibly

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less. In such cases the bank receives its commission in the form of a lower rate of interest paid by it.

Gentlemen, it may be said that this distinction can not be made in practice, but I do not think this objection can hold. One can determine with a fair degree of accuracy whether the parties in question are entrepreneurs—that is, business men; that is, producers—or whether they are, as I have expressed it, consumers. A banker will not open an account for anyone without his signing the account-current agreement or the deposit agreement. In view of the many things that may happen in transactions with a banker this is absolutely necessary, and a banker would be neglecting his duty if he did not require people to sign their names to some such agreement. This being so, he can tell whether in any given case a person is actively engaged in productive business or whether he receives an income of wages, salary, or interest, upon which he lives. In view of the large sums here involved, it does not matter if a small mistake occasionally creeps in. If only the moneys are on the whole rightly classified, a great deal will have been accomplished.

Gentlemen, I have already permitted myself to remark that, in my opinion, the moneys that come in in both these kinds of accounts have the character of economic working capital; but, as has already been said in this bank inquiry, there appear also, in both kinds of accounts, savings, or, as Herr Geheimrat Lexis calls them, savings deposits. When the productive activity of a period ends with a surplus and the party in question does not use this surplus in his business, or when a consumer finds after a while that he does not need the whole amount of

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his income for purposes of consumption, then these moneys lose the character of working capital. They become savings capital and investment capital, and it is no objection to this view that these moneys are thereupon also invested, that they find a fixed investment. But, gentlemen, these so-called savings deposits on deposit accounts or on account-current accounts are distinguished in this way from savings proper, the moneys that the little people keep in the savings banks. In the former case we have to do for the most part with large sums and with men of business experience, who, as soon as they come to look over the condition of their account, will decide to make the investment it makes possible themselves. This is an important criterion. The savings investments (savings deposits) on the bank accounts are the final result of some economic activity or of a process of saving in consumption.

The savings moneys of the savings institutions, on the other hand, have a very different character. These are the moneys of little people. These savings moneys proper are never, or at least very seldom, found in the great banks, though of course it occasionally happens that a sum of money of this kind gets into a great bank by mistake, and vice versa. The places in which they are chiefly to be found are the *Genossenschaften* and the savings institutions, and of the *Genossenschaften* it is chiefly the rural ones—and this is a point I wish to emphasize—at which the genuine savings of little people are collected to a great extent.

Moreover, these moneys are collected in small individual occupations. Where people obtain their income or their

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wages at very short intervals they can easily provide for their affairs in advance, and if you look at any public savings institution you will see that people go and make payments on the day on which they receive their wages or the day after. In this way the savings of the little people possess the character of savings capital, not in consequence or in virtue of a preceding period of economic production, but because they have from the very first—from the time of their being deposited—the character of savings capital, and because they have from the very first the character of capital that can, I am convinced, be invested in permanent form without fear of harm. That this investment, however, as distinguished from that of the savings capital of the upper varieties of savings deposits, is not effected by the saver himself is a necessary part of the case, since in dealing with the savings of the lower varieties there is no question of any but very small sums, and further because the people concerned are persons unskilled in business matters or completely ignorant on the subject.

It was therefore by a natural development that a special organ was created to take care of the investment of the savings of these little people. But the consequence of this is that the arrangements of the owner of savings moneys and those of the organ that made the investment may clash with each other. Practically this may come about when the depositor withdraws his money in order to make a different investment. For this reason, although the whole nature of savings moneys is that of investment capital and not working capital, nevertheless the savings banks must take care to have a certain

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fluidity. I am not of the opinion that the deposits of the savings banks are actually, in their economic aspect, to be looked upon as demand obligations, moneys that are daily falling due, but they are, of course, such in the legal sense, since they may be called for without notice. For this reason I do not feel justified in criticising, as severely as many people have lately done in public channels, the conduct of the savings banks in seeking to invest the greater part of their moneys in mortgage loans. If you consider what it is that the small customer most often thinks of in connection with the money he saves, you will find that he is very frequently saving in order that he may some day be able to purchase a little piece of ground. The land hunger of the little people is proverbial; in my opinion it is entirely logical for the savings bank to turn to that kind of investment which the little people would themselves choose if they had command of sufficiently large sums of money. I am inclined to agree, therefore, with the view that savings-bank moneys are essentially economic investment capital, and that savings—that is, savings in the *Genossenschaften* and the savings banks—should be managed on entirely different principles from deposit and account-current moneys, which in my opinion are working capital.

I should like to make one more remark about savings or outside moneys at the little country *Genossenschaften*, since on this subject mistaken notions are very common. If you will only try to realize the situation in country districts, and if you will keep in mind my classification of outside moneys into production moneys, consumption moneys, and savings, you will agree with me when I say

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that in the country there are as a general thing no deposit moneys at all, properly speaking, that if there are any they do not amount to anything worth considering, and that this not only is but must be the case. For in the country districts there are, generally speaking, no persons who can make deposit investments. The only persons there who receive salaries are the minister and the school-master and sometimes, perhaps, a doctor and a head forester. The money that is invested in the country *Genossenschaften* is for the most part, therefore, either account-current money coming from the members of the association, money acquired by the sale of agricultural products, or else true savings deposits—deposits from the servants, the children, and the farm laborers.

Gentlemen, if I may say a few very general words on the subject of the measures that have been suggested, I am, as I have often publicly declared, very decidedly opposed, for the present, to a separation of deposit banks from general banks. I consider this to be a measure which, so far as the present time is concerned, could work nothing but harm to our economic development. I think that in this matter we may as well let the historical development take its course, and I believe that after all we may some day have deposit banks. I do not think that the time for the formation of deposit banks is past; on the contrary, I am of the opinion that it may yet come.

I see germs of the development of pure deposit banks, for example, not only in the well-known text-book example of the *Oldenburger und Osnabrücker Bank*, but also and particularly in the activity of many *Schulze-Delitzsch* co-operative institutions (*Genossenschaften*) in small and

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middle sized cities. A large number of these cooperative institutions will certainly develop into pure deposit banks so efficiently conducted that no fault can be found with them in point of the security and fluidity of their investment of deposit moneys. In the same way—and here I have only to agree with the expressions of opinion that are to be found now and then in banking journals—it seems to me that the Deutsche Bank is also, perhaps, tending more and more to become a pure deposit bank, as the Crédit Lyonnais quite consciously is. It looks as if the Deutsche Bank were doing much less business than it used to do in flotations, especially foreign flotations—

A VOICE. Wait and see.

DOCTOR HEILIGENSTADT. At least this is the impression received by the general public.

I think, therefore, gentlemen, that the harm that might be done by a separation into deposit banks and stock banks would be greater than any good that might come of it. I should therefore regard such a measure as objectionable. I think it would be better to let things take their course.

Nor do I think it would be a good thing to establish state deposit banks. I do not wish to go into the matter in detail. I will merely say that I hardly think the state deposit banks would grind much grist, and I think that the risks involved are not to be lightly estimated.

Furthermore, gentlemen, I am not in favor of reintroducing interest-bearing deposits at the Reichsbank. I have often expressed myself in public on this question. Even supposing that there are no legal considerations against it and that the Reichsbank would be acting entirely within the sphere of its legal function if it should

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receive interest-bearing deposits, I still think that in times of rapid change in the condition of the money market, which are sure to recur, they would greatly increase the difficulties of a sound banking policy. I think that from the point of view of the general interest it would be much better for the bank to carry on its discount policy with a free hand, without being influenced, as it certainly might be, by the consideration of having to pay interest on deposits. It is possible, in my opinion, that if interest-bearing deposits were again introduced, the seeds might be sown of developments that would put the Reichsbank in danger.

As for the plan of changing the *Seehandlung* into a deposit bank, the Prussian minister of finance spoke of it in the Prussian Landtag, and declared that for various reasons he was opposed to it.

It has also been suggested that the *Preussische Zentral-Genossenschaftskasse* be assigned the functions of a pure deposit bank. The consequence of this would be that the *Preussische Zentral-Genossenschaftskasse* would have to institute branch offices in the provinces, and this is a development that could not be reconciled with the limits and sphere of the functions that are assigned to the *Preussische Zentral-Genossenschaftskasse* in the law by which it was organized. The *Preussische Zentral-Genossenschaftskasse* can not establish branch offices in the provinces, because the business it may carry on in the provinces is restricted by law to transactions with *Verbandsgenossenschaften*, that manage their business on their own responsibility and on their own initiative, an arrangement which is certainly much more in the interest

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of the public than would be the establishment of branch offices in the provinces by the Preussische Zentral-Genossenschaftskasse.

I should like to make one final observation. I think that, if all the essential factors of the case are taken into consideration, we may some time, after all, establish certain regulations which will call for the drawing up and publication of balance-sheets, in which also a certain fixed minimum cash cover for outside moneys—but in that case *all* such moneys—will be prescribed, and in which perhaps the extent to which bills may be accepted will also be regulated—regulations, however, that must be so carefully constructed that they will take account of the local conditions of individual banks, and of the manner of their historical development. I think, gentlemen, that this is quite practicable, and that in this way much would be accomplished and much good might be done.

Doctor WAGNER. Gentlemen, the list of questions set for us to answer gives first and chief place—and rightly so—to the question whether it would be to the interest of the public that legislative measures be adopted with a view to effecting the security and fluidity of the investment of deposits and savings in credit institutions, cooperative institutions (Genossenschaften), and savings institutions. I wish first of all to say that in my opinion this question, taken in an altogether general sense, should be answered in the affirmative, and I shall try to establish this opinion by bringing forward a number of considerations.

Even the gentlemen who have already spoken, who have for the most part held themselves averse to any

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such plan, must admit that it is at any rate an open question, and it is precisely one of the duties of this commission to give it a close and careful examination. From the assertion, therefore, that was made at the beginning of last year's sittings—namely, that the Government is not going to rush headlong into a separation of deposit banks and stock banks—I do not conclude that it is not our business to concern ourselves here with this question. The Government may hold this view, but any number of considerations may conceivably come up which may convince the Government that this question should at least not be dismissed at the very start and without qualification. For my part, I do not answer it in the affirmative, but I wish to persuade you to regard it as an open question.

Gentlemen, when I look at the matter from this point of view, I should like to distinguish between two kinds of interests. In the first place, there are private interests, above all the interests of the depositors, which are of general significance and may be regarded, even if only to a slight extent, as public interests (I refer especially to the interests of those who belong to the small and middle capitalist classes); in the second place, I ask whether, besides these interests, which are, after all, those of private individuals, the question does not involve also a large and general public interest?

As for the first point, it is to my mind much less important, but it must of course be considered. It will be admitted that here we have to do with classes of people that can not always look out for themselves; that we wish to see them conduct their economic activities—

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those that relate to consumption as well as those that relate to production—in an efficient manner; and that we wish to make them as safe as possible when they enter into relations with a bank. In this matter it is chiefly the savings banks that are concerned, and no one has made any objection to the fact that in the conduct of the savings banks there is a very considerable admixture—gradually evolved, it is true, and already existing—of legislation, supervision, and administration. Whether this is in every instance of the right character is another question.

But the objection is made that in the case of the other banks, in the case of the *Kreditgenossenschaften*, and above all in the case of great banks, there is really no question of great danger of heavy losses; it has been estimated by several people how small the losses have actually been, taken altogether. I am willing to admit this, but I do not consider it decisive. It is poor consolation to the small depositor to be told, "You have lost your money, but only a small fraction of all deposits is lost—this time the loss happens to fall upon you." The man on whom the loss falls will in point of fact always ask himself the question, "Was everything possible done for my safety?" And so we come to the factor of guardianship, which we can not altogether eliminate from our modern political economy unless we go over to the other extreme and tell each man to look out for himself, which he simply can not do.

It has been urged that even the simple statement of the balance sheets of the banks would be understood only by a few people, that questions of qualitative as well as of quantitative values arise, and that even quantitative

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statements are not fully comprehensible. How, indeed, can one expect this of the average man? And in this class I mean to include the whole of the lower classes and a large part of the middle classes—all those, in short, whether officials or private individuals, who can not properly look out for themselves. And the question then arises, "How can we take care of them?" Here we have, then, an interest, the interest of security; the people should be, so far as possible, protected from losses, and I do not think that the state can continue to maintain in this matter an attitude of unqualified negation. It is the same way with the banks; I will remind you, for example, of the fact that in the interest of the check system efforts have rightly been made in government circles and by our highest authorities to induce the officials to draw their salaries so far as possible in the form of drafts on the banks, etc. If this comes about, it must be made absolutely certain that the person in question shall know beyond peradventure that the amount represented by the draft will not only be paid to him sometime in cash—I will say nothing about any danger in this direction—but that he can get that cash at any moment. Here, therefore, lies an absolute necessity for a certain degree of fluidity of bank investments; for a recommendation like this, which is made in the interest of the whole money, credit, and banking system, of itself places an obligation on the government not to dismiss these matters offhand.

Yesterday, to be sure—unfortunately I was unable to be here yesterday afternoon, since my professional duties keep me at the university in the afternoons—it was

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maintained, especially by Herr Geheimrat Wachler, that all such interference is either useless or harmful.

Everything he said reminds me of the situation thirty, forty, and fifty years ago, when the catchword everywhere was, "No state interference in matters of economics." That was the principle by which free trade was brought about in the North German Confederation and afterwards in the German Empire—a principle which has long been abandoned in theory, and has by this time been abandoned in practice too. We have seen that it does not do to tell everyone to look after his own interests. If, then, and in so far as, private interests are here at stake, the question whether in the public interest a certain amount of legislative control should not be permitted, is nevertheless a question that deserves to be discussed.

But now I must explain just what I mean by a public interest. Many things are here comprised—in the first place, the question of security, and not only the question of security in the narrower sense, but also the question of fluidity. For just suppose for a moment that a great crisis should arise—and I think our business world does not take nearly enough account of this possibility. We Germans especially ought to remind ourselves over and over again that what chiefly should concern us is not economic crises—in fact, we have not lately had any really big economic crises, for even the crisis of 1907 is no exception; what should chiefly concern us is political crises. It is with these we must reckon; the actual circumstances of the time positively demand it. And we do, in point of fact, reckon with such things, since we have defenses that we should not need if we did not

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have to reckon with them. We reckon with them also in the domain of banking legislation, of the Reichsbank, etc.; in these domains there are far-reaching legal prescriptions, since we feel that conditions here in Germany call for greater security in these domains than is demanded by the very different conditions in England, for example, or in the United States, or—to give an instance of a continental country—in France. All this is simply the result of our historical development and of our geographical situation.

I think, therefore, gentlemen, that in point of fact a public interest is here involved, and that our credit and banking system ought to afford at least as much security and fluidity as can be reasonably expected or even possibly attained. It goes without saying that absolute security is unattainable. If we were to demand absolute security, we should have to give up the credit system altogether; the foremost house in the world may fail under some circumstances. But to strive for the very best and fullest security that can possibly be attained is, in my opinion, our duty. And this being so, the question again arises whether the state should interfere in this matter.

Besides cases like that of the Leipziger Bank and that of the Dresdner Kreditanstalt, there have been cases like that of the great bank which a few years ago was admittedly in a situation in which it had difficulty in returning deposits—a situation aggravated perhaps by the Leipziger Bank affair; at any rate, the fact remains that there arose a small economic crisis, and that help had to be furnished, partly by certain other banks, which had a reciprocal interest, and partly by the Reichsbank, to

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which, after all, resort is had in such cases. The gentlemen who are opposed to any state interference must in consistency object outright to help from the Reichsbank in time of need. But it cannot be denied that help is accepted.

The following consideration is another argument in favor of my view that a great public interest is involved in this matter—especially in the attainment of a real and impregnable security for our so-called stock banks, in so far as they are deposit banks, and for all similar institutions. Just imagine what an effect it would have on foreign countries if cases like that of the Dresden affair were to arise here in Berlin, if it should be a matter of common knowledge that some bank here could be saved only by the support of the other banks, and if besides this it should have to beg for special help—and this is a thing that could not be kept secret—from the Reichsbank. And to my mind these are possibilities to be reckoned with. But even leaving them out of account, I think that precisely in the matter of fluidity even the great banks, to judge from their statements—and I can not persuade myself that this has been successfully contradicted by anybody—even the great banks still leave much to be desired. If the great banks have only about 3 or 4 per cent of all their assets in cash—and even if we include their outstanding credits with banks and bankers, it would come to only about 6 or 8 per cent—well, that certainly isn't very much; and if all the rest of the credit banks have a percentage of cash even lower than this—only 2 or 3 per cent, that is—I do not think that the whole outlook is a particularly cheerful one.

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Now for another point: What will be the result of the modern development of the deposit system, especially as it shows itself in the large stock banks? Larger and larger sums are being collected. It is no longer a matter of hundreds of millions; it is a matter of thousands of millions. This money comes from all classes of the community; the greater part, to be sure, comes from the so-called producing classes and business classes, but a considerable part—though it is hard to make accurate distinctions—comes from the classes that President Heiligenstadt has comprised under the name of consumption classes. All this money now flows into these banks, and how is it employed? I think this is a point to be considered. It is employed, as has often been remarked by others, in the great business transactions effected by the great stock banks, and it is eminently advantageous to manufactures and mining and conducive to the larger undertakings in these departments. To be sure, in a way, this is not undesirable—I do not deny that it is even in a way necessary—but the question remains whether too much is not consigned to this use, and whether the development in this direction has not consequently been too rapid and unrestrained.

I come now to the point which seems to me in many ways the most important of all. In the speeches that were made yesterday morning—I think especially in the speech of Herr Geheimrat Wachler—reference was made to an utterance of the *Frankfurter Zeitung*. The *Frankfurter Zeitung* said that, although perhaps nothing could be done to prevent crises, still we have to assume that crises are the result of an incontinent haste to acquire

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wealth. I repeat this with heartfelt agreement; here, to my mind, lies the prime fault. I think that a certain up-and-down movement in the condition of business is to be regarded as not only natural, but even in many ways beneficial; but here, too, we must constantly remind ourselves that we must keep within bounds. Now our whole modern tendency in this matter is not to keep within bounds at all, but to go as far as we can. As soon as some particularly favorable opportunity arises, everyone rushes in to exploit it first, and then come the familiar stages of development; first proper promotions in proper measure, next promotions on an excessive scale, and then—even to-day it is so, though less often than formerly—come many kinds of promotions that are altogether undesirable. Thus too much capital is invested. I have heard something to this effect said even by men of the industrial classes. They themselves admit that at any favorable moment our manufacturers, miners, and the like increase their investments at once as much as they possibly can so as to make them yield enormous profits. In a way this is perhaps desirable and necessary; but in another way it is not so satisfactory, since the investors are acting on the unsafe hypothesis that the additional investments will also be profitable. They attract workmen and for a time pay higher wages, but all that does not last very long.

The development of our stock-bank system is in my opinion another element of the case, since undertakings of this kind are supported in large measure with the means furnished by the large sums of deposit and credit moneys that are concentrated in these banks. Indeed,

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the question of the concentration of capital is a very important one, and there is a growing tendency in this direction. The rapidity of pace pervading our business life, necessitated by modern technical development, becomes in consequence greater and greater, stages of development succeed each other more and more quickly, and the reaction is therefore inevitably all the stronger. Of course the reaction affects in the first instance those most directly concerned—people of the entrepreneur class; but it falls most heavily upon the workingmen—the workingmen, who, as for example, in the Rhine country and Westphalia, are brought into the industrial system by all the devices of modern business, and who are then not so easy to get rid of; the workingmen, who have become used to better wages and a higher standard of living, and are then either employed at reduced wages or dismissed altogether. And then people wonder that there should be discontent. I agree, not indeed with the socialist agitators, but with the scientific socialists, in thinking that one great source of injury to our modern economic life is this irregularity—or rather, to put it plainly, this anarchy—in the matter of production.

With reference to the paper of Herr von Wangenheim which was read yesterday, Herr Mommsen said that he preferred not to take part in the discussion of an insoluble problem—that of the prevention of crises. Very well, I suppose it is impossible to prevent crises altogether. Is it impossible to mitigate them? And at what stage should they be mitigated? Not at the stage of the crisis itself, but in the preceding stage of excessive

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exploitation of opportunities and of excessive growth of speculation. Retarding weights must be thrown into the scale, and it is precisely here that the action of the banks is called for. People say: "What do you want of the banks? They can not be held to blame; they are in the business for profit, and they want to make money." Personal elements also enter in, for it is not only the shareholders that are concerned, but also the directors, the managers, the supervisory council, etc. This is all natural enough, considering the weakness of human nature; and the existing system of commissions is also a factor. This system has been commended on the ground that in a measure it places a premium on men of eminent ability. But every thing is directed to the one end of getting as much money and as fast as possible. In the case of joint-stock companies the gain is still greater, when there is a gain, since not only do the dividends rise by 1 or 2 per cent (that is indeed only a trifle for the parties concerned), but the value of the shares itself goes up, so that there is also a gain in the capital itself. This is what is rightly called by socialists the planlessness of production. We can not—and here I must take issue with Herr Singer, who, as I am told, made yesterday some such suggestion—we can not cast aside our economic system, because we simply can not carry out the socialistic economic system, not because we do not wish to but because we can not. We must, then, retain the existing economic system, but we must do whatever we can to get rid of its imperfections, or at least to lessen them, for imperfections are sure to exist in anything of human creation.

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What, then, can we do to improve the general situation and to prevent disasters? In both regards, we should, I think, direct our appeal to the modern stock banks. The developments that I have portrayed are encouraged by them in too feverish a manner. If it be said that this is necessary on account of the rapid increase of population in Germany, I reply that this answer will not serve, for the economic development does not keep pace with that movement, but goes feverishly in advance of it. We have been going too far in all sorts of ways in this age of ours; it would be no misfortune if elements should enter into our economic development which would exercise some restraining influence even upon this tendency in population. I can not go into this question any further—last year, too, there was some talk about the increase in the population—but it remains a fact that the banks play a part in this matter, and therefore I think that if the *Frankfurter Zeitung* was right in using the words “incontinent haste to acquire wealth,” then it is time that we devised some means by which this incontinent haste may be—not got rid of, since that is perhaps impossible, but mitigated; and a slowing up of the pace of the banks is one of the things that are necessary

Now, it has been said that our economic advancement has been due in large measure to the stock banks. To a certain extent I admit this is so, but on the other hand we must also ask to see the reverse side of this great and rapid development. Certainly the deposit moneys have been contributory factors in that picture, too. I will go back to an idea that I advanced, if I am not mistaken, in the course of last year's proceedings. It

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has been said with truth in England that the taking of interest-bearing deposits has unfortunate consequences; especially the large joint stock banks in London, which are essentially deposit banks, have regulated their rate of interest on deposits to some extent by the rate of the Bank of England, as indeed ours are influenced by the rate of the Reichsbank. When the Reichsbank rate rises, the rate on deposits rises also. I had experience of this myself recently—only in a small way, you understand—and of course so far as I myself am concerned I am glad of it. [Laughter.] But on the other hand one asks oneself, Are the larger consequences also desirable?

Mr. SCHINCKEL. The beneficiary asks this!

Doctor WAGNER. Yes, in this case it is the beneficiary. Well, then, one goes further and one says: My own private satisfaction in receiving now 1 per cent, or half of one per cent more, is of no consequence; the important thing is what part it plays in our economics. In consequence of the higher rates of interest, more money comes in, and fewer deposits are withdrawn, and through these new funds the stock bank has greater resources to put into the market to promote industrial enterprise directly or indirectly, either by furnishing the initial funds or in some other way, and thus to stimulate this rapid—often too rapid—economic development. The consequence is that the money market again becomes tighter, and above all that the supply of cash becomes smaller, especially in proportion to the sums that should be covered by it. Thus the same thing happens that has often been seen to happen in the history of the Bank of England: As soon as the bank rate rises, the rate of interest on deposits

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at once rises also; less money is withdrawn from the bank and more is carried to it, and all this is repeated once and twice, and so the development may go still further. But the consequence is that the whole immoderately exaggerated boom, though it lasts longer, is still more immoderate, and the reaction is all the greater.

Therefore I think we should ask ourselves whether, if we could devise some means of requiring the banks, and especially the great banks, to give somewhat lower rates of interest on such occasions and thus not to attract so much capital—whether, I say, if we could do this, it would not have the happy result of making the banks more careful in granting credit and slower in their procedure, so that right here in the preliminary stage of the crisis, when the boom is just beginning, retarding weights will be thrown in. And if the banks will not do this of their own accord—and they will not, for competition is not the thing to induce them to do it—then surely we might at least consider the possibility of making regulations; for example, the requirement of a certain minimum amount of cash, perhaps including credits at the Reichsbank, or should it be exclusive of these? I will at once make my demand rather high; there should be a cash reserve of 10 per cent against all demand liabilities. The result of this would be that fewer deposits would be made in the bank, since the rates of interest would have to be lower.

That the banks would perhaps make less profit in this way is a fact of very minor importance from the general economic standpoint. That the banks, like any other joint stock companies, shall make their paid-in capital safe—that is, shall be so placed that their stock shall not

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be below par—this, to be sure, is an economic benefit to the whole community, since it is the indispensable condition of the investment of the necessary capital in the companies. But that the banks should receive on the average higher dividends than those required to keep their stock at par, is only an advantage to the bank and to the shareholders; it is an advantage to certain individuals, but it is no advantage whatever to the country at large. [Contradiction.] It is not of the slightest benefit to the community that a bank share should yield average dividends of, say, 5, 6, or 8 per cent, or more—should consequently stand so and so much above par. Such high value of the shares may, it is true, be caused by a big surplus, and in so far as this is the case, it is justifiable; but in point of fact, in the case of banks, the price of shares is much more often regulated by the average dividends, and this sort of rise in their price is a matter of indifference to the economic life of the community.

Doctor RIESSER. How about the productive investment of its resources?

Doctor WAGNER. I beg your pardon; if a bank has to give 8 or 9 per cent dividends instead of 10 per cent, because its rate of interest, the business it is doing, does not make it possible for it to give 10 per cent, no harm whatever is done to the economic life of the community. From the standpoint of the economic interests of the community, the amount of profit made is not always the only thing to be considered. There is danger here of confusing private and public interests. The community as a whole derives no benefit whatever from an increase of a few per cent in the price of bank shares.

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Doctor RIESSER. And how about the taxes?

Doctor WAGNER. I shall take up this matter again later. If, then, we adopt the plan I have indicated and put some difficulties in the way of the banks, the result will be that the deposit business will be carried on with greater moderation, and the result of that will be that not every time of expanding business will be at once excessively exploited. We have, it seems to me, given much too little attention to the connection between these things.

Of the documents that have been sent to us, I have read with very special interest the one from Lansburgh. In this paper a great many views are brought forward which seem to me excellent. In fact, all I could say was that I agreed with them heart and soul. Among other things this question is raised—and it relates itself to what Count Kanitz has already touched upon: Why is it that for years there has been on the whole a low, though somewhat variable, market price for our so-called best investment paper—consols, imperial and state loans, mortgage debentures, etc.? Now suppose I, a public functionary, have a few thousand marks to spare, and suppose I must say to myself: I am getting 3 or 4 per cent on demand deposits, and I am sure of the safety of the capital I have invested, but the case would be different if I were to invest in consols or mortgage debentures; well, then, I let my own interest decide the matter, and I withdraw my capital from investment in state paper. If we were to cut down the business of the stock banks, we should have in this way a factor which would prove to be a distinct aid to progress.

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Lansburgh justly remarks that it is not only that trade, manufactures, and mining receive too large a proportion of the national capital, but that a great deal too much money is withdrawn from agriculture. We must remember also that lately too little capital is safely invested in state and imperial loans. But what has been stated with regard to the banks is again quite closely connected with these developments.

If you will look at the matter from this point of view you will conclude that a great national interest is here involved.

As the last point on this aspect of our question I should like to propound this question: What is the cause of this whole development, which has been promoted especially by the banks? Why is it that in Germany our whole economic life has been more rapidly developed than anywhere else in Europe—almost as rapidly as in America—and that this development has heightened the contrast between the poor and needy on the one hand, and the rich, the very rich, and the immoderately rich on the other? The tendency toward plutocracy is in fact stronger to-day in Germany than it is in any other European country—than in Great Britain, for example, the center of capitalism, not to mention any other countries. That this is true my own investigations convince me. This tendency toward plutocracy is characteristic of the modern system of private capitalism, as it has been developed in our own day.

It is objected that we can not alter that system; we need it; it is necessary and salutary. That it is necessary and salutary I am willing in some measure to admit; but

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that we can not alter it I question. In fact I think we might restrain it if we would. We are living among conditions that breed millionaires, and the breeding of millionaires is never a desirable thing. The millionaire is no less an extreme development than the proletarian, and our economic conditions tend to produce both extremes. The banks especially, and above all the stock banks, have this effect. Do you wonder then that there is discontent? When you find the people discontented you say: The masses are ungrateful, for they are much better off than they were; their wages are growing higher; their standard of living is being raised; their social position is more satisfactory; and, as Count Kanitz said, a tremendous amount is being done for them—ours is a period of boundless social legislation. This last point is one in which I shall take very decided exception to the view of Count Kanitz. Ours is not an age of boundless social legislation, but an age in which a certain restraining influence is being exercised upon the processes of the distribution of incomes and the distribution of wealth which go on among us under the system of free competition. If we had no social legislation the extremes would become still greater. I assure you that what is accomplished by social legislation directly and indirectly is not the laying on of new burdens which manufacture and agriculture could not properly be expected to carry, but the laying on of burdens the necessity for which is obvious, since wages have altogether failed to keep pace with the increase in the national wealth. Thus in establishing workmen's insurance we have done no more in the way of improving the condition

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of the workmen than every modern country is bound to do if it lays claim to being one of the civilized nations. Our present economic system has a tendency to push extremes further than ever, and to bring about a still greater concentration of wealth among the uppermost classes. I can not look upon this as a good thing; it is more of a goad to the working classes than the Social Democratic agitation with all its exaggerations.

People say that after all the workman to-day is better off than his father was, or his grandfather. But the workman can reply: Is there not a vastly greater improvement still in the status of the large manufacturer as compared with the status of the artisan or small manufacturer of former times? These are dangerous accompaniments of progress, with which we have to reckon.

The question of the public interest in a regulation of the stock business, the deposit business, etc., of the banks reduces itself in the final analysis to the question of whether, since we must retain the basic principles of our economic system, we can not introduce some modifications to prevent the development from becoming still more exaggerated. Here, too, I must say a word in opposition to Count Kanitz. It has often been said that our creation of capital suffers from this so-called boundless, measureless imposition of taxes for purposes of social improvement. Here and there, perhaps, some such thing may have happened; nevertheless, the fact remains that on the whole our taxes are smaller than those of any other modern nation, even if we include all taxes, direct and indirect, for the state, for the Verbände, and for the communes. In fact, in the matter of direct

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taxes, we have actually made the mistake of not daring, at a time when wealth is increasing so rapidly, to impose an inheritance tax.

A VOICE. We wanted to.

Doctor WAGNER. Yes, you did; but other people did not. And the graduation of the income tax is the consequence of the present economic system, and must therefore be retained.

But if the creation of capital is, in point of fact, a somewhat slower process here than elsewhere, one reason for this lies in our too high birth rate, which is in many quarters regarded as a great blessing; another reason lies in a desire for luxury, which is greater among us than among any other European people—even the English, the French, the Roumanians. [Contradiction.] This excessive luxury, this very high standard of living, interferes with our formation of capital, otherwise there would be no lack of capital to meet all our actual requirements.

Gentlemen, I will close my remarks about the existence of a public interest by expressing my firm conviction that the stock banks, in the capacity of deposit banks, have intensified, though they did not bring about, our modern economic development. The insatiable greed of the modern world is the primary evil, but it is an evil which is fostered by this development. In this point my opinion is at variance with that of the *Frankfurter Zeitung*. And from this point of view it is clearly very much to the public interest that we should at least ask whether we can not consider, and perhaps propose, a number of measures that might be taken to lessen the pace of this development. Then the different proposals

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would come up for consideration. I assume that the present debate should concern itself rather with the general aspects of things, if I have understood our president aright. [Assent by the chairman.] Then I shall keep the rest of what I have to say for the special discussions which will no doubt take place later. But I think that on the point of the need for greater publicity we are all agreed—even Count Kanitz gave this as his only positive suggestion. That publicity is not of itself sufficient no expert will deny, and that a great many people would derive no benefit from it because they have no professional knowledge is also undeniable. But we can say at once that the question of the manner of publication—by what method, at what time, how frequently the balance sheets are to be published—this is a matter that should not again be left entirely to the discretion of the parties most nearly concerned. Why have we placed the banks of issue everywhere under such requirements of publicity, prescribed for them definite forms of public statement? Why should it not be possible to do so in the case of our other banks as well? I think, by the way, that even for the banks of issue, not excepting the Reichsbank, a better plan of publication could be devised. It is not, in my opinion, sufficient that all credits should appear together as one item in the balance sheet, and I do not see why the Reichsbank should not distinguish between imperial and state credits on the one hand and the moneys of business firms and private individuals on the other hand. At any rate this should certainly be required of the other banks. The stock banks ought not to be allowed to determine for themselves the form in which

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their balance sheets shall be made up. I think this is proved by the criticism that has been made in the press—to be sure by rather harsh critics—of the so much lauded voluntary bimonthly publication of balance sheets after the manner of the great banks. I refer to the judgments pronounced by men like Bendix or Bernhard in “Plutus,” and by a number of others. It happens that these men are former students of mine, and I am proud of it. [Laughter.] Well, Herr Kollege Riesser, do you mean to say I have no reason to be proud? Why? [Renewed laughter.]

DOCTOR RIESSER. I am only glad they are your students.

DOCTOR WAGNER. I am, too. And some of them are men of practical experience, who certainly know something about the matter. Obst, for example, was in the banking business. [Renewed interruptions.]

A VOICE. That is your school.

DOCTOR WAGNER. Not in the sense that they had been taught by me to cast abuse upon the great banks. Do you think I do it out of malice?

A VOICE. No, no; out of conviction.

DOCTOR WAGNER. Perhaps you may regard my view as mistaken; I must put up with that. But the men I am talking about are men who have all had a thorough theoretical and practical training. Note, by the way, that even in other countries it would be hard to find a writer of practical experience in banking who does not fully acknowledge the necessity of a thorough training in theory also. I need only remind you of Ricardo; he was a banker. This is worth remembering. Such men have made good use of criticism.

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One more point, which occurs to me. I see here the item "bank credits of every kind." This does not make a separate statement of Reichsbank credits.

Mr. MOMMSEN. Why, that is my cash account.

Doctor WAGNER. But it stands here in the statements that are collected in the published documents. If that is the case, then I have fallen into an error; I understood it differently.

The difficulty—so it is stated at another point—of stating separately cash, foreign coins, coupons, etc., is very great. That may be, but it is not insuperable. Why should not a body composed of experts—drawn, for example, from the Reichsbank, from the Seehandlung, from the Zentralgenossenschaftskasse—why should not such a body be able to arrange a scheme? And bank directors, too, might be included as experts. Why should this lie absolutely outside the sphere of legislation? Only when this is done will moderation and restraint be exacted of all parties. On this point I acknowledge the truth of what President Havenstein said yesterday—we must remember that where there are rights there are also duties. Among the latter I include the principle of publicity. But here I differ again from Count Kanitz. I think it would be well to consider whether something further should not be done. President Heiligenstadt, if I understood him aright, was also, at the end, in favor of such consideration. Why, then, should we absolutely refuse to consider the possibility of making certain specific prescriptions as to the cover for obligations? We do not act in this way in the case of the banks of issue; it is partly through

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prejudice that we treat them differently. The banks of issue were never in any great danger. Even during the time between 1850 and 1870 there was no great trouble about the banks of issue, and yet we made definite prescriptions as to their note cover, because we thought it necessary to do so. Even for the Reichsbank we have made regulations of this kind—regulations that are sometimes rather inconvenient. Why should not something of the kind be done in the case of stock banks, deposit banks, etc.? Of course this would not mean that the banks should do nothing but what is prescribed, but that they should do at least as much.

Then, too, we should consider the plan of requiring a certain minimum cash cover for demand liabilities and for such as are payable in a week, or at most in two weeks, after notification. These are the moneys which are chiefly concerned so far as regards the question of fluidity, and in their case a greater cash cover should be prescribed. The 3 or 4 per cent of all assets^a which is at present customary among the stock banks is an extremely small minimum. This question connects itself also with the question of the gold reserve. In making requirements of this kind, we make it necessary for the banks to keep larger supplies of cash, at least in the form of credits at the Reichsbank, and in this way, again, the keeping of a larger gold reserve may be made requisite. The means that have hitherto been taken may have accomplished something toward this end; they certainly have not attained it. Nor have the Reichsbank's cash holdings been materially increased by the issue of small

^a Presumably, the speaker meant to say "liabilities".—Translator.

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bank notes; indeed, has it not increased the danger of less gold being kept in the country, in the channels of trade? In England they are trying to increase the gold reserve, and we should be doing so, too; and the fixing of a minimum for the cash funds of the stock banks might contribute more or less toward this end.

Furthermore, I think one might say that the demand deposits should be covered by, say, 10 per cent in cash and about 40 per cent in standard bills. In this way we should have covered half the sum so thoroughly that we should be able to say: In all likelihood this will insure fluidity enough even for difficult situations.

Now for the question of a bureau of supervision. So far as I see, there is a prevailing sentiment against this plan, even among members who are, on the whole, on my side. Well, gentlemen, I have long entertained this idea of a supervisory bureau. In 1884, when the draft of the joint-stock companies law was under consideration, I had the honor of being asked to take part in the discussion. We had fairly thrashed the matter out when, near the end of the deliberations, I expressed the opinion that a general law like this ought to establish a series of formal regulations for uniform application to all joint stock companies, but that it was further necessary for the proper legal regulation of affairs in this domain that a series of special laws be also enacted, corresponding to the particular ends which the various kinds of joint stock companies serve. I know that I was not only ridiculed at the time, especially by those versed in the law and unfortunately also by my lamented colleague, but that I was also attacked. Now, we have finally settled matters as regards the mortgage

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banks and we are achieving the same result at last with the insurance companies. What prevents us from going further? It will not do for us to make merely uniform regulations for all joint-stock companies. They have got to be allowed to manage, each class in accordance with its own requirements. I therefore consider it a necessary inference that we should add to the law regarding banks of issue and that regarding mortgage banks, as well as that relative to insurance companies, a law regarding stock and deposit banks, of course with different and less stringent provisions.

I must begin by asking this question: Who guarantees to us that the public statements that are made are all correct? As has been rightly asserted, the quality of the individual items can not be stated but only the quantity. This is all the more reason for guaranteeing against the occurrence of errors and intentional inaccuracies in the published quantities.

Doctor RIESSER. There's the penal code.

Doctor WAGNER. Yes; but we must first have somebody who will discover them.

Mr. MOMMSEN. That is always the case.

Doctor WAGNER. We must therefore have an office that will have the right to examine the balance sheets and books and to verify the balance sheets.

Mr. MOMMSEN. An accountant can do that.

Doctor WAGNER. Then you come and tell us—and this struck me as very characteristic in the remarks of Count Kanitz: “There, you have got some more officials.” To this I say: “Of course more officials—a fresh bureaucracy.” If we have new institutions that can not be left

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to themselves but require such supervision, then this is a necessary accompaniment. This strenuous opposition to an increase in the number of government officials may be justifiable in certain cases, but taking everything together it is not justified, the fact being overlooked that in the matter before us we have to deal with a product of our entire social and economic development.

Mr. MOMMSEN. Then give it up.

Doctor WAGNER. No; that is not the thing. What we have to do is to see to it that where profits are excessive taxes shall be imposed which shall replenish the National Treasury and enable it to pay the additional officials. I can not help saying that this objection goes too far, no account being taken of the fact that this development is going on in the same way all over the world. We Germans have not gone too far in this matter, and this everlasting talk about the bureaucracy—have we not seen recently, gentlemen, a bank robbed of millions, I might almost say?

Doctor RIESSER. Where was that?

Doctor WAGNER: At the Mitteldeutsche Kreditbank. A sum of 700,000 marks and last year 500,000 marks. That is a good deal over a million. If such things can happen to private institutions, there is no sense in constantly pointing to the fact that the bureaucracy is responsible for certain abuses, as in the case of the Kiel docks. Are we on this account to say that the banks can manage best when left to themselves—that it is not a question of regulations that are needed but of men? No; regulations also have to be considered, as all men are exposed to temptations, and for this reason such supervision can not be dispensed with.

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The outcome of it all, in my opinion, is that supervision is required in the interest of the public. We need it inasmuch as by means of certain provisions in regard to cover, aiming at the fixing of a minimum in the matter of security and fluidity, we create a certain guarantee, and we need it for the sake of the public as a necessary and efficient protection. This protection is not adequate in itself, and therefore a body of expert officials is required. There are no organs that could undertake this other than expert officials. We may allow ourselves to be absolutely guided in this matter by the example of the imperial insurance bureau. Of course, the kinds of business are different, but in the insurance business itself not everything can be laid down so precisely. I need only remind you of the fire-insurance business, whose schedules are still more or less arbitrary, whereas in life insurance a solid statistical and mathematical foundation for the schedules may be secured. The arrangement has been working well in Austria, Switzerland, and of late in this country. This is enough to make me an advocate of the scheme of regulating general and deposit banks and kindred institutions.

I have not said anything regarding the savings institutions and Genossenschaften. Here, too, I can say that I believe the savings institutions in general leave nothing to be desired on the score of solidity, but that it may be questioned in their case also whether they are not deficient on the score of fluidity—

Freiherr VON GAMP-MASSAUNEN. Quite correct.

Doctor WAGNER. —and whether they ought not likewise to be compelled to maintain a larger stock of cash

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and of such readily and quickly convertible resources as bills and the like. It may be granted on general economic grounds that the investments in urban and rural mortgages, which with us constitute the main assets, are proper and sufficient; but that the matter is not to be considered merely from the standpoint of the interests of the mortgage market is evinced by the character of the savings institutions as banks. Here the rule applies more or less, the rule which theory—yes, theory—science, and history have established that the nature of the liabilities of a bank shall in a measure correspond to that of its assets. Mortgages do not sufficiently fulfill this condition with respect to those sums in savings institutions which not only legally are payable immediately or within a short time but which practically are liable to be withdrawn at any moment. I am of opinion, therefore, that in the case of savings institutions also it is worth considering whether it would not be well for them to increase their stock of cash and perfectly liquid assets.

The same thing, I believe, applies to all cooperative credit associations, for with respect to them one may always assert that for a bank security is an important point, but the most important point is fluidity. Our legislation has recognized this. The legislation in the United States regarding banks of issue has on the other hand made the mistake of putting security in the first place and fluidity in the second. We have gone to the opposite extreme, except that in regard to savings institutions we have perhaps laid too little stress on the matter of fluidity.

I have taken the liberty, gentlemen, of discussing the whole subject on the strength of what has been stated here

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yesterday morning and to-day. As I was unable to listen to the addresses that were delivered yesterday afternoon, I must ask you to excuse me if I have perhaps wearied you somewhat [exclamations of "No! no!"] and have not always adhered closely to the actual subject of the discussion. But all these questions culminate ultimately in the question, Is it in the public interest that there shall be a more effective control? In accordance with the views which I have formed on the matter, I am compelled to answer this question decidedly in the affirmative.

Freiherr VON CETTO - REICHERTSHAUSEN. After the splendid and broadly outlined addresses of the two speakers who have preceded me, I shall first of all have to beg you, gentlemen, with the *captatio benevolentiae*, to be indulgent with my utterances and to follow me in the restricted field of agricultural conditions, a realm whose circumstances as delegate of the German and Bavarian Agricultural Councils, I find myself called upon to place before you.

In considering the question, gentlemen, as to whether the public interest demands the regulation of banks as deposit institutions, I am compelled to ask myself the secondary question, What is to be the attitude of agriculture with respect to this question? In what way is agriculture interested in the regulation of the deposit business? Is the activity of the great banks possibly prejudicial to the interests of agriculture? Is it harmful to these interests in depriving agriculture of its working capital by appropriating the funds that have been accumulated in agriculture and withdrawing them from their rightful owners—a matter to which the pamphlets of Herr

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Lansburgh and the address which Doctor Wagner has just delivered have called attention—or is agriculture perhaps hurt through the directly injurious effect resulting from the solicitations of the great banks, especially from their offers of a high rate of interest on deposits, which might tend to inveigle agriculturists into making unsafe investments and expose them to losses due to such investments?

I believe, gentlemen, that this question ought to be considered with reference to the fact that the great banks—I do not refer to the Berlin banks in particular, with which I am not sufficiently acquainted, but I have in mind a number of other great banks, with whose affairs I am very familiar—as a result of mutual competition, have for some time past been induced to expand their field of operations by the establishment of numerous branches in the country; that is to say, they have extended their activity from the urban into the rural districts, from which they have hitherto kept aloof.

The interest of agriculture in the regulation of the banks of deposit is therefore, in my opinion, rather an indirect one in so far as such regulation concerns the banks, and the question of a direct interest can only arise if the rural credit institutions, the *Genossenschaften*, should be hampered in their operations by restrictive provisions of governmental supervision. For it is a well-known fact that the majority of agriculturists seek and get credit, of whatever sort it may be, not at the banks but at the *Genossenschaften*, and that they deposit their idle money with these associations and intrust their savings to them.

I shall ask you, gentlemen, to take this remark with a grain of salt. It does not apply, of course, to the big

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landed estates, but it certainly does apply to the peasant proprietors of the soil, and the question derives its chief importance from the circumstance that the great bulk of the product of agriculture is dependent on the lands of the peasant proprietors. It is they who create it.

If, therefore, I leave the landed gentry out of account in this matter, I shall beg you on general grounds to follow me in the discussion of the question as to what is meant when we speak of "outside moneys" in the hands of the *Genossenschaften*.

You will find that it is necessary, in order properly to define this concept, to go back to the history of the origin of the system of *Genossenschaften* in Germany. I must beg you not to lose sight of the fact that the impulse to the foundation of the rural credit associations, especially of the *Raiffeisen* associations, was the need of credit among the peasants who were exploited by usurers. In the region in which *Raiffeisen* first established his associations usury had increased to such an extent that the entire population was getting more and more impoverished, and *Raiffeisen* believed that he could remedy this evil by making the ranks of the small agriculturists themselves contribute available working capital, working capital that would be supplied through the channels of legitimate credit to those in need of credit, under a double condition, the condition of a low rate of interest and the condition of long-term credit, both required by the peculiarities of agricultural industry, which I hardly believe it is necessary for me to dwell upon.

In order to secure this working capital the idle money in the rural community had to be collected and savings

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taken on deposit, and from these resources assistance could then be given to those in need of credit.

The security in the investment of these funds consisted primarily in the close knowledge of individual conditions within narrow circles. As we all know, the Raiffeisen associations—and this is still mostly the case—were established within the limits of a parish, and the security of all the operations of the associations lay mainly in the accurate knowledge of the condition of the individual members, both of the depositors and of those who applied for money.

Due stress should likewise be laid on the factor, to which attention has repeatedly been called, of the joint responsibility of the members. In this respect the associations had the benefit of the example afforded by the success of the large credit operations of the unions of the rural gentry, conducted under the joint guaranty of those constituting the credit association. We have seen the same thing in the case of the Prussian *Landschaften* (agricultural credit associations) and we have it before us again in the recent development of the system of rural mortgage institutions, a development rooted in this one factor that through the association of those in need of credit a framework can be created that will answer the demands of agriculturists with respect to a proper system of credit based on mortgage, adapted to the conditions of production and cultivation.

The so-called "outside moneys" (*fremde Gelder*) of the agricultural associations, therefore, was, and is still, not such, either with respect to its application or to its origin. The fact is that it was mainly money contributed by the

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rural community, money which at the present time is still taken from those living in the country and is again devoted to their needs.

In this arrangement there is not only a great material advantage, but also an educational asset. The activity of the credit associations in the way of banking prevented the alienation of agricultural capital through unsafe investments, a matter on which I lay great stress. It taught the peasants the value of capital available at all times and has kept them from hoarding their money in stockings without interest, as was formerly done, or devoting it constantly to fixed investments in the land and soil, by which ultimately the disparity in the matter of fixed capital and working capital, which is a concomitant of the traditional natural method in agriculture, became more and more accentuated.

The charge made by one of the gentlemen who have addressed you that the afflux of capital in agricultural industry has the effect of promoting the mobilization of landed property can easily be refuted if we consider the activity of the *Genossenschaften* and especially the kind of activity which I have depicted.

The immense output of German agriculture, in the face of a rapidly increasing population and in spite of more or less depopulation of the rural districts, still supplies by far the greater part of the food required by the German people, the increasing intensiveness of cultivation constantly adding to the amount of the raw products of agriculture, so that the demand for breadstuffs and meat not produced at home but imported from abroad has, if anything, amounted to a smaller percentage of the total

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demand this last decade than in the preceding years. And this result, I do not hesitate to affirm, is mainly due to the extension and improvement of the system of agricultural credit associations.

Herr Roland-Lücke has propounded this question: Shall we return to the old agrarian state or shall we have an economic régime consonant with the times, which shall benefit every class of the population, agricultural as well as industrial and commercial? In my opinion this is a false way of putting it. That is not the question. The real question is this: Is our agricultural industry to be accorded its full birthright by the side of the other productive activities and to be treated and cared for accordingly, or shall it, as has been the case in England, hand over the field to manufactures and commerce, be repressed as an insignificant factor in the national economy, and be driven to a reduction and even to a suspension of its activity?

The decision of this question may well be left to the judgment of such thoughtful and well-informed men as those in whose midst I am speaking.

That modern agriculture, on a large as well as a small scale, is as much in need of credit as manufacturing industry and commerce is as indisputable as the fact which I have just mentioned that the development of our agriculture—a development not open to the charge (to which reference has been made) of an excessive eagerness on the part of the producers to make money—would never have attained to its present level, leaving behind most of the countries of Europe, and indeed, one might say, of the old and the new world, had not the activity of the mutual-help associations supplied the means.

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Herein lies the prime interest that agriculture has in the method of regulation of the deposit business of the Genossenschaften.

That the statistics of the condition of the agricultural credit associations would arouse a feeling of doubt and of apprehension among some of the gentlemen was to be anticipated. In advance of the publication of these statistics it was necessary for me to reconcile myself to the idea that when they came they would not make as satisfactory a showing as those of the large credit banks. I was gratified, however, to see the doubt as to the soundness of the Genossenschaften and their readiness to meet their obligations dissipated in great part by the excellent address of my countryman, Director Ströll, for which I am very thankful to him. I need not repeat what he has emphasized—the value of the accounting unions and the importance of the creation of the central clearing institution for the mutual business of the small associations. I should, however, like to call attention to a special arrangement which provides an additional guarantee for the security of the business of the small associations, the so-called *Ausschliesslichkeitserklärung*, binding the associations to deal exclusively with the central association banks in the matter of credit and the deposit of their surplus funds. Nearly all the smaller institutions now subject themselves to this provision and it has been adopted by some of the larger unions. In this connection you will allow me to read to you an extract from an expert opinion which I have obtained from our Bavarian Central Loan Institution. This is what it says:

“Our agricultural credit associations, in consonance with their organization, have relatively but little capital

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of their own. They operate almost exclusively with funds deposited with them, and a restriction of the deposit business of the associations would be of far-reaching importance with respect to the rural credit associations and consequently with respect to agriculture. The need of legislative measures affecting agricultural credit associations appears all the less imperative inasmuch as the entire organization of the agricultural Genossenschaften in Germany affords a safeguard against the occurrence of abuses.

“The system of unlimited responsibility offers sufficient security for the deposits, in addition to which the business of the agricultural Genossenschaften is subjected to constant supervision by means of expert accounting on the part of the unions. The monetary intercourse of the individual associations is under the constant supervision of the central association banks, which are in the main conducted according to approved banking principles. Most of these central-association banks have the *Ausschliesslichkeitserklärung*, according to which not only the needs of the associations in the matter of credit are to be met exclusively by these central banks, but all the surplus funds of the associations must be deposited with them.

“The central association is consequently in a position to supervise completely the business management of the smaller associations subordinated to it, and it has a guaranty that no unsafe operation will be undertaken through other agencies to the prejudice of the credit which it accords to the small associations.

“The central association banks constitute, therefore, in a certain measure the central deposit bank of the

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Genossenschaften, and it is their business to keep the funds flowing into them from the subordinated associations in as liquid a form as possible. Thus the agricultural credit association may be said to meet pretty closely the requirements exacted in the case of a deposit bank pure and simple."

I shall take the liberty of reading to you the text of the provision in question as it appears in the rules and regulations of the Bavarian Central Loan Institution. It reads as follows:

All surplus funds of the individual associations are to be deposited only at the clearing institution.

The needs of the individual associations in the matter of credit in the discharge of the business for which they are legally qualified are to be satisfied exclusively at the clearing institution.

Further on it reads:

A provisional suspension of credit is ordered by the committee if an association opens an account current with another banking institution, or as soon as the committee has doubts regarding its credit.

As regards the relation which the capital and the readily available resources of the Genossenschaften bear to their deposits, I refer you in particular to the statements of Doctor Ströll respecting the matter of fluidity in normal and abnormal times, as well as to his very appropriate remark to the effect that the deposit institutions, as far as they can command credit through the potential realization on their assets, are permitted to use such credit as a cover against the sums due their creditors.

In what concerns the savings institutions we must bear in mind first of all that in the majority of the States of the Empire fairly strict provisions have been enacted regarding the investment of savings deposits. It would

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be well, perhaps, that these regulations were extended and amplified, and in this connection I should like to call attention to a passage in the statements of Herr Lansburgh (which seem to me to be applicable to some of the conditions), where he remarks (p. 16 of his pamphlet):

“We should see to it that any person whosoever, who is in no way restrained with respect to the application of the sums intrusted to him, shall not be allowed to go before the people and solicit savings and thus make capital out of the ignorance of the public, which quite naturally connects the word ‘savings’ with certain notions of legislative safeguards and governmental supervision—quite naturally I say, for as a matter of fact the security of savings, that is to say, money deposited in savings institutions, is adequately looked to.”

As regards the security of savings not deposited in institutions under state supervision, there is no doubt in my mind after my own experience that additional safeguards could be provided. I have had occasion in the immediate vicinity of my place of abode to witness the collapse of an industrial credit bank, in which a large portion of the inhabitants of the place, with a perfect sense of security, had deposited their savings, with respect to whose disposition, however, there was absolutely no supervision. These are evils, gentlemen, that ought to prompt a closer investigation of the whole matter.

Whether the regulation of the system of savings institutions by imperial legislation is advisable ought in my opinion to be considered an open question. Even if such regulation should appear desirable with respect to the security of the investments, still in what concerns their

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fluidity it hardly seems possible to enact statutory provisions applicable to all local conditions throughout the length and breadth of the Empire. Even in the matter of the investment of savings deposits in mortgages—such investments, if I remember right, constitute at present about 50 per cent of the total investments of savings institutions—there may be great diversity of opinion. The investment of savings in mortgages may, as has already been mentioned, be partially in accord with the intent of the depositors. Nevertheless, considered from the standpoint of the agriculturist, the mortgages of savings institutions have two great defects—their terminability, which is generally exploited for the purpose of raising the rate of interest, and the absence of the feature of amortization. These are two factors to which I desire to call particular attention in the interest of agricultural credit based on landed property.

I come now to the question of the creation of a bureau of supervision. In regard to this question I must say that I am with those gentlemen who have declared themselves to be opposed to such an institution. Considering that the present supervision of mortgage banks is only of doubtful value, in spite of the fact that in the case of these institutions credit rests on a firmer basis, a bureau of supervision for banking in general will necessarily have to confront well-nigh insoluble problems. I am still prepared to maintain this view against the highly interesting expression of opinion on the part of Doctor Wagner. We have, for example, a much more thorough supervision of mortgage banks than there is in Prussia. We have had for a long time in Bavaria a special supervising commissary for

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every mortgage bank. These supervising commissaries have been selected from among the higher administrative officials. It was supposed that they could, owing to their general training, be relied upon to possess the ability to make themselves familiar with these matters of bank management and banking business. As a matter of fact, these gentlemen discharged the duties of supervision as something outside of their regular business. What was the reward of their exertions? A demand was presently made in the Bavarian landtag for a more thorough and stricter supervision of the mortgage banks, and these men themselves had to confess that with the best intentions they had not been able to master the details of the business. The result was that, in addition to the eight supervising commissaries of our Bavarian mortgage banks, a head supervising commissary—if I may so express it—was installed, a gentleman who has hitherto been connected with the Royal Bank, upon whom the other eight, relying on his technical knowledge, will shift a large part of their duties.

I cite this example merely in order to show you how difficult I consider it to be to extend the governmental supervision to those banks which, in addition to their other business, have a great deal to do with credit and securities. I need only point, gentlemen, to the biggest mortgage bank that we have in Bavaria and the Empire, the Bayerische Hypotheken- und Wechselbank, which has at present mortgage debentures in circulation to the sum of a billion marks, and a corresponding volume of real estate mortgages, and to a concern barely inferior in the range of its business, the Preussische Zentralbodenkredit - Aktiengesellschaft.

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To exercise a constant and adequate supervision over concerns like these is a *tour de force* such that I should not envy the one to whom it is intrusted. And how much more complicated and intricate are the threads of the business of the credit banks which it is proposed to subject to governmental supervision! I felt called upon to make these remarks in response to the utterances of Doctor Wagner, which I fully comprehend and appreciate. But I must beg you, esteemed colleague, to be willing to agree with me to the extent at least that the difficulties of execution are so great that we are justified in asking ourselves whether we can actually expect to effectuate these requirements, however legitimate they may be, or whether we are not attempting a really impossible task.

There is still another factor, one which seems to me of special importance, and that is that the responsibility which the Government assumes with respect to the public in the exercise of such supervision is apt to degenerate into a sort of governmental guaranty in the eyes of the people. ["Very true."] I deprecate the infusion of a certain sense of security in the public, which might, perhaps, have worse consequences than the necessity which we at present impose upon the thoughtful and cautious public of testing the security and stability of the individual "great banks."

I shall ask you, gentlemen, to permit me to make a little digression at this point. When in the course of our last discussion Herr Bernhard and, I believe, Herr Christians made minute suggestions regarding the form of the intermediate balance sheets of the great Berlin banks, I could not help asking myself the question as to whether there is

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in reality any form that would render such statements capable of affording an oversight of the business of the banks, and I must confess that I have still grave doubts as to whether these intermediate balance sheets are in reality calculated to offer a certain guaranty of a continuous and uninterrupted sound management of the business of the banks. Of course, I can see some advantage in the fact that the drawing up of the intermediate balance sheet after a pretty long interval affords the possibility of getting a closer view of the entire management of the banks than the mere publication of an annual statement. The so-called cooking-up of the annual statement, with which the banks are occasionally charged, can not take place quite so easily with the regular publication of extra balance sheets. At all events these interstitial statements have this one advantage that they are frequently examined by experts, so that, even if the individual customers of the bank are not in a position to examine them, nevertheless a sort of *communis opinio* is established regarding the soundness of the management of the various banks, which can exert its influence over those customers of the banks who are not able to undertake the examination of the intermediate statements with any technical understanding.

Having made this brief digression, I shall close what I have had to say. Getting back to my starting point, I shall conclude my statements as follows: Without wishing to deny the need of regulating the system of deposit banking—I should in any case be in a position to give my conditional assent to the promulgation of uniformly regulative provisions—I may sum up by saying that agriculture has in the main only an indirect interest in the regulation of

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deposit banking, but that, in so far as it has a direct interest, it is of great importance to it that excessive restriction of monetary intercourse and hampering of the institutions that carry it on shall not cripple those arrangements whose free development is no less necessary and beneficial to agricultural industry than it is to the other branches of national production.

Mr. PETER. The question of the legislative regulation of banks of deposit and savings institutions has engaged the attention of the public for many years. I wish to say, therefore, that the public is interested in seeing that this question is answered in an official manner by a body of men having technical knowledge of the subject and that it is once for all, as I hope, definitely settled. On account of the frequent discussion of the subject in books and newspapers and the movement, initiated long ago, for the regulation of deposit banks and savings institutions, it is a pressing duty to throw all the light possible upon the question and to subject it to a thorough-going discussion, if for no other reason in order that the feeling of uncertainty which has been aroused in banking circles by the various suggestions shall be dissipated and that tranquillity restored which is so essential to our economic existence.

If I admit unconditionally that the public has an interest in the question, I must, however, at once express my opinion that the regulation of the question by means of legislative measures appears to me impracticable, for, judging from my experience of forty years in the field of banking and in connection with cooperative credit associations, there is no occasion whatever for imposing trammels upon the activity of our credit institutions, for it is

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to them that Germany is indebted for her great economic development, and without them the brains of our merchants and manufacturers would not have succeeded in raising German trade and industry to the level which they occupy to-day in international economic life. This development was and is indispensable in order to provide work and food for our constantly increasing population. For this reason I regard any fundamental change in the organization of our banking system as undesirable. In my opinion it would be placing fetters on our credit institutions if we proposed to make the taking of deposits and of savings in any way more difficult, or to enact restrictive regulations with respect to their investments.

In what concerns the second point of the question, that regarding the security and fluidity of the investments made in connection with deposits and savings, I have to say that with respect to subquestion "a" I agree with those who say that it is nowadays altogether impossible to determine numerically just what constitutes deposits and savings, or their relation to the outside moneys in general, for the difference between deposits and savings on the one hand and their disassociation from the total amount of the outside moneys held by the bank on the other has, according to my observations, been gradually eliminated.

Theoretically speaking, we can very accurately say: "These are savings, these are deposits, these are current account balances." But the moment we set about to transfer this into practice, we at once encounter the difficulty—I should say impossibility—of properly classing the funds held by the bank according to the various

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categories. I may as well begin with the savings. Well, gentlemen, you will probably say that they include, in the first place, the deposits in the savings institutions. I say, "No." Formerly, it is true, it was practically the savings which flowed into the savings institutions, but now it is also deposits, so called, and any money that has to be kept in readiness for future use in trade or industry. Such funds also, nowadays, find their way to the saving institutions since these institutions have abolished the limitation of the sum one may deposit and introduced the payment of interest on daily balances. At times the savings institutions offer a rate of interest in excess of what is considered safe in regular banking. The savings institutions have in some places expanded into banking concerns, and in consequence receive deposits of money which in my opinion ought rather to go to other institutions, to be employed in ways that are in accord with approved principles of banking. I refer to these things in this connection merely to show that it would be a mistake to consider the deposits in the savings institutions as consisting practically only of money set aside by the common people.

In the same way so-called deposits and current-account balances coalesce, and a proper distinction, even if it can be made on the books, is practically not feasible. In my opinion, therefore, it is only the collective concept of "outside moneys" (*fremde Gelder*) that should find a place in this discussion.

That the ways in which our German "great banks," so called, invest the funds deposited with them, leave nothing to be desired on the score of security, has been

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recognized by all the speakers who have preceded me; I have merely to say that I concur in their statements with respect to this matter as well as with respect to the security of the investments made by the savings institutions.

And as regards the investments of the cooperative credit associations, I trust you will permit me as an old Genossenschafter, to say a few words in regard to them. As I am the head of one of the largest German cooperative credit associations, the Karlsruhe Union Bank, which has now 5,000 members and has property of its own amounting to more than 3,000,000 marks, which is about 37 per cent of the funds deposited with it, and a vice-president of the Union of Credit Associations of Lower Baden, I think I ought to know something about these associations. In this connection I desire first of all to express my thanks to the statistical department of the Reichsbank, which in its publication, submitted to us, entitled "Zur Bilanzstatistik der deutschen Kreditgenossenschaften," has shown in a splendid way what has been accomplished by these associations in the domain of public economy. We ought to be all the more grateful for this presentation, as the work of our Genossenschaften is still overlooked in various sections of the community, or at least is not sufficiently recognized. It is not longer ago than yesterday that our colleague, Bank Direktor Ströll, spoke of them as a *terra incognita* for many people, and in the course of our discussions I had repeatedly to remark that it would be a good thing, with respect to our economic life, if every now and then attention were called to the activity of our cooperative credit associations.

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We find in the compilation likewise received from the statistical department of the Reichsbank, entitled "Zur Frage der Regelung des Depositenwesens," various resolutions appended as a supplement. I miss, however, the resolution adopted at the fiftieth convention of the General Union of the German Trade and Industrial Associations, Based on Mutual Help, which was held at Freiburg on August 9-12 and which was attended by more than 800 delegates. It reads as follows:

The business of the associations does not give any occasion for the enactment of legislative regulations regarding the system of deposits and savings institutions. It would be against the public interest to impose restrictions upon the savings-bank and deposit business of the *Genossenschaften*.

I have said, gentlemen, that over 800 delegates of the General Union of the Trade and Industrial Associations voted unanimously for this resolution. It has been indorsed by the representatives of foreign associations, especially those of Austria, where similar movements in favor of legislative regulation have been started.

In the discussions of the experts the main question considered was that relative to the economically soundest and most practical way of employing the deposits. As regards the cooperative credit associations this question admits of only one answer, to the effect that no better way has been suggested or could be suggested than the one at present followed by the associations. Our credit associations are enabled by means of the deposits and savings to fulfill the task of placing at the disposal of their members the necessary working capital at a low rate of interest. The associations conduct the deposits and savings into the proper channels and constitute an

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economically advantageous counterpoise to the excessive centralization of the deposit business. In the face of this, the proposition of Professor Warschauer, contained in the collection of papers on the question of the deposit business, that the associations with unlimited liability shall be permitted to accept deposits only to the amount of the working capital paid in by the members, while the credit associations with limited liability shall be altogether prohibited from taking savings deposits, certainly sounds very queer.

The great *Genossenschaften*, gentlemen, retain the form of associations merely in a spirit of idealism and only when they feel that they are powerful enough do they exchange unlimited liability for limited liability. But when they have done this they offer no less a guaranty for their deposits than before.

Some one remarked yesterday that it is not desirable that the business of the associations should mount up into the millions. Yes, gentlemen, we have associations that do a business amounting to millions—our Union Bank does—but it is made up of an enormous number of small transactions and my colleague, Herr Singer, himself will not try to find fault with this kind of business up into the millions.

I affirm that the deposits in the associations are on the whole not invested a bit worse and sometimes are invested even better than those in the joint-stock banks. Permit me, gentlemen, to relate to you a little anecdote, the kind that is told in order to impress a lesson on the young. A few years ago one of the *Genossenschaften* of our union, the Union of Lower Baden, through the

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dishonest manipulation of its president, who, because he was a mayor of a city, possessed the absolute confidence of the members, sustained a loss of upward of 800,000 marks, a loss far surpassing in amount the combined capital, the current-account balances in other institutions, and the surplus. Through the combined action of the associations it was found possible to prevent the loss of even a single pfennig of the deposits (so-called) or of the savings. The associations in cooperation with the Dresdner Bank, which serves as the central bank for our Genossenschaften, allowed a loan on mortgage to the loan association, which enabled it to stay on its feet, and now after the lapse of only a few years the Genossenschaft has been placed once more in the position of being able to distribute among its members a dividend on the funds it possesses. I repeat, gentlemen, the depositors sustained no loss, thanks to the strength of the Genossenschaften and their combination, while in the case of any other kind of business association a loss would have been incurred.

With respect, likewise, to the fluidity of the investments made by the associations, it is necessary to bear in mind what I have just mentioned, that is, the combination of the associations in "unions" and the accounting functions that are being exercised. The "general union," moreover, as was explained in the memorial submitted to us, lays great stress on the creation of an individual capital fund by the associations belonging to the union, and herein is an important factor in the matter of the readiness of our Genossenschaften to meet their liabilities.

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I should, therefore, also like to express it as my opinion that the security of the investments and deposits is in general such that legislative regulation is unnecessary. I agree with what our colleague, Doctor Weber, asserted yesterday to the effect that the competition of the Austrian savings banks, already noticeable in Saxony, would be rendered keener by a law relative to deposits. The same thing is already visible where I am, in Baden, the neighboring Swiss savings institutions and big banks trying to outdo one another by means of circulars and letters of every kind in efforts to induce the German dwellers in neighboring towns to do business with them. They point to the various tax laws—to the coupon tax, for example—and they could do this with still greater success if, as a result of restrictive legislation relative to deposits, the rate of interest on deposits in Germany were to be reduced. Such legislation would cause money to flow abroad and precisely the contrary of what is sought would be achieved.

If it were practicable, gentlemen, to frame a law that would make it impossible for dishonest men to accept deposits and which would not injure legitimate business, I should rejoice, and I am sure you would also. I can not perceive any feasible way, however, and I find that the solution of the problem by legislative means, appears the more difficult and the less probable the deeper one goes into the study of the matter.

Some of the questions submitted, as, for example, those relative to investments in government bonds and similar securities and the publication of intermediate statements, appear to me to admit of discussion in spite of my being on the whole opposed to legislative regulation.

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Doctor LEXIS.—Gentlemen, I made an attempt yesterday to get up some sort of classification of the various kinds of deposits, and I am happy to state that I pretty much concur in what President Heiligenstadt expressed to-day. I had likewise made a distinction between the deposits of merchants, that is, persons whose names are entered in the commercial register, and those of non-merchants. It would perhaps be better to say, of *business men* and of *nonbusiness men*, in which case the small producers and trades people would also be included in the first category. As regards the nonbusiness men, who likewise constitute a well-defined class, the deposits of this category would again have to be divided into those on the one hand which may have to be paid out at any time and which may serve as the basis of check transactions—constituting thus the real deposits, in the sense in which President Heiligenstadt conceives the notion—and those, on the other hand, which have the character of savings deposits, which do not represent demand liabilities, and are withdrawable only on at least a week's notice. I am speaking here of banks only and not of savings institutions and cooperative credit associations.

Personally I have merely a theoretical interest in undertaking such a classification. But, of course, there is also a practical interest involved in it. For my part, indeed, I am not going to advocate any restrictive measures of whatsoever kind relative to the acceptance of deposits, but if such restrictions were, as a matter of fact, to be decreed, it would be well to discriminate between the various kinds of deposits, placing those apart that belong to the third category—that is to say, the savings deposits of

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nonbusiness men—in the case of which notice of withdrawal has to be given at least a week in advance. However, as I have said before, I am not in favor of restriction.

But the practical men keep telling us that such a distinction is not feasible. Perhaps, with the present methods of accounting it is not altogether practicable. The question is whether it may not be made so through a change in the methods of accounting. To me this does not appear by any means unattainable. I am not proposing anything. I am merely suggesting discussion. With respect to the future, however, regard should be had for probable further developments. Above all, the check system is going to expand, and many persons who now belong to the class of depositors without business occupation will be enrolled among the users of checks. It seems to me, however, very important, both from a theoretical standpoint and with reference to our whole monetary policy, that it shall be possible in the future to determine in some measure how large the sum is that is the basis of the monetary intercourse by means of checks in Germany. We have no accurate knowledge at present in regard to the subject in what concerns England either. The "Economist" gives every half-year an estimate of the aggregate amount of deposits. These, however, are not all deposits subject to check, but include also those that are withdrawable only "at short notice" or after the lapse of a considerable time. The question remains, How large is the actual sum which is the basis of the English system of payment by check? It is very desirable, therefore, in view of the anticipated economic development in Germany, that we should have in advance a better

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statistical foundation and that we should be able to say: This kind of deposits—meaning, specifically, the savings deposits—need not be taken into account in connection with payments made by means of checks, but, on the other hand, we have to consider the deposits of nonbusiness men, which are expressly meant to be used for making check payments, in addition to the aggregate of the deposits figuring in accounts current.

I would urge, therefore, that we try to arrive in some measure at a common understanding in regard to the different kinds of deposits and some practicable method of discriminating between them. If this can not be done just at the present moment, it will be feasible later on.

As regards the other subjects that have been submitted to our consideration, I shall not enter into a discussion of them. I should like, however, to express my opinion concerning one point. The competition of the banks, in particular the competition of bank deposits with government securities, does not appear to me nearly as formidable as it does to some of the gentlemen here, for the banks do not actually allow a higher rate of interest on their deposits, but usually a lower rate than that afforded by government securities. Even in the worst times, the big German banks have never to my knowledge, paid more than $3\frac{1}{2}$ per cent on deposits. It is not the deposits in the banks that are in competition with the government securities, but the shares. The bulk of the people who are anxious for a higher rate of interest prefer to invest in stocks. Consequently the objections that have been raised against the banks of deposit on this score appear to me to be without any point.

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The CHAIRMAN. Gentlemen, it is nearly half past one. I move that we adjourn. It has been suggested not to stretch the noon recess to two hours. Would it be agreeable to the gentlemen if we were to begin promptly at three o'clock and perhaps stop a little earlier? [Assent.]

(Recess.)

The CHAIRMAN. We shall proceed with the discussion. Count Kanitz has the floor first, in order to make a brief correction.

Count KANITZ. I said this morning, gentlemen, that the resolution adopted by the Reichstag in May of this year had been adopted in the previous deliberation of the commission by a vote of 21 to 4, and that only the Freisinnige and Social-Democrats had voted against it. Herr Singer has since called my attention to the fact that the Social-Democratic members of the commission did not vote against the resolution, but in favor of it. I consider it my duty to correct my statement regarding the matter.

Mr. SCHINCKEL. I should not like to appear, even for a moment, to have any doubts regarding the interest of the public in the management of our entire system of banks, Genassen-schaften, and savings institutions. Neither do I wish to question the fact that, just as is the case with all human arrangements, so in this domain there may occur, as has already been pointed out, overstrains and mistakes of every kind; but I hold to the opinion that unless clearly demonstrable dangers and abuses have been manifested in the management, such as it has been, we should refrain from setting the machinery of legislation in motion. The experiences which we have had in this field—to which I shall refer again later on—have not been of such a nature

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that we should, without the stress of pressing necessity, resolve again upon new laws, or, to express myself properly, to advocate new laws, which, however framed, will in any way hamper or restrict our industry and our monetary intercourse, and in particular our credit system.

In his introductory address our chairman declared that if our banking system, our system of savings institutions, and our system of cooperative credit associations have revealed weakness, it is our duty to face the dangers squarely, to locate the weak spots, and to think about the remedy. That is the object of this inquiry, and I affirm emphatically that I shall be extremely glad to cooperate in this work.

I have been intentionally so late in taking the floor in order to be able to learn from the utterances of the speakers wherein the dangers and abuses have actually manifested themselves, and the result of my close attention has been a remarkably meager one. In order to make this more apparent, I shall enter in detail into some of the statements of the gentlemen who have preceded me.

Freiherr von Gamp thought there was something wrong in the fact, as revealed by statistics, that the banks—he spoke of the small banks in particular—should hold so much borrowed money relatively to their capital and their liquid assets, and he expressed his fear that this might lead at some time or another to disastrous consequences. He asserted the same thing with reference to savings institutions and individual credit associations, adding, however, that this, although very regrettable, was not of great consequence, the matter being mainly one of local interest. I wish to say that this very redeeming feature is manifest

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in the case of the small banks likewise. As regards the great banks, so called, however—and it is with these that we are mainly concerned—Freiherr von Gamp did not in the least question their security or their ability to mobilize their resources.

Count Kanitz also, in the first part of his address, declared that it was especially people of small means who had to be protected, people who are being inveigled by a high rate of interest, or through all kinds of advertisements like those to which reference was made in the last resolution of the Reichstag, into depositing their savings in an unsound institution. I can not help agreeing with Count Kanitz in this matter. Personally, I am not of opinion that legislative measures will be required in order to prevent this. I shall return to the subject later on.

Count Kanitz spoke also of the law relative to the Bourse. Now, I am not at all eager to enter into a discussion of the Bourse Law, but inasmuch as this was also a sort of exceptional piece of legislation, an emergency law, and we are about to discuss the question as to whether a similar exceptional law ought not now to be enacted, I am obliged to refer in a few words to the results of the law in question.

Count Kanitz asserted that all that was left of the Bourse law was the government bourse commissary. I wish I could say he was right, but it is not possible for me to admit it, for there are various things besides this that have stuck to the measure. I need merely remind you of the forms and the detailed character of the prospectuses. I beg you, gentlemen—and I assure you that I am really unprejudiced in this matter—to look at the thing

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from a practical standpoint and to tell me whether anyone has been able to discover the least use in these long prospectuses. On the contrary, the prospectuses have grown to good-sized books, so that you will not find anybody who reads them except the typesetter who has to print them or the unfortunate official who has to report upon them to the listing bureau. [Laughter.] In addition, of course, there are certain newspapers that are interested, which have made this thing a large source of revenue—a not very virtuous proceeding, I must say. [Laughter.] I mention this, gentlemen, because I fear that in the case of these detailed intermediate statements the same thing may happen. The more details there are in these so-called intermediate statements the more time will be required to get them out and the less real interest will they possess. I am willing to admit that men of a scientific turn of mind, to which class newspaper editors now also belong, have a certain curiosity, and even a scientific interest, impelling them to enrich their knowledge with the bare figures. I do not consider, however, the advantage as great as is the mischief that results. To this subject, likewise, I shall refer again farther on.

Count Kanitz then came to the subject of agriculture and to that of agricultural credit. I should naturally be very glad if we had a lower rate of interest in Germany, and that, as a result of it, the agricultural credit in connection with agricultural mortgage debentures were cheaper. But it is useless to ask that these debentures be issued with a lower rate of interest than that of government bonds, and it was a mistake—I have publicly asserted it to be such whenever I had occasion to express myself

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on the subject—on the part of the *Landschaften*, or agricultural credit associations, when they adopted the policy of forced conversions, for it was practically nothing else when they all of a sudden called in mortgage debentures to the sum of hundreds of millions and tried to lower the rate of interest to $3\frac{1}{2}$ per cent. This had the effect of reducing the rate of interest on government bonds, which were now placed on a 3 per cent basis, a change that did not improve the general economic situation. On the whole, I must admit—and I am an agriculturist myself—that otherwise agriculture has no right to complain in the matter of the protection that it receives in Germany and that the public has to take some burdens into the bargain. Glad though I am to be able to concur, all in all, in the statements made to-day by Count Kanitz, I must say that, in addition to the burdens entailed by our social-reform legislation and the excessive taxes, the rise in the price of bread and meat is sorely felt—something that benefits agriculture alone and which I do not begrudge in the least to agriculture but which, all the same, is a large unfavorable economic factor.

The subject of checks also came up for a brief discussion. Herr Mommsen was altogether misunderstood yesterday in regard to this matter. The banks at the time supported the Reichsbank in a body in every possible way by word, script, and deed in the endeavor to restrict the use of metallic cash in monetary intercourse, subjecting themselves willingly to the extremely dangerous, unprofitable, and expensive system of payments which has checks for its vehicle. All that our colleague Mommsen wished to say is that it would be a great wrong toward

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the banks, after they have assumed the great burden of the labor, the expense, and the risk which the use of checks at present imposes upon them, to try to make them appear as though they still owed us something by using language like this: "You see the banks profit greatly by the circumstance that checks can be drawn upon them; they are protected by legal regulations, and therefore they are able and ought to render the public additional service." That would be a grossly mistaken conclusion. In that case it were better for the banks in every respect if the obligation to allow checks to be drawn upon them were to be rescinded.

Count Kanitz touched upon conditions in England, and I should like to say a word by way of comment on his statements. The question is not merely as to whether or when England is to go over to protection. The reform of the tariff which threatens us has for us a vastly more serious aspect. It is proposed to establish preferential duties for all the English colonies, even for those English colonies, so called, which constitute in reality independent States, stretching over the whole breadth of the globe, and which, if England proceeded to introduce preferential zones for all her colonies, protectorates, or other dependencies, threaten to close to us a large part of the world of commerce. There is consequently much more involved in the matter than what we should call an agrarian English interest. It is a matter affecting a great territory, hitherto international, whose open door would no longer exist for us.

Herr Gontard had little of a precise nature to say regarding the dangers involved in our banking system,

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in particular those presented by our so-called "great banks." He said, however, that he had a peculiar feeling that the resources of the banks were at times not sufficiently liquid. I am fair and unprejudiced enough to say that I likewise am acquainted with banks in respect to which this feeling is not altogether unjustifiable.

In the very interesting and earnest utterances of Direktor Ströll there was one thing that I did not fully understand, the distinction which he makes between cash reserves and credit balances in banks, a point which, it seems to me, needs some explanation. What is a cash reserve nowadays? Are the banks to begin once more keeping their own stock of cash in gold, silver, and bank notes instead of turning them over to the Reichsbank? We have been taught to do everything in order, by means of the system of transfers from one account current to another and the mechanism of checks, to restrict the demand for cash currency in Germany, and if any bank to-day were to put the gold that it receives into its vaults and to try to run things its own way in the matter of gold, it would, in my opinion, not be rendering any service to the Reichsbank, which could say with justice: "This gold belongs to my vaults, for it can be put to a much better purpose here, inasmuch as the law authorizes us to issue against this gold a volume of bank notes exceeding the amount of the gold." I must say that I can not discover any difference between a cash reserve in my bank and my credit balance in the Reichsbank. I wish to say right here that the proposition that a certain percentage of the outside moneys of a bank should be constantly kept on hand in the shape of cash—a proposition

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that we ourselves are discussing—would amount to nothing more than that for the time being the cash holdings of the Reichsbank would be increased by so much, but that at the very time when such reserve is needed this money would in some form or another be withdrawn from the bank. If for any reason I am obliged to set aside money, in the way of a reserve not to be touched, either in my own vaults or in the Reichsbank, then, in the first place, I am withdrawing it from circulation, and in the second place, it will not be of any use to me in case of need, unless I am bankrupt. This has already been adverted to by several of the speakers. Such a reserve would offer security to an individual who has got into deep water, or rather to his creditors, only at the moment when he can have recourse to this reserve, and this can not be the case until he is on the point of suspending payments; in every other case it is the Reichsbank that will be called upon first for additional advances. Above all things, I wish to say that I, as a banker, can see no difference whatever between cash in my vaults and the credit balance at the Reichsbank with respect to fluidity and security.

Doctor Ströll dwelt, furthermore, on the strong reserve that the Genossenschaften possess in their solidarity, and he said that this was really an ideal feature of our economic existence. Of course, gentlemen, this is pertinent to the matter before us, as we ought to express ourselves in regard to the dangers that may perhaps be threatening the credit associations. My position is this—and I do not wish at all to deny it—that in so far as the members of the associations are all jointly liable, and

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in so far as they are not carrying on a cooperative business in the way of the manufacture and sale of butter, or the production of beet sugar, or something of the sort; in other words, so long as they are not productive associations and the moment they begin to turn into credit associations I consider the feature of solidarity as one involving great economic danger. I consider an association, possessing, let us say, some sort of a central treasury, having limited liability, a liability ever so restricted, but one that actually exists, or may be reckoned upon, preferable to an association with unlimited liability, about whose resources for meeting this unlimited liability I am altogether in the dark. I do not mean to say that I am altogether blind to this ideal feature, which Doctor Ströll has so nicely touched upon, but I should nevertheless like to call your attention to the fact that the ideal in this arrangement will flourish only just so long as all are liable for the one; this is all very fine, I know. But as soon as the occasion arrives where one or two have to be liable for all the ideal in the matter will disappear and there will be a very sick feeling somewhere in our economic organism. All I mean to say by this is that there is certainly some advantage in solidarity and—I admit that Doctor Ströll is perfectly right in this—that a feeling of solidarity should, and does, hold the great credit banks together just as it does the credit associations. But as regards liability I must say, as a bank director, that joint liability is a notion which, as a result of my sad experience in this field, I have erased from my lexicon.

President Heiligenstadt, who is unfortunately absent, referred at various times to his published writings. I

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believe he meant to say that the credit banks, the Genossenschaften, and the savings institutions ought to deposit with the Reichsbank a sum representing a certain percentage of the outside moneys. I am not very familiar with these publications, but what he said transcended the bounds of really practicable legislation, and what he said regarding the division into consumers and producers I must frankly confess I did not comprehend. I shall not dwell on this any further, as he is not present, and we can return to the subject later on. I would, however, remark in this connection that in my opinion every producer is also a consumer, for there never was a person who only produced and did not consume at all. What I fear is that if there were to be legislative provisions or, for that matter, mere instructions relative to the publication of statements and intermediate balance sheets no one would care to be much longer a bank president. I should, for example, if a foreign government were suddenly to favor me with a credit balance, have to ask myself whether that government was a consumer or a producer, and I fear if I were continually subjected to the necessity of making such decisions my brain would come to a complete standstill. [Exclamation: The Government is only a consumer.—Laughter.] All right, then; I should have to enter it among the consumers.

In any case, such an arrangement would, I believe, be a great hardship for the banks. I should also advise Herr Gontard just to wait before he becomes supervisory councillor of a bank, and proposes more stringent penal provisions for supervisory councillors, until he sees how the thing works, for he might fare very badly.

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Herr von Cetto spoke of the agrarian country, England. Unfortunately, his words have slipped from my memory. I shall later ascertain from the stenographic reports just what he said.

Reference has repeatedly been made to the fact—and Professor Lexis, in particular, has stated it—that the dual system of management in the English banks has always met with emphatic commendation. I must destroy this picture. It has developed more and more in the past year that the Englishmen evidently regard this arrangement as antiquated. They will not be able to preserve it. As everyone knows, the deposit banks in that country are being, one after the other, fused with the credit banks. The concentration of the banks in England in these last years has been going on at a much more rapid rate than in Germany, and I shall not mind divulging the information to you that it was one of the biggest deposit banks which is said recently to have received warning from the Bank of England in regard to the excessive range of its acceptances, on the ground of its having accepted too much paper against American securities. Thus the system of deposit banking, pure and simple, is getting to be a thing of the past in England. There is another circumstance that I am going to mention, just by way of illustration—the fact that it was one of the oldest banks of deposit that issued all the Japanese loans, a proceeding with which I do not mean to find the least fault, but which, in the eyes of the gentlemen who are enthusiastic in regard to banks of deposit, does not enter into the scope of its business. In my opinion, we should not have acted wisely if we had pinned our faith to English institutions.

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I must now say a word with reference to Professor Wagner, whose absence I regret exceedingly. Were he present, the homage due to his age and that due to the undoubtedly great services which he must have rendered to economics—otherwise he would not have become professor, Geheimrat, and Exzellenz—would prevent me from making such a reply to his statements as they actually call for. I shall endeavor, as far as possible, to say what is pragmatic to our discussion. I can not, however, refrain from remarking that I consider it a great pity that the chairs in our universities should be inculcating such principles into the minds of those who study political economy there. Professor Wagner remarked incidentally that when he had interest at the rate of $3\frac{1}{2}$ per cent placed to his credit at the Discontogesellschaft he was quite sure that his deposits were perfectly safe. Another thing that he said was that he was sorry that production had reached such dimensions with us, and this he uttered on top of a very telling and earnest remark coming from Herr Roland-Lücke. I hope—and I should not have liked to hear it—that Professor Wagner did not say that he would welcome a decrease in production with reference to the growth of our population.

Mr. MOMMSEN. He did say it.

Mr. SCHINCKEL. Then I have certainly a right to protest. Gentlemen, if we should ever fall so low as to follow the example of the blessed land, France, and introduce the two-children system into Germany—something that is unfortunately getting to be the fashion in England, and to a very large extent in some of the English colonies—then in my opinion there is no use in

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our bothering ourselves any longer with economic policy. But what I can not excuse in Professor Wagner, is the lack of logical consistency manifested in the speeches that he has delivered, and in the doctrines which he has been promulgating. I have myself listened to a very inspiring address by Professor Wagner, telling us on what scale we ought to increase the German fleet. And to-day? With what means is it to be increased, and for what purpose, if we are to restrict our production, if we are to retrograde, and if our international economic relations, which would be the first to suffer, were given a backward turn? We should then not need a fleet on such a large scale, we should not have to shoulder the burden of such a heavy expense. And who is to pay for the fleet? Professor Wagner's ideal is that the banks should pay a dividend of only 5 per cent and that the shares should drop to 100. Indeed! The joint-stock companies at present—I regret this sort of emergency legislation that has been enacted in Prussia—are subjected to awful taxes. If you consult the statistics, you will see what a percentage the great industries and the big banks contribute to the burden of taxation in Germany. And the same Professor Wagner is telling us now: "No, back, back! Production has got to be diminished, the population must be diminished." This goes beyond my comprehension, and I shall content myself with saying that my position with respect to governmental action for social welfare is an altogether different one, that in regard to this and other points, I subscribe absolutely to what Count Kanitz said to-day, to the effect that the social-legislation that we are introducing at such a rapid

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rate is positively felt as a heavy burden, and that I consider this sort of university-bred socialism that we have had to listen to here much more dangerous in its effect upon the young generation than the real social-democratic theories. These are transparent and radical, while the socialism that is taught at the universities, with its lack of logical consistency, is in my opinion extremely dangerous to our national economy.

To return now to practical suggestions, I should like to ask what Professor Wagner is thinking of, when he says, for example, that the Deutsche Bank shall keep in its treasury a sum equal to 10 per cent of the outside moneys, that is to say, a hundred millions or more, as so much economically dead bank-reserve, in order that it may pay smaller dividends. That is more than I can understand.

As regards my own opinion, I must say that in spite of all the weaknesses, which are rather of a technical than an intentional nature, that may have manifested themselves in the activities of the great banks, so-called, and the small banks, I have absolutely no doubt as to the soundness of the banks or the safety of the funds deposited with them. This applies also to the lesser banking institutions. It is just here that the feeling of solidarity, as Herr Ströll rightly observed, comes into play—the obligation, in so far as the trouble is of such a nature that it can be remedied, to offer assistance. I therefore see no occasion either for enacting legislation in this connection.

I do not care to enter into a regular discussion regarding the Genossenschaften. I am convinced that the

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gentlemen who are closely connected with them and who have talked to us about them in a reassuring manner are better posted in regard to them than anyone of us here. I consider the system of cooperative credit associations, as it has been developed, as an extremely important feature of our national economy. I am not of opinion that it is altogether the correct thing to have subsidized national *Preussenkassen*. Nevertheless such a central institution, which is ready to assist the individual associations, is an absolute necessity and it fulfills its purpose quite in the same measure as the "great banks" do in their sphere. I shall return to the subject later on. I can likewise see no reason, considering the large reserves which the associations have created for themselves, to have recourse to fresh legislation, although, I must admit, in the case of the associations the matter of the fluidity of their resources leaves more to be desired than in the case of the banks, which would certainly act wisely in improving the quality of their resources in this respect on every occasion.

As regards the savings institutions, the conditions to be found in them in Germany are extremely diverse. Reliance has been placed on the fact that the communes and, if I am not mistaken, the states themselves are behind the savings institutions. This is, however, not everywhere the case. In Hamburg we have institutions of a purely private character, savings banks which are managed by officers who receive no salary, but which are managed excellently. I must say that I find nothing in the least dangerous in the fact that they invest a considerable part of the savings in absolutely safe mortgages. This is,

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indeed, not a particularly liquid form, but it is an extremely safe form; it is a correct form, economically speaking, and it is a form that enables them at all times to obtain from the many credit institutions that are at hand the money that they may need, even in case of a run upon them. We have had a number of cases. I need only mention the one at Hanover, where in the space of two days millions were sent to a savings bank by banks that had friendly relations with it, because we were convinced that it was absolutely sound. Considering therefore the great resources that are nowadays at the disposal of the big banks—it is their duty, of course, to assist at any time a solid savings institution—I can not see that there is any great danger. We shall, however, later on in connection with some other point, have to subject the matter of the savings institutions to a somewhat closer scrutiny. Some abuses have crept in, inasmuch as there are institutions that call themselves savings banks, but which have in reality no business to operate as such. In the province of Holstein, in particular, things have been pretty bad in this respect. These savings institutions have even gone into the credit business, which I consider extremely dangerous and crooked. On the other hand, I must say that the Hamburg savings banks derive an important guaranty of safety from the fact that a certain part of their savings is at all times invested in prime bills. For this purpose just those bills are considered especially available in Hamburg which the Reichsbank, for certain reasons, is not anxious to take, the so-called “financial bills,” bearing two indorsements of bankers. Such bills have done good service for the savings banks, and I think it worth while

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adverting to the fact that institutions of this kind could make use of them with advantage.

If, therefore, I have come to the conclusion that neither with respect to security nor to fluidity, abuses of such a nature exist as to call for a resort to legislation, I should nevertheless like to express on this occasion that after all we have been hearing and reading here, I consider it a matter of course that in case it should still be found necessary to have recourse to legislation of one kind or another, this legislation shall not be permitted to stop short at the "great banks," the special objects of the public's dislike, but shall be applied, as particularly needed in their case, to a certain class of small banks and, above all, to the entire body of bankers who carry on regular banking business, and likewise to the *Genossenschaften*. I will not spare the feelings of the gentlemen who have spoken for these associations and have expressed themselves collectively and individually in a vigorous way against the enactment of laws. Perhaps, in addition, the savings institutions may be included. We have not yet reached that point in Germany where the principle of equality before the law may be violated, where it is possible to enact legislation simply because of a certain feeling of dissatisfaction with the great banks, and where we are willing to permit such legislation to remain inoperative in cases in which it should in reality be applied. You have already gathered, gentlemen, from what I have said, that I am not quite so blind as not to recognize the fact that strained conditions manifest themselves every now and then in the field of banking, in the system of *Genossenschaften*, and likewise in the domain of the savings institutions, which it

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should be our duty to remove or alleviate. But I am firmly convinced that, while I should regard every legal provision ineffectual, the object aimed at can be much more readily attained in another way. If one were to try to imagine only for a moment how such a law would work in practice, one would soon reach the conviction that even with any other kind of legislation we should not have anything so very different or unlike what Freiherr von Wangenheim has proposed. Suppose that banks, cooperative credit associations, etc., were allowed to accept outside money only up to a certain proportion—it does not matter what ratio—of their capital. Well, gentlemen, how is a bank doing a general business going to manage?

Mr. MOMMSEN. Quite right.

Mr. SCHINCKEL. My opinion is that a well-managed bank ought never to be one that is in quest of credit, not even one that takes credit, as it is termed in the paper submitted to us (I consider the expression a false one). Of course, when I am accepting trust I am accepting credit, but I should never be a seeker after credit. I must leave the initiative to him who is bringing or sending me his money. In what way am I to prevent myself from going beyond a maximum? Suppose all of a sudden, when I have not come anywhere near the limit, some foreign government with which I have the pleasanter business relations dumps a couple of millions upon me. I write forsooth, "I am extremely sorry, but we are full; we shall hold the money at your disposition." This is absolutely unthinkable. It will be the same thing with acceptances, another part of the liability

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side if there is a provision which prescribes: "You are not allowed, under any circumstances, to let the aggregate of your acceptances go beyond a sum bearing such and such a ratio to your capital." How do you expect me to go on with my business? I allow credits; I must allow some; they are needed—*rembours* credits, draft credits, the world must have them. I must reckon on the fact that at most 50 per cent, or even less, of these credits will be made use of on an average. All of a sudden conditions change—a big rise in the prices of commodities, or I do not know what, or perhaps something like a crisis, in which case my acceptance is eagerly sought. Everybody begins, on the strength of the same credits, without my having in the least increased them, instead of going to other banks or bankers, whose acceptance is no longer accounted so good, suddenly to draw on my bank. What am I to do? The credit I have granted, and on an occasion like this I can, in less than no time, run up the total of my acceptances from 34 to 60 millions. Thus a bank which does regular banking business, no matter how well it is managed, can never make sure of maintaining certain limits, beyond which it is under no circumstances to pass, unless it is willing to turn everything topsy-turvy.

As no one seemed to be pointing out any great dangers or abuses, I set about myself to see if I could discover any, our chairman having dropped a hint to the effect that we ought to take to heart the lessons that the last crisis had rendered so effective. As a bank director, I naturally put the question to myself: How did the banks withstand the last crisis? I should like to illustrate this by means of a brief practical example, derived from my personal experience.

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In the autumn of 1907, when a stringency made itself felt in the money market and people, as much so, of course, in Hamburg as everywhere else, opened their eyes more than usual, we discovered a private banking house (which has already been mentioned), Haller, Söhle & Co., which, as they express it in England, had become a "dark horse;" that is to say, no one could tell in what condition it was and whether it was right that so many acceptances of Haller, Söhle & Co., which were generally considered especially good in Hamburg, should be in circulation. It is a very serious matter for the responsible manager of a bank to attack an old house. Nevertheless, we considered it our duty and we demanded of the firm: "Let us look into your books, otherwise we can no longer take your acceptances." The banking house submitted its books to us, and we found that it was insolvent. Of course, we refused to throw good money after bad money. We had to prick this boil, full of matter, and gave a great danger signal, which was the beginning of Hamburg's part in the financial crisis. At the same time, however, we did not neglect, in order to quiet the fears of the public, to announce that anyone who wanted to get money on the strength of good securities or of his good credit would be able to get it from us, the banks, at any time and up to any amount. We said to ourselves: "Even if we should lose money on this occasion, if we were to lose hundreds of thousands of marks, or even a million, it would still be better than to see mistrust spreading and the whole city of Hamburg, already discredited, going to rack and ruin." We did more than that. We investigated the affairs of smaller banks which were not in a particularly good

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condition and helped them to tide over the crisis. This is the relation of solidarity as I understand it, but it is solidarity with open, and not with closed, eyes. We investigated the conditions and when we found that a house was not insolvent, but only tied up, we at once announced that we should take its acceptances as before and thus we put it into a better condition without letting others notice to any extent what was going on. As might have been expected, extraordinary demands were made upon us at the time, especially upon my bank, whose resources were taxed in a measure not at all to my liking. Of course, had there been any legal restrictions, I should have been obliged at once to overstep any given limit with respect to acceptances or anything else, and in case I had not done so, I should have caused great mischief in the world of business. The main thing is, that in this way we escaped the necessity of having recourse to the Reichsbank to such an extent as would have been the case had there been no such thing as these banks to go to first, and what did the most good was our action in declaring that we should be prepared to stand a great loss to save the situation. This is something that the Reichsbank would not have been able to say, at any rate it would not have been able to go so far. Just as the Preussenkasse is a very convenient buffer between the Genossenschaften and the Reichsbank, and just as the Genossenschaften can have recourse to the Reichsbank, if the necessity should arise, only after their affairs have first been sifted by the central bank of the associations, which clears the credits and debits of the individual associations, so it is with the relations of the great banks, so called, to the Reichsbank. In critical times the

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great banks, in large measure, bear the brunt of the exceptional demands, keeping them from going direct to the Reichsbank. I assure you that on that occasion after we had announced that anybody could get money, such a quantity of deposits came pouring into our bank that our resources kept steadily increasing. We were not at all anxious to get them at the prevailing rate of interest, but, of course, we could not refuse them. This made it easier for us, in spite of the tension under which we were laboring, not to be obliged to have recourse to the Reichsbank in any considerable measure. Of course, we sent our securities to the Reichsbank and we had the pleasure of seeing our credit balance mount up very high on the thirty-first of December, a balance of which we have not had to avail ourselves. It may truly be said that the great banks did not, at the time, press the Reichsbank too hard, and I trust the Reichsbank will confirm my statement. It goes without saying that they could not avoid it altogether, for when everybody is in need of money the ultimate reservoir is the Reichsbank. It is our duty, however, to reduce the pressure upon the Reichsbank as far as possible. It is certainly, therefore, an altogether legitimate wish on the part of the Reichsbank that the private banks should keep their resources liquid, or mobile (more liquid perhaps than has hitherto been the case), as far as they are able and to the extent that it is in their power. There are times when the economic needs are more potent. I wish Professor Wagner could once, only for one year, have occupied the responsible post which I have held now for nearly forty years, and just for one year feel what it is to be out in the open air, scenting the currents as they go by, instead of

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standing under the lee of his professorial chair. I am convinced that he would get entirely different views. It is a mistaken notion to imagine that the president of a bank, who applies himself earnestly to his duties, has it altogether within his means to determine the limit to which his bank can or ought to assume obligations. Who can tell what conditions may suddenly present themselves? Often it is our own Government that imposes the duty upon us, under all circumstances, to cultivate good relations with Brazil, East Asia, Chile, or Argentina, in as much as these are countries that still constitute a neutral ground and which, unless we look out, will be wrested from us without ceremony by the English and Americans. It is quite impossible to work within closely defined bounds and guiding lines.

Gentlemen, although I am opposed to legislative measures, I believe, nevertheless, that there is an unwritten law that might be set up more than it has hitherto been, and in this matter the gentlemen of science could render us a very great service. I very often feel the absence of ten commandments, more or less, for the bank president—quite precise guiding lines and signs—by which one could recognize what is good and what is bad in banking. I am continually reading altogether too much about theories, like those with which Professor Wagner and even President Heiligenstadt have been making us acquainted. I wish that science would base its conclusions more upon practice, as, indeed, it is already endeavoring to do, and that it would inculcate certain maxims and principles in those who are to be our successors in the banks, propounding them from the universities

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and the professorial chairs. A principle, for example, which can not be sufficiently preached to the whole people is this, that the higher the rate of interest which an investment of money carries with it, the less safe is the investment—this is a well-settled law, resulting from our economic conditions—until at last the rate of interest reaches such a height that he who is bent on realizing it may safely assume that he is going to lose all his capital. People come and say: “We must have 5 per cent, else we can not exist; recommend us some stocks or bonds that pay 5 per cent.” Yes; just because they pay 5 per cent they are so much the less safe than Prussian consols. So it is with deposits. The higher the rate of interest that is offered you for your deposits, the less safe is your capital. It makes no difference how things look on their surface, how large the bank, how large its capital is. Any bank which allows an illegitimately high rate of interest on deposits is not as trustworthy as it ought to be. In my opinion altogether too little account is taken of this. There are many other criteria besides. When a bank—I am speaking now of the Leipziger Bank, which is constantly invoked here as a frightening specter, and which ought to have been found out by the public long ago, as, indeed, it has been found out in many quarters—when a bank, in order to obtain money for its customers, offers its guaranty, then it is not worthy of confidence. We may be sure there is something rotten there. Wherever such a thing occurs—and I assure you that I could tell you of such cases that are occurring now—it ought to be shown up. This can not be accomplished, however, by any legislation, by any law, but it must

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be done by a sound spirit in banking, by a moral tone that has to be introduced into banking. Here the university can do splendid service and so can the Reichsbank.

We are in the habit, gentlemen, of turning our eyes across to England. In the shape of the Bank of England there is a critic always on the watch, who is worth more than the man that writes "Plutus."

To have received the slightest sign of disapprobation from the Bank of England is considered in London something so momentous, something so terrible, that no one is anxious to expose himself to it, and whoever has received such a warning will not forget it for years to come. I do not see why our Reichsbank, in the position in which it is, when banks in a condition of overstrain and with insufficiently liquid resources come altogether too frequently to it, should not feel justified, whenever it discovers actual evidence of recklessness in giving them a sound lesson by restricting the amount of their credit. I am aware that it is a responsible duty, and it was not a pleasant task for us in Hamburg to set up a sort of court. Such a court, however, is a necessity. There is nothing in that sort of reliance which consists in saying: "Here is an enormous capital, everything will turn out all right." Certain evidences, such as were manifested at that time in the case of the Leipziger Bank, must have declared to every person of acute sense that it was a concern that had become utterly rotten, and if the credit allowed these people had been cut down soon, the calamity would at all events have materialized earlier. Whether it might have been averted I can not say. It would certainly have been lesser, for these conditions had been in existence for years.

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I am sure there are adequate means and ways for undertaking a reform, and these are all matters that no law can reach, no matter how closely defined or how detailed it may be. How good the assets must be no law can prescribe. The creditors are always good; they have got to be paid. But you may legally prescribe that there must be three times the amount in the way of debtors or bills of exchange. If the debtors and bills are not good all that will not help. There is no such thing as a supervisory bureau that can actually exercise control. There is nothing but the public bank conscience, which says: "I see something here which affords me evidence that there is something rotten about this institution; this bank offers a rate of interest on deposits that is unheard of; this bank offers its guaranty in order to obtain money; we are bound to interfere here." I believe that by this means vastly more can be achieved than through the instrumentality of laws, by which I do not mean to say—we shall come back to this point later on—that in some cases other agencies may not have to be invoked.

Mr. ROLAND-LÜCKE. I have listened with especial interest to the utterances of those gentlemen who have expressed themselves in favor of legislative regulation in the anticipation of discovering something that is of service and capable of being applied to practical use. I assure you that, if I found such a means, regard for those managers of banks who place a temporary advantage above a permanently sound and absolutely stable condition would not for a moment deter me from advocating legislative regulation. My own opinion in regard to legislative regulation I expressed yesterday. If, in spite

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of that, I again claim your attention for a moment, the reason is because I should like to discuss briefly certain utterances of several of the speakers. What I have to say will, I believe, not be altogether meaningless with respect to the progress of our discussion.

The gentlemen who are in favor of legislative regulation have endeavored to prove that the things to which this is to apply are susceptible of precise definition. These advocates of regulation constitute two groups. There is first of all Herr von Gamp, who says: "I am not going to break my head one bit over deposits, accounts current, etc.; for me the kernel of the whole matter is the outside moneys taken together, which the bank is required by law to be ready to pay back to its customers every day; the outside moneys held by the bank should be subjected to the law." How does the matter look from the standpoint of the practical banker? What would he do, to what temptation would he be subjected by such regulation? He would simply speak to his customers, whether they had giro accounts, deposit accounts, or any other sort of accounts, as follows: "The law compels us to invest 10 per cent of your money"—this was the percentage proposed—"in cash; that is to say, in a way that yields no interest. This means, if we assume that money is worth to us 3 per cent per annum, a loss of three-tenths of 1 per cent. We are, therefore, obliged to cut down by three-tenths of 1 per cent the rate of interest which we have hitherto allowed you. But this is what we are going to propose to you: You agree that we have the right to demand of you, when you withdraw any part of your money, a

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week's, or two weeks' notice; in that case we shall let the rate of interest which we have been allowing remain unchanged, and we are willing to make this further concession that when conditions are fairly normal we shall naturally not make use of our right to exact such notice." This proposition, gentlemen, properly couched, if brought before the public will have the effect of causing 95 per cent of all the depositors to go straightway to the bank and ask to have their credit balances converted into deposits bearing the condition proposed, and the bank managers would be snapping their fingers at the law. I think it important that I should call your attention to just such cases and to tell you again and again that no matter how well-meaning you may be in the making of your laws and how closely you may be governed by all the rules of science and of thoroughness the practical business man, if he is only a little bit shrewd, will, without having to be a cheat, discover means and ways of getting around the law. Instead of the progressive quickening and sharpening of the consciences of our bank managers and all who have a share in the management of peoples' funds, we shall have ultimately, as a result of your activities as legislators, just the opposite state of things.

Doctor Wagner has indeed instinctively felt this danger. That is why he wants, as opposed to what Herr von Gamp says, a week's notice. I have just been expressing myself indifferently with respect to a week's notice or two weeks' notice, but a shrewd man will make his customers be willing to put up with a month's notice.

To turn to another matter, President Heiligenstadt proposed to us a distinction which made me feel at the outset

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that we had at last possibly found the standpoint from which we could work toward a solution—the distinction between producing and nonproducing. While he was still speaking, however, I set about thinking, and placed myself first in the position of the bank official who receives customers and has to decide whether an account belongs to class A or to class B—producers or nonproducers—and then I placed myself in the position of the person who, from the standpoint of the government inspector, has to see to it that the classification of the accounts at the bank is made conformably to the law, and I must say there were some things that struck me as being very difficult. I shall refrain from saying more than what occurred to my mind in the course of Herr Heiligenstadt's address, without dwelling upon what the intervening hours have added, in order to show you how even this simple formula, which has such an extremely alluring ring about it, has no practical validity. The head of the department, we must suppose, will receive the following instructions: "We recognize henceforth only two main classes of accounts—class A, which represents the accounts of persons owning a business, speculators, and foreigners (I am letting myself go somewhat further from the start than Herr Heiligenstadt has gone in his specification, but these might well be included in the class, and Herr Heiligenstadt himself would not object), and class B, including persons living on wages, government officials, artists, scientists, and persons without occupation. As to whether these collective designations include all the kinds of people who had to be classified, I shall let that question go for the moment. Behold, there comes the man without any occupation, a

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rentier, let us say, in moderate circumstances, and says he desires to open an account. He hands in his securities for safe-keeping, and perhaps 10,000 marks in cash, which for the time being he wishes to deposit on an interest-bearing account. Forthwith the bank official will say: "Well, sir, as you belong to the class without occupation, this will be department B." A week later the man buys with his 10,000 marks in cash, which he has paid in, let us say, shares of Siemens & Halske. It so happened that he became a customer of the bank just at the time when the shares of Siemens & Halske were going up, and he sees at the end of a week that they have risen 10 per cent. The man decides to sell these shares. There comes the conscientious head of the bank department and says: "This *rentier* has become a speculator. He has got to get out of class B and go into class A." Gentlemen, is this what is meant? Is this possible? Suppose you were able and willing to fill the position of a bank inspector; would you be able to make the prescribed distinctions?

But I shall proceed. President Heiligenstadt explained what significance with respect to our national economy the producer and nonproducer have. Very pretty, indeed. What I want to say is this: Who is of greater service to our national economy, the mechanical producer or the spiritual producer; who is it who renders mechanical production possible? A gentleman, Mr. X, comes to the bank. He is a man who is not in business; he is an inventor, however. The man invents or perhaps he has invented, or is going to invent, some new apparatus, which will be manufactured on a vast scale. Does not such a man render a hundred times as great a service to our

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national economy as an indirect producer than as a direct producer? Will you have the man who has his invention exploited by manufacturers placed in class A or class B?

Let us go on. Here comes a physician. "A physician," says the government official "is, of course, in class B." Then comes the clever investigation of the conscientious and not so conscientious bank official, who is interested in bringing into class A everything that can possibly be got into it, inasmuch as for this class there are no irksome regulations prescribed by the law which have to be observed. This physician has to treat to-day a mechanic who has broken his arm. By means of particularly skillful bandaging or other surgical appliances he enables the man to resume work within the space of a week. The mechanic therefore produces, as a result of the physician's skill, for a period of four weeks, during which time he would not have produced if he had not had the physician. Would you then include the physician among those who do not produce? Is not the physician a much higher sort of a producer than, say, a baker?

But this is not all. Let us take the author. There are some authors who, even if they have no business, derive from their works, whether it be in the shape of lump sums or in royalties, an enormous income. Shall such a writer be reckoned in class A or class B? The stage manager, who sometimes is on his last legs, belongs, of course, to the group of producers. His first tenor, who perhaps has an enormous income, belongs to class B. I do not believe that it would be within the scope of our discussion if I were to go on citing more of these examples,

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which might be multiplied indefinitely. My object has merely been to set forth to you the difficulty of enforcing the law conscientiously and the temptations to which the bank officials would be exposed. If I have made this clear in a measure by these examples I think I have done justice to the matter.

As regards the statements of Doctor Wagner, I must admit that they have evoked in me, in a high degree, the same feelings as those expressed by Herr Schinckel. I wish, however, to dwell only on some single utterances, on which Herr Schinckel has not yet touched, as this appears to me essential by reason of the weight attached to Herr Wagner's words. Doctor Wagner asserted in the first place that it is altogether immaterial whether the stock of a concern is at par or above par. He affirmed that this was of no interest to any one but the stockholder. He overlooked the fact that it is of very material interest to every creditor of the concern, inasmuch as in the great majority of cases a premium is based on the fact that the concern in question is in a position to afford a greater material security than what would be expressed by a quotation of its shares at 100. This interest which every depositor has in the higher market price of the stocks was, as you see, not taken into account by Doctor Wagner.

Then he touched upon the small bank notes and said that they had not got into circulation. Gentlemen, I must assert over and over again that, if we are going to break our heads over legislative regulation, we must ask ourselves on every occasion whether what might have been brought about without legislative measures does actually take place. I believe we must admit that

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unfortunately this is sometimes not the case. We are continually clamoring for laws instead of availing ourselves of the means that are at hand. Last year the dictum went forth, proclaimed with loud emphasis and illuminating logic, that the small bank notes must be got into circulation. Efforts were successfully made to compel every railway-ticket agent and every postal employee who had to receive and pay out money in every city, large or small, to act accordingly, and this was very skillfully managed down to last spring, as I myself had occasion to observe, comparatively little gold being paid out in changing notes of large denominations. Hardly, however, had the money market begun to put on a better appearance in the spring, when this thing suddenly came to an end, as you will be able to see from my own experiences at many places from week to week. ["Quite true."] At least once a week, for example, but generally twice a week, I have had to buy a ticket for 3 marks at the Stettin Railway station. On principle I always present a 100-mark or a 50-mark bill when I pay. Since last March the ticket agent at the Stettin station has handed me back 90 or 40 marks in gold, whereas formerly I had always to take bank notes. ["Hear, hear."] Whenever the letter carrier had to pay me money sent by postal draft, he would regularly bring me, up to last spring, bank notes or silver. Since last spring I have nearly always been paid in gold by the letter carrier and even at the post-office in my little town. I am convinced that if the government officials had stuck vigorously to the regulations introduced in 1908 the stock of gold in the Reichsbank would to-day be larger by 100 millions

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than it is. These 100 millions have not flowed out of the country, but have simply got back into the circulation.

A couple of years ago we introduced checks in this country; that is to say, legal checks. It was presumed, contrary to the opinion of the greater part of the banking fraternity, that just through the agency of the legal check, the people would be induced to make a more general use of checks. The banks naturally exerted themselves, so long as such a law was going to be enacted, to give an earnest of their zeal in the matter of making this law as businesslike and practical as possible. The law is recognized as an excellent one, abroad as well as at home. The framers of the instrument declared: "Now we are going to make the exemption of checks from the stamp tax a positive thing, for the check is needed for our economic development and we need it also for the strengthening of our Reichsbank. The fact that barely a year later the stamp tax was introduced is a matter concerning which I do not propose to exercise any criticism just at this moment. But I do make complaint against the responsible authorities who, having introduced the stamp tax on checks, on the 1st of October, have not made any provision up to the present day, the 25th of November, for supplying the check-tax stamps to the post-offices. As a matter of precaution I went to two post-offices yesterday, right here in Berlin. Day before yesterday, when I asked for such stamps at the post-office window in a nearby provincial town, the official looked at me as though I were daft. In Berlin itself matters were not quite so bad. The official at the post-office on the Potsdamer Platz even went so far as to

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consult a list of some sort and thereupon explained to me that I could get the check stamps only from the persons whose business it was to distribute them. The man was evidently equipped with instructions as to how he should reply to such inquiries, for when I asked him where I could find a person of that description, he said something to the effect that the nearest one resided at No. 123, Potsdamer Strasse. [Laughter.] You perceive then that at certain post-offices they have got so far as to evince their good intentions, inasmuch as here in Berlin at least they are giving the public serviceable information. But I must ask, why could not the offices which have the business of supplying the public with tax stamps for bills, etc., have been equipped right from the start, the 1st day of October, with a supply of check stamps also? Why should these post-offices have to get along for eight weeks and, for aught I know, for months more, without these tax stamps? I am saying this with a feeling of the deepest regret, in order to show that it is on account of this inertia on the part of our administrators—not merely on the account of the tax as such—that many people, who have with great difficulty accustomed themselves to the use of checks, give it up as a bad job and say to themselves: “I am not going to make out any more checks; I am simply going to find a more convenient method of making payments.” [“Quite right.”]

Herr Wagner said, furthermore, that, in addition to the per cent that was to be held in cash, there ought to be a provision requiring the holding of 40 per cent in bills, and in such bills as are considered prime bills. Gentlemen, I am absolutely of opinion that the best and most

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liquid reserve is a portfolio of first-class bills. But if Herr Wagner means to have this provision extend to all monetary institutions, he will, with his well-meant legal regulation, bring about much more acute crises than we have ever had. He fails to perceive—and, indeed, he could not perceive from his professional chair—that in years of slack business our output of bills, apparently so large, has thus far barely come up to the regular demand. If to those financial concerns which, as it is, have got to be active discounters of bills, and which in a season of quiet business, often for months at a time, are unable to satisfy their needs, you are to add the great bulk of all kinds of institutions, which, by reason of the unusually large accumulation of cash at such times, would have to keep their portfolios of bills, in accordance with the law, much better filled than has hitherto been the case, you would be exerting an altogether unnatural pressure upon the private discount rate. This unnaturally depressed rate of discount would greatly promote the inclination to expand one's dealings excessively before one has recovered in a measure from the business depression, and crises would be much more apt to occur than would otherwise be the case.

Doctor Wagner referred to the apparently remarkable success with which the inspection of the banks by the National Government in the United States has been attended. I am going to mention, gentlemen, just one instance taken from my personal experience. A number of years ago I was traveling in the United States and had often to listen to extraordinary encomiums of the bank inspectors. I came to an important city and had talks

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with the managers of the leading bank in the place, one which was regarded as the best in a large district. Not only the president of this bank, but also prominent business men, spoke to me in terms of extravagant praise of the bank inspector who was on duty there and to whose examinations this bank was subject. They could not speak to me sufficiently not only of the extraordinary care with which this particular man discharged his supervisory duties, but also of the remarkably businesslike and correct way in which he judged of the commercial transactions in the district and of the borrowers of money. They said that the man was every couple of days at the bank, and that he did not allow a single promissory note to pass through the bank without examining every signature that was on it. All this, gentlemen, did not prevent the bank—I believe it was about fifteen months later—from failing in grand fashion.

Reference was also made to the mortgage banks. We are all aware that supervision in the case of mortgage banks, as has been stated already, fails under certain circumstances to achieve the result aimed at.

The regret expressed by Doctor Wagner with respect to the increase in our population I have taken simply as a joke. He certainly could not have meant it in earnest. One who has been so zealous as Doctor Wagner in behalf of governmental activity directed toward the betterment of social conditions, can not at the same time indirectly express a disinclination to abide by the main cause of the growth of our population, the greater longevity of our people.

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Herr von Cetto referred to a remark I had made—the other was not a remark of mine, as I have already pointed out—which he has construed into something very different from what was meant. He understood me to say that I was not a friend of agriculture. Gentlemen, I am a very great friend of agriculture. I have assured Herr von Cetto that if I had again the choice of a vocation I should by all means want to be nothing else but a plain, humble farmer. If I have pictured to you the dangers and difficulties which German trade and industry will have to encounter the next few years, perhaps in a greater measure than has hitherto been the case, in the endeavor to compete in the world's market, I shall take this occasion to declare emphatically with reference to our agricultural conditions that I consider it extremely desirable and even necessary that we should, as our population increases, convert more and more of the suitable parts of our large landed estates into peasant holdings of between 50 and 150 acres. You see I am a friend of agriculture in the modern sense as much as anyone can be. In my remark concerning the old agrarian régime I meant nothing more than the old agricultural system under which four, six, or more families dwelt in a wretchedly small space and under which the great landowners ruled the State more or less exclusively. This is the agrarian régime which I had in mind and not a modern and sound agricultural system.

Doctor Wagner made use of a catching sentence to which I should like to advert. He said that taxation in Germany, direct and indirect, is extremely moderate in comparison with other countries. I personally am strongly of the opinion, gentlemen, that taxation should,

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as a matter of course, rest mainly on the shoulders of those who are best able to bear it. I am myself a great advocate of the tax on inheritances, provided that really necessary and practical expenditures call for the raising of the money. All I mean to say by this is that I am not opposed to taxes which naturally can be borne most readily and in greatest measure by large fortunes consisting of movable property. But when I hear it boldly affirmed over and over again that conditions in our country with respect to taxation are extremely moderate, all I have to say is that it doesn't begin to be true. I should like to hear of a country—let us confine ourselves for the present to direct taxes—where taxes are also levied primarily on actual incomes and where the operation of the tax levy involves the payment of a much larger amount of direct taxes than what is paid by us right here in Prussia. We are now paying in Prussia really high taxes. If we take, for example, an income of 10,000 marks, we find that what it pays in Prussia in the way of a direct government tax, a supplementary tax, a communal tax, and a church tax amounts to at least about 12 per cent, and this is only in case the commune levies a tax equal to no more than 100 per cent of the amount of the state levy.

Should its quota be 200 per cent or more of the government tax—a condition with which we have to reckon in the case of a large number of cities—then the direct tax, to speak only of the above-mentioned categories, amounts at present to 16 per cent or more. If, therefore, I see such an eminent personage as Doctor Wagner saying in a light-hearted way that we have not enough taxes, I

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consider it a very serious matter. On the one hand, we are continually endeavoring to impress upon our legislators and officials the necessity of proper economy. But if, on the other hand, we are constantly holding up a distorted view of the extent to which our taxpayers are levied upon, we render the manifestation of our zeal in the matter of retrenchment altogether nugatory. I earnestly deprecate the painting of conditions that do not actually exist. We Germans are greatly interested in the maintenance and augmentation of our movable property. We ought, therefore, to be careful not to enter too jauntily upon a course of action which might tend to hinder this development.

Mr. GONTARD. Gentlemen, I do not possess the splendid oratorical gifts of Herr Schinckel. In spite of this, however, I am thankful that an opportunity is afforded me at this moment of saying a few words in response to the statements made by him before with special reference to my address.

In the first place, I agree with him that no particular value is to be ascribed to the prospectuses of the listing offices. I am myself a member of a listing office. The words which Herr Schinckel cited from my statements are no longer clear in my recollection; I do not deny that I may have made use of those very words. In any case, I did not intend those expressions to indicate a main reason for the necessity of legislative regulation. In fact, I praised the "great banks" with reference to their safety. I said that there was greater fluidity in their resources than in those of other institutions. I said moreover, that the degree of fluidity is one that is arbitrarily

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fixed. I know that in the case of the "great banks" it is at present approximately 60 per cent. If I said, furthermore, that in my opinion it might have been still higher, I may here add that this is not my view alone and that I did not speak without reflection when I uttered it. I obtained precise information regarding this point in particular before our inquiry was started. Of course I am aware that I myself, not being versed in the dissection of annual statements, am not in a position to judge how high the degree of fluidity should be.

Herr Schinckel spoke also of the penal provisions relative to the supervisory councilor with special reference to what I had said. I regard the office of supervisory councilor as a very high one, and I have never sought such an office myself; neither do I believe that I should ever accept it. That the penal provisions, however, would not do the least bit of good I am thoroughly convinced. If, indeed, I have paid so much attention to this question regarding the supervisory councilor, the reason of it is that, as a Leipziger, the affair of the Leipziger Bank affected me deeply. Herr Schinckel had something to say also with reference to the matter of the Leipziger Bank. I am of opinion that we ought to arrange things in such a way—I see I must speak a little more in detail than I originally intended—that the supervisory councilor of a bank shall reach the conviction that he can fill only a few other offices in addition to the office of supervisory councilor and what is connected with it. I am of opinion that paragraph 246 of the commercial code is not framed with reference to the banks just in the way it should be. What I mean to say is that the minority ought to be vested

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with greater competence in the matter of inspection—perhaps with authority to act at the instance of third parties—as has been urged by one whose opinion carries great weight. I would like to state here that among the many very honorable supervisory councilors of the Leipziger Bank there was one in particular, a special friend of mine, who at the time gave himself up most scrupulously to the duties of his office, and I believe that if this one man had been personally allowed greater scope in the matter of inspection, it is possible that the catastrophe may not have occurred, or, at least, would not have reached such dimensions. I consider it desirable, moreover, that the supervisory councilors should become more independent of the president. So much in reply to Herr Schinckel.

Now that I have the floor, I may perhaps be able to reply to the query put by Count Kanitz this morning. Count Kanitz asked what I meant when I spoke of new organizations that might come into existence if it should be considered advantageous for the business world to become more independent of the so-called great banks. What I meant to say is that the owners of the big industrial establishments are simply in a position to establish joint stock banks themselves, which will be distinguished from other joint stock banks merely by the circumstance that their shares will remain in the possession of the industrial concerns, and that in this way the heads of such concerns will be able to exert a greater influence on their banks. I am aware that there are great difficulties in the way of all this, and I personally have expressed myself as opposed to the idea. I gave it as my opinion, as I have already intimated before, that it might perhaps

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be desirable to acquire some influence over the general assemblies. I have in general, as the stenographic report will show, spoken from the standpoint of the small manufacturer. I am not so familiar with the conditions prevailing in the *grande industrie*. But from what I have heard—I repeat that my own personal knowledge does not amount to much—I am under the impression that the big industrial establishments are pretty largely dependent on the great banks, in some parts of the country at least. I should, of course, not like to be considered one of those who are exciting hostility against the so-called great banks. As you have had occasion to observe by this time, gentlemen, it is my endeavor at all times to act in a conciliatory spirit with respect to all issues. I should like to conclude, therefore, by saying, for my part also, that I know full well to what extent industry is indebted to the great banks.

Mr. SCHINCKEL. I wish merely to make a brief remark, because I think it is important that I should not be misunderstood by Herr Gontard. The stenographic report will show that, on the contrary, when Herr Gontard remarked that he had a sort of feeling that some of the great banks were at times deficient on the score of fluidity I reenforced this observation by saying that this feeling was not a groundless one.

Mr. GONTARD. Yes; I heard it.

Mr. SCHINCKEL. That is just what I said. And, as regards the supervisory councilors, I hold precisely the same view as Herr Gontard. I only regret that men who are gifted with such a broad understanding and are made of such good stuff as Herr Gontard should declare that they would not accept the position of supervisory

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councilor. It would be a good thing if just such gentlemen were ready to fill the post. [Laughter.] But if they accept the position they have got to do what I have taken the liberty to mention. They will have to get down to the actual practical facts, to a certain A B C, of the banking business, for in these matters they could render a great service.

Mr. RAAB. Gentlemen, I regret exceedingly that Doctor Wagner was not present this afternoon when Herr Schinckel spoke. I think it would have been a valuable thing for us, and indeed a pleasure, to have been able to hear two men, both of whom express themselves so freely and so clearly, but whose views are so opposite, discoursing with and against each other.

What the speakers here found most fault with in the utterances of Doctor Wagner was not, I believe, the really important thing that he had to say, being rather in the nature of unconnected details and casual observations, as, for example, his expressions with reference to the matter of the increase of offspring, which were taken seriously by some and by others almost as a joke. But this could certainly not have been the actual content of Doctor Wagner's address. He said, for example—and herein I agree with him, and I wish to state right now that I listened with great pleasure to nearly everything that he had to say—that private interests taken collectively are in themselves a public interest. That was a significant utterance. Then he went on to say: "We can no longer avoid assuming a relation, which is in a certain sense one of guardianship, with reference to the credit banks." This was a proposition involving a specific programme, nor have I heard

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any opposition to it thus far. For Doctor Wagner said further: "Why should we all of a sudden draw the line here, after having by special legislative provisions regulated the mortgage banks, savings institutions, insurance companies, etc.? Why all of a sudden fold our arms when it comes to the credit banks?"

A VOICE: But these are not the same sort of concerns.

Mr. RAAB. Quite true, and he adverted to the fact. But these distinctions are so constantly present to our minds that there is no occasion whatever for my mentioning them. There is certainly a good deal in the proposition itself that we should not stop short at any more or less arbitrary line of demarcation. He went on to say—an expression of opinion which has already led to discussion—that he does not find, taking it all in all, that we have too many officials, and that he regards the situation, as he looks at it, as not so very bad. I shall perhaps say a few words again concerning this point later on at the proper place.

I believe I can say that I agree with him also as to the individual points. I do not flatter myself, of course, considering that Herr Wagner's long career as a scholar has not prevented his utterances from evoking lively expressions of protest, that my modest exposition will receive even a fraction of the consideration that has been accorded to the utterances of Herr Wagner. But it will in any case render our discussion more complete, if some one speaks who will talk to you neither as a scholar nor as a man versed in the practice of banking, but who will at any rate place before you a little of what constitutes the general feeling of the people regarding these matters.

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I beg you, gentlemen, to permit me to discuss briefly from the standpoint of the plain man the questions that are engaging our attention.

I must admit after all that we have heard here that the security and fluidity of the deposits do not appear to be imperiled to as great an extent as is generally supposed. I am glad to be able to express my belief that when the discussions of this commission are communicated to the public, and just because they are made public, the uneasiness regarding this whole matter will in fact be in a measure allayed. I believe that this much has been made more and more evident in the progress of our discussion—that the security and fluidity of the resources in the hands of the banks are no longer alone the main and essential thing with which we have to deal. Another matter which has come more and more to the front is the question, Are the resources of the nation really utilized in the interest, duly considered, of that part of the community, first of all, whence they emanate, and, in the second place, in the interest of the whole public? I believe that in this respect there is still a certain amount of mistrust which the banks, I mean particularly the great banks, ought to try to dispel. I understand, of course, gentlemen, that a bank has to apply itself naturally to the kind of business that pays best. Now, what are the kinds of business that, as a general thing, yield a good return? I hardly believe that agriculture can be reckoned among them. Agriculture does not yield such a certain and such a high rate of profit that there is much left in it for the banks. What we find at the present day is that the so-called great bank, in particular, promotes above

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everything else trade and industry, affording them aid and support. But everything, as you know, is relative. This assistance is a good thing. It has been good in many respects, and if we are proud of our manufacturing industries, then I am the last person who would be inclined to minimize the share that our banks have had in this development. But there is a point—and I believe I am getting pretty close to what Professor Wagner wished to express—beyond which the good becomes a mistake, and it seems to me as though now already we had been artificially inflating industry too much, thereby neglecting other important interests. This is, if it is actually so, a pretty bad thing and a dangerous thing. An agrarian crisis is a very serious matter, but it is not so bad with reference to everything taken together as an industrial crisis. The best evidence of this is the mere circumstance that in the case of an agrarian crisis no person engaged in agriculture will be likely to starve. Even if the peasant has harvested but little, he will have wherewith to feed himself and his household until a fresh crop affords him more ease. Such a crisis, therefore, is not so bad for the agriculturist as an industrial crisis is for those employed in manufactures. In the industrial field we have brought together thousands and hundreds of thousands of men in one place, and men who have nothing besides their wages, and when employment and wages cease, then there is the worst misery—hunger, starvation. We have at the same time, as a result of the present temper of our laboring class, disturbances and revolution. Having thus drawn our bow too much on the side of industry and having staked too much on this single card, we may one day perhaps have a rude

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awakening from this splendid, beautiful dream of the blossoming of our German industry.

I am therefore persuaded, gentlemen, that the banks are by all means bound to show whether, under average and less favorable conditions, our present working class can still find employment. If not, the banks must endeavor to prevent all further artificial strengthening of the industrial edifice. And I am convinced, gentlemen, that our industry is to-day already too large to encounter any untoward conditions that the future may have in store for us. Evidence is afforded by the fact that without a heavy export of manufactured articles we have already for a long time been unable to keep our workmen and our machinery busy. There is a danger then, a danger that we feel is no slight one. All of a sudden our fate will be made to depend largely on the world's market, over which we have not nearly as much influence as we have over our internal domestic market. And what will be the result when we will have reached the point of being obliged to regard our export industry as an indispensable part of our existence? Then will come the demand which we hear to-day: "If we can no longer find a ready sale for our products on profitable terms in the world's market, then we have got to reduce the cost of production at home." The next cry will be: "Away with the customs boundary; we want cheap bread, cheap meat; if we are to keep our working people busy for the world's market we must have cheap food." In this way the excessive development of manufacturing industry leads—one might almost say with the inevitableness of a law of nature—to a demand for free trade. This is a

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great danger that we are going to invite if we drive our world-market industry too hard.

Herr Roland-Lücke has been trying to-day to tone down the statements which he made yesterday. He tells us that he has personally a great fondness for agriculture and that, in fact, he is an agriculturist himself and that he is almost sorry he did not, right at the start make agriculture his vocation. I am grateful to him for these expressions, but I must say, nevertheless, that what I heard yesterday appeared to me to agree altogether with what we hear so often in banking circles, as well as from the lips of teachers of political economy, to the effect that when it comes to it, protective duties must be subordinated to world-market interests. It can not be denied that there is an agitation going on in some circles in favor of our adopting the English standpoint, according to which we can not afford to let the peasant cultivator have the benefit of these high prices of the necessaries of life, inasmuch as we must have regard for our manufacturing industries. Treat this, if you choose, as a hypothetical danger of the future; the forced expansion of our manufactures is bound to lead ultimately to a demand for free trade.

It is evident to us, gentlemen, likewise that the circles to which I refer have an active interest in being able to influence our policy in a direction which, as I have already pointed out, is one which they alone favor. We see that the banks—it is of the banks that I have been speaking—have recently been endeavoring to make the work of legislation more than hitherto their own work. I have in mind, for example, the Hansabund. I can discern in

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this association an endeavor on the part of our "bankocracy" to pave the way for legislation in behalf of its own interests—I don't mean to say exactly its narrow personal interests, but nevertheless the interests embodied in that conception of the world economy which it represents—and to reduce entirely to naught those restraining factors which till now have not entirely lost their influence.

Doctor RIESSER. But in behalf of the equality of all classes, including the agriculturists?

Mr. RAAB: Yes, that is according as one chooses to look at it. I believe that just because the policy pursued by the banks has, in my opinion, expanded industry beyond legitimate bounds, that same policy is going to lead them, and it is bound to lead them, to suspend their activity in behalf of our domestic manufacturing industries, which have to reckon with the increased scale of wages and high standard of living and perhaps before long will go to the extreme of promoting industry abroad, where a higher rate of profit may be had, inasmuch as there the necessaries of life are cheaper, the wages, etc., lower, and market conditions more favorable, while savings may be effected in the matter of freight and otherwise. I consider it altogether likely that the activity of our banking institutions will one day assume such a complexion that they will no longer seek to promote industry within our own borders, but will be more eager to do it elsewhere in order to reap greater profits.

Doctor Weber said yesterday: "We must see to it that we are in a position to support our additional

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population." All right, gentlemen. But then we ought not to place, we ought not to be obliged to place, our entire reliance with respect to our surplus population on the world's market, on the exportation of the products of our manufacturing and mining industries. There are other means that can be tried or exploited.

A VOICE. Doctor Weber has mentioned them.

Mr. RAAB: One means, for example, is the avoidance of the superfluous importation of foreign labor. Those who manage our industrial undertakings act, many of them, with such utter disregard of our national interests that this alone ought to be a sufficient reason for the bankers who have relations with our industrial concerns to try to exercise a wholesome restraint. But the best and most efficient means would be, of course, if we were to manifest our unwillingness to see too many people going into the manufacturing industries, in other words, if we were to make the conditions of husbandry so favorable that the German laborer of to-day could regard life in the country as a life worth living. We know that the excess of hands in the manufacturing industries is just about as great as the lack of labor in agriculture. We might perhaps succeed, if we tried, in getting things turned round, our efforts being directed toward the improvement of agricultural conditions in order that not so much labor should go into manufacturing industry. In any case, I consider it a very serious matter that, owing to the support lent by the banks, more labor should be employed in our manufactures than a careful survey of probable future conditions would lead us to believe could be employed permanently in them. You know that we have to reckon

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every day with the hostile measures aimed by foreign countries at our manufacturing industries. Every country nowadays closes its frontiers and makes itself as independent as possible of the industry of foreign countries. Every country, however remote it be or however undeveloped it be, is intent upon keeping its own market at the disposition of its own people. Whether we approve of this or deplore it is altogether indifferent; the fact remains what it is. We can not with impunity force our manufacturing industry above the level at which we can permanently maintain it.

Still another point, gentlemen. Are we not to apprehend, are we not, indeed, witnesses of the fact, that, as a concomitant of the artificial overfeeding of our industries by the great banks, our government securities, our national loans, are being neglected? This is at once a national and an economic misfortune, and the leading great banks, so called, could if they desired exert a powerful influence in the direction of a change for the better.

I believe I am able to perceive, gentlemen, that the banks nowadays no longer feel that they are servants of the public, but regard themselves rather as definite factors in what constitutes the interests of the public. More or less of what we heard yesterday has been toned down to-day, as, for example, the utterance of President Mommssen regarding the potential attitude of the Berlin "great banks" toward the check question. It produced an effect upon me yesterday like that of sheet lightning, pre-saging the temper that might some time or another show itself. You [turning to Mr. Mommssen] declared yesterday—at least so I understood you to say—that even if

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the Imperial Government and the Reichsbank lay great stress upon the enforcement of the law relating to checks in order, in the interest of the public, to diminish the circulation of cash, you would one fine day refuse to have anything to do with this kind of service; you would no longer participate in it if it was not convenient for you.

Mr. MOMMSEN. That is not exactly what I said.

Mr. RAAB. Well, that is how I understood it, and perhaps ten or twenty years from now comes a President Mommsen who no longer denies that what he meant was just that, and declares: "Now we are on top and we have no further concern for what you desire." Gentlemen, have not the great banks more than once thwarted the measures of the Reichsbank with respect to the private rate of discount, or rendered them nugatory? Yes, a time may come—and the indications are already present—when the great banks will practically be the masters for eleven and a half months of the year, and for half a month will set about in the most friendly way to make use of the Reichsbank as a rediscounter of their paper. They will go to the Reichsbank only in case of necessity and they will exploit it. When they are through they will turn their backs on it.

What we behold at present—something that fills us with anxiety and makes the dangers which some of us perceive so clearly appear still greater—is an extraordinary concentration in the domain of banking. Perhaps the banks are already much more closely connected by agreements of which the public has not been apprised than we are aware. Director Schinckel has told us that the movement in the direction of concentration has

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progressed much farther in England than in this country. It does exist here also, and I have a perfect right to assume that the great economic forces through whose action vast accumulations of capital have been brought together in England are becoming operative with us likewise. There will be a time, then, when we shall realize to its full extent what Count Kanitz and Herr Gontard have tried to impress upon us—the dependence of economic factors upon the favor and disfavor of our “bankocracy.” The more concentrated the huge masses of capital become, the closer will be the meshes for the individual who is struggling alone and who will no longer be able to get through them. As yet, so long as there is still a certain decentralization in our banking system, so long as the less important interests can still be cared for and protected by the numerous small banks, we are not so very much affected by what is taking place. But all the same there is concentration and more concentration.

A VOICE: And in the domain of industry, too.

Mr. RAAB. Quite right. And often this very thing is absolutely furthered by the banks. For it is not until industry lends itself to the financing of undertakings that our “great banks” or the larger banking institutions take any interest in it. Then a further interest is created, the consolidation of these industrial undertakings into combines, rings, or trusts. It is this that is being promoted, as, indeed, it is in the essence of the great banks that their policy shall be directed not toward the raising up of the little man but toward making the most out of the big concerns, those that have already become large, but which appear capable of still further development. I do not

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intend by any means to reproach the banks when I say this. Certainly no charge can be meant against the present bank managers. These are tendencies that they have got to obey, and if any head of a bank were to place himself in opposition to them, he would soon be supplanted by others who would be more ready to make allowance for such tendencies. Consequently no reproach is involved with respect to any individual; it is the tendency that we can not help noticing with a certain amount of uneasiness.

Now, gentlemen, when we hear it said that in the face of such a development, which, I am convinced, can not have a good ending, we have to stand by with hands completely tied, utterly without counsel, then I believe there is only one individual in our midst who could take pleasure in it. It would be Herr Singer, who is absent at this moment. [Sensation.] It is certainly very much in accordance, gentlemen, with the views which Herr Singer represents outside of this commission that the concentration of capital and of industrial undertakings should be welcomed as a step on the road to that goal which the friends of Herr Singer would regard as the hope of mankind.

It appears to me, indeed, very doubtful whether a further centralization in the domain of banking can be prevented. But if it is not possible, then the remark in the connection in which it came to our ears will be borne out. Then the question will never cease to be agitated as to how the public interest, in spite of, or on account of, the concentration in our banking system, can be half-way safe-guarded. Then we shall be obliged, even if as

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yet we are loth to do it, to give greater scope to our public activities, make our laws more effective, and institute a far-reaching supervision unless we are willing to see everything going to wreck and ruin. I hope, however, that we are not yet willing to let things reach such a pass. There will still remain another recourse to consider. If the opinion should prevail that governmental supervision, legal regulation, normative provisions, etc., are impracticable under the present organization of the banking system, then in the wake of these rejected demands there will ultimately emerge a much more far-reaching and radical demand—a demand for the nationalization, pure and simple, of our system of so-called great banks. You may rely upon it, gentlemen, the question is not going to be allowed to rest through lack of activity. Unearthing every possible objection to every proposition and pointing to the difficulties in the way of reforms—pretty much in the manner in which Herr Roland-Lücke has done—that is not going to kill the demand, for as time passes the consequences will become patent to an ever increasing number of people. If the “great bank” is to develop into a state within the state and to become all powerful in the state, we shall finally be driven to combat this influence with other means.

I shall be able to say something more on this subject when we come to the discussion of details; at present I shall not detain you. I wish, however, to thank Director Schinckel for his expressions, following close upon his wise utterance regarding the ten commandments for the banker. Such a rule of conduct is what we need. I trust it will be more and more effective: it can be effective, moreover, by

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the side of legal regulations. It is not necessary for us, and it will not do, to stake everything upon the keeping of these ten commandments, but they are nevertheless unquestionably of the utmost importance, and if every head of a bank had pondered over them and revolved them in his inner conscience, many of the anxieties which we experience to-day, would weigh more lightly upon us.

A few words still, gentlemen, in regard to Genossenschaften and savings institutions. The expressions of fear which I allowed myself concerning the credit banks with reference to their ultimate fusion into what we call "great banks," over which a central control may perhaps one day be exercised, do not apply to the Genossenschaften or to the savings institutions. These do not excite such apprehension in us. They do not serve for the purpose especially of overfeeding our *grande industrie* and they hardly ever lend themselves to the support of foreign interests. Consequently the Genossenschaften and savings institutions admit decidedly of a different treatment.

I shall beg leave still to discuss two questions which in reality are outside of the sphere of our deliberations. I am going to take issue with the statements of Count Kanitz after they have been reinforced by those of Director Schinckel, with reference to the movement in behalf of governmental action for social betterment. I say we have not been advancing with too quick a step in the furtherance of the aims of this agitation. We rejoice at what has been achieved and what has placed Germany at the head of all nations in this field. I regard our social legislation as one of the choicest leaves in our German crown of laurel, and, if I had my way, there would be no halting, no

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downright refusal to go on, in this sphere of our activity. There is one respect, however, in which Count Kanitz thought he could make these matters shed light upon the question that is before us. He affirmed that the burdens imposed by legislation in behalf of social betterment were an obstacle to the creation of capital. I believe that this proposition requires a very decided limitation, if, indeed, it contains anything that is sound. It is just the social-betterment laws that cause enormous sums of money to be heaped up together that otherwise would probably be scattered. Just think of the immense accumulations of the trade unions, of the companies insuring against disability, of the sickness-insurance funds, etc. Now, suppose the insurance laws had not been enacted; in that event this capital would not have come into existence. As it is, we see great accumulations of capital, which, it is true, are reserved for social purposes, but of which at all times a part representing an enormous sum will be stored up. I can not see that social-reform arrangements have been in the way of the creation of capital, and I do not believe, therefore, that in this respect they ought to give any occasion for concern. Another matter in respect to which Count Kanitz considers the social-reform institutions objectionable is that of the burden of taxation, which, he asserts, is rendered much heavier by them. What I believe is this, that we should be still worse off if we were without this legislation. As things are now, provision is made by means of the accumulation of funds for affording in case of sickness, accident, etc. Imagine the funds were not there—and they would not be there were it not for compulsory insurance—who would have to pay then? We can not

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allow the sick to go uncared for nor can we allow people to starve, and so the amount expended for the relief of the poor would grow so enormously that this alone would suffice to raise the tax rate. With respect then to the questions which we are here discussing, the matter of our social-betterment institutions will not bear exploitation in the sense in which Direktor Schinckel and Count Kanitz have imagined they could make something out of it.

There is still one more question. We are told we have too many officials. This complaint goes hand in hand with the complaint about excessive taxes. But to be sure, everything, as I have said before and as our every-day experience teaches us, is relative.

There are, of course, places here and there in the Government service where there is one employee too many, and there are some places where the officials are not obliged to work with all their might for the service of the State. But this is not the rule. On the contrary—and it is rather odd that just we should be called upon to say this, we who do not belong to the class of government officials—our officials here in Germany work with such strenuous zeal and devotion to duty as perhaps can not be matched in any country on the face of the globe. It is a fair question, of course, as to whether we have not here and there gone a little too far with our bureaucracy. Wherever we are able to find “one too many” we shall be ready to strike it out. There isn’t a single fanatic in the world who is crazy for more officials, and least of all among us, who can never get rid of our uncomfortable quality as taxpayers. But I can not see, gentlemen, that even if the taxes are increased some injury must necessarily ensue in every case

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to economic condition. What is the reason that taxation is constantly growing? Why do we need more officials? Because nearly every day we assign tasks to the public administration for which we have hitherto had to pay from our private purse. Here is a simple case. In small places the residents are obliged to keep the streets clean in front of their houses. Well and good; there is no need of street-cleaning officials. As the place grows the evidences of neglect become manifest and so a street-cleaning bureau is installed. All at once—that was our experience at the time in Hamburg—perhaps fifteen hundred additional officials and employees are needed. Well, it meant increased taxes; but what was the result? The private individual was no longer obliged to clean in front of his house; the public administration assumed the task. And I am sure that just through the concentration of this labor which before had to be performed individually the cost of the work was reduced. In many fields the transition from tasks assumed by individuals to work done by the government in performance of a public duty represents merely a crowning of the process of organization. We are always saying that cooperation cheapens the cost of production. Well, here we are cooperating in the largest field, the State, and by this means we often reduce the expenditure. It may be that every house-owner in Hamburg at present has to pay perhaps 1 mark or possibly 10 marks—if one could only reckon it out—for street cleaning; formerly it was perhaps 20 marks that he had to pay for his broom and bucket or for wages. Instead of swearing every time the taxes go up it would

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be much wiser to reflect on how much we get for our taxes. If every individual—let us imagine for a moment that there were no taxes—had to protect his house and his yard from external and internal enemies, if everybody were still obliged to go through the streets carrying a lantern with him, it would cost him a great deal more than what he pays in taxes now. Consequently when taxes are on the increase absolutely there is no evidence in this that we are any the worse off. It is likely that we have been saving money by the very circumstance of our having organized on a large scale the tasks which previously were a considerable burden to each individual.

I must thank you, gentlemen, for the kind manner in which you have listened to me. I have passed over a number of miscellaneous things that I have jotted down, but I believe you will be thankful to me for having done so.

Doctor LEXIS. I beg leave to make a brief remark, gentlemen. I believe Herr Schinckel misunderstood me when he declared that I was advocating the separation of the deposit banks from the general banks in Germany, adducing English conditions in support of my plea. I am very far from urging such a separation. What I said was this. In England, as a matter of course, a distinction is made between deposits subject to check and those that are not. But no one can tell in England any more than elsewhere which sum of money serves as a basis for checks and which sum is not to be applied to this purpose. It would be very desirable, in my opinion, that the system of payment by means of checks should—as we have reason to anticipate is going to happen—be

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further developed and that we should possess from the outset a certain amount of information regarding the question as to what part of the deposits of the outside moneys in the hands of the banks may be used for checks and what part is not available for that purpose. That is all I had to say.

Doctor SCHMIDT. The first question, gentlemen, the question as to whether the regulation of the whole matter is really in the interest of the public, has not been answered in the negative by anyone. Our president, his excellency Havenstein, has explained the reasons why it would be of advantage to the public. The vast sums that find their way to the savings institutions, the Genossenschaften, and the banks, and whose aggregate is far in excess of twenty billion marks, are indeed very diverse in their nature. A large amount represents movable working capital, which constitutes the lifeblood of the German industrial and economic organism. The large sum in the savings banks is, of course, to be distinguished from the deposits and other funds that are only in the temporary possession of the banking institutions. The money deposited in the savings institutions may practically be regarded for the most part in the light of a permanent deposit. For this reason there ought to be no objection to the investment of such funds in mortgages, a favorite form of investment with the communal savings institutions. The most important problem with respect to the interest of the public is how to prevent the large amount of working capital which accumulates in the treasuries of the agricultural credit associations and in the banking institutions from being diverted from its natural destination. The question as to

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the security of the various kinds of investments made by the banks has likewise been uniformly answered in the affirmative. The safety of the communal savings institutions is unquestioned, for back of them is the taxing power of the communes. The cooperative credit associations with limited and with unlimited liability have also given evidence of their ability to withstand storms, and the experts, who have an accurate knowledge of their condition, have unanimously declared that in the case of these credit associations likewise there is no question in regard to their security. In the case of the banks, in so far as they have a right to this designation—in the case of the joint stock banks, we shall say—no one has expressed any doubt about their safety. On the contrary, it has been generally admitted that their management, in particular that of the great banks, so called—likewise, however, that of the smaller institutions—does not lend itself to the least criticism in this respect, and that the security of the investments made by them can not be questioned. Among the exceptions that were mentioned here there is only one that might be regarded as belonging to the category of the great banks, namely, the Leipziger Bank, whose collapse was occasioned, however, by a gross violation of the penal code on the part of one of the managers, and which ultimately was able to pay its creditors as much as 70 per cent. The losses that have otherwise been sustained in connection with deposits of money belong to categories that have not been mentioned with reference to this question. Only banks, savings institutions, and cooperative credit association are being discussed. To these are to be added two other categories—private bankers, who may be

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considered as a body under the designation of "private bankers;" and the great number of business men who, along with their regular business, accept outside moneys that are tendered them for the sake of the interest. And it is just these cases, which would manage to escape all governmental inspection if such a thing were to be instituted, are the most dangerous. These are the ones where, if there is bankruptcy, the little man has most often to sustain loss. To make a distinction between the savings deposits and other outside moneys held by savings institutions, banks, and cooperative credit associations does not appear to me in reality feasible.

We have heard in the course of the discussion that a whole array of savings institutions have placed themselves in the category of banks and are doing a banking business on a large scale, that they are taking deposits of 20,000 marks and allowing interest on them from the date of deposit, and that by means of these very banking transactions have changed their status so as no longer to be classed among the small communal savings institutions. Altogether there is a decided inclination on the part of the savings institutions, of a large proportion of them at least, to emerge from the petty and narrow local business and it is proposed to make these banks a source of income to the commune. A characteristic feature of the savings institution is that when it collects the savings in its own district and invests them in mortgages in this district, usually keeping but a small reserve, its business can readily be supervised by the officials of the municipality or commune appointed for that purpose, whose services are for the most part rendered gratuitously. You will find

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that in the western districts of our province—and I believe I have heard the same thing relative to Holstein—the savings institutions insert two or three advertisements in every newspaper, saying such and such a bank pays 4 per cent interest on deposits, which may be sent in by means of postal drafts or on post-check account and which are absolutely safe. One can reckon also on the supervision of the savings institutions by the government officials in case the local officials are not sufficiently watchful.

The small private banks, judging by my limited experience, are multiplying at a great rate. In every city there is a whole string of big stores, furniture concerns, etc., which do a considerable banking business as an adjunct to their regular business by taking money on deposit at a very high rate of interest and making use of part of it in their business in the way of advances, etc. This is so general that cases have occurred like the following, which has come to my personal knowledge: A certain philanthropic association received two or three thousand marks as an endowment. The cashier of this association, who was a woman, took the 3,000 marks to one of these private bankers, who was to pay interest at the rate of 5 per cent. This action of the cashier was later disavowed and the money was withdrawn, to the great mortification of the lady, who could not bear to see it bringing only 4 per cent at the savings bank. Measures should be instituted for the protection of the common people, in regard to whom there has been so much talk, measures, which could consist, however, only in warnings and a better education of the people. What

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was said on this occasion, namely, that a high rate of interest is equivalent to poor security, appears to be in every way vouched for with reference to the banks, savings institutions, and cooperative credit associations which have been the subject of this discussion.

It appears to me utterly impracticable to separate the savings deposits and other outside moneys in the hands of the banks. It is impossible to say what character any such funds intrusted to the banks assumes. The matter would seem to be altogether indifferent, for deposits and savings are intended to remain for a considerable time, or for a long period, in the hands of the bank, and are therefore of much less moment in reality with reference to fluidity than the money that is placed in the banks in connection with accounts current and which, as a general thing, is withdrawable without notice. Among the account current creditors there is one class which is especially important with respect to our national economy—the foreign creditors. It is extremely gratifying that our banks, as we have repeatedly heard stated to-day, have received such large sums from foreign governments. But, in addition to these natural credit balances of the governments of other countries, large sums come from those countries to Germany in the way of a merely temporary investment, sent hither in consequence of the difference in the rate of interest of the one country—let us say, France—and the high rate paid in Germany. These sums often reach large dimensions and the money thus heaped up in our bank reservoirs are apt, in case of a crisis, to cause the greatest trouble. In a crisis such as we had at the close of 1907 people kept saying that the rate of exchange had

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been driven up to fantastic levels—I believe sight drafts on Paris were quoted at 81.80 and those on London at 20.60—by the withdrawal of the foreign credit balances. These credit balances are, therefore, of a kind which, in my opinion, demands much greater attention and undoubtedly receives much greater attention on the part of our bank managers than the credit balances of the regular and permanent customers at home, whether in connection with ordinary deposits or with checking accounts.

In the matter of fluidity—the second point set for discussion—the savings institutions are perhaps not fully up to the mark. In the case of the Genossenschaften we have heard it stated that they are rather deficient on the score of fluidity, but that this defect is remedied to some extent by means of the centralization in a central bank. These central banks can, if necessary, come to the assistance of the credit associations. In the case of the banks there is likewise a central bank which in the last resort has to lend its aid when the credit system is subjected to an inordinate strain. Reference has been repeatedly made here to the run which the Dresdner Bank had to withstand some years ago and which it withstood so well that the outcome furnishes a practical evidence of the fluidity of the bank. The run was weathered, as Doctor Ströll said, with the assistance of the Reichsbank. The expression was not intended to convey precisely this meaning, but what was meant was that it was withstood *by having recourse to the Reichsbank*. As a matter of fact, no particular assistance was rendered. Theoretical fluidity is something, indeed, that is not to be found anywhere, for you can not keep all your resources in the form

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of cash in your drawers. But there is such a thing as a practical fluidity, which consists in having on hand securities that can be turned into cash at any moment, that is, which may be sold, mortgaged, or discounted. That was not, properly speaking, actual assistance; it was merely that recourse was had to the Reichsbank, which was called upon for discounts and loans on collateral. There was nothing that could be called actual help; all that can be said is that conditions were so adjusted that the bank could withstand this run upon it. I am convinced that legislative supervision exercised over the banks would not achieve any special result, and that it would only lead to the worst consequences by inducing the public no longer to consider it necessary to try to ascertain for itself just how a bank is situated with respect to its ability to meet its liabilities, but to rely entirely upon governmental supervision. In the course of this whole discussion, as has repeatedly been pointed out to-day, not a single one of the speakers has dwelt upon or even referred to any kind of necessity which would make such a measure as governmental supervision at all desirable, and we ought consequently not to decide in the absence of a compelling reason to impose trammels upon our economic intercourse and the development of our industrial forces.

The charge has been brought against the banks that they are in an unjustifiable manner placing at the service of industry the savings that come to them from the entire range of our national economy, as well as the other resources intrusted to their management, and that they are consequently neglecting the interests of agriculture. The fact

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has already been stated here that agriculture is enabled to satisfy all its needs in the matter of credit to the fullest extent through the central bank of the credit associations (*Zentralgenóssenschaftskasse*), instituted with the aid of the Government, and if the banks are placing such extensive resources at the disposal of industry, the reason is that they find that they can invest the funds better and more profitably there than elsewhere. The heads of our existing industrial establishments are not a bit pleased that the banks, which are continually increasing the competition, are all the time promoting new industrial enterprises. ["Very true."] The activity of the banks is not prompted by our industries, such as they are, at any particular moment, but is the result of increasing industrial prosperity. Herr Raab thought it was best that we should confine ourselves to our own country, and that our industry should not be so intent upon a foreign market. Count Kanitz said he believed that the principal danger confronting us was the introduction of protective duties in England, and Herr Schinckel was of opinion that the preferential duties in the colonies were still more of a menace. Unfortunately such differentiation exists already. German imports into Canada pay $33\frac{1}{3}$ per cent more duty than English imports; those into the Australian colonies, 5 per cent more; and those into New Zealand, 20 per cent more. What the English colonies are intent upon is that when England introduces a protective tariff she shall institute a duty on wheat, as well as on other grains, and a corresponding duty on meat—in short, duties on foodstuffs—in order that she may be able to offer to her own colonies^s which produce

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grain and meat, by means of drawbacks, an equivalent with respect to foreign countries. At present, inasmuch as there is no duty on wheat in England, the mother country is unable to offer Canada an equivalent for the 25 per cent differential which England enjoys in Canada. In order that this might be done, it would be necessary first to introduce a duty on corn in England, making the rate for Canadian wheat lower than that for Argentinian. This is the object aimed at. It would hurt our German agriculture, as we export a good deal of grain to England.

I would say in reply to Herr Raab that German agriculture is not capable of supporting the present population of Germany. We are obliged to import grain from abroad in order to feed our existing population; and in order to get the grain it is necessary for us to export the products of our manufacturing and extractive industries. But our industry understands full well the solidarity existing between the various branches of production, and it desires nothing more fervently than this solidarity. It knows that the basis of a prosperous manufacturing industry is a prosperous agriculture. Some one here has quoted the words of Adam Smith: "The best market is the home market." We find that whenever we have a good harvest our manufacturing industry thrives. If we have a poor harvest, it suffers as a result of it. In the endeavor to increase the gross returns of agriculture by means of intensive labor, our manufacturing and extractive industries cooperate in no small measure. They not only supply better implements, but they afford agriculture the means of increasing its product by furnishing the potash, which they produce; the nitrogen and sulphate of ammonia, which they extract

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from coal; and the phosphoric acid, which is obtained from the slag in their steel works. Here, then, we find likewise a manifestation of that solidarity between agriculture and industry which the latter has always cherished.

Industry would have no interest in the starting of new undertakings by the banks, but that is no reason for finding fault with the banks. The numerous shafts that have been sunk in order to obtain potash have not been sunk by the banks, but it was wealthy individuals who had nothing to do with banking, or associations of such people, who set about to establish mines. When they had expended a million or more in the work of construction, they found they had used up their money and they went to the banks for more.

Some one here brought this charge against nonagricultural industry that through its inordinate expansion it excites crises, which are vastly more serious than other crises, inasmuch as a hundred thousand workingmen are thereby reduced to destitution. In this arraignment a circumstance that was made by the speaker to serve as an indictment of nonagricultural industry, the fact of its employing so many foreign laborers, is in reality an excellent palliative. In the southwestern industrial field especially, in the angle formed by Luxemburg, Belgium, France, and Lorraine, where the iron industry in particular has reached such extraordinary dimensions, a vast number of foreign laborers are employed. I am not aware that any precise statistical data have been prepared relative to this matter. Such statistical information is usually compiled in the winter and many of these laborers are such as work only during the season, being Italians, who

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depart in the winter. I think 500,000 is a fair estimate of the number; it is probably larger. In case of a very acute spell of unemployment—not the kind that is manifested in the number of men without work who parade the streets of Berlin and Cologne in the winter, because they refused to work in summer, a class that has not to be considered at all—in case there should be such a crisis, induced by the necessity of discharging a large number of laborers at our mines and smelting works, then the 100,000 foreigners might be dismissed first.

President HAVENSTEIN. Six hundred thousand.

Doctor SCHMIDT. Which would be equivalent in a way to a sort of reserve, an insurance against unemployment for the German workingman.

After all I have heard nothing has really been said calculated to excite doubts as to the general security and fluidity of the outside moneys in the hands of our banks. The remark has been made, however, that the ultimate reserve of the banks is the Reichsbank, and it would perhaps be worth while to consider whether the Reichsbank, which has so much influence over the banks in the whole country and which is in a position to supervise the activity of the banks in every city, might not constitute a much more efficient supervisory agent than would a government commissary. The Reichsbank, which exercises a great influence over the banks in Berlin, just as it does elsewhere, and is thoroughly posted in regard to banking conditions in every part of our country, could, as it undoubtedly does already, discharge this function of supervising the banks and enter into arrangements with them by which, in the event of an industrial

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crisis or an unusual stringency in the money market, certain reserves might be drawn upon that had been previously set aside pursuant to an understanding with the Reichsbank.

The criticism has been heard here that on an average the amount of cash in the banks is rather too small with respect to the aggregate of demand liabilities. The Reichsbank will be best qualified to judge of this and will, perhaps without undertaking the job of getting up an A B C or vade mecum of the bank director, as Herr Schinckel suggested, be able to make some sort of an arrangement, consisting perhaps in what to me has always seemed necessary, the enlargement of the stock of gold in its vaults, which, we know, constitutes the basis of the entire strength of the Reichsbank. In this respect there is much that has to be done, and I have no doubt that through the cooperation of the Reichsbank and the larger banking institutions—the aggregate of the outside moneys in the hands of 44 of them amounts to eight and a half billions—it will be practicable to establish a reserve which would enable the Reichsbank to tide over any crisis without difficulty. This, it appears to me, is what can most readily and effectively be done in the matter of insuring the fluidity of the outside moneys.

Mr. FISCHER. The large fraction—to me a surprisingly large fraction—of the national wealth that is set aside in the way of savings and deposits makes it extremely desirable in my opinion that everything should be done to insure the safety and fluidity of these savings and deposits, and that measures should be contrived in order to guarantee them in a measure or to place them on a

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better footing. But the clamor for a more extended exercise of the police power and for legal regulations has, on the whole, had so little to show for itself thus far in the results that have followed in the domain of finance and currency and in that of trade that I think we ought to have recourse to them only in case of absolute necessity and to abstain from legislative enactments as far as possible, by which I do not mean to say that as a last resort, if nothing else avails, we may not invoke these agencies.

My experience has taught be likewise that in the case of the savings institutions—I refer only to actual savings banks, properly so called, that is to say, to institutions controlled by the Government, the district, or the commune—the security, and I may also say the fluidity of the savings, is amply provided for, especially wherever, as with us throughout South Germany, and in Württemberg in particular, the savings are deposited with the understanding that they are not payable on demand but only after notice of withdrawal, the time specified being three days, a week, two weeks, up to four weeks, depending upon the amount. I am sure that without having recourse to actual legislative measures, merely by decree of the supervisory authorities—perhaps of the individual States of the Empire—it is quite practicable in cases where savings banks have transgressed their proper sphere and have strayed off into other business to apply an effectual remedy. There is no necessity at any rate of invoking imperial legislation.

It is otherwise, judging from my experience and as I understand the matter, with the banks, the bankers,

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and the cooperative credit associations. I believe I am altogether justified in expressing myself from the standpoint of the provinces, as this has not been done hitherto to any extent. We in the provinces can not indulge in the golden optimism which has characterized the utterances of nearly all the speakers thus far and led them to say that in the case of the banks, bankers, and Genossenschaften there is absolutely no danger in regard to the security and fluidity of the deposits, etc. We can not believe this, because we ourselves have witnessed the collapse of banking houses and because we remember the serious conditions that made themselves manifest in South Germany, especially in Württemberg, at the close of the seventies in the case of nearly all the artisans' banks, which in the years of prosperity had wandered off far beyond their legitimate sphere. We in the South in the provinces, speaking for the man of small means and of the class just above that, suffer from the utter absence of an arrangement that would afford such people the security of a savings bank whenever they are in a position to invest temporarily a sum which they do not need for the time being that is in excess of the maximum amount taken by the savings institutions. In the section that I represent the savings banks do not accept more than 5,000 marks, which I consider perfectly proper; but even if a savings bank is willing to take 10,000 marks as the maximum from an individual depositor, it will still happen that a man of moderate means or one not so well off will occasionally have 10,000 marks that he would like to invest temporarily, and for such a person no provision is made in our part of the country. I doubt

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not that such provision is adequately made in the great cities and where everything is on a large scale, but in the provinces and where things are on a small scale, as is the case with us, some suitable arrangement is badly needed. I am sure, however, that a better remedy for this can be found than a resort to legislation. A very simple way out of it, it seems to me, would be to have the Reichsbank take interest-bearing deposits. From the tenor of our discussions it does not appear, however, that there is any prospect of this being done, although arguments could be adduced in favor of the acceptance of such deposits by the Reichsbank. Such being the case, the obvious and practicable expedient might at least be adopted of the payment of interest in the post-check system. Anybody desirous of investing such deposits in an absolutely safe way would thereby be afforded an opportunity of doing so, and the bankers and Genossenschaften would suffer very little in consequence, inasmuch as the post-office and the Reichsbank as well, or a deposit institution connected with the Reichsbank, could never allow such a high rate of interest as a banker is usually able to pay. There would therefore not be such disturbance in the business of the banks as some persons have feared, and the demand for a safe place of deposit will have been met.

Should this likewise not prove feasible, I am persuaded that there is still another sure way, and this would be the institution of legally protected deposits, which in case of proceedings in bankruptcy would represent preferred claims I am convinced that there would not be much injury to anyone by reason of such an arrangement, for a great

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many depositors and bankers would not bother themselves with these legally protected deposits, for the reason that they would find it hard to come to terms regarding everything connected with them. The perplexity of the question as to what is "deposits" could at any rate be most easily disposed of by specifying that that constitutes "deposits" which the depositor and the taker of deposits designate as "deposits to be legally protected," and which in simple printed forms and books is declared to be such. The deposits would be invested by law with preference in case of bankruptcy with respect to other liabilities, and the whole thing would not be very different with reference to the principle involved from what we have had all along in the case of mortgages. That it would not be all clear sailing and that there would be various disadvantages and inconveniences is certain, but it would be a simple way, a possibility which I think is worth discussing, and to which others have already adverted.

It is not for me to dwell upon the other aspects, broader and more important, of the subject we are considering, inasmuch as there are men in this commission specially qualified to deal with them. I must say, however, that, on the whole, I am of opinion that it would be a great gain if the discussions of this inquiry commission would have the result of somewhat slackening the pace at which the development of our industries and business is being pushed. We are looking back at a period of development extending through a space of nearly forty years—and I trust it is not the end—in which the industry, trade, and wealth of Germany have progressed at an unparalleled

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rate. It does not, however, appear absolutely certain that this is to go on forever in the future, and if you consider that during all this time we have not had a single great, protracted, and, above all, disastrous war nor any really serious crisis or economic cataclysm, but at most small setbacks, and that all this may be yet in store for us, then the optimism which would have us believe that the security and fluidity of the savings and deposits in the hands of all our banks, bankers, and Genossenschaften are absolutely and under all circumstances above any doubt, ought to be regarded with some suspicion.

Doctor WACHLER. I am going to beg you, Mr. President, to allow me to begin to-morrow morning.

The CHAIRMAN. In that case I shall close the session and ask the members to be present again at 10 o'clock in the morning.

(Close of session, 6.18 p. m.)

Thursday, November 25, 1909—10.30 a. m.

CHAIRMAN, WIRKLICHER GEHEIMER RAT HAVENSTEIN, PRESIDENT OF THE REICHSBANK DIRCKTORIUM. I hereby declare the session opened. Oberbergrat Wachler has the floor.

DOCTOR WACHLER. It is not my intention, gentlemen, to discuss the great industrial and economic problem in any thorough-going manner, else we should probably never get through. In regard to some points I hold fundamentally the same views as Doctor Wagner, but in regard to various other points I differ very materially from him. But even in those matters in regard to which we are fundamentally in accord, my convictions will not allow me to accept the implications that he has drawn from his theories and which he propounded to us yesterday.

In regard to one point, gentlemen, I can say that Doctor Wagner is absolutely right, and that is when he insists that our present economic condition essentially reflects the exaggerated demands of our everyday existence, its eccentricities, and especially the love of pleasure that characterizes it. It appears to me, however, that the restriction of these factors could least of all be accomplished by restricting the activity of the banks and checking our industrial undertakings. I believe that this ought to be done by altogether different methods and that various other factors are responsible, factors which Doctor Wagner himself, if he chose, would be able to influence. The theories of our professors of political

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economy, as well as the attitude of our newspapers, and, furthermore, the attitude of our parliamentary bodies, all have the ultimate effect, it seems to me, of enhancing the demands of our daily life. I believe, indeed, that as a result of the teachings which a certain school of economists cherish and disseminate, and in a still greater degree, owing to the behavior of our legislatures, the seeking after pleasure and the demand for a higher scale of living are inordinately increased. An immense amount of mischief has been done of late by the speeches of legislators addressed to the crowd and by the pressure brought upon the Government to spend money where it has no inclination whatever to do so. I consider this a very serious matter with reference to the attitude that Parliament ought to maintain toward the Government.

But what I want to say is this: These conditions have to be combated on an entirely different ground, and in reality do not enter into the scope of our discussion. ["Very true."] Reference has rather cleverly been made to the connection between these conditions and the organization of our credit system. I consider this not to the point, and in so far as those who conduct our industries are charged with not paying heed to the needs manifested in our national economy it is altogether false. I know full well that workingmen's insurance, in fact, the whole system of insurance, was welcomed by our industry, which gladly bore the burdens that insurance imposed upon it. But what our industry regards with aversion—and here I must say Count Kanitz is perfectly right—is the excessive haste with which we are dushing ahead on the new path. It asks that, having

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struck out on this new path, we shall carefully note the effects that this legislation actually produces. That it has led to some evils no one will deny. The craving for income in the shape of annuities, and the securing of such income in an underhand way, of which so much evidence has been afforded of late, are further indications of the fact that this legislation has had the effect of weakening somewhat the desire for hard work and of increasing the pleasure-seeking propensities.

It is asserted that the banks have caused mischief by being too liberal with their credit, and that, in particular, they have gone too far in promoting industrial undertakings. Gentlemen, I agree with those who affirm—and I think Herr Roland-Lücke has expressed it very appropriately—that our industry has every incentive to proceed cautiously in its operations, and I believe that our banks have reason not to be overgenerous in granting credit to industrial concerns, but to go ahead with the utmost caution. I even believe that the banks, out of consideration for the possibility of our having to face untoward conditions, ought to make up their minds to adopt a policy of extreme caution in the matter of their credit dealings, not merely with reference to industry, but in general. I am not aware, however, that any special instance has been pointed out where the overstepping of the legitimate bounds in the granting of credit, with which our banks have been charged, particularly in connection with industrial undertakings, actually took place. I do not know whether those gentlemen who have been speaking of the interdependence of industry and the banks mean to say that industry is dependent

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on the banks or whether the banks are dependent on industry. It would be hard to find any index as to the nature of this interrelationship. It is affirmed, however, that our industries are too dependent on the banks, and that the banks, in a measure, lend to our industries their expansive power. Let me call your attention to a particular instance—to the annual statement, just published, of the General Electric Company. This concern has sixty millions in cash in the banks. It seems to me in this case, therefore, that the banks ought rather to be considered as dependent on our industries.

If our industries have recourse to the banks for credit, and the banks furnish it, that is not necessarily expansion. It is rather in the nature of betterment, or improvement, which, as far as I know, never ceases in the industrial field. You must bear in mind that our industry has just in recent times made immense strides; that the frequently antiquated inventions of our engineers, chemists, etc., have constantly to be replaced in an interval of from five to ten years, and that relatively new arrangements, which perhaps were introduced only five years ago, are already in need of improvements; and that our manufacturers and other producers are always careful to ask themselves the question as to whether the fresh outlay of money necessitated by the particular improvements will, from an economic standpoint, be in reality a paying investment or not. It is, of course, possible to make mistakes, but if our industries, in order to remain abreast of the times and to be able to hold their own against foreign competition, make the outlays that are required, no one has a right to say that this is a factitious and

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overhasty expansion. I myself am of opinion that industry has ten commandants in the way Herr Schinckel said the bankers ought to have ten commandants.

Broadly speaking, industry ought to make all these improvements out of its own resources—out of its own savings—and not by means of credits. And, as a matter of fact, most of the great industrial concerns act in accordance with this principle, a consequence of which policy is that they get into a delicate position with respect to the public, the shareholders, and the critics of the press, who are continually attacking the policy of hoarding up—the withholding of dividends without assigning any obvious reason for doing so—and complaining that the shareholders are not getting what the company has earned within the year, while the company, intent on pursuing a safe policy, finds it necessary to provide itself with funds with reference to the improvements. At the same time, it can not be denied that it often becomes necessary to get rid of antiquated arrangements and to replace them with better and more economical ones, even if it be necessary to have recourse to bank credits in order to accomplish this.

Now, it is proposed to make it more difficult for the banks to afford credit by depriving them in one way or another of part of those resources that are convertible into working capital. It is this sort of resources that we are discussing, and in particular a special kind of working capital that the banks have at their disposal, consisting of so-called deposits and other outside moneys. It is proposed to tie up absolutely a certain percentage of the outside moneys, and to compel the banks to lower the rate of

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interest allowed to their depositors either by simply making it obligatory upon them to reduce the rate or by withdrawing from them part of the resources for which they find a profitable investment, which, of course, would make it necessary for them to fix upon a lower rate of interest on what remains than the rate they could afford to pay if they were permitted to utilize the full amount.

I am surprised, gentlemen, that a person like Doctor Wagner should be an advocate of such a scheme, for I consider it a mistaken policy not to utilize the funds that are on hand, and to tie them up as a minimum reserve yielding no interest, or to utilize them with the allowance of a minimum rate of interest. I believe that as a general thing it is the proper policy to get as large a profit as possible from the resources at our disposal, and it is the banks themselves that are generally credited with having rendered a great service by their successful efforts in the way of placing at the disposal of the business world so much capital and so much gold that was lying idle in the hands of individuals. If we mean to adopt the policy of tying up in one way or another a part of the deposits or of making the rate of interest as low as possible, or if it is our purpose to compel the banks somehow not to allow more than a low rate of interest, we shall, as Herr Schinckel stated yesterday, find it practically impossible to give effect to the normative provisions relative to the banks, or else we shall have to allow sufficient latitude with respect to the norms thus imposed to prevent the restrictions from becoming mischievous, in which case there would be nothing gained in trying to restrict the activity of the banks. I must repeat that it does not

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enter my mind for a moment to advocate the granting of excessive credit or to urge an incautious policy on the part of the banks. I am altogether in favor, as I remarked before, of moderation and restriction, but our experience has been such that during the whole period that has passed under our observation, that is more than a generation, there has not been a single instance of one of our German banks—outside of the two that were wrecked as a result of dishonest operations—having managed its affairs so poorly as to necessitate its being placed under tutelage.

Now, for the other side. Suppose the banks were actually compelled by some means or another to fix upon a lower rate of interest, would the results be such as the gentlemen, who are advocating this policy, anticipate? They expect that the public will be satisfied with this lower rate of interest and will bring its deposits to the Reichsbank or the Seehandlung or whatever institution you choose, in order that they may be thus more advantageously utilized with reference to the needs of our national economy. We have heard it stated yesterday that in certain border districts the depositors, if they find they can not get the rate of interest which they want in their own commune, go to the savings banks in the adjoining foreign country.

I mentioned at the outset, gentlemen, that the longing for a higher scale of living and the inordinate craving for pleasure, in short, the greater demands that are generally made nowadays on existence, lead not merely frivolous people, but persons of judgment and foresight to try to squeeze a higher rate of interest out of the little capital that they possess. It is this endeavor and not any

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influence exerted by our banks inimical to government obligations that has contributed to the drop in the price of imperial securities. The banks have, as a matter of fact, at all times taken up the government loans and floated them, but the public afterwards suffered loss through the taking up of these loans and for that reason it gave up investing its savings in government securities.

Those of you gentlemen who are practical business men will agree with me that there is nothing remarkable in this phenomenon. I myself have at the present time relations with credit banks and have a share in the management of insurance companies and mortgage banks, and my experience has been that for the last six months or so the public has been getting the means for the purchase of industrial stocks, not by obtaining credit at the banks, but through the sale of bonds, mortgage debentures, consols, etc. Can we find fault with these people when we see ourselves that in these six months a number of the industrial stocks, not rotten speculative stocks, but pretty good stocks, have advanced 40, 50, and even 60 per cent? I have myself something like a practice as a consulting banker, and many of my acquaintances come at frequent intervals to me, especially people of small means, who manage to lay aside something out of their scanty incomes for the future, begging me to tell them how they can invest their savings so as to get more than 4 per cent, as they find it very difficult to make ends meet with such a low rate of interest.

These people, gentlemen, are not a bit inclined to speculate, but they are unable to defray their living expenses, which have been rising, out of the means at

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their disposal, and they are consequently anxious to get hold, if not of speculative stocks, at any rate of some respectable securities that will yield them at least 5 per cent, and there is a whole array of industrial stocks of this kind which are absolutely safe. That is the reason why people don't care for mortgage debentures and government bonds.

Count Kanitz complained yesterday that it was an unheard-of state of affairs that agriculture should be getting only 91 per cent for $3\frac{1}{2}$ per cent debentures. They are quoted at 92 and 93 per cent, which is equivalent to the payment of $3\frac{3}{4}$ per cent interest. Can anyone nowadays, indeed, ask for a lower rate of interest on money lent on mortgage than $3\frac{3}{4}$ per cent? I can not see how anybody has a right to expect anything of the kind under existing conditions. I recollect a time, of course—I was then at the head of a bank—when $3\frac{1}{2}$ mortgage debentures were above par. I was at that time the manager of the Association of Silesian Banks, and it was not only the banks, but also the central institutions of the agricultural credit associations (*Landschaften*) that were engaged in the conversion of the 4 per cent mortgage debentures, which were then above par, into $3\frac{1}{2}$ per cent debentures. At that time even the $3\frac{1}{2}$ per cent mortgage debentures fetched something above par, so that to the owners of landed estates the conversion was a profitable transaction, while the holders of the 4 per cent debentures, who only got par in the conversion, lost the amount of the premium, so that they felt a little sick over their investments. This was in the years 1887-1889. At that time I cautioned the owners of property with whom I was acquainted not to force the

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conversion, but who could find fault with the people for wishing to convert 4 per cent obligations into 3½ per cent obligations, in which operation they even got something into the bargain out of the premium on the 3½ per cent debentures? All this, however, had the effect of rendering the public very skeptical in regard to mortgage debentures, and I believe that when once the stream of money which represents the capital of the common people has been turned aside in some new direction it gets to be a very difficult matter, unless some very unusual inducements are offered, to bring it back into the old channels. This ought, however, to serve as a warning to proceed cautiously with such measures as are intended to effect a sort of compulsory reduction in the rate of interest allowed on capital that has assumed the form of deposits.

I am, therefore, of opinion, gentlemen, that if the banks are compelled by any regulations that we may contrive to introduce a lower rate of interest on deposits, we shall not succeed thereby in inducing people to invest their deposits in consols, government loans, or other similar obligations. This could be accomplished only through the education of the public and it can and will be accomplished only when the prices of speculative stocks, shares, and industrial securities decline. When the public, which just now is making money by the purchase of stocks through the advance in their prices, will have realized through experience that it is exposed to losses in a still greater measure through a decline in stocks, then it will turn once more to investments that yield an assured rate of interest and where the fluctuations in price are slight and there will consequently be a greater demand for

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government obligations, mortgage debentures, etc., while at present the efflux or sale of bonds is still on the increase.

It is a matter of regret to me, gentlemen, that Herr Raab should have referred again yesterday in especially acrimonious terms to the difference between agricultural credit and industrial credit and to the discrimination manifested by the banks with respect to them. It is only a very perverted view that can make a person imagine that the credit banks are not inclined to grant credit to the agriculturists in so far as they are in need of it and to grant it under the same conditions, of course, as would obtain in the case of any other class of applicants. I can assure you that the Association of Silesian Banks, of which I was the manager for nearly ten years, was particularly anxious to do business with agriculturists and agricultural concerns. Such a thing would in reality be impossible as the banks being disinclined on principle to grant credit to the owners of land. But on the other hand, it is easy to understand that it is not the business of the banks to be running after agriculturists and to be overanxious to cater to the wants of agricultural credit. Neither is agricultural credit particularly in need of it. What other branch of human activity is there that has so many and such efficient credit institutions as agriculture? The entire demand for credit based upon the security of landed property is met by the excellent agricultural credit associations, the *Landschaften*, which, so far from my being opposed to them—I was myself for a long time a syndic of one of these *Landschaften*—I consider extremely beneficial. They fully satisfy such needs and in the cheapest manner. Then why should the credit banks be expected to go heavily

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into the business of loaning money on mortgage to agriculturists? The agriculturists have, besides, various kinds of loan banks and their cooperative credit associations (Genossenschaften), which fully suffice to meet the current needs of agriculturists in the way of credit. The banks can not think, therefore, of applying an especially large sum of money to the particular needs of agricultural credit, and I consider it a great mistake to call the banks to account for this, to bring it up every little while, and to keep repeating that the banks and industry are hostile to agriculture.

The mistake is all the greater when people assert that our nonagricultural industries inflict direct injury upon the country by employing an enormous number of foreign workmen. Yes, gentlemen, but is not agriculture doing precisely the same thing, and is not Herr Raab aware that industry, at least the mining industry of Upper Silesia—I am not in a position to say anything about the other provinces—can only obtain foreign laborers through the Central Agricultural Bureau. The Central Agricultural Bureau alone is authorized to make out papers for foreigners who are to be employed as laborers in Silesia. To charge industry with employing foreign laborers and to denounce it on that account as unpatriotic in its tendencies I think is altogether senseless and I thought I would take this opportunity of protesting emphatically against it.

The assertion was likewise made, and in particular, I believe, by Herr Raab, that the export industry is extremely harmful. I should not care to dwell upon this matter, inasmuch as I believe this view is unfortunately

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shared by all kinds of people, and the moment an individual entertains the notion that our industries ought to cater only to the domestic market and not to be permitted to extend their sphere beyond it, there is simply no use in arguing with him. There is every reason for our desiring an export business and we need it especially for cheapening our productive processes and in order better to satisfy the needs of consumption.

I should like to say, furthermore, that the attitude of our industries has never been inimical to agrarian interests. In the tariff discussions in 1892 an understanding was arrived at between the representatives of our industries and those of agriculture to the effect that the tariff should be shaped in accordance with the scheme that had been introduced in the Reichstag. Which side was it that broke this agreement? Industry kept its pledge strictly, while the agrarian interest at the last moment—it was Herr von Kardorff, who was at the time one of its representatives—threw out that part of the tariff which concerned the branch of manufacture that needed protection most, the construction of machines, which was endangered more than any other manufacturing industry by American competition, and it is agriculture that has always given the preference to the poorer American machines, as long as they were cheaper, over the more carefully constructed domestic machines.

I have expressed my opposition to the interference of legislation with the principles, methods, and organization of our deposit and credit banks merely because I am convinced that laws and rigidly laid down norms can only do harm and that such norms can never be so formulated

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as to be of any use or capable of being enforced. Herr Roland-Lücke adduced several illustrations yesterday to show that the scheme, theoretically so well conceived, of dividing the money placed in the banks into deposits and savings is practically almost worthless and in any case hardly feasible. But it is not my purpose to dwell upon this subject. There is another matter, however, to which I should like to refer once more. I consider it eminently wise—and therefore I concur altogether with the various expressions that we have heard to this purport—that in every branch of banking and in all the activities of our industry we should observe moderation and never lose sight of the fact that there is such a thing as hard times, which may come sooner or later. Such moderation need not, of course, go so far that in our everyday arrangements we should constantly be making provision against possible crises. That would not do; it would be a sheer impossibility. I am gratified to find, however, from the statistical tables submitted to us that in the matter of the ready convertibility of resources into cash, with reference to ordinary conditions—it is only for such conditions that we can provide, and then we must make ample provision—all necessary precautions have been observed. I do not object to seeing every means employed, capable of influencing the public, that shall give effect to this admonition in the direction of moderation and restraint, excepting legislative interference.

In this expression of my opposition to legislative measures, this negative attitude which I assume is not an absolutely negative one; I can not be accused of doing nothing more than criticising and saying that we had better not

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do anything in this matter. No, gentlemen, I am only warning you against such measures as I consider harmful. I have been speaking of the influence of public opinion, but I have been thinking also of the influence of the Reichsbank. The Reichsbank, with its numerous main and secondary offices and the committees constituted in connection with these offices, is capable of exerting a far-reaching and effective influence in the matter of regulating the granting of credit, and I declare myself to be heartily in favor of such regulation, but I do protest most emphatically against legislative regulation, and I must add that I can not recognize the force of the arguments adduced by Doctor Wagner yesterday in support of such regulation.

There is one matter still to which I should like to refer. The question was asked yesterday—I believe it was Doctor Wagner who put it, and Herr Raab spoke to the same effect—Why not have a bureau of supervision in connection with the banking system? I myself mentioned in my first statements, which I had the honor to address to you two days ago, that the notions in regard to economic conditions had changed materially in the course of the last thirty years. I laid stress upon the fact that the former notions regarding the untrammelled activity of the individual producers had been supplanted by a demand for a complete public control over every species of industrial activity. On the other hand, I called attention to the fact that this unhindered activity, which was allowed free scope for about forty years, had shown splendid results, which are still before our eyes, and that we can not be sure that the guardianship or supervision on the part of the

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Government which it is proposed to introduce everywhere will exhibit in like manner the beneficent results that people anticipate.

Someone remarked further that, as we have already bureaus of supervision in connection with insurance companies and mortgage banks, there is no sense in stopping short right there. Regarding this I have already expressed my opinion to the effect that there is in reality a technical and juridical consideration that impels us to stop short just at this point. The insurance companies and mortgage banks are unlike banks of credit in that their business is conducted on an entirely different basis and that they occupy a sort of privileged position with respect to their relations with the Government, inasmuch as the mortgage banks are allowed to issue debentures, something interdicted to the banks of credit, and the insurance companies are allowed to accept money for which a return is to be made under certain conditions after the lapse of an indeterminate number of years.

If, therefore, these technical considerations seem to justify governmental supervision in the case of mortgage banks and insurance companies, we have no right to infer therefrom that we might as well take a further step, as a logical sequence, and place the credit banks under a bureau of supervision. But above all, I must beg you, gentlemen, to try to draw evidence from your own notion of the benefit that has resulted from this governmental supervision in the case of mortgage banks and insurance companies. Such supervision, in the case of the insurance companies, as is clearly shown by several instances of which I have heard, but into the details of which it is

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needless for me to enter at this moment, has even come down to a sort of petty pedantry. Nor have we been able to observe thus far the least advantage in regard to the mortgage banks, and the best thing about governmental supervision has been that it has refrained as far as possible from making itself felt. As a matter of fact, it has hardly been exercised to any extent and has usually been restricted to the presence of the government commissary at the meeting of the supervisory council. Where the activity of the mortgage banks was permitted to remain undisturbed, these institutions fared best. We have seen, indeed, in the case of the collapse of two mortgage banks which were under state supervision, that this supervision did not avail in the least. It was remarked that these two mortgage banks, which were sister institutions, loaned money in very large measure on vacant property and parcels of land that could not be made to yield anything. One of these institutions, when it was about to get its debentures listed on the exchange, made a trade with the other, exchanging its building-lot mortgages for house mortgages, so that the debentures that were about to be issued appeared to be well secured. When the listing of the debentures of the one bank had thus been effected, this bank exchanged its house mortgages for the building-lot mortgages of the other, so that the latter was now also able to show that it had house mortgages as the basis for the issue of its debentures, and in this way succeeded in having them listed. All these operations could be carried on in spite of governmental inspection, but, of course, it wasn't long before the two mortgage banks closed their doors. Such, gentlemen,

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was the result of state supervision viewed negatively. As to its results in a positive sense, I have never seen any.

I believe, therefore, gentlemen, that you will have to come to the conclusion that state supervision even in the case of such kinds of business as really call for supervision is of hardly any use. The belief in governmental supervision involves the notion that it is the government official who is all-wise, while just recently a strong desire has been expressed to allow the business spirit and the business man to exert their influence in the sphere of administration. This is a contradiction that ought to give occasion to very serious reflection and which should induce those men who from their high vantage point exert such an extraordinary influence on our whole economic life to consider carefully whether it is really likely to be in the interest of the public welfare to proceed so vehemently with the scheme of governmental regulation of the business of the credit banks. I am convinced that this is not the case, and therefore I must admonish once more in the most urgent manner against a resort to legislation.

Doctor RIESSER. Gentlemen, I wish first of all to take the liberty of handing you my written opinion. I beg those members who may not yet be in receipt of it to get a copy from me. I should like to avoid having to go over all the particulars in this very detailed opinion. My written opinion covers the same ground as the section devoted to the question of deposits in the third edition, about to be published, of my work on the history of the development of the great banks. I have supplemented and rewritten this section with reference to the latest

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publications and the expert testimony that we have heard, and I trust that this written opinion, in spite of the fact that at the time I was recasting it the question sheet was, of course, not yet at my service, will be found to deal with every point submitted to us. I shall therefore confine myself to the observations which I am prompted to make with reference to what has been said thus far in the discussions of this commission, in which I have not yet had the floor. I should like above all to reply to the statements of my esteemed neighbor, Doctor Wagner, who was absent yesterday afternoon, for which reason I requested our president to allow me to defer my speaking until this morning, when it was to be expected that Doctor Wagner would be present, which, I am glad to see, is the case.

If I consider it quite necessary, gentlemen, to say a few words in the way of an exposition of my views in response to the views expressed by his excellency, Doctor Wagner, whom I shall take the liberty henceforth, for the sake of brevity, of calling by the name which his eminence as a scholar has rendered so famous—Adolph Wagner—it is not necessary for me to assure you first that the criticism which I consider it my duty to make will not detract in the least from the great and deep veneration which I entertain for the man whose firm and earnest advocacy of his convictions, especially as it has been evinced in the recent discussions, affects everyone anew with a deep feeling of sympathy [applause] and awakes in my bosom particularly a responsive echo. Nor is it necessary for me to say a word regarding the imperishable distinction that Adolph Wagner has won in a broad field in the domain

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of finance, in political economy, and in the realm of vital statistics, a distinction which will endure long after him, for to him the splendid words apply in all their force: "His sleepless nights have lighted up our day." [Applause.] If therefore I am compelled to express my views in opposition to those expressed by him yesterday and previously on various occasions relative to banking and the deposit system, I do so simply because I consider it a duty if one has an opposite opinion honestly held and with full conviction, to lay it before this body in an energetic manner.

Before proceeding, however, I have to make a general observation.

What strikes me over and over again in the utterances of my esteemed neighbor is the exasperating lack of regard evinced by this master in the domain of statistical and economic facts, accompanied at times perhaps by a lack of knowledge, for the hard and practical exigencies which industrial and commercial activities constantly impose upon the individual and especially upon those in charge of big undertakings and an equally extraordinary lack of inclination to weigh carefully the practical consequences of theoretical propositions, consequences which often transcend the bounds within which legitimate inferences may be drawn from the individual proposition. I urge most emphatically, on the one hand, and in this I concur, of course, entirely with Wagner, that the practical men of business and in particular the managers of banks shall acquaint themselves thoroughly with the theoretical premises which are at the bottom of our system of banking and which enter into the

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foundations of our whole economic system. I refer you, for instance, to pages 12 and 13 of my work on the great banks (second edition), where I declare emphatically—and here, too, Doctor Wagner and I are of one mind—that it implies a great lack of imagination on the part of the head of a bank not to be acquainted with the history of industrial crises in all countries and with the symptoms which, in their combination, herald an approaching crisis to a careful observer in such a way as to enable him to warn those concerned and, as far as possible, to take the necessary precautions and adopt counter-acting measures in time, such as will make it possible to diminish to some extent the suddenness and perhaps also the intensity and duration of a crisis.

But on the other hand—I have repeated this before and expressed the same thing elsewhere—I should deem it a good thing if by means perhaps of administrative or legal provisions it were ordained that no teacher of jurisprudence or political economy be permitted to mount into his professorial chair unless he had been previously engaged for a long time in some branch of business, industrial or mercantile. ["Quite right."] I believe that both of these things would be of advantage to theoretical science and that practice would gain by the former, and, furthermore, that by this means better relations between the two sides and a more fruitful cooperation—a thing badly needed—would be established.

I am prompted to make this preliminary observation mainly by the clamor for legislative regulation which Adolph Wagner and his whole school are sure to raise the moment abuses have come to light in any field or a

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crisis has set in; the fact being that it is immediately after a crisis that legislative interference is most to be deprecated, inasmuch as there is no time to examine and weigh the measures proposed. However thoroughly I am personally impressed with the conviction that the sterile teachings of the Manchester school embodied in the formulas *laissez faire* and *laissez aller* are to be decidedly rejected, I am just as little edified (please to compare the close of my written opinion handed in to-day) as was the 21-year-old Wagner, whose words I esteem just as highly as those of the older, more conservative Wagner, by the utterances of those who expect deliverance from all sorts of evils only through the intervention of the lawgiver, even in the case of the most complicated economic questions, without possessing the ability to consider or even to imagine the consequences that might be involved with respect to our commercial and industrial existence, and, above all, the injury that such legislative interference might entail in entirely different fields, an injury oftentimes worse than the evils for whose suppression the legislation is invoked.

This applies in particular to the supervisory bureau which Wagner proposed, unfortunately, immediately on top of the crisis of 1900. I have not said more than a few words about this in my written opinion, and I wish, in the way of a supplement, to point to the fact (as mentioned in my work on the great banks, page 38, second edition) that the *Crédit Mobilier* in France was subjected to supervisory regulations more stringent than any we can imagine, not excepting the bureau of supervision proposed by Herr Wagner. The company was obliged every

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six months to hand in at five different offices an abstract of its balance sheet (*état de situation*) and to submit to the minister of finance at stated intervals, or whenever called upon, a statement of its accounts and full information as regards its stock of bills and its operations. The operations and the bookkeeping were to be subjected to verification by the appointees of the finance minister whenever they thought fit, and these officers were to be supplied with information regarding the text of all resolutions adopted at the meetings, as well as all books, accounts, and documents belonging to the company. In spite of all this, the *Crédit Mobilier* as you all know, collapsed wretchedly.

We also know from a report, which I have inserted in my written opinion, coming from the American official who has the best practical experience, the Controller of the Currency of the United States, that this authority frankly admits that as a rule it is only after bankruptcy has taken place that the overhauling of accounts has revealed (I am quoting literally) the losses sustained and the mistakes or crimes committed by the managers.

It is hardly necessary for me to remind the gentlemen in this assembly of the fact that our system of chartering joint-stock companies, which was based on the same principle of governmental guardianship, was abandoned, if not solely, at least partially, for the reason that we gradually found, after bitter experience, that it was a dangerous thing to invest joint-stock companies even with the semblance of governmental guaranty through the provision of governmental supervision and in this way to lull the public through the agency of the State into a treacherous feeling of security.

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Still less necessary is it for me to remind you of the sad experiences that we had here in Berlin in the year 1901 in the matter of governmental supervision—the collapse of some of our mortgage banks, such as the Pommersche Hypothekenbank, the Grundschuldbank, etc. It is a mistake to believe, as Doctor Wagner himself has affirmed, that by means of some such supervisory bureau certain kinds of so-called crises might be averted. The rejoinder to such a notion is that crises will occur under every economic system—I want my colleague, Herr Singer, to hear this—and not only under the capitalistic system. I am convinced that crises, in so far as one can picture to one's self the "state of the future" will occur there also, and I even believe that the germs of severe crises are already contained in the very fundamentals of this state of the future.

A still more serious matter to me is the lack of regard to which I have referred for practical experiences and premises evinced in Wagner's theories concerning governmental activity in the sphere of social improvement in so far as they relate to the domain of banking, theories which have led some of his followers straight into the socialistic camp and which, in fact, as may be gathered from the statements made by Wagner yesterday regarding the need of regulating production and the possibility of regulating the increase of population, can not be distinguished to any great extent from socialistic theories.

However great the service that in my eyes Wagner has rendered—I look upon this as one of his greatest achievements—in having contributed so powerfully to the repression of the purely individualistic tendency which

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prevailed for such a long time in this country and which I agree with him in regarding as pernicious, I consider the doctrines which he has enunciated in such clear terms and inculcated in the minds of thousands of listeners concerning the functions of the State in the matter of social betterment and concerning governmental monopoly as altogether mistaken and harmful.

With him I am opposed to private monopoly, but I am also opposed to a further extension of governmental monopoly, in favor of which Doctor Wagner recently expressed himself at a meeting of the Verein für Sozialpolitik. On the other hand, I agree with him in regard to the necessity of repressing purely individualistic tendencies, and indeed I asserted emphatically at the time I was chairman of the first bankers' conference at Frankfort-on-the-Main (see page 48 of my work on the great banks) that the banks with respect to their tasks and their development were not institutions operating in a purely private capacity.

However greatly I am impressed with the fact, gentlemen, that this tendency toward the regulation of social conditions through legislation has become more or less pronouncedly dominant throughout the whole range of our political life mainly through Wagner's influence—

Doctor WAGNER. You overestimate my influence.

Doctor REISSER. I must declare that I regard this tendency as fraught with dangers much more serious than those which the individualistic tendency, which I myself have combated, could ever have involved. This applies especially to the ardent advocacy of all kinds of governmental monopoly, which sooner or later, as Herr

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Raab rightly observed yesterday, is bound to lead to an attempt to nationalize the banking system, the leaders in which agitation will quietly appeal to the doctrines of Wagner. And yet, gentlemen, it is evident to anyone who, like myself, regards our official class as about the best in the world, that the management by the Government of industrial and commercial undertakings will have the effect of suppressing the most precious, most necessary, and the most indispensable qualities which have done more than anything else to develop our German trade and our German industry—the farsighted initiative and the spirit of enterprise—qualities of which we are in urgent need, and which can never assert themselves fully under a régime of governmental operation. For behind every farseeing initiative will necessarily stand the Damocles sword of the bureau of audit, not to speak of the crippling sensation produced by a due regard for the better-informed official who is in charge. I am therefore opposed to the extension of governmental monopolies in fields of industry in which the work that has to be done is not solely of a mechanical nature beyond the present sphere of governmental operation, except in individual cases where cogent reasons can be adduced with reference to the public welfare, which, it is needless for me to say, I never fail to consider.

Connected with this Wagnerian doctrine, as I have designated it, is the mania for taxation (excuse the expression), a mania that knows no bounds, which comes at times dangerously close to expropriation and borders therefore on socialistic tenets and which is bound eventually not merely to suppress all strenuous activity in the direction of

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acquisition but to put an end entirely to the acquisitive impulse. With this doctrine is also connected the desire for radical social-betterment legislation, the kind that Count Kanitz assailed the other day when he spoke of social legislation transcending all bounds. Count Kanitz is certainly in favor, along with myself and with all of you, of every kind of social legislation aiming at the improvement of our financial condition and the development of our industries to a level where they can compete with those of other countries. ["Quite true."] Granted these premises, he is in favor of such social legislation as shall aim to assure the future of all who have to work for others. With this same doctrine is connected, but in a much more characteristic way, the aversion repeatedly expressed by Wagner in his emotional manner—as regards the emotional temperament, it is hard to say which of us two has most of it [laughter]—against our whole present industrial tendency; that is to say, against the so-called "industrialization" which set in and which, indeed, became a thing of necessity when agriculture, with the increase in the numbers of our people, ceased to afford sufficient food and give employment to our surplus population. This explains his decided aversion to our credit banks, which, according to his view, have done much to promote this industrialization.

Now this last, the aversion to the banks of credit, Wagner surely can not be willing to admit, all the more so as he has repeatedly expressed his appreciation of the services of our credit banks. The fact is, however, that he has never gone beyond this recognition expressed incidentally here and there in a sentence, and it is not a mere accident that everything that is written against the banks

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appears to him to come from the writer's "soul"—he mentioned Lansburgh in particular, to whom I shall refer again later on—and that in his appreciation of such works the critical faculty which Wagner generally evinces in such an eminent degree seems almost entirely to have forsaken him. Still less is it a coincidence that a great many of his students, and even those who have been engaged in the banking business, if they happen to publish anything about banking, write under the evident spell of Wagner's influence in opposition to banks and bank managers.

He will retort that we who have been engaged for many years in the banking business have on the other hand laid stress on the brighter side. Of course, this is just what we are doing, and when we do so we act according to our innermost conviction. For we are convinced that our recent extraordinary economic development is the result not merely of our commercial and industrial undertakings, but also in large measure of the activity of our banks, and especially our credit banks, to whom we owe heartfelt thanks. But then we also bring out their dark side as I have, for instance, done in my work on the great banks on nearly every page and in nearly every section. This Doctor Wagner has indeed admitted in private conversation, but never in public and especially not in this assembly. Even in this inquiry we have not confined ourselves to any *laissez faire* platform, and I may perhaps be allowed to say that I in my capacity as president of the Central Association of German Banks and Bankers felt it my duty—you will find this stated in the published testimony of the experts—to send a written request to the *Stempelvereinigung*, urging

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the calling of a meeting for the discussion of the question as to whether the banks ought not to publish rough balance sheets at intervals. I myself was requested by the gentlemen to draw up the report of the proceedings. If I prefer the voluntary publication of bank statements to one prescribed by law, it is only because there can be no such thing as a legally prescribed statement without a legally prescribed form of balance sheet, which of course could not be easily altered in accordance with changed conditions. But it is a characteristic episode that when the banks resolved to publish such statements and adopted the form of balance sheet employed by the Deutsche Bank, which at that time was universally considered excellent, this did not prevent the critics who had been especially loud in their praise of the statements of the Deutsche Bank from exclaiming: "The rough balance sheets of the banks are altogether inadequate." [Laughter; "that is the way it is always."]

The aversion with which Wagner, as I have said, regards our present economic development is the cause—or shall I say the effect?—of his conviction that there has been a one-sided evolution in this country along plutocratic lines. Yesterday he spoke straight out about the "breeding of millionaires" and evolved the same picture, altogether one-sided, in my opinion, which he drew repeatedly at the time of the hearing of the experts. What I said in opposition to him is given in the report of our discussions of 1908, with reference to Points I-V of the question sheet, pages 152 and 153 (Berlin, 1909). I stated on that occasion in particular that relatively to our population there has been a steady increase in the

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number of those who are rising from the class of nontaxpayers and entering that of taxpayers; that since 1870 there has been a pretty steady increase in the number of those who pass from a lower to a higher stratum with respect to the amount of their taxes; that the deposits in the savings institutions in Prussia about doubled in the years 1895-1903, that is to say, in nine years; and that the deposits in the savings institutions in the German Empire, representing mainly the savings of the middle and lower classes, amount at present to fourteen or fifteen billion marks. In the memorial of the Imperial Maritime Bureau, published in December, 1905, under the title of "The development of German maritime interests in the last decade," we read (p. 238) of "an enormous increase" of the income of the people in Prussia, "in which not only the wealthier classes but, to a nearly equal extent, the smaller incomes (900 to 3,000 marks) have likewise participated." The aggregate of taxable incomes in Prussia has actually increased from about 10,147,500,000 marks in 1896 to about 15,873,750,000 marks in 1907. It is therefore not true that the development that has taken place has been merely in favor of individual millionaires, and perhaps the fundamental difference between us is that I heartily rejoice that we have finally reached the point where, in place of the wretchedly small national wealth which we formerly had, we behold at last a larger affluence extending to every stratum of the population, as is especially evinced in the growth of the deposits in the savings institutions.

As regards, now, the question of the increase of population, which Doctor Wagner brought up yesterday, the

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vague intimation of restrictive measures that may have to be adopted does not appear to me to be justified, and here it will be well, especially with reference to the erroneous notions of some of the gentlemen here, to call attention to the following facts:

The increase of the population in Germany is not due to an increase in the birth rate. On the contrary; the number of births, relatively, to the population has decreased in the last decade. ["Too bad!"] The increase in the population is mainly owing to the very considerable decrease in the death rate, and to the fact, therefore, that, chiefly as a result of our hygienic improvements, the number of deaths relatively to the population has diminished at a considerably greater ratio than the number of births. But when this relation changes, which must inevitably be the case sooner or later—for it would seem that there must finally be a limit to our hygienic improvements, or else, at least, to their effectiveness ["No!"]—then, with a stationary or perhaps a rapidly diminishing birth rate, this increase in our population which we have been witnessing will be arrested without a resort to legislation, and it is well that everyone should perceive this plainly. ["Very true."] After all this, I understand why Doctor Wagner would have us believe that the publication which one of his students, Lansburgh—

Doctor WAGNER. No; he is not one of my students.

Doctor RIESSER. I beg your pardon; I thought he was—has brought forth under the (to me) high-sounding title "The administration of the national wealth by the banks," is written with his heart in his pen.

Doctor WAGNER. What I had in mind was the article on deposits and savings.

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Doctor RIESSER. The two treatises are closely connected, the same course of reasoning being repeated throughout. As, however, the former publication bears directly upon our subject and, as I am convinced that, with the exception of a few points to which I shall advert presently, it is from beginning to end partly exaggerated and partly false, I shall have to say a few words regarding it.

To begin with, the very title of the publication is misleading, for the "national wealth" is not administered by the banks alone but in a considerable measure also through governmental operation, and no small part of it is in the hands of credit associations, savings institutions, public banks, and other agencies. But in so far as the contents of the publication are sound, I mean the parts dealing with the mistakes made by the banks in the matter of credit, the flotation of securities, etc., mistakes to which I have repeatedly adverted in the course of this inquiry—for the managers of banks are liable to error as well as other people—what Lansburgh has to say has been expressed before by Heiligenstadt, Bernhard, and Bendix in a much more thorough-going and effective manner. The fact is passed over in silence that the same mistakes or similar ones have been committed under every system of banking and in every country, and I, for one, am by no means convinced that such mistakes would have been avoided if the present critics of our banking system would have been at the head of our banks. [Laughter.] And as for Lansburgh's indignation, expressed with wearisome reiteration, over the alleged fact that the administration of our national wealth, or of our "national working reserve," as he calls it in imitation of Heiligenstadt, that is to say, the entire

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economic condition of Germany is intrusted (I quote literally) to "a dozen men"—a figure which is a good deal of an exaggeration—I can not say that this feeling of indignation strikes me as being very rational. For everywhere, even within the sphere of governmental operation, the chief management rests, and must rest, on the shoulders of a few, and the very administration of our country, which, if not properly directed, would allow our whole economic fabric at once to become a total wreck, has also, as a matter of course, to depend upon a single pair of eyes or maybe upon two. But suppose the alleged dozen individuals, who are, it must be allowed, experienced men and experts in their field, and who, I believe, have, on the whole, managed very well, were to be replaced or supplemented, as Wagner, Obst, and Freiherr von Wangenheim propose, by, let us say, another dozen of less experienced men, constituting together a so-called "board of control," to whom the original dozen would in a certain way be subordinated, then this second dozen, which "is to see to it that our national well-being is regulated," to quote the words of Lansburgh, will have the prime responsibility thrown upon their shoulders, and you will be kind enough to tell me who is to control the controllers? [Laughter.] But the kernel of Lansburgh's assertions—and this leads us straight and deep into the matter before us—is, as we are assured on every side, that the capital placed in the way of deposits in our credit banks is not invested in accordance with the desires of the depositors. On the contrary, it is claimed short-term loans to the banks are converted into long-term advances to industrial concerns and, furthermore, into new industrial investments. From the

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standpoint, however, not of private, but of public economy, which in my opinion also is the only standpoint that can afford a proper criterion, the only question in the eyes of Lansburgh is as to whether the banks grant credit on bills and make advances to those concerns exclusively—I quote literally—“to which the mass of individual creditors of the banks would have accorded credit if these individuals had been in a position to dispose of their money independently without the intermediary of the banks.” Perhaps the depositor—the “perhaps” on page 20 is changed into “certainly” on page 21—intends after some time to get German imperial bonds or to buy mortgage debentures, or else to acquire an interest in some business, or possibly some of the depositors would have liked to devote themselves to the retail trade or some handicraft or agriculture.

It ought to be a sufficient answer to this simply to put the question: “How does the author know that?” But of course this will not do. The available resources of the nation as a whole consist, as Lansburgh rightly observed in a nearly contemporaneous article which appeared in July, 1908, of a great number of separate small sums of money, each of which would by itself remain unproductive; sums of money, in other words, that have been collected by the painstaking and incessant labor of the banks and made available for the general purposes of productive industry, and not got together for the mere sake of affording dividends, and which—I wish to lay special stress on this point—are capable of rendering, and do actually render, a much greater service to our national economy when administered by the banks than they would if they remained in the hands of the individual

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depositors, or than the aggregate of these individual sums would render if each individual by himself—that is, without the intermediary of the banks—should try to utilize it, something that is altogether impossible. Without the interposition of the banks the owners of the money would therefore not have been able to do anything with it, and certainly would not have placed it at the service of any business concern, but, as our experience here in Germany amply demonstrates, wherever there are no banks, or where banks are not allowed to exist, they let it lie idle and unproductive. Accordingly, if we were, as Lansburgh suggests, to let the presumed intention of the depositor guide our action, we should, taking everything together, in all probability not improve the present conditions of which he complains, but only make them worse.

As you are all aware, however, a large part of our deposits at the credit banks is made up nowadays of the working reserves of tradespeople and manufacturers and of other money not required for immediate use. These funds therefore represent the deposits of persons who, as a rule, are clever enough to gather, and, in fact, do gather, from the annual statements precisely what Lansburgh has gathered from them, namely, that a large part of these deposits is utilized in the way of adequately secured short-term loans or of advances to industrial concerns, etc. But it is evident that these depositors, or at least the majority of them, do not object at all to having their deposits invested, provided the necessary security is offered, in the shape of loans to industrial concerns, whether in connection with bills or with accounts current.

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Were this not the case, they would, on becoming cognizant of the circumstances exhibited in the annual statement, take their money at once to the cooperative credit associations, the savings banks, or to other institutions.

This last proposition admits, indeed, of an interesting demonstration, something that in this field is a rare possibility. We have had the testimony of an expert who had been connected with savings banks and who told us, as he himself expressed it, that it was the universal belief of those who were connected with such institutions that out of the total deposits about 30 per cent—that is to say, about one-third (singularly enough, about the same percentage as that represented by the ratio of savings to the total deposits in the credit banks)—must be regarded for all intents and purposes as money temporarily placed in the bank, and therefore in its nature is not savings, but merely temporary deposits which have been intrusted to the savings institutions—I quote literally—“by persons belonging to the middle class or even to a higher stratum of the population,” who—to use the words of the expert—“know perfectly well why they are depositing their funds, even if only temporarily, in the savings institutions.

But if this is really the case—and we have no reason to doubt it—it would show that there are in fact a great many people, persons who know just what it is best to do with their property, who, when they happen to have money which is lying idle for the time being, but for which they mean to find ultimately a permanent investment, funds that one would suppose would go to the regular banks in the way of deposits, are in the habit of

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taking such money not to the credit banks but to the savings institutions, and, strange to say, in exactly the same proportion as the ratio that savings deposits bear to regular deposits in the credit banks. From this we are bound to infer that the same assemblage of people, or a multitude of people still better off and having more experience in business, who neither take such of their money as happens to be temporarily at their disposal to the savings institutions nor invest it themselves, but who let it lie in the form of deposits in the regular banks, do this with a thorough knowledge of the conditions and with a full understanding of the nature of the investment. This knocks the bottom out of Lansburgh's whole contention that these very people, were it not for the interposition of the banks, would have applied their money to some handicraft, to some manufacturing industry on a small scale, or to agriculture, or to the Government.

But I must hasten to explain what the words "to the Government" imply. It has been repeatedly asserted that in the last decade, owing to the influence of the banks, German capitalists have been investing less money in government securities. I can adduce to the contrary what is affirmed in Part IV of the documents relating to the proposed reform of the imperial finances, introduced in 1909 (printed in No. 1087 of the Reichstag documents, p. 249), to the effect that the investing public in Germany has shown an extraordinary eagerness and an increasing capacity in the matter of the purchase of domestic securities, known to be thoroughly safe and bearing a stable, relatively low, rate of interest. Under such securities are included, of course, municipal bonds,

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debentures of mortgage banks, and other obligations paying a fixed interest; but there can be no question, considering the enormous issue of government securities in recent years, that the amount of such obligations in the possession of the public at large has been increasing steadily in the last decades.

I am coming now to the question, which I have not yet expressly answered, as to whether the regulation, that is to say, legislative regulation, of the system of bank deposits is in the interest of the public. This question is not altogether correctly posited, as it presupposes that some sort of legislative regulation is already considered necessary. We ought to put the question in this way: First, as to whether it is in the interest of the public that the system of bank deposits should be constituted on a sound basis, and, secondly, if this is declared to be so, as to whether legislative regulation is calculated to remedy such evils as are known to exist. The first question I should unreservedly answer in the affirmative. It is decidedly in the interest of the public that there should be a healthy development of the deposit system, and, along with it, a healthy development of the whole credit system. In regard to this I have no doubt whatever.

With reference to this matter, there are certain points to which I am going to call your attention. I must say, first of all, that in many respects I concur with the excellent treatise of Herr von Lumm, entitled "The position of the banks of issue in our present economic system" (Berlin, 1909). I have no doubt that the increase in the funds intrusted to them has done a vast deal in the way of enabling the credit banks to grant credit in all its

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various forms, especially in connection with acceptances, bills, accounts current, and the pledging of collateral. It appears incontestable to me that this circumstance may have certain unfavorable results for the Reichsbank and therefore also for the public in so far as it might cause some of the paper that would otherwise have gone to the Reichsbank for discount to be diverted to the credit banks and thus weaken the influence that the Reichsbank can exert upon the discount market, which in turn might interfere with the activity of the Reichsbank in the matter of discounts and with the direct effectiveness of such activity. This again may result in certain differences between the bank rate and the private rate of discount, although our banks—it is well to lay stress upon this fact—are very anxious, and have always been very anxious, to comply, as far as possible, with the wishes of the Reichsbank, especially in what concerns discounts and the currency.

It has undoubtedly happened that through the exportation of capital to foreign countries by means of long-term credits the stock of gold in the Reichsbank has been reduced at particularly unfavorable times, just when the strain upon the Reichsbank, caused especially by the withdrawal of gold, has been unusually severe, as, for example, at the quarter days, when the difficulties of the situation are, of course, increased.

I have very little doubt finally that the substitution for cash of other instrumentalities of exchange, as those furnished by checks, clearings, and the system of postal drafts, can have a twofold tendency to alter the status of the credit banks with respect to the Reichsbank and

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to increase the power of the former in the matter of the granting of credit and particularly with respect to the discount business. For every reenforcement of the methods that reduce the volume of cash payments (in particular the increased use of checks) restricts the use of bank notes, and in addition every amount of cash that is not required in the making of payments is naturally set free for the purposes of credit and therefore strengthens the credit banks and weakens the Reichsbank in its capacity as a granter of credit, which may have the effect of weakening the institution in its capacity as a discounter. If then we are forced to admit unreservedly after unprejudiced consideration that the public has a very active interest in the question of the healthy development of our system of bank deposits and of our credit system, it is nevertheless necessary for me to call attention to the following aspects of the matter before us:

In the first place the phenomena I have mentioned, however little I am inclined to underestimate their importance, are not to be ascribed exclusively to the activity of the banks in connection with deposits. They are frequently due to altogether different causes, in particular to the solidarity of the money markets, of which Herr von Lumm has spoken. The necessary result of such a solidarity is a constant rise and fall in the demand for money and credit in the various countries, depending on the condition of their international balance, movements that could not be affected by any kind of legislation on the part of any single country. These very same manifestations, as Herr von Lumm remarks in his publication, have been observed on a much larger scale in

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France, which has likewise a mixed banking system, and on quite a vast scale in England—that is to say, under a system of pure deposit banks. Moreover, a certain improvement in the situation will be brought about by a strenuous adherence on the part of the Reichsbank to its policy in regard to foreign bills, which has already been put into operation with satisfactory results, as well as by the enlargement of the surplus, and finally, as I believe, through the large sums that will gradually find their way to the Reichsbank through the management of funds intrusted to it in connection with the post-check and postal-draft systems. In like manner the credit banks will proceed, and in fact will be compelled to proceed, in a constantly increasing measure to keep the demands of industry as far as possible within bounds, and it is in this, gentlemen, that I find the chief advantage in the publication of voluntary rough statements that they evoke not merely the criticism of the public—we know very well that not everybody can make head or tail out of a balance sheet—but likewise the mutual criticism of the banks, and in this way will tend to the development of general principles in the matter of the granting of credit and of certain traditions in this domain.

For this, however, there is no need of legislative interference. As chairman of the Central Union, however, I should like to see the cooperation of the Reichsbank exerted in the direction of compelling all the banks to follow the example set by the “great banks,” so that a uniformity in banking methods shall result. I have no doubt that with a little pressure in this direction this result will be achieved. I have observed that the publication of the

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bank statements is in part responsible for the remarkable fact that the condition of the banks with respect to fluidity has actually improved during the past year, and indeed a better condition was already revealed by the statements of December 31, 1908 (events having cast their shadows before them), an improvement which, of course, is due to various causes and more particularly to the relaxation of the strain produced by inordinate industrial expansion.

The keeping of industrial needs within bounds is something, of course, that is dependent only to a limited extent upon the banks. Privy Councillor Kirdorf, certainly one of the best authorities on this subject, said at the meeting of the Verein für Sozialpolitik at Mannheim: "Formerly it was industry that used to run after the banks; now it is the banks that are running after industry." And indeed this change has been taking place on a large scale.

I shall now ask you, gentlemen—and this is to be the close—to permit me to refer in a few words to the position which I find is assumed in the pages of the *Statistische Zusammenstellung*, and I beg that the management of the Reichsbank will listen to what I have to say with the same indulgence with which, in the previous meetings, it listened to our emphatic utterances in opposition to the attacks directed against the Reichsbank. Now that we have heard that the Reichsbank Direktorium itself indorsed the passage to which I, as well as some others, objected, I should like to impress upon the gentlemen the following. I believe there is not much gained when such a body of experts—and there is none equal to it in the German Empire—says that "some solution or other"

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(so it is worded on page 7) must be found, for when it expresses itself thus this body does not say much more than the whole chorus of those who are not experts, but who nevertheless consider that they are called upon to make some suggestions in this difficult field and who say simply that "something or other" has to be done. I regard it indeed as harmful, in that everyone, after this, who comes forward with some practical suggestion in the matter of legislation will say: "That something has to be done in the way of legislation is admitted by the Direktorium of the Reichsbank itself."

A VOICE. No, no!

Doctor RIESSER. It is distinctly asserted that some solution or other of this problem must be found.

A VOICE. But not by means of legislation.

Doctor RIESSER. Turn to pages 8, 23, and 62.

A VOICE. Not legislation!

Doctor RIESSER. The problem for whose solution we have been called together is the very question as to whether a solution in the way of legislation is possible and desirable. If, therefore, we read that "a solution" must be found, this misinterpretation is almost forced upon one, for on page 28 it is distinctly stated: "if the intervention of legislation should be considered fundamentally desirable."

A VOICE. If!

Doctor RIESSER. Very well, I yield the point. But at least you must allow that the misconception to which the words used would lead me is one likely to arise, especially as the declaration that "some solution or other" must be found signifies still less if a solution by means of legislation is not meant. I rejoice, however, to know that my

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interpretation was erroneous. I should like to call your attention to the fact—and I am saying this to the gentlemen who are ardently in favor of any sort of a harmless legislative measure—that every bill introduced in the Reichstag is capable of at once changing its character; in other words, that one can tell just how a bill gets into the Reichstag, but never knows how it is going to come out from the Reichstag. [“Very true.”] And, considering the prevailing tendency, it is not at all impossible, as far as I can see, that during the discussion of a bill in the Reichstag a whole lot of things will be tacked onto the instrument for which no one in the Government and no one in this assembly will want to assume the responsibility. And don't forget, gentlemen, that this may happen at a time which I regard as the most critical for our industry. On the one hand, the United States is trying to get hold of the entire trade of Central and South America and to keep Europe out, and on another side, protection and imperialism in England and elsewhere are menacing us. To me these things signify a hard struggle for our industry. But if you should through any sort of legislative measures—one can never calculate in advance with any certainty just what effect, for good or for evil, industrial legislation will have—proceed to injure our banks, which above all are to support our industry in this struggle, then, gentlemen, you will yourselves be sawing off the bough on which we are seated and attending to the business of these foreign countries, who will be rejoiced to see that, even while we are trying to protect our interests, we have been weakening ourselves. We must not let things come to such a pass. Nor can we afford to get down to the English one-reserve

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system, to which some of the propositions before us would lead straightway, a system against which the English themselves have of late raised the most serious objections. I believe that this commission ought to make it its especial task to warn the Nation in the most emphatic terms against legislative interference, while we ourselves are all in duty bound, each in his place, to try to dispel more and more the main apprehensions in so far as they are justified—that is, the doubts with respect to the fluidity of the banks. I am absolutely convinced that if every one is willing to do his share this can be and will be accomplished, and I hope that the voluntary publication of rough balance sheets will in course of time exert a salutary influence in this direction.

Mr. GONTARD. The reason, gentlemen, why I have taken the floor is because some one has had the kindness to tell me that I had hitherto been dealing with general principles, and, while expressing myself as one who would be in favor of legislative regulation, had not submitted any definite proposition. I should like, on this account, to revert again to the subject. I wish to say in advance, however, even at the risk of being misunderstood, that after my debate yesterday with Herr Schinckel on the question of the fluidity of the great banks I got together in the evening, at my quarters, of course, copious material bearing on the subject. The Reichsbank itself has spared me the trouble of producing it. In the publication that I received day before yesterday—that is, after the statement which Herr Schinckel assailed—entitled “Zur Bilanzstatistik der Deutschen Banken,” you will find, on page 44, the following:

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“ In connection with the great contrasts presented by the conditions with respect to fluidity, it must be observed that the liabilities of the great banks have attained extraordinary dimensions and these institutions must, therefore, direct their attention in an increased measure to the matter of fluidity.” And farther down there is this sentence: “ In the case of individual banks there is a considerable deterioration in the condition with respect to fluidity.”

Now, I am aware that if I present this matter without regard for the connection in which it appears, it will produce a different impression from that produced when the book is read. In addition to this, what is in the text has reference to a particular time. I believe, however, concurring with Herr Schinckel, that we are justified in considering that the fluidity of the banks ought to be greater than it has hitherto been. I have nothing more to say with respect to this subject.

With reference to my introductory sentence, I wish to say that I have intentionally refrained from tackling Part II of our programme. In the course of our discussions new arguments may be presented that will cause me to change my views, and my actions have been prompted in particular by a passage in the publication of Herr von Lumm, which has just been mentioned.

On page 40 we read:

On this account the suggestion has come from various quarters that the Reichsbank be allowed to take interest-bearing deposits, a proposition which, if carried out, would undoubtedly produce a far-reaching effect with respect to our whole credit system.

Then, on page 41:

In any case, this very complicated question, in spite of the objections that, not without reason, present themselves, deserves serious consideration.

I have imagined all along that the question of the taking of interest-bearing deposits by the Reichsbank

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had been definitively settled, but I perceive now that there may be aspects of the matter that are novel to me.

For the time being I am of opinion—without wishing to commit myself—that we can not do anything further at present in a legislative way than to require the publication of balance sheets in accordance with a most liberal scheme. As to what is meant by the word “liberal,” there may be very different opinions. We have, on the one hand, joint stock banks, which are obliged to publish balance sheets, and, on the other hand, we have private banks, which are not obliged to publish any. A great question arises, then, one in which the justice of the matter is involved, the question as to what is to be done with the banks—I mean the smaller banks—that are not obliged to publish their balance sheets, which undoubtedly in many cases, if they were compelled to publish them, would have to suffer the worst consequences. It has occurred to me that perhaps the private bankers might be permitted to hand in their balance sheets to the Reichsbank. This would be in line with the endeavors in the direction of investing the Reichsbank with greater powers—I mean to say, the effort that is apparently being made to constitute the Reichsbank a source of information in matters of credit. The scheme would not work, however, inasmuch as in the eyes of the public a sort of responsibility would have been shoved upon the shoulders of the Reichsbank. No institution that receives such statements would be willing to assume the responsibility. There is the crucial point. It might be practicable, perhaps, to let the listing committees which we have at the exchanges undertake the business of receiving these statements.

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Count KANITZ. A fine job it will be.

Mr. GONTARD. I am perfectly aware that these listing committees are made up of our bankers. I must say, however, that I have the utmost confidence in the character and ability of the bankers who are in charge. The listing committees are composed entirely of experts. There is an official present whose sole function, however, is practically to see to it that business is transacted in accordance with the rules and regulations. The really difficult question, however, is: What is to be done where balance sheets are handed in that make a poor showing? Shall the listing committee go so far as to recommend bankruptcy proceedings or to adopt repressive measures—as for example, the exclusion of certain persons from the Bourse? I can see that there are the gravest objections, and I am anxious above all to get the opinions of others, especially of the gentlemen constituting the listing committees.

Nothing is further from my thoughts than the desire to injure the great banks in any way. As far as my suggestion is concerned the great banks, so called, would not, as a matter of fact, be legally obliged to do anything else than what they have all along been doing, in part, of their own accord. What I fear is that the voluntary accession of the other banks to the policy pursued by the eight leading banks located here (at present the Berliner Handelsbank alone is not represented in the publication of the statements), which Geheimrat Riesser seems to anticipate, is not going to take place. I am by no means inclined to the view, however, that it is absolutely necessary that this inquiry shall show practical results.

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I know perfectly well that when the matter gets into the hands of the Reichstag it is quite possible that some mischievous regulations will be enacted. I earnestly hope that something practical will be done.

Mr. SINGER. I should like to make a few remarks, gentlemen, with reference to what Count Kanitz and Doctor Wachler have said. I had not supposed that I should have to take the floor again in the general discussion.

To begin with the statements made by Count Kanitz, I had begged that gentleman, who had allowed an error to slip into his address——

A VOICE. That was corrected yesterday.

Mr. SINGER. Thank you; then this matter is settled.

Well, then, I shall proceed now to discuss the exposition of his views made by Count Kanitz, which culminates in the statement of his conviction that our social legislation, the partisans of which, he asserts, know not where to stop short, has contributed materially to the crippling of our industry and agriculture, having resulted in rendering our production incapable of competing in the world's market. I must say that he even dropped a kind word to the effect that he did not care to talk with reference to agriculture, but that he and his friends, as agriculturists, had made similar remarks on other occasions.

I am willing to admit that in the general discussion a tendency in the direction of this thesis can be detected, but I am ready to assert that the statements of Count Kanitz by no means bear out the conclusion that the troubles of our industry and our agriculture would be removed by restricting the legislation in behalf of social improvement. I deny emphatically that the tide of

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social-betterment legislation, which, in the words of Count Kanitz, "knows no shores" and the laws relative to insurance have in any way rendered industrial undertakings increasingly difficult. I am going to take the liberty of adducing a few figures in favor of my contention. The fact has been established that the entire cost to the capitalists engaged in industrial undertakings of our social legislation is 10 pfennigs per day for each employee. I am, of course, not in a position, and time would not permit, to lay before you the detailed processes of this calculation, but I refer the gentlemen to what has appeared in print relative to the subject. We have discussed this question in the Reichstag also. My data do not admit of dispute, and I beg you to tell me whether you think that, considering the profit that industry derives from those who work for it, there can be any talk of such a thing as a tax of 10 pfennigs per day and per worker being an incubus on industry. I believe one has a right to say that an industry that is not capable of caring for the life and health of its laborers, which is not in a position to guarantee an adequate support to those of its laborers who have become disabled, or to secure those who have been incapacitated by age against care and want—an industry, I say, that can not bear such burdens is not worthy of existence. Everyone ought to protest vehemently against the assumption that the state of our industry renders it in any way necessary to restrict or retard the social-betterment legislation.

I am grateful to Doctor Wagner for having, as soon as these statements were uttered, proceeded at once to refute the charge that the social-reform legislation was

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responsible for the abuses in the credit system. Who can, in fact, in the face of the existing conditions speak of a tide of social legislation that "knows no shores?" Whosoever has been following with open eyes the course of such legislation, ever since the time when the need of legislation in this field began to be recognized, must admit that in the last few years one brake after another has unfortunately been applied in order to block the laws and regulations required for the life and health of the working classes.

I should like to avoid, gentlemen, going too deep into this matter; but, in the face of the statements of Count Kanitz, the fact has to be made perfectly plain that social-betterment legislation—thanks to the powerful influence exerted by our industrial interests upon the Government—is at a standstill. The heads of our industrial establishments are engaged in the business of stopping the further progress of such legislation. It is reversing the facts of the situation to come forward with the assertion that the burdens of social legislation have brought about the hard times in the industrial trades and in agriculture. And, indeed, I can not conceal the circumstance that some of the statements of Herr Wachler, with whom otherwise I am able to agree in regard to many points, have made me very indignant and have affected me very painfully by reason of their inaccuracy. How the learned gentleman would have us believe as an actual fact that our insurance laws are extremely defective in that they are unable to guard against or prevent the fraudulent acquisition of annuities is a downright mystery to me. I should like to ask the gentlemen present to demonstrate to me where

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and how the fact is made patent that, not reckoning individual cases that may possibly occur, there is a system of fraud in connection with annuities that would justify such an assertion. Doctor Wachler has plumed himself on being a man engaged in the practical business of life. That may be, but he surely can not pretend that this is included in his field. If Doctor Wachler would take the time to inquire closely what it is that is actually going on in the domain of insurance legislation, if he were to follow the various processes, and if he were to try to understand all the decisions of the imperial bureau of insurance and of the courts, the medical opinions, and, in short, everything that is brought to light by those whose business it is to investigate such claims to annuities, it would be utterly impossible for him to assert that the fraudulent getting of annuities takes place on a scale that justifies complaints in regard to the intolerable burdens imposed upon industry. This charge—I trust you will not take it ill, my esteemed Herr Wachler, if I speak thus—is based on nothing, for there is nothing in the actual facts to prove it. Of course, isolated cases of this kind may have occurred. But whosoever is familiar with the precautions used by the heads of establishments and their confidential physicians, as well as the decisions of the courts and those of the imperial bureau of insurance, and whosoever knows with what painstaking care each individual case is investigated in the interest of the union with reference to the possibility of reducing the claim by 10 or 20 per cent, must come to the conclusion that the broad assertion of Doctor Wachler is not substantiated by the facts in the case.

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The longer our discussions last, gentlemen, the more it becomes apparent that in the domain of credit also we have to deal with a conflict between the agrarians and the industrial trades. Our gentlemen of the farm regard with invidious eyes the credit accorded by the Reichsbank to industry and demand of the Reichsbank cheap credit for agricultural production.

We have a great interest in this question, gentlemen, from the Social Democratic standpoint, because the wages, the living conditions, and the employment of the laboring class are greatly affected by it. With reference to this standpoint, you will not be at all surprised when I tell you that, on the contrary, we are convinced that it is necessary in the interest of the laboring class and in behalf of sufficient employment and adequate wages that our industry should be promoted by every legitimate means. We are obliged, of course, to fight vigorously against the repression of industry for the sake of the interests of the agrarians, and as long as agriculture is unable to provide adequately and cheaply for the sustenance of the great mass of the population it is in our interest in every way to insist that our industrial development shall not be forcibly repressed. The remark which was repeatedly made yesterday to the effect that the domestic market is the best market admits of being diversely considered with reference to the existing situation and altered conditions. If the domestic market can be made to afford adequate employment to the population, well and good; let it be so. But we can not afford by any means to dispense with the foreign market if we are to provide the means of meeting the necessity of importing foodstuffs and raw products.

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But I find that this argumentation in regard to general principles, of which we have had more or less yesterday and to-day and which we can hardly regard as justified if we mean to stick closely to the question submitted to us, is going to lead us off from the actual subject of this discussion. ["Very true."] I think the gentlemen will be thankful to me if I abstain from entering farther into the details of the statements that I have been combating. I have merely considered it to be my duty to express my opinion in opposition to the queer statements of Count Kanitz and Doctor Wachler. I trust that I have succeeded, as far as it is possible in such a brief rebuttal, in demonstrating the incorrectness of their remarks.

Doctor Wagner has given us a most interesting presentation of the causes to which, in his opinion, the evils and abuses in our credit system are to be ascribed. I can not, of course, in accordance with my views regarding our task, enter into a general discussion of all the questions and points that Doctor Wagner has dwelt upon. On the other hand, it is impossible in a brief reply to deal with his exposition in the thorough and adequate manner in which it deserves to be treated. There is one thing, however, that I should like to say. The appreciation and sympathy which Doctor Wagner has accorded to social legislation lose much of their force through his attributing the abuses of which he complains in part to certain conditions which I can not regard as mischievous and pernicious. Whether the abuses in our credit system are ascribable to the rapid increase in our population is more than doubtful to me. I believe that such a charge ought no longer to be entertained by the advocates of social-betterment legislation.

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I thought this was a question that had been settled by this time. But if it is to be discussed at all the solution can not be in the direction of a purpose to check the growth of our people. What is demanded, on the contrary, is such a development as will make it possible in the face of an ever-increasing population to provide sustenance and employment for all, so as to guard the entire nation against want and privation and to enable it to perform the tasks imposed upon it by the needs of an advancing civilization.

I can not help adverting in this connection to a certain expression that Doctor Riesser has adopted. Doctor Riesser in the course of his excellent observations has been trying to get the concept "national wealth" to do service for him. I hope you will not take it ill of me, gentlemen, if I tell you that anyone who tries to work on his audience with the term "national wealth" appears to me like a juggler playing with his balls. Of course, no one denies that the national wealth has been increasing. But the question is not as to whether a few millionaires have become richer, but as to whether the increase in the national wealth means a gain to the people as a whole.

A VOICE. This has been proved.

Mr. SINGER, I beg your pardon; this has not been proved. Neither can it be proved that the masses are participating in the increased national wealth and the increased capital and real estate values.

A VOICE. How about savings and the ability to pay taxes?

Mr. SINGER. Gentlemen, savings are a subject that has to be discussed from the most diverse standpoints.

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The mere fact that savings have increased in amount does not demonstrate that the great mass of the population has grown richer. This is a very erroneous assumption, which has indeed something seductive in it, but which does not tally with the facts. We ought to ascertain first whence the savings come and we should find out whether an excessive desire to save may not manifest itself at the cost of health, nourishment, etc.

A VOICE. How about strike funds?

Mr. SINGER. Strike funds surely do not indicate that the national wealth has increased. They are nothing else than a necessary means in the conflict between the classes, a means in favor of which the laboring men deny themselves luxuries that are extremely desirable and necessary in connection with their daily life and their domestic economy. Capitalist employers are very fond of saying: "The workingmen have no right to complain, for they contribute to their treasuries and to other organizations large sums to be devoted to the struggle for the satisfaction of their class demands, expenses which are a great burden to their household budget."

All I can say, gentlemen, as against these views is that the laboring men in making these sacrifices display a high order of idealism and that the sacrifices are made in behalf of a struggle that is of immense benefit to civilization. But the only thing I am intent upon showing is that the mere circumstance that wealth is being concentrated and is increasing in the hands of an insignificant minority is no evidence of the fact that the increase in the possessions of the rich means the elevation of the material condition of all classes.

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A VOICE. How about the rise from one class of taxpayers to another?

Mr. SINGER. All right, I am willing to talk. In the advance from 900 to 1,200 marks we are already at the point where we can dismiss the laboring classes. [Contradiction.] If you are going to take the so-called "qualified" workingmen, it is possible that an advance from 1,500 to 1,800 marks may have taken place.

A VOICE. Up to 2,000 marks.

Mr. SINGER. Very well, let it be up to 2,000 marks. But then it is only a very few workingmen as compared with the whole number. The Prussian statistics of taxation speak volumes about this, with their figures showing the number of those who are entered as having incomes between 900 and 1,500 marks and the number of those, exempt from taxation, whose income is less than 900 marks. We must bear in mind, therefore, that the advance from a lower to a higher tax class has nothing to do with national wealth as far as the accumulation of fortunes is concerned. At best, you may say with some plausibility that the workingmen who belong to a higher tax class are able to procure some additional luxuries for their homes. I am willing to admit this. But to adduce this factor in favor of the assertion that when a workingman who previously paid taxes on 900 marks now pays on 1,200 or 1,500, or, say, even 2,000 marks, he has risen to a higher level with respect to the amount of his property, is laying down a factitious proposition, which is directed toward a specific object and which is effective with certain people, but which collapses when examined in relation to actual conditions.

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I can only repeat, gentlemen, in connection with what I said yesterday, that under existing conditions the legislative regulation of the deposit business, if not altogether impracticable, will in any case be very difficult and inoperative. My position—and I agree in this matter with Doctor Wagner and his followers—may be stated thus: I am not an advocate of the principle of unrestrained and absolutely free competition; I believe the State should intervene with its regulatory provisions in the interest of the whole people. Free competition, the absolutely untrammelled activity of the individual, is bound to lead ultimately to anarchy in production. That unrestrained production—production that can not be kept under control—may conduce to economic crises, is undoubtedly a fact. I do not purpose to discuss the question of crises. I only wish to say that while I fully recognize that it is the business of the State, in the interest of the people as a whole, to make regulations affecting general social conditions, such as are calculated, among other things, to remedy evils in the field of unrestrained production, nevertheless I am unable to see—coming to the immediate subject of our discussion—that anything will be accomplished in the way of eliminating the prevailing abuses through a supervisory bureau and laws relative to deposits. Doctor Wagner expressed it as his opinion that it would be possible by means of restrictive regulations and by the enforced reduction of the rate of interest on deposits to diminish the flow of money to the banks in the way of deposits, which might have the indirect effect of curtailing production. I can not say whether such an effect would be produced, but what I do

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believe is that a means is suggested here that is bound to work mischief. It is a fact which we must not overlook that the slight reduction in the rate of interest that Doctor Wagner recommends—a small difference, indeed—can in reality not produce any great effect. But there would in my eyes be a much greater danger to industry, which can not get along without the banking system and its credits, in the interposition of obstacles to the free activity of the banks. I have repeatedly expressed my opinion that the expansion of our banking and credit system has largely the effect of intensifying certain evils in our industries, especially the extension of plants beyond the point where they can be made profitable. It has been stated that the banks have been absolutely forcing credit upon our manufacturing industry and inducing it to engage in undertakings beyond the resources of those who have invested their capital in them. All this may be granted, but this state of things must after all be ascribed to the desire to make money, which has been equally strong with both parties. Industry is interested in extending its plants and getting profit out of them. The banks, which are here for the purpose of getting money to circulate, want to make a profit out of this business, and it will be a very difficult matter to remedy the evils, to enact legislative measures directed against the mischievous exploitation of the situation, and above all to make such legislation effective.

If in the course of the special discussion some means should be discovered calculated to remedy the obvious abuses, I should not be inclined to protest. But here it becomes necessary (in this respect I differ from some of

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the gentlemen, who are in favor of making laws at once *à tout prix* against any kind of abuse) to bring the following question to the fore: Is it worth while making a law, and what is more important, is it practicable to make and enforce laws which will remedy these evils effectually and permanently?

There is still another point to which I should like to call attention which as a result of yesterday's discussion appears to me to deserve special consideration. There is undoubtedly danger, if we are to have legislative regulation and the agencies have been created that are to be charged with the supervision of banks, etc., of the assumption on the part of these public authorities of a sort of responsibility which, in case they should be unable to prevent the occurrence of abuses, may eventually become very irksome and injurious. This consideration should likewise have the effect, if we are not able clearly to foreshadow the consequences that might ensue from the governmental supervision of the banking system, of inducing us to keep our hands off and to desist from any attempt in the direction of legislative regulation.

I beg to be excused if I have again taken up the time of the members of the commission. I considered it my duty, however, to refute the assertions of Count Kanitz and Doctor Wachler, which appeared to me to be altogether unjustified and not based on the actual facts of the situation.

Doctor WAGNER. I must begin, gentlemen, with a personal remark and exculpation. I am obliged by my vocation to be absent in the afternoon, and my professional duties will interfere with my attendance to-day and also

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to-morrow. I have consequently not always been in a position to be thoroughly posted as to the course of the afternoon debates, and for this reason I have perhaps occasionally made it appear that I am ready to attack, but when the rebuttal is made refrain from answering. But anyone who knows me at all is aware that I am rather inclined to answer too much than too little, at too great length, and perhaps a little too hotly.

Just two remarks. Excellent and most interesting addresses have been delivered here recently and again to-day, which were elaborated in writing into regular briefs. I am unable to proceed in that fashion owing to purely physical causes. I see that my eye, my physical eye, does not permit me to read what I have jotted down with my pencil. I am obliged to impress everything upon my memory, and one's memory forsakes one occasionally and then one is apt, of course, to make mistakes. This is a weakness which I can not overcome. Unfortunately my eyesight is no longer good for much.

I should like to begin with the discussion of the main question. My standpoint is this: I perceive on the whole a too rapid development of our economic life. I do not propose to say anything about the tendency of our economic life viewed with reference to the position of this country as an industrial state, a tendency the manifestation of which on an ample scale I consider not only desirable but quite necessary. But I am unable to convince myself that we are doing right in proceeding so rapidly, inasmuch as a too rapid advance is sure to lead to great fluctuations, which result in crises. And indeed it is a true saying that we can not do much in

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the way of fighting a crisis as such and that it has to be fought in its origins. This has been the case every time; so, too, in the year 1907.

Starting from these premises I am compelled to ask myself: Ought we not to avail ourselves of restraining influences? This is in the nature of a question that may be reasonably propounded. I believe, moreover, that it may be shown that bank credits have been dispensed too arbitrarily and too lavishly and that in this way the excessive development has been brought about or at least promoted. Take the boundless speculation in real estate, which I regard as one of the worst cankers of our economic life. Is it not fair to assert that in the surroundings of Berlin and other large cities the credit afforded by the great banks has had a great deal to do with this directly and indirectly and that some of the great banks are even directly interested in the land companies? When we find that the reconstitution of a great rifle range, which has taken the place of one that was given up, is the signal for a land speculation and that the German Empire has to pay a greatly enhanced price, are not the banks indirectly responsible? And in the case of the Berlin-Stettin Ship Canal we find precisely the same thing. These are facts which in my opinion belie a healthy development of bank credit. We must, of course, have these credits and Herr Singer misunderstood me if he imagined that I meant to say that they should be altogether withheld from industry. My view is reenforced by the consideration of another aspect of the matter, namely, the question which I should like to discuss once more to-day as to whether we ought

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not to have larger gold reserves. There are various ways in which we may set about to secure such an increase. The most effective way would in reality be if we were first of all to try to strengthen the reserves of the great banks. I believe the same necessity exists in all other countries, and in England, indeed, they realize it. The world has gone too far in the pursuit of its aim to emancipate itself more and more from the use of cash and to make credit the main agency in its monetary intercourse. What is the result? As regards England, this is the way I have pictured to myself the situation in that country. To my imagination the whole English credit system seems to represent a truncated pyramid or a truncated cone standing on its small end and undergoing a process of evolution in which the small end is getting constantly narrower while the periphery of the pyramid or cone is constantly widening. What is bound to ensue? That this giant structure begins to oscillate. These are the economic fluctuations, the periods of extraordinary monetary stringency that we have been witnessing. And then there are times of political uneasiness with reference to which likewise the banking system has to be organized. The whole German people has not had a war within its territories these last hundred years, not reckoning the war of 1866. This has been a great blessing. We have got to reckon upon the fact, however, that we may again become involved in hostilities. It is therefore necessary to make timely and adequate provision against the danger of the collapse of our banking system by reason of its not being organized with reference to such exigencies and of its not having an adequate reserve of cash.

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I know you will say: "We can not settle everything in cash." Of course not; but we can have larger cash reserves. We have already observed that at times when they experience any kind of dangerous fluctuations the big banks, as well as those of intermediate grade, have recourse as a last resort to the Reichsbank. What is the meaning of this? Next to the Bank of England the Reichsbank has the smallest stock of cash. The Bank of France has about five times as much. Even the Austrian bank is materially much better off, inasmuch as it has a large stock of cash. It is on these banks that the great demands are made at times of financial stringency. What else can the banks do than pay with bank notes? The great public has to take the bank notes, and in a larger measure than ever on account of the larger volume of small notes. Our credit banks might therefore be called upon likewise to secure themselves against such times and to keep larger cash reserves. A consideration of this matter led me to the suggestion of the publication of statements according to a prescribed scheme. The plan of a bureau of supervision is also worth considering. My idea of such a supervisory bureau has been that of an institution, as I have on occasion defined it, whose function it shall be to verify through its inspection the correctness of the published facts, to call attention to peculiar and perhaps objectionable features in the investments and transactions, and to draw its own conclusions regarding such matters without, however, proceeding to the length of exercising any actual restraint. It might, perhaps, be well to consider whether it might not be practicable to combine with such an institution a judicial body to which the individual banks, in case any real hardship was inflicted, might

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appeal from the decisions of the supervisory bureau. In any case, what I have in mind is a board having supervisory functions, but not invested with the power of actual interference. The existence of such an institution is altogether justified by our experience and that of other countries. My main proposition, however, is that we shall, through some kind of mandatory provisions of the banking law, institute some kind of regulation similar to what obtains in the case of the banks of issue, designed to allow the great banks and other credit institutions to manage their business in the main as they choose, but obliging them nevertheless to conform to certain provisions in regard to a cover for their liabilities. I do not propose to make a distinction between deposit banks and banks doing a general business, as this can not be accomplished in the near future. But would it not be practicable to oblige the great banks to keep a minimum supply of cash against such of their liabilities as they may be called upon to meet within a short time, or, say, within a week or fortnight, and in like manner to keep on hand a stock of bills acceptable at the Reichsbank as a reserve against other obligations? This is the principal thing that I have to suggest.

But I suppose you will say, "What per cent do you mean? There can be no fixed rule for this; we should in each case have to prescribe an arbitrary ratio." Of course, but is not the $33\frac{1}{3}$ per cent in the case of the Reichsbank, as a minimum reserve against its notes likewise an arbitrary figure? We might in like manner have to consider whether we should fix, for example, 10 per cent as a minimum cover in the way of cash or of a

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credit balance in the Reichsbank against the deposits, or other outside moneys, withdrawable on demand or within a short time. This would compel the banks to be more careful, and oblige them indirectly to be more conservative in the granting of credit. All this would not mean an obstacle thrown in the path of industry, as Herr Singer expressed my view of it to be. It would only mean that the banks would have to make it clear to industry that it must reckon with the fact that the banks are obliged above everything else to proceed with due regard to safety, just as is the case with the Reichsbank, which is bound to keep a one-third reserve against its notes in cash and beyond a certain amount has to pay a tax on excess circulation. This would have the effect of compelling the other banks to take greater precautions. This suggestion is intended to apply merely to a minimum cash reserve. Thus, no room would be left for other objections.

If now I am asked how this is to be carried out, I reply with the question, How do the banks of issue manage? The Reichsbank itself is obliged to have a one-third reserve. It may find this irksome, but it is a good thing, for in this way the bank is compelled to secure itself. The credit banks ought to be compelled to do likewise.

So much for the main question. I believe that my statements will have weakened the force of some of the objections that we have heard.

As regards the general points, gentlemen, I frankly admit that I recognize the objection that they were outside of the scope of our discussion, and yet they do come within its scope. No one will deny that the present

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development of our banking and credit system has a powerful influence upon our whole economic existence. These are far-reaching questions, more important than those relating to the technical phases of banking. I regret that Doctor Riesser is not present. His professional duties, as is the case with me, must compel him to absent himself part of the time. I will not deny that the view I take of these things is based on the assumption that in the course of our economic development, under the influences of extreme industrial liberty, we have been drifting in reality into a more and more pronounced plutocratic tendency. The interpretation of the facts of taxation which Doctor Riesser gave a little while ago I regard as one-sided and erroneous. I concur rather in the view presented by Herr Singer, although I am once more exposing myself to the charge of speaking again like a Social Democrat. No, I am not a Social Democrat, but I must have the courage to recognize objective truths even when they are advanced by the opposing side. I believe I have at all times shown that I am not at all the Socialist that people have tried to paint me. All this, however, can not prevent me from recognizing as true what I regard as correct even in the views of Socialists and Social Democrats. So, too, in regard to matters of taxation. Stress is laid upon the fact that the number of those in Prussia who are exempt from taxation has diminished considerably. Previous to the reform in taxation initiated by Miquel, the proportion was approximately 70 per cent of the total number of persons and the figure has been reduced to 50 per cent or even less. "Just see," we are told, "how the condition not merely of the

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upper strata of the population but also that of the lower strata has improved." It is very difficult, however, to draw inferences from such numerical data. We have wisely introduced a much stricter system in the levying of taxes. It is due to this circumstance that in the year 1893, the year in which the great reform inaugurated by Miquel went into effect, we realized that prodigious increase of between 30 and 40 millions of marks in our tax receipts. It was made manifest how wretchedly the assessment of the well-to-do classes had previously been made in great many cases. I need only remind you in this connection of the Bochum tax case, where it was shown that as a rule, well-to-do people had not been assessed up to one-third of their income. But in the case of people of smaller means, likewise, the assessment had been too light, and here, too, stricter methods have been introduced and with perfect justice. I am aware that the complaint has been heard among Social Democrats that a great many workingmen who were previously supposed to be exempt from taxation are now compelled to pay taxes. What right have the Social Democrats to complain about this? They have always been opposed to indirect taxes, consequently they ought to be all the more in favor of direct taxes. They ought to say to themselves that if people of small means come within the tax limits prescribed by the law they must be made to bear part of the burden of taxation.

Moreover, in my opinion—my words are directed particularly against Doctor Riesser—there are no better statistics than those of the Prussian income tax. The results which they yield are confirmed by those of Saxony,

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Hesse, Baden, Hamburg, and also of Bavaria, where as yet, it is true, no statistics of income taxes are published, but only statistics of taxes on incomes derived from investments. If we were to classify all those enumerated in the assessment rolls according to their income taxes, taking those having an income below, say, 2,000 marks and constituting them the lower classes, making those between 2,000 and 10,000 marks constitute a middle class (with various subdivisions), and those between 10,000 and 30,000 marks an upper middle class, and taking those having an income exceeding 30,000 marks to be the actual upper class, we shall find that the number of those entered on the tax rolls has increased in each of these departments, and that the ratio of increase, taking it all in all, has been least in the middle class, larger in the lower classes, and largest in the upper class—that is to say, those having incomes running from 30,000 marks to 100,000 marks and beyond. What does this prove? That the increase in the national wealth, which no one will deny, has extended also to the laboring classes, but that the upper classes have secured by far the greatest share, and in particular those who are uppermost and at the very head of our industrial society. Is this not a plutocratic development? In this there is plain evidence of a tendency in the direction of the dominance of a moneyed aristocracy.

I mentioned already in the discussion last year that I myself compiled the Prussian income-tax statistics down to the year 1903. The tabulation for the subsequent period has not been elaborated, but I have begun the necessary studies and would gladly prosecute the work

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did the state of my eyesight permit. The results down to 1903 are, however, very surprising. The number of those whom, with reference to German conditions, we can actually call rich, who have incomes of more than 100,000 marks—for the most part incomes derived from property—has since the middle of the last century to the present time increased fortyfold in Prussia. That is what I call breeding of millionaires. A like increase is apparent in the number of those entered on the census rolls whose incomes range between 30,000 and 100,000 marks, and if we take those whose incomes exceed 100,000 marks and divide them up into separate classes we shall get still more telling results. According to my calculations, we may assume that the national income is now between two and three times as large as it was at the middle of the last century. The laboring class has participated in this gain. They live considerably better. The impoverishment of the laboring class—this is one of the weakest points in the Marxian theories—is not taking place; but this improvement in the condition of the working people is merely a trifle by the side of that of the uppermost industrial strata. Is this not manifest in a thousand ways? We professors are also stupidly included among the rich people, but we and our wives do not wear fur coats worth 10,000 to 15,000 marks. [Laughter.] Who does buy them? [An exclamation.] Not they; there are not enough of them. The colossal increase in extravagance in regard to all kinds of luxuries is a plutocratic development, which, of course, is still more prevalent in the United States. It is bound up in a measure with the existence of combines and trusts.

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In this connection I wish to say a word with reference to a charge that has in particular been brought against me—my advocacy of government monopolies. But what are cartels, combines, and trusts if not private monopolies? Then I say, indeed: Rather government monopolies than private monopolies, and I rejoice that in the last few years the same dictum has fallen from the lips of ministers. If we are to have monopolies—and we have actually got them in the shape of combines, trusts, etc. (witness the coal trust and the steel combine)—then the question really presents itself as to whether it would not be better to have state or imperial monopolies. With the socialistic conceptions and demands pure and simple I have nothing to do, because they are too general. We have to take each case by itself and ask ourselves what is practicable, what is there in favor of any particular measure, and what is there against it. In many cases the contras will outweigh the pros, but there will be some in which the pros will prevail, and there I shall be ready to lend my support by reason of the great fiscal gains that would result. Our direct and indirect taxes are still small in comparison with those of other countries, but for some time we managed to get along with them, as the operation of various public utilities by the Government yielded a large surplus. That is the extraordinary advantage of the nationalization of public utilities, that it places other kinds of resources at our disposal. This is not a notion that I, as a theorist, have conceived in my study, but one which was conceived by a man like Bismarck, whose judgment none of you is going to impeach, who said to himself very properly: "We must have such sources of income for our

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workingmen's insurance as will increase by internal growth just as the income from our railways, and as would be the case, for example, with a government monopoly of tobacco." All this amounts, however, to saying that we actually apply a larger share of the national income in favor of the lower classes than can be applied in the absence of such government agencies and government monopolies. That is the result of our legislative activities. They talk to us about the increase in the salaries of government officials. What does a government official amount to nowadays, even if he belongs to a higher class of officials? What mean little incomes these are by the side of those that we see in connection with the great banks and the trading companies. The economic reforms and social-betterment legislation, the need of which is thus indicated, have an equalizing effect, and I consider it a blessing that they have such an effect, regretting that we are not advancing farther in this direction.

And now, at the close, I am coming to the question of our banking system. I can not escape the conviction that our credit banks are in reality the flowering and the culmination, both from the technical and the economic standpoint, of our rigid system of banks conducted with private capital, but at the same time I must say, its most dangerous culmination, and I must add that this system has contributed to such an acute manifestation in this country of that plutocratic tendency in the distribution of income and wealth in favor of a small, even if increasing, uppermost stratum of the population as has not been witnessed in modern times in any other European state, the United States alone being perhaps in a position to

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give points to us. Viewing the matter from this standpoint, we are bound in the interest of the public as a whole to moderate the activity of these banks, especially where there is any doubt in regard to the security of the deposits and other outside moneys. I also venture, therefore, as a theorist to express my opinion that such measures as the proposed regulation of the publication of the bank statements in accordance with an official scheme and some provisions in regard to minimum cash reserves in the case of specially secured deposits are expedient, and that in connection with all of these measures a bureau of supervision should be constituted essentially along the lines suggested, which shall exercise a regular oversight, not to the extent of actual interference, however, its functions being merely censorial.

I am not sure that what I have just expounded and briefly formulated has carried conviction to the minds of my hearers; but I trust I have accomplished this much, to have succeeded yesterday in showing that my views, even where they reach over into the domain of social legislation, are so correlated as to constitute a homogeneous set of ideas, and to be able simply to say, "I may be mistaken." We theorists, indeed, are not so conceited as to pretend to know all about every little detail and always to be able to get at the truth. Neither do we agree in all things. My esteemed colleague, Lexis, for example, differs from me in regard to many things. Even if you were to get hold of my special colleague, Schmoller, you would find, indeed, that there is a good deal of what I stand for that he is not willing to indorse altogether—he is at all times a very conservative gentleman and does not care to

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go so far—but that in the critical conception of a liberal economic system we manage to agree pretty often. He believes that more can be achieved through the regulation of joint-stock companies than through nationalization, while I am unable to accept that view. With respect to the banks, however, I admit that we are very far removed yet from the time when their nationalization might perhaps be practicable and that we have to adhere to the system of private and joint-stock banks. I was deeply interested in this problem when I was still quite a young man and I have devoted a good part of my life work to it.

This is not the first time, gentlemen—you will allow me to conclude with this remark—that it has happened that views formerly held by me have been adduced against me. Doctor Riesser did it to-day when he said that my former views regarding state interference and guardianship in our economic existence, and, in particular, in connection with the banking system, were the correct ones. I am able to affirm, and I could swear to it, that the opinions to which Doctor Riesser referred as having once been mine were the opinions I formed when I was still an extremely young man. I had been brought up in the fifties under the teachings of the Manchester school and there were many things that seemed to me to favor its tenets, and, indeed, in my doctor's thesis I introduced such a passage as Doctor Riesser has quoted. I was at the time 21 or 22 years of age, and I had grown up in Göttingen, not a very very great financial center, you will admit.

It always strikes me as very funny, you see, to have my old sins brought up against me. [Laughter.] I may be permitted, therefore, to appeal from myself as a young

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man to myself as a person who has had the misfortune to have grown pretty old and who trusts that in the course of a long life he has learned a thing or two that he did not know before. [Applause and laughter.]

Mr. RAAB (taking the floor to make a personal remark). I should like to clear up a misunderstanding under which Herr Wachler has been laboring. According to a statement made by him to-day, I expressed myself to the effect that I regard the export industry as harmful. I should be sorry to have this misunderstanding remain. What I said was that the export industry is an unsafe card, on which we ought not to stake everything. I said that periods of depression were much more likely to arise and that under the stress of hard times the managers of our large industrial concerns would be prone to have recourse to dangerous expedients, as the abolition of duties on food products, the transference of industries to foreign countries etc. So long as we are able to have an export industry, we ought to exploit it as far as we can, but it is necessary to place our business on such a basis that we shall be prepared for a time when such exploitation may no longer be practicable perhaps on the present scale. It behooves us to keep our eyes on the future, so that, if a time should come when our export industry is crippled or perhaps altogether paralyzed, we may be in a position to prevent the collapse of this industry from wrecking the entire framework of our national economy.

Doctor WACHLER (taking the floor in order to make a personal remark). I should first of all like to say a word with reference to what Herr Raab has just stated. I made note of these words in his address: "Our export

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industry is an evidence of the fact that our industry is being ruined." It is against this that I protested.

I also wish to say that I regret to have been misunderstood by Herr Singer. It is a fact that the annuitants have been making too many unjustified claims. I have gathered this from the reports of the imperial insurance department, which undertook an investigation about five years ago of the matter of excessive claims for annuities, the result of which was that it was found practicable to make very considerable reductions in the payments, the expenditures of the imperial insurance department in this direction being thereby diminished. On the whole I have fully appreciated the usefulness and the value of imperial insurance, and I never said that on account of these individual abuses the laws relative to imperial insurance ought to be revised. What I wished to lay stress upon was the circumstance that by reason of the evils attending the enforcement of these extremely beneficial laws our industry would be very glad to see a slower advance in other departments of social-betterment legislation also.

The CHAIRMAN. Gentlemen, we have exhausted the list of speakers. Count Kanitz has asked to be allowed to take the floor again in order to make a brief statement, but begs permission to reserve it for this afternoon.

I should myself, gentlemen, like to say a few words with reference to a remark of Doctor Riesser apropos of our publication regarding "The question of the regulation of the deposit system." He expressed his belief that certain passages in this publication manifested more or less of an inclination on the part of the Reichsbank in favor of legislative regulation. He was led to this impression by his

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notion that the bank inquiry commission was called upon to express itself only with respect to the particular legislative measures which it deemed necessary. I consider this a complete misapprehension of the task of the commission. The task of the bank inquiry commission is not merely to submit propositions relative to definite legislative measures, but also to express its opinion as to whether legislative regulation is altogether necessary. The only criterion that can serve in answering this question is our ability to get along without a recourse to it. On this account throughout the whole of this dissertation of the Reichsbank the question as to what kind of a solution is to be sought has intentionally and knowingly been left open at every place and particularly at the very place which Doctor Riesser has picked out. On page 7 it is expressly stated:

It will readily be perceived that the votes are increasing in number and weight that express the necessity of some sort of a solution of this problem, whose far-reaching importance is recognized more and more.

and just so is the question of a solution in the way of legislation left absolutely open. On page 28 we read:

Of course, all these questions are of great importance with respect to the solution of the problem and will require further elucidation if recourse *should* be had to legislative regulation.

Then follows the passage:

It would appear, however, that the difficulties in the way of a precise definition of these concepts and of the delimitation of the different kinds of funds in question ought not in itself to present an insuperable obstacle if legislative regulations *should* be deemed desirable and not opposed to general principles.

I must frankly admit, gentlemen, that when I read through this publication I thought the reader would be more likely to gain the impression that the Reichsbank

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itself was averse to any kind of legislative measure, than to imagine, as Doctor Riesser said he did, that one had a right to infer from these passages that the Reichsbank desires an organic legislative regulation of the entire deposit system. And I wish to add that since we find that these passages have led to misinterpretations, their wording will be subjected to a fresh scrutiny with reference to this view of their content, and, if necessary, they will be altered accordingly. In this way perhaps these shortcomings will be eliminated.

Gentlemen, before I proceed to the special discussion which we are to enter upon this afternoon, I beg to be permitted to make a few additional remarks on top of Doctor Riesser's expressed opinion regarding the task of the inquiry commission. At the close of these debates, I have somewhat of an impression as though the scheme according to which the discussion has been conducted does not do full justice, at least in its external arrangement, to the significance of the questions under discussion and of the vote of this commission. The basic points which we have submitted to you are put, of course, with reference to the arrangement of the questions instituted by the Bundesrat, which, under Section II, paragraphs 1 to 3, and also 4, places the enactment of legislative measures almost exclusively in the foreground, while it is not until you get quite to the end that you find a modest request for other remarks and suggestions. The pragmatic subject of our discussion is, as I have just expressed it, and as it has been apprehended on all sides, the security and, above all, the fluidity and the soundness of our credit organization, which is being erected into a

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larger and larger structure with the increase in the deposits and other outside moneys.

The last few days have shown, gentlemen, that a majority of the members of the commission are opposed to legislative measures with respect to all the questions put under the main points or else declare that they call for discussion with reference only to individual points. And, indeed, many of the votes cast here, as well as the opinions of the experts whom we have heard, sound an anxious note with respect to our credit organizations, which have not been everywhere free from exaggerations and tendencies which to-day give cause for serious concern. This may perhaps justly be regarded as an explicable concomitant of our extraordinarily rapid and almost tempestuous economic development, as something that may have been unintentional or whose effects may not have been discernible. It is felt that these tendencies, if they are not checked, may become a menace to our national economy and the fluidity of our resources, which is so essential to it, and may finally endanger the Reichsbank and our monetary standard. The exaggerations to which I refer, and to which I adverted in my introductory remarks, consist in an overstrain of credit, resulting from the too ready and indiscriminating granting of credits here and there in connection with loans and bills of exchange for the purpose of making long-term investments or of procuring permanent working capital, or of speculating in stocks, etc., easy-going methods in connection with bank acceptances and drafts, and a certain recklessness in the matter of the ready convertibility of one's resources into cash, a recklessness which goes to the length of making no provision for times

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of financial stringency and involves a reliance on the ultimate guarantor of fluidity—the Reichsbank. There are various things in addition that tend to increase the violent fluctuations and strains of the money market and the rate of interest which are the necessary concomitants of our great and sound economic development and to make the fulfillment of its tasks by the Reichsbank more difficult. These representations were accompanied with an earnest admonition in behalf of moderation. I believe, gentlemen, that it is not the least weighty and effective part of the duties of this inquiry commission to call attention to these sins against the unwritten law, as one of the gentlemen very appropriately termed it, whenever they are recognized as such, and to utter warnings and suggest remedies, even in case, gentlemen, you are opposed to legislative interference altogether, or with respect to the great majority of the questions. Far more important than the question as to how we shall remain sound is the assurance that we shall remain sound. And to some perhaps the question as to whether a cash reserve of a fixed per cent should be permanently maintained or as to whether and when such reserve may be touched in critical times will now appear less important than the necessity of impressing the managers of our credit institutions with the conviction that it is their duty at all times, even if they have to override all considerations of profit and to act regardless of the needs involved in the matter of competition, to look to the fluidity of their resources, ever bearing in mind the necessity of increasing this fluidity with reference to normal times, as well as times of stress, and to make this their fundamental concern in the management

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of their business. And the question as to whether the aggregate of acceptances shall not exceed a certain fraction of the bank's own capital, even under special circumstances, such as those to which Herr Schinckel referred yesterday, will perhaps appear less important to some than that our credit institutions, realizing that their position as powerful agencies in our public life and as the pillars of our credit organization carries its duties with it, shall in these matters also observe sound limitations, that their determination to act in this way shall become their unwritten law, and that their feeling of responsibility with regard to the public and their earnest desire to better conditions shall become the common property of all. And the question, gentlemen, as to whether a law shall be forthwith enacted providing for the publication of statements in accordance with a prescribed and detailed scheme, will perhaps, on account of similar considerations, likewise appear less important to some than that the course hitherto pursued by a large number of banks shall be adhered to, and earnestly adhered to, and that here also our credit institutions, under the lead of the great banks and of the Central Union—which Doctor Riesser has termed a powerful auxiliary force—shall manifest a firm determination to complement and develop this scheme of a balance sheet in so far as this is possible without the sacrifice of any vital interest of the banks, and in this way to afford the supervisory agency that we already possess in the shape of public information and technical publications as complete an insight as is possible into their business methods and policies and into the disposition that is made of the working capital of the nation. It is understood, of course, that the banks shall at the same time

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do their best to strengthen the educatory influence of the publication of these statements, an influence which all the members of this commission consider especially important with reference to our credit institutions.

This brings me back to the subject of our question sheet. I shall request that in the discussion of the separate groups the members of the commission shall not adhere strictly to the question as to whether legislative regulation is necessary with respect to the particular matter but that they shall be kind enough to say in addition whether they have any other suggestion to offer—be it in the way of administrative measures relative to individual points or of voluntary action on the part of the banks—that is to say, that they shall discuss the whole matter from the standpoint also which Herr Roland-Lücke introduced into the debate yesterday in another connection and which he embodied in the question: Is everything being done now that can be effected without legislation, and is there not still a great deal right here that is left undone? I believe even those of the members—I am not pronouncing myself in favor of the one side or the other—who are in favor of legislative regulation would do well before casting their vote as to whether it is desirable that recourse to such legislative measures relative to the whole matter or to individual parts should be had at once or only as a last resort, if, alongside of such propositions, they were to try to form some opinion as to what may possibly be attempted and accomplished in the case of these individual points without recourse to legislation.

I am going to propose in regard to the debate that is to begin this afternoon that in order to shorten the

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discussion and avoid repetition, all of the groups under Section II, paragraphs 1 and 3—that is to say, all the legislative measures that are here submitted for discussion, and, at the same time, all the suggestions outside of the pale of legislative regulation that might come up for consideration—shall be dealt with collectively, and I shall beg the members to take up these individual points in succession. I suggest that the question of the bank statements, as well as the resolution of the Reichstag, be discussed separately, otherwise the whole matter might become too complicated. I believe that in this way we shall save time and be able to come to a clearer understanding of the matter. Are the members agreed? [Assent.]

I shall ask the gentlemen, then, to be present again at half-past 3.

(Recess.)

The CHAIRMAN. It is time for us, gentlemen, to resume our discussions. I will ask Count Kanitz to let us hear now, as an addendum to the general discussion, what he has still to say with reference to the subject-matter of this morning's debate.

Count KANITZ. I have taken the floor once more in order to make a brief response to the gentlemen who have been kind enough to interest themselves in my statements.

Herr Singer spoke of a warfare between industry and agriculture. I know nothing of such warfare. We agriculturists are greatly interested in the existence of a rich and flourishing industry, possessing great purchasing capacity, which is willing to take our products

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at fair prices. We regard a flourishing industry as the necessary condition of all well-being, and I am quite sure that industry realizes that an agriculture possessing great purchasing capacity is absolutely necessary to its prosperity. On this account the representatives of industry and agriculture have on every occasion, and particularly in the drafting of the existing tariff, labored hand in hand and have acted as far as possible with a due regard for their mutual interests, and, as far as I am aware, protection has not in a single instance been carried to excess. I am convinced that there has been no such thing as an excessive rise in the prices of the necessities of life.

In my address yesterday I referred also to social-reform legislation, and I was led to make my remarks by the statements of one of the gentlemen who had the floor before me. He had asserted that the creation of capital in Germany was unfortunately not keeping pace with the growth of the population. I said that I agreed with the speaker, and I ventured to add to the grounds on which he based his opinion the fact that the burdens imposed by our social-reform legislation were appropriating too large a fraction of the national wealth. Thereupon Doctor Wagner retorted that the expenditures entailed by our social-reform legislation were a legitimate and necessary concession to the working class. He asserted that wages had not been keeping pace in the last few years with the increase in the wealth of the people as a whole. I regret exceedingly that Doctor Wagner, who has had so much to do with statistics, does not appear to be well posted in regard to the

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statistics of wages. I have not been able, of course, in my hurry to come equipped with all the necessary data, but it may interest Doctor Wagner to know—and perhaps he will read it later—that, for example, in our coal-mining industry in Upper Silesia the wages of miners have risen in the last twenty years by 96.9 per cent, in the Rhenish-Westphalian district by 73.1 per cent, around Saarbrücken (where the increase has been the least) by 40.4 per cent, and in the Aachen (Aix-la-Chapelle) district by 72.5 per cent. And as regards agriculture, I should imagine that the wages of laborers have about doubled in the past twenty years. Only a few days ago, at my own place, as I was about to start forestry work for the coming winter, I had to offer wages which were almost precisely double the wages paid twenty years ago. I should hardly believe, therefore, that Doctor Wagner is right when he asserts that the imposition of the burdens entailed by our social-reform legislation is merely a legitimate way of leveling out differences.

What I have said has mainly reference to the proposed widows' and orphans' insurance. I do not hesitate to declare, gentlemen, that I am opposed to this extension of our insurance system, the reason being that I am convinced that neither industry nor agriculture will be able to stand this new and extremely heavy burden. It has been officially calculated that the cost of widows' and orphans' insurance will amount to between 30 and 40 per cent of the contributions that have hitherto been paid for insurance—in reality, we shall have to reckon on 50 per cent—and I do not believe that any branch of industry will be in a position to bear the increased burden imposed

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upon it. I shall leave agriculture altogether out of account, but as regards industry, I have managed in a great hurry to get hold of the business statement of a large Westphalian mining corporation, the Good Hope Works. I find in this report that the taxes last year amounted to 1,500,000 marks, and the expenditures for benevolent purposes to 2,400,000 marks, and that together they represent 80.4 per cent of the amount of the earnings distributed in the way of dividends. It is stated in the report that an increase in these burdens is absolutely incompatible with the continued existence of the works. It is calculated, moreover, that the taxes and expenditures for benevolent purposes amount together to 173.12 marks per head of the laborers and officials employed at the mine.

Herr Singer stated a little while ago that he could not understand why anyone should regard this burden as excessive, considering that it amounted to only 10 pfennigs per day for each laborer. Taking the year to consist of 300 working days, this would be equivalent to 30 marks per head. In reality, however, the burden is a vastly heavier one. I have with me the "Green Book of Statistics," with which Herr Singer is probably also familiar. According to this publication, the receipts of all the insurance institutions in the year 1907—the figures for 1908 were not yet available—were as follows:

	Marks.
Contributions of the employers.....	365, 145, 300
Contributions of the insured.....	314, 594, 700
Contribution out of the imperial treasury.....	49, 620, 600
Interest, etc.....	85, 872, 300
Total.....	815, 232, 900

The question is, What is the total number of working-men who are represented in these figures? The German

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Empire contains, in round numbers, 60,000,000 inhabitants, of which over 30,000,000 are females, and of the remaining 30,000,000 I shall assume that one-half are workmen for whom insurance contributions are paid. The burden per head is consequently much more than 30 marks. We must bear in mind that in many cases the contributions of the laborers are likewise paid by the employers, this being especially true of agriculture. I believe, on this account, that Herr Singer's figures call for more or less correction. There remains, nevertheless, a much larger amount, many times more than what Herr Singer has stated to be the contributions of the employers.

As regards widows' and orphans' insurance, I am decidedly in favor of providing adequately for everyone who is in need of assistance. I do not believe, however, the insurance against disability and the widows' and orphans' insurance, which is to come next, with their extremely expensive apparatus, are the right way of doing this. The enormous sums paid for officials, buildings, etc., absorbs altogether too large a part of the contributions which the laborers and the employers have to raise. There are already over 4,000 officials employed in connection with disability insurance. I have here also in the Statistical Year Book accurate information regarding the large number of officials who are engaged in this department, and, of course, the widows' and orphans' insurance would vastly increase this number.

I am in favor, as I said before, of providing adequately for everyone in need of assistance. I do not believe, however, that the way to accomplish this is by means of

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insurance. This department of relief had better be left to the local authorities, to the communes. I am convinced that this would suffice entirely. I should like to invite Herr Singer to visit me some day in East Prussia and to see for himself what provision I have made for the poor of the locality and for my widows and orphans, of whom I have a very considerable number. I would show him a poor widow of the place who weighs three hundred. [Loud laughter.] Every time I ride through the estate I enjoy the sight of this stout creature sunning herself so cosily in front of her house. [Laughter.] So you see in my place the poor, the widows, and the orphans can eat to their heart's content, and we do not need to have any insurance and to pay expensive contributions. In fact, I can not help fearing—and it is this train of thought that led me to speak and which has impelled me to resume my discourse—that our industry, if it should be weighted down with additional burdens imposed by our social-reform legislation, will be rendered incapable of competing with that of foreign countries.

I have thought it to be my duty, gentlemen, to give expression to this feeling of anxiety on my part, and I trust that you will not brush aside this apprehension too lightly as something that is not justified.

The CHAIRMAN. We shall now enter upon the special discussion, and, for the benefit of those members who were no longer present at the close of our discussion this forenoon, I shall repeat that I have requested the gentlemen, in order that we may keep our debates as circumscribed as possible and avoid constant repetition, to deal collectively with points II, 1 and 3, and when we come to the individual

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measures not to adhere closely to the interrogatory as to what legislative measures might be considered in the particular connection, but to be kind enough, in case they are opposed to such legislative measures with reference to single questions or to all the questions, to express their opinions as to whether certain evils exist, and especially as to whether it is possible to eradicate or diminish such evils by other means, be it through administrative acts of the public authorities in individual cases or through regulations prescribed by the bank managements; that is to say, through voluntary agencies. Doctor Ströll will please take the floor.

Doctor STRÖLL. May I ask his excellency a question? If one has already expressed his views adequately regarding point 1, which is the case with me, is he to talk only with reference to point 3?

The CHAIRMAN. I shall expect merely a brief reply in the case of each separate number.

Doctor STRÖLL. If one has already had the floor in the general discussion and expressed himself in regard to these points, is he permitted now to speak only of the bank statements?

The CHAIRMAN. No; the publication of the bank statements and the resolution of the Reichstag are to be dealt with later on separately.

Doctor STRÖLL. But not the matter of publicity.

The CHAIRMAN. Yes; that goes with the bank statements. Points 1 and 3 are the only measures on the question sheet which are here introduced everywhere as legislative measures only. I take the liberty of suggesting, of course, that in so far as the members have

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already expressed themselves in regard to individual points they shall refer briefly to their previous statements.

Doctor STRÖLL. Gentlemen, as I have already stated in the course of the general discussion, I am, on the whole, not in favor of legislative regulation. Legislative measures might at best possibly have to be considered in connection with the two points that are not to come up for discussion just at present, namely, the matter of forced publicity and that of the protection of the public against fraudulent exploitation. If abuses and excesses have manifested themselves, I expect the remedy to come not from without but from within, through discretion, self-restraint, and instruction of the kind, for example, that has been tendered us to-day in such an excellent manner by our president and which has shed fresh light on the whole subject before us. I do not expect a remedy from measures forcibly imposed by a third party. From this standpoint I shall attempt briefly to elucidate the single points that are now submitted for discussion.

In conformity with my aversion to general legislative provisions laying down certain lines in the conduct of business, I am, naturally, opposed to such regulations also as are intended to restrict the taking of deposits to certain privileged institutions or to a whole category of institutions of a certain definite kind. I should consider it altogether unfair, for example, to prohibit the private bank in general from taking charge of funds that the public is willing to intrust to it. I know of many a private firm which I decidedly prefer to any small joint-stock company or to a small Genossenschaft or a small savings institution. It is not a question of the designation but of the

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thing itself. The type of the concern that takes the deposits has nothing to do with it; it is the individuality alone that counts. And the criterion, too, that has often been run to the ground in the press, according to which only those should be permitted to take deposits who make a public accounting, I do not consider effective, for in this matter I do not believe that merely external qualifications ought to count.

Some of the members have expressed themselves (this matter having been also brought up for discussion) in favor of giving a preference to deposits in case of bankruptcy. There does not appear to me to be any foundation for such a proposition, inasmuch as, by reason of the vagueness of the concept, great juridical abuses would arise from the difficulty of determining just what constitutes deposits. Furthermore, the other creditors would consider themselves injured by such preference. If we had deposit institutions after the model of the English ones, where the deposits constitute the main liabilities, the matter might be worth considering. But as we have none such and as our deposit banks are of a mixed character, I regard it as impracticable both with respect to business considerations and from a legal standpoint.

The same is the case with the other proposition that has been made—that relative to the separate management of the deposit funds. Its advocates have pointed to the Deutsche Bank, but I can not see how the conditions existing in the case of such a colossal institution as the Deutsche Bank can be adduced with reference to the smaller banks; and, moreover, we have to deal here rather with technical factors which do not touch the kernel of

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the question. The security provided for the deposits, and not the separate management, will continue to be the main thing.

As regards the obligation to maintain a large reserve—I lay stress upon the term “large reserve,” inasmuch as 10, 15, and 20 per cent of the deposits have been suggested—such measures, as far as I can see, have not worked either at home or abroad. Large reserves of cash have not prevented the disgraceful collapse of German and foreign banks. I have some figures here which I beg to be allowed to place before the members. The last statement of the Kreditanstalt für Handel und Industrie in Dresden before its failure showed cash to the amount of 21 per cent of the outside moneys; in the case of the Leipziger Bank it amounted to 13 per cent; in that of the Solinger Bank to 12 per cent; and in that of the Bonner Bank für Handel und Gewerbe likewise to 12 per cent. These are certainly large cash per centages, and yet in spite of them we had the failures and the losses.

It is a mistake to imagine, gentlemen, that it is the lack of cash that makes a bank insolvent. As far as I can make out, no bank has ever yet been ruined through lack of cash. [“Very true.”] It has been always the rotten assets, the worthless debtors, and the loss of credit. [“Very true.”] So long as a bank has credit it has as much cash as it needs, and if it needs cash it can borrow all it wants without the least difficulty. For in all such cases, if there is a stock of good bills on hand, the Reichsbank affords in normal times an excellent recourse, and the bills that are rediscountable at the Reichsbank are, in my

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opinion, in a sense cash reserves, being in effect a stock of interest-bearing cash. If we were to enact legislative provisions making a large cash reserve compulsory, I believe they would not accomplish their purpose, but would be accompanied by very striking phenomena in the way of the effects produced upon our national economy and the institutions that take deposits.

The rate of interest on deposits would be lowered and the banks would be forced to engage in risky undertakings. The withdrawal of productive capital would be something that our national economy would hardly be able to endure permanently. And it does not appear to me, gentlemen, taking a broad view of the situation, that the obligation to maintain a large cash reserve is altogether in accord with the bold and progressive spirit of our national economy. I should consider such legislation a breeder of anxiety. ["Very true."]

The suggestion was also made to oblige the three kinds of depositories enumerated in the question sheet to maintain a large stock of domestic (imperial and state) obligations. I believe, gentlemen, that this is not necessary with reference to fluidity in ordinary times, or at best necessary with respect to one class of institutions only, the one to which I have already referred in the course of the general discussion, the savings institutions. I consider the savings institutions in this respect extremely unfluid. I have been informed, to be sure, in the course of the bank inquiry, that these institutions—what I am saying applies more especially to Prussia and North Germany, this being hardly the case in Bavaria—have, as it is, large stocks of good and discountable bills. This

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would at any rate be a good sort of security, but I believe the main assets of the savings institutions are after all the mortgages, and mortgages that are not exclusively first class—they are mostly first class, I admit—but to a certain extent second mortgages, whose absolute security, judging by my own practical experience, I would by no means guarantee. I therefore regard such institutions as rather unfluid, and I can not say I find sufficient comfort in the security afforded by the fact that the communes are held responsible. For if anything should happen, if troublous times were upon us, we would be asking ourselves: Where is the savings bank which has neither a large stock of bills nor a large amount of securities to find assistance? It can not get any aid from the Reichsbank nor can it get any from the loan companies which were established in order to do this sort of business, and, of course, it will fare no better at the Bourse, for it has no securities to offer as collateral for loans. I must therefore once more emphasize the fact that I consider the lack of fluidity in our savings institutions as something that detracts from our preparedness to meet the financial stress that would be occasioned by the outbreak of war, and I must say that I should not be at all averse to any measure, if such should be found practicable, making it obligatory on the savings institutions to maintain a larger stock of securities. In saying this I am not blind, of course, to the fact of its being a rather queer thing to force upon anyone securities on which he is apt to lose a good deal, and in connection with which he has perhaps already suffered a great loss.

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Irrespective, however, of such extraordinary occasions, attention has been called to the fact that in times of uneasiness in general the holding of a large amount of securities would be of the utmost importance with reference to the fluidity of the individual banking institution. I believe there can be no doubt about it, and this consideration will perhaps make it appear desirable to some of our heads of banks to provide themselves at all times with securities of the sort that may be used as collateral.

I now come to the points mentioned under subdivision 3: The depositing at the Reichsbank of a sum equal to a certain percentage of the outside moneys, the establishment of state deposit institutions, the assumption by the Reichsbank of the business of taking interest-bearing deposits, and the establishment by the Government of a bureau for the supervision of the banking business.

A compulsory reserve for insuring the greater fluidity of deposits and of our economic resources in general—that is a very seductive proposition, gentlemen. I will not deny that the expression “setting aside a reserve” sounds very well. But various objections present themselves when one begins to examine. In the first place, there are certain theoretical objections. It is not long ago that the importance of the saving of interest was set up as one of the prime economic dogmas, and that such saving was pronounced to be one of the most efficient means of achieving industrial prosperity. At that time, however—that is, a generation ago—our whole national economy was still restricted within narrow bounds. Now it has reached great dimensions and we are, therefore, perhaps more in a position to allow ourselves that sort of an economic luxury. The lessening of

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our capital by several hundred millions—it would amount to that much—would, all the same, be a very great sacrifice even for our greatly expanded national economy. As we are all aware, such a sacrifice is already involved in the locking up of 120,000,000 marks in gold in the Juliusturm (Imperial War Fund), and such a compulsory setting aside of deposits would mean a second Juliusturm, a Juliusturm whose contents in case of emergency would be but a drop in the bucket. [“Very true.”] Most crises, gentlemen, are a result of fear, first on the part of a few people and then of many people. The fear increases to a panic, and this panic can be most readily allayed through an expansion of the currency, such as is practicable with a system of elastic circulation. The central bank of issue is one of the best and most reliable means of conjuring away all kinds of crises. This is an experience that manifests itself constantly in our economic history.

The setting aside of economic reserves, gentlemen—and this is what we in reality mean when we talk of compulsory reserves—is a thing that is conceivable apart from the Reichsbank. “Apart” is perhaps not the right word. It would be better to say, “under the cover of the Reichsbank,” for, when it comes to it, the Reichsbank remains at all times the shelter that spreads like a dome over everything. In this connection I should like to call attention to a suggestion which that oft-mentioned writer Lansburgh has made in his periodical, “Die Bank.” In a recent article on the credit system he sketched such a scheme of reserves with bold strokes. His idea is to organize at a time of financial tranquillity a bank syndicate which will be collectively responsible for the liabilities represented

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by the deposits and will thus afford a sure protection. This syndicate would make it its business to furnish liquid cover and, by constantly keeping a stock of cash, treasury bills, and particularly gold foreign bills, to create reserves convertible at any moment into available funds. It seems to me that if this scheme were to be tried after having been carefully considered, the triple protective combination—a central bank of issue, a well-organized bank syndicate, equipped for every emergency, and mutual collective responsibility—might possibly mean a good deal to our whole national economy. I must say, for one thing, that such a plan appeals to me more powerfully than that of Doctor Heiligenstadt, if for no other reason, because a certain, even if moderate, interest would be obtained on these reserve funds and because this scheme would more or less relieve the pressure upon the Reichsbank and might perhaps even considerably diminish its burdens.

I am coming now, gentlemen, to the discussion of the relation of the Reichsbank to the moot question of the deposits. This is perhaps a rather ticklish subject, but I hardly believe that we can get around it, and after hearing the remarks made this morning by the president of the Reichsbank I shall for my part take courage to discuss the somewhat delicate matter more closely.

Among the various interested parties in whom the German deposit system has aroused more or less justifiable feelings of uneasiness the Reichsbank is undoubtedly one. This general state of uneasiness has not been evoked exclusively by the circumstance that particular groups of interested parties have seen the deposits and the benefits that flow from them slip by and pass to others, but also by

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the loftier and not altogether egoistic consideration that through the present course of development the complexion of our entire economic fabric is being shifted in no small measure, and the position of the individual important organs altered. Such a consideration would be apt to have especial weight with the Reichsbank. Indeed, an esteemed member of the Reichsbank Direktorium, Herr von Lumm, whose opinion will, of course, command respect not as that of a director of the Reichsbank, but as that of a scientific writer, has in an excellent publication described this feeling—an uncomfortable feeling is the best expression I can find for it—in a very pregnant manner. Writings like those of Herr von Lumm are a rare treat for the literary gourmand, for they may be said to throw a flash like that of lightning upon the presumed course of the future, not the future of to-morrow or the day after to-morrow, but a more remote future.

We must admit first of all, gentlemen, that the concentration of the deposits in a few of the great banks has had unpleasant concomitants with respect to the Reichsbank, which undoubtedly render its rôle as the leading institution more difficult and at times even endanger its position as such. Formerly the central bank of issue had an absolute command over the money market. It alone set the tune, which everyone willingly obeyed. But now the conditions with respect to this have shifted very materially, for the increased strength of the great banks and the consciousness of their power, due to the concentration of the deposits, together with their rivalry in the matter of discounts, detract very much from the position formerly held by the Reichsbank, and there are times when the reins of

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leadership slip from the hands of the central bank, which every now and then gets out of touch with the money market and the bill market, over which it has hitherto ruled. This situation is, of course, not a chronic one. It changes according to the amount of strain and stress in the financial and industrial world, but these very alternations, these ups and downs, are in my opinion an additional obstacle in the way of the successful operation of the Reichsbank. For all of a sudden, when a financial stringency sets in, the banks open their bill portfolios and take refuge with the rediscounting bank, and all of them, after having perhaps for a long time neglected the Reichsbank, dance an extra turn with her and keep going after her in such a way that she comes near losing her breath and for a while is hardly able to move. It is decidedly unpleasant for the Reichsbank managers to have to look on at some of the quarter days, at a time of no particular stress, and see the figures marking its condition take a leap of about half a billion.

Here is an example: At the close of October the extra calls upon the Reichsbank had run up to 660,000,000 marks, and these 660,000,000 marks represented, for the most part at any rate, bills of exchange handed in by the banks. And yet this was not a particularly critical time, as may be gathered from the fact that the rate of discount was 4 per cent and the private rate, if I recollect rightly, considerably lower, $3\frac{1}{2}$ per cent. But this is not the main thing, gentlemen. The main thing is the matter of the cover provided for the notes. When this cover at particularly strenuous quarter days is suddenly reduced by 20, 25, or 30 per cent, and the Reichsbank stands powerless in the face of such conditions, it seems to me that

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this is no slight matter. And then the Reichsbank must look on and see its commercial paper coming down to a lower and lower grade, for the higher class of discountable paper is grabbed by the great banks, which discount at a lower rate. These are unsound conditions that ought to furnish food for reflection.

The question is: Can the Reichsbank do anything to alter the situation? This question decidedly admits of being answered in the affirmative. I certainly do not believe that the Reichsbank ought to gaze with folded arms at the unnatural growths that have been fastened upon it by the extraordinary recent development of our economic organization, but at the same time I think we ought to be careful not to try to remedy the evils with futile means, such for example as the assumption by the Reichsbank of the business of taking interest-bearing deposits, in regard to which I have already expressed my opinion. For interest-bearing deposits at a time when money is easy are only a burden to the Reichsbank, and at a time of financial stringency they are even a danger, inasmuch as these interest-bearing deposits may be withdrawn at the moment when it is least convenient for the Reichsbank. More efficient means can be found. No single expedient perhaps will by itself lead absolutely to the attainment of the goal, but I believe that through the agency of various expedients combined the Reichsbank will be enabled to free itself in a measure from the evils which I have depicted.

If the Reichsbank wishes to improve its condition, it may try to do it on a large scale by resorting to the various expedients for attracting gold that have been discussed

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in the course of this inquiry, as the laying in of a stock of foreign bills—I am aware that this has been tried—the issue of small notes, and other similar means.

As regards the small bank notes, we must bear in mind that from the 1st of January on the notes of the Reichsbank are to be a legal tender, and if the Reichsbank has not as yet altogether attained its object by means of these gold-bringing expedients, that does not prove that it may not accomplish this in the future. It will mean a great deal now when the small notes are not yet circulating as they should be—in South Germany people still dislike them—that we have henceforth a means of forcing these notes upon the public, which hitherto has been impracticable. It is possible also to extend the operations in foreign bills and to influence the market by the regular sale of treasury bills. Something can be done also by offering inducements in connection with discounts and loans. The Reichsbank used formerly to offer some little inducements in its discount business in order to come in closer touch with the money market. Expedients like these might possibly have the effect of ridding the Reichsbank at times of a feeling of isolation, and through their collective instrumentality something perhaps can be achieved.

But all this, gentlemen, is not the main thing. To the Reichsbank, laboring under the stress of a critical financial situation in the country, all these things that I have ventured to say would amount to nothing more than words of consolation, words of comfort that are just as cheap as blackberries in the summer time. The main thing is, and remains, something entirely different—the present

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altogether inadequate gold reserve. ["Very true."] There is absolutely no getting beyond this. For what use is an elastic paper currency, what is the use of the provision in the recently enacted amendments to the bank law, permitting the Reichsbank, when hard pressed at the quarter days, to issue so and so many additional millions of tax-exempt notes? The main thing remains, the securing of the paper currency with gold. Well then, gold! But where are you going to get your gold? That is the great question. We can not get it from abroad, for our balance of trade is not of such a nature as to cause a large influx of gold into Germany. It may be the case for a time, but we have already discussed this subject so fully that I believe I need not go into it any further at this moment. Our balance of trade is not going to bring a large amount of gold into the country. Our main recourse, therefore, will have to be to what has been very properly termed our domestic gold mines, to the gold that we have in circulation and which the Reichsbank shall fetch to the place where it will do the most good. Well, for this we have the small notes, the legal-tender quality of the notes, and various other things. But all this will not suffice in my opinion. I myself, not only as a German patriot, which I hope I am, but as the manager of a bank of issue, have just now a veritable hunger for gold, and we managers of banks of issue are not going to fare like the old mythical King Midas, who was dying of thirst and hunger in the midst of his golden treasures, but we should feel tiptop amid our treasures of gold. [Laughter.] Unfortunately we can not create such treasures for the Reichsbank, at least not immediately. Our gold reserve can be strengthened only

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slowly and cautiously, only very gradually, by means of determined effort, conscious of its goal.

There would be no use in considering the question of compulsory reserves for this object, for the time being at least. It will be time to discuss such measures when everything else has been tried and found wanting. Reference to conditions in England, where efforts are being made in the same direction, is only partially to the point. Judgment regarding this will have to be deferred.

Nevertheless there are ways that are practicable right now if we are bent on supporting the Reichsbank and guarding it against too violent and at times illegitimate demands upon it.

I would make the whole question that we are discussing here turn about these ways and means as a center. I am not aware of the intentions of the Reichsbank, but it appears to me that the Reichsbank is not overanxious for legislative regulation on a large scale in the matter of deposits. But there is something else, gentlemen; there are, as I said at the outset, not only legislative measures, but also measures whose authors need ask no one any questions and are their own masters. An authority like the Reichsbank is capable of enacting *administrative* measures, and I consider these administrative measures a very practicable means, and as the manager of a bank of issue I should recommend them up to a certain point to the Reichsbank.

I am not alone in my position, gentlemen. Some of the members here—I will not say that it was quite so clearly stated, but at any rate they expressed it half and half—think pretty much as I do. President Schinckel referred

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to the matter yesterday, declaring—as I say now and as I have said in the course of the general discussion—that the Reichsbank has got to be stern. When the demands made upon it by particular banks are too great, very well; then let the Reichsbank take a close look at its customers; let it separate the chaff from the wheat; let it, if some one bank or another should try to press closely, take such a bank and subject it to a severe scrutiny, which it can easily do, as it is fully posted in regard to its customers' business relations. Let it try to find out whether the bank has not too large deposits in proportion to its own resources; let it see whether the aggregate of the bank's acceptances does not appear too large; and let it, in fact, as far as this is possible, examine the bank's business methods. And if after all this it has reason to assert positively that such and such a bank or institution—I am not speaking of banks in particular—this firm, this association, this man to whom it grants credit, is not to its liking, then in my opinion the Reichsbank has got to proceed administratively and act in a harsher way than it has done hitherto; in short, it must do that which Herr Schinckel, I believe, expressed in a single phrase, when he said that the Reichsbank must take hold of the individual sinners and punish them. This would be a good way of reducing the excessive demands upon the Reichsbank, which, by reason of an inadequate gold reserve, it is not in a position to satisfy. Judging from my knowledge of our humble Bavarian conditions, I can, comparing little with big, imagine how it is with the Reichsbank. When I ask a man who has credit relations with the Bayerische Notenbank to come to me and tell

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him, "See here; we have so and so many of your bills and for such and such a reason I don't like the looks of it, and if it keeps on like this I shall have to return your bills to you or cut down your credit at the Bayerische Notenbank," the man gets to be very meek indeed, and the same would be the case with the Reichsbank, and in a much greater measure. Gentlemen, you would be able to exert a great educatory influence if you were to act a little more rigorously in this respect than you have been doing heretofore. You would be rendering a service not only to the Reichsbank, but to our whole national economy, and placing a check in the way of the excessive demands on the part of the banks and a refusal to keep within legitimate bounds, of which we have had indubitable evidence in the past and which we know very well are still manifesting themselves.

This gentlemen, is what I call nonlegislative regulation. You are not obliged to ask anybody, but are able to act on the strength of your own competence, and everyone will thank you if in this you establish *de facto* a supervisory authority and draw the reins tighter, wherever necessary, than you have hitherto done.

The proposition relative to the exercise of supervisory functions by the Reichsbank does not appeal to me. It emanates from theorists, and I doubt whether there is a practical man in the circles which we represent who considers such a proposition desirable or expedient. A supervisory authority would perhaps be a necessity if there had been no such thing as supervision heretofore. I am by no means under the impression, however, that there has been a lack of supervision in regard to the banks. Indeed,

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there is no lack of it. There are plenty of supervisory and regulatory organs in every conceivable variety: Inspectors, supervisory councils, general assemblies of shareholders, government commissaries, technical periodicals, analyses of bank statements in the *Frankfurter Zeitung* and other papers devoted to banking and the Bourse, and, finally, the Bourse itself, which day by day adjusts the quotations of bank stocks and in this way subjects the individual institutions to its criticism. Nor is there lack of state supervision in regard to various classes of institutions. Whole groups of banks—the mortgage banks, the banks of issue, the insurance banks—are subject to government regulations in regard to their business methods. There is consequently not too little supervision. In my opinion, indeed, there is too much of it, and there is danger that one supervisory authority will rely upon another and that neither will perform its duty completely and thoroughly.

There is altogether, gentlemen, a great diversity of opinion in regard to the value of governmental supervision. For my part, I should really not be able to say who should actually undertake such supervision. If it were merely censorial, as some assume, the banks might put up with it, but as for a mandatory authority, it is something that I am in fact unable to conceive of. For we shall look in vain for a government commissary who is fairly well informed concerning the manifold relations of the banks, and in particular the credit banks. Such a person would not remain very long at the head of an imperial bureau. You would soon see a whole mountain of gold piled up before such a demigod in order to let him know that he had better lay down the post of supervisor and come over to some bank or another. [Laughter.] And as a matter of fact,

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gentlemen, where individual cases required, we have for a long time had a supervisory authority, a fact that was recognized in the expression of views in the course of our discussion. This is something that I can place before you as a fact gathered from my own practical experience. The supervisory authority in question is the Reichsbank. The president of the Reichsbank would respectfully decline if we were to offer to make him perpetual supervisor of banks, but he has all along been a supervisor, if not a perpetual one. The Reichsbank, with its five hundred branches and its staff of men trained in economic matters, a bank having credit relations throughout the whole country, has for a long time been exercising such a supervision. When the Reichsbank or a private bank of issue thinks it sees something that does not seem to be just right, what happens? It says simply, "Let us have your balance sheet and just explain your affairs to us; we want to peep into this and then we shall see how it is with your credit."

It is a very customary thing for the Reichsbank to ask for the balance sheet, and if the Reichsbank detects a dark spot in the region of credit, it will lay hold and exercise its right of supervision. I consider this altogether proper, and my opinion is that we ought to remain content with this police power in the matter of credit, which, as far as I can judge, has been successfully exercised by the Reichsbank, as well as by the other banks. I can see absolutely nothing indicating the need of any supervision beyond this. There is in fact no occasion for any more drastic supervision. The German banking world is of age, and by its own strength it has grown up and become useful and indispensable to Germany,

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It has long since outgrown its pinafores, and with persistent striving and through a hundred struggles and crises it has gained strength and stability. It is justified, therefore, in my opinion to reject decisively and emphatically the institution of a permanent guardianship. [Applause.]

Doctor LEXIS. Gentlemen, the question before us is one relative to the enactment of legislative provisions regulating the taking and management of deposits and savings. To begin with, however, it is necessary to ask for a precise answer to the question, What are savings and what are deposits? And with respect to the latter, various distinctions have to be made. In any case, therefore, the preliminary question that has to be answered would be, What are savings and what are the other sums that are due to customers, that is to say, the balances of the account-current creditors and of those whom I shall call the private possessors of accounts current? By the latter I mean such persons as have an account at the bank but are not engaged in any business. I believe these distinctions have to be made before regulations for the protection of savings and deposits can be considered.

The question is then: Is the enactment of such legal provisions feasible and desirable, supposing that for each of these categories separate regulations were to be promulgated?

Let us begin by considering the savings by themselves. These I take to be the sums deposited in the bank by nonbusiness men subject to notice of withdrawal, without regard to the time. I believe this is as near as we can get to the definition of savings, although I admit that there are certain intermediate stages. But this

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distinction has for me no practical meaning. I am of opinion that the enactment of regulations imposing any sort of restriction in the matter of the taking of deposits is not feasible, that is to say, it is bound to encounter the greatest obstacles and is otherwise undesirable, inasmuch as the results would hardly be of great practical importance.

It is very different with the provisions relative to the publication of intermediate balance sheets, which, however, are not to come up for discussion just at this moment. The legislative provisions that have to be considered now would have to be in the first place in the nature of regulations with respect to the taking of deposits, such as would restrict this business to certain institutions or such as would restrict the aggregate amount of deposits that the various institutions would be allowed to take.

A restriction of the taking of deposits to certain institutions could only mean the restriction to certain specified banks. The savings institutions can certainly not be restricted in the matter of taking savings on deposit, and the Genossenschaften would be absolutely deprived of the basis for their existence if it were proposed to throw actual obstacles in the way of their accepting outside moneys. The whole question before us, therefore, is in my opinion only as to whether restrictions of one sort or another should be imposed upon banks and bankers in the matter of taking deposits of any kind whatsoever. I should consider it very inexpedient. Some abuses undoubtedly do occur in the case of the small bankers and the small banks—certain regulations coming under Point 4

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might perhaps be considered later on in this connection—but I should refrain on general grounds from advocating the restriction of the taking of deposits to particular institutions or concerns.

Just as little am I in favor of restricting the aggregate amount of the deposits. It might perhaps be practicable to make the paid-in capital of each individual concern the scale according to which the maximum amount of outside moneys is to be fixed, just as is the case with the mortgage banks, which are permitted to issue debentures up to ten times the amount of their capital, but I am not in favor of such restriction in the case of ordinary banking concerns, if for no other reason, because the *Genossenschaften* would fare worst of all by it, inasmuch as they have a particularly large percentage of outside moneys in proportion to their own capital.

We have further to discuss the question of regulations providing that deposits be invested apart from other outside moneys and the proposition relative to the preferred claims of creditors having deposit or savings accounts at a banking institution.

A separate management of the deposit funds, gentlemen, would be practicable, as Doctor Ströll has already pointed out, only in the case of the very largest concerns. The small banks and bankers would not be in a position to undertake this, and in the event of bankruptcy the whole thing would be of no practical importance. It would be somewhat different if it were proposed to make those having deposit or savings accounts preferred creditors. In this matter again deposit and savings creditors are classed together, and if we do this we include pretty

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much the whole of the liabilities outside of the acceptances, in which case there would hardly be such a thing as a preferred claim. The question then would have to relate mainly to those creditors having savings accounts, who would be regarded as preferred creditors by the side of the creditors having accounts current. I doubt, however, whether such a thing would be sound from an economic standpoint. Why should the working capital of the creditors who are business men which is in the shape of current-account balances be treated any worse than the savings deposits. Undoubtedly the latter deserve every possible protection but I can not see why they should have a preference with respect to the credit balances of the business men.

Indeed, the whole import of such a preferred right is to me doubtful. It is a purely abstract preferred right without any rational foundation. There are, of course, effective preferred claims. A mortgage creditor has a preferred claim on the strength of his mortgage. In the United States the notes of the banks are secured by bonds deposited with the Government. There is something tangible here that makes the preferred right valuable. In the case of insurance companies the insured have a preferred claim to the premium reserve. This is, however, something very tangible, for the premium reserve is not mixed up with the other funds of the insurance company, but is entered separately. It is distinctly declared that such and such mortgages and such and such securities belong to the premium reserve, and the preferred claim of the insured extends only to what is expressly designated in this way as pertaining to the

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premium reserve. The same thing might be theoretically feasible in the case of the savings deposits in the banks—that is to say, particular funds in the shape of securities might be laid aside to serve as a cover for what is due to the creditors having savings accounts. But then this would be a separate management entailing heavy expense and would make it impossible to allow even a moderately high rate of interest on savings deposits. Such an arrangement might perhaps indeed be a definite answer with respect to many of the points submitted for discussion. But I regard it as very problematic in itself and I am unable to declare myself in favor of making persons having savings accounts preferred creditors.

Another matter that is to be discussed is that of regulations with respect to the investment of deposits and, in the first place, with respect to the fixing of a cash-reserve quota. This latter would mean, as distinguished from the regulations under No. 3a, that the banks themselves shall keep in their vaults a certain amount of cash—that is to say, their cash is to bear a certain ratio to their deposits.

Here again the question has to be asked, What are deposits? Are the account-current creditors to be included or are those having deposits of savings alone to be considered? The banks, then, are at all times to have a certain amount of cash on hand. It would undoubtedly be a good thing if the banks could be got to employ this means of assuring their fluidity, and it is very desirable that they should pay more heed than they have done heretofore to the matter of cash cover for their liabilities. But nevertheless, mainly for the reasons advanced by

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Herr Roland-Lücke, I do not think that the plan of compelling the banks to such action by a formal injunction will work, for if a bank were to become actually embarrassed and were obliged to have recourse to its minimum reserve it would be necessary, first, to obtain leave from some authority to do this. If the reserve fund is not to be touched under any circumstances, then it will be of no use to the bank in case there is a run upon it. But the granting of permission to make use of the fund would every time create uneasiness. For this reason I am not in favor of legislative provisions of the kind in question. I do believe, however, that it would be of great advantage if the banks were to keep a larger cash reserve than they have been keeping hitherto, for it appears from the published data that the actual stock of cash is at times not as large in proportion to the outside money as it ought to be. But this is a matter that will be gradually adjusted better and better in accordance with sound banking practice through the experience of the banks themselves. Another matter to be discussed is "the investment in bills and other resources regarded as fluid." This means that a certain percentage of the deposits is at all times to be secured by bills. Here again only the savings deposits would have to be considered, and not all the other creditors. But, as it is, we find that there is always a large amount of bills among the immediately available resources and I am consequently not in favor of compulsory regulations in regard to this matter either.

A further question is that relative to "investments in government obligations and similar securities." This

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would mean again that a certain percentage of the deposits has to be tied up, such funds to be invested in government bonds and similar securities. I should regard it as very desirable from a practical standpoint that the banks should maintain a considerable reserve in the shape of government securities, which in certain contingencies might be of the utmost importance, but I am by no means in favor of a law prescribing a certain percentage.

As regards the "investment of the surplus," it would perhaps not be impossible to frame a regulation to the effect that the surplus, that is to say, the legally prescribed surplus, and not the amount in excess of it—the Deutsche Bank has a surplus of a hundred millions—must be invested in a certain manner. The banks would accordingly not be permitted to carry their legally constituted surplus as an undistinguishable part of their assets, but such surplus would have to be represented by a particular stock of securities. This is the case, as a rule, with endowment and pension funds, which are invested in a special class of securities. There are also corporations whose surplus is separately invested in securities. A provision like this might perhaps be considered. It would have the advantage of causing a considerable stock of government securities to be accumulated as a sort of guaranty fund in the hands of the banks. This proposition would at the same time be an answer to the preceding point, 3c.

Among the possible regulations of another kind, mention is made first of the "depositing of a certain percentage of the outside moneys with the Reichsbank." I have already expressed myself in regard to the keeping of a metallic reserve by the banks themselves. I should

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consider it more advantageous in this respect if the banks were to transfer to the Reichsbank the greater part of such metallic reserve, as much as they can dispense with in their daily payments, and would in this way increase their credit balance at the Reichsbank. These funds would at the same time enable the Reichsbank to issue a corresponding amount of notes. We must bear in mind, gentlemen, that if we give the banks doing a general business and other banking institutions an injunction to the effect that they must keep a certain cash reserve, one actually larger than they need in their regular daily business, it means something altogether different from making a regulation compelling the banks of issue, and, in particular, the Reichsbank, to maintain at all times a certain reserve against their note circulation. The regulation regarding a one-third reserve has in practice no actual significance. The regular issue of notes has never come near to being three times the amount of the cash reserve. A bank of issue consequently loses nothing when it is told that it must keep a gold reserve against its circulation, inasmuch as for every hundred marks in gold it can issue at least an equivalent amount of notes, so that its working capital is not affected by the tying up of its gold reserve, and can in reality, if it has not got quite close to the maximum note circulation, as fixed by the provision in regard to a one-third reserve, issue notes up to three times the amount of the gold that it is going to set aside. It loses nothing by having this obligation imposed upon it. But another kind of bank sustains a positive loss with respect to its working capital if it is compelled to set aside and tie up so and so much for the safeguarding of its fluidity.

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That is much worse than to be told: "You must set aside a hundred marks in gold, but you may issue instead 300 marks in notes." It would in itself be very desirable if the banks were told that they must keep a definite reserve against their deposits, it being provided that their credit balance at the Reichsbank should be reckoned as part of this cash reserve. This—point 3a—would appear to have more to recommend it than the preceding proposition under point B3a. I do not, however, consider a positive provision to this effect necessary. The same objection presents itself as the one raised by Herr Roland-Lücke, that, if it should become necessary to have recourse to this fund, the bank would be obliged, in order actually to assure its fluidity, to go to the Reichsbank and draw upon its balance. This would, however, have to be attended with certain formalities and would undoubtedly create an uneasiness that might have evil consequences.

In what concerns the "establishment of government deposit institutions," if such a thing is considered necessary, gentlemen, why, we can make a trial. I do not consider it necessary.

A VOICE. How are you going to make such institutions pay?

Doctor LEXIS. Yes; that's the trouble. [Laughter.] Such institutions would of course invest their money in $3\frac{1}{2}$ per cent government bonds, and could therefore not pay more than 2 per cent interest. But maybe there are some people who are so anxious to get a safe place in which to deposit their money that they are satisfied with this rate. I should, however, not recommend the experiment.

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The same thing applies to the "taking of interest-bearing deposits by the Reichsbank." I believe the Reichsbank itself is not very enthusiastic about having this task intrusted to it. It could, as a matter of fact, be done without imposing a burden upon the Reichsbank. A separate department might be created which would invest the funds exclusively in $3\frac{1}{2}$ per cent government bonds, so that after the operating expenses were defrayed there might remain $2\frac{1}{2}$ per cent in the way of interest. Perhaps there are people who would be content with this. It is a fact that there are persons who deposit money in the Reichsbank and get no interest whatever. I know, for example, of one individual who deposited 50,000 marks and did not ask for any interest, saying simply: "I want to have the money at any time at my disposal; that's why I am depositing it here."

Finally, as regards the "creation of a bureau for the supervision of the banking business," it follows from all I have said thus far that I am by no means in favor of it. The supervisory offices that have come into existence have an altogether different significance. Take, for example, the supervisor of the national banks (the Comptroller of the Currency) in the United States, who has, above all, the important task of keeping the circulation as safe as possible. There is as much as \$600,000,000 (2,400,000,000 marks) of bank notes in circulation in that country, and the interest of the public there in the maintenance of the soundness of the notes is of much more importance than the interest of the public here in the insurance of the safety of private deposits. If we

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have a supervisory bureau for the insurance business, which indeed works very well and in complete accord with the representatives of that business, there is a much more far-reaching interest involved than that of the simple owners of savings deposits. A life insurance rests on the efforts in the direction of saving exerted throughout a whole lifetime. When people have been paying premiums twenty or thirty years, it is extremely important that a guaranty shall be afforded that the money will actually be paid when the person insured dies. The tasks appertaining to a supervisory bureau for banking would represent a sphere of activity to which no limit can be assigned. Think of the many thousand banking concerns of every kind and cooperative credit associations! If all the small private bankers were to be included, an actual supervision would be a sheer impossibility. You might as well place all artisans under a supervisory office. If it is proposed to extend the supervision merely to the joint-stock banks, such supervision would indeed be feasible, but even then I do not believe it would be effective—as experience, particularly in the case of the mortgage banks, has shown—for the reason that it would be impossible to penetrate into the details of the condition and management of the entire concern. In the case of the insurance companies, to be sure, every detail of the business management is subjected to a close scrutiny; but then the number of such concerns is not nearly so large.

Mr. ROLAND-LÜCKE. As I stated day before yesterday, I am opposed to legislative regulation, because I consider it not merely useless with respect to the public interest,

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but in the highest degree mischievous. On the other hand, I am decidedly in favor of the policy of helping the parties concerned to train themselves in such a way as to become more and more accustomed to criticise themselves, to listen to the criticism of others without resenting it, to take lessons from criticism, and to make practical use of what they have learned.

How is this to be accomplished? Who will guarantee that fine words and fine plans, uttered and expressed for the moment, will not, as soon as the attention of the public is diverted, be dissipated like foam in the air?

I should like to submit a proposition to you which, according to my humble judgment, is calculated to attain the legitimate aim of the advocates of legislative regulation and which at the same time the opponents of legislative regulation ought to declare themselves willing to accept. I must remark that, as a matter of course, I have not discussed what I am going to submit to you with any representative of a bank, so that you may all rid yourselves of the impression at once that this might possibly be something emanating from the banks themselves.

Since the beginning of the year we have seen a number of banks make a voluntary declaration to the effect that they are going to submit to the public at regular intervals a statement of their condition, and these banks, which I know have been joined by others in the course of the year, have bound themselves to adhere to this course. Their action would have a sort of binding force, something that could not easily be shaken off, through the circumstance that it represents an obligation on the part of the

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members of the clearing house, which obligation is to continue as long as they are members of that institution.

I know that the objection has been heard that the contents of such published statements are not adequate, that is to say, as I take it, that they do not satisfy legitimate requirements. By legitimate requirements I understand the obligation to give to the public such information as will be of practical service without entailing any needless injury to the banks. The objection was raised, moreover, that such statements would be published only by an insufficient number of banks, while a large number of those banks in whose condition the public is particularly interested, would not be represented. Fault was also found on the score that there was no guaranty that the public would be sufficiently informed in regard to the condition of the banks.

How are these objections to be met? We have had these statements now nearly a year. It seems to me that it would be a logical step in the course of action here proposed if the Reichsbank, which presides over the clearing houses, were to consult with the members of its own clearing house in regard to the elaboration of the precise form which these statements are to take in the future and to submit tangible propositions relative to the matter, as has already been suggested this morning by Dr. Riesser, although perhaps not in this particular way. Out of the requirements with respect to the contents of the statements I shall select those that correspond, in my opinion, to what may justly be asked and what it is the practical concern of the public to know and which are calculated to promote the aims that we are all more or

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less pursuing—the development of the banks. Of course I am not able as yet to give you precisely formulated suggestions and propositions. All I propose to do is merely to indicate the skeleton which would have to be filled out by those appointed for the purpose.

I believe the following improvements could be introduced in the bank statements—such as they have been and as, in my opinion, they must be allowed to remain—without entailing too much labor for the banks and without disclosing their legitimate business secrets.

In the first place, the banks ought to state specially the amount of their credit balance at the Reichsbank. There should be separate entries: “Credit balances at banks and with bankers” and “Credit balance at the Reichsbank.”

In the second place, they should separate their stock of securities into various classes: (1) German imperial obligations, German treasury bills, and German state obligations; (2) other absolutely sound German securities; (3) securities listed on the Bourse; and (4) other securities. I believe that if a statement of these four classes were to be made five times a year, public criticism and the customers of the bank would be afforded an excellent insight into the condition of the bank, while with respect to the bank managers themselves such statements would constitute a compelling factor in the matter of self-training. Of course, considering the large number of banks with which we have to deal, regard must be had for their various peculiarities to the extent of inaugurating this change in the matter of statements only after the lapse of some time, say, six months, in order to give such of the banks

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as might need it time to accommodate themselves to the new arrangement.

Another change that it would be of advantage to introduce in the statements is to divide the item "Thirty-day stock exchange loans (*Reports*) and loans on collateral (*Lombards*)" and make two items of it, namely, "Thirty-day stock exchange loans and loans on collateral in connection with houses that are members of the Bourse" and "Other thirty-day stock exchange notes and loans on collateral." Thirty-day stock exchange loans and loans on collateral to firms belonging to the Bourse are, of course, not to be placed with respect to fluidity in the same category with similar advances to outsiders. In the case of firms that are not members of the Bourse it is the universal custom, under normal conditions, to allow them to renew their obligations, whether this suit the lender or not, unless there is positive danger in such extension. When, however, the house is a member of the Bourse, if the lender does not care to let the debt run on all he has to do when the month is over is simply to decline to renew the loan and the money is promptly refunded.

With respect to the stock of bills, I should not go to the length of advocating a separation into bills drawn on Germany and bills drawn on foreign countries. However interesting such a division may be, important considerations, for which we must have regard with respect to the interests not merely of the banks but of our whole national economy ["Very true"] interdict such publicity. But these considerations need not prevent us from separating the bill portfolio into, first, discountable bills, excluding promissory notes and drafts of German banking houses;

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and, second, other bills. On the liabilities side that class of creditors which consists of banking houses should be specially entered, so that anyone may be enabled to see how large is the total amount due to such class.

What I have here suggested—one or two of the points calling, perhaps, for a somewhat more practical wording—ought, I believe, in a general way to meet the legitimate demands of criticism without conflicting in the least with the interests of the banks and of the public. These demands have, indeed, been pushed to inordinate lengths, and I should consider it altogether mischievous and inexpedient to attempt to satisfy these further requirements.

If a form of bank statement were to be prescribed by law which all of you and those on whom the task of elaborating it devolved firmly believed was the correct one, we should nevertheless be confronted every year with the question as to whether the new economic developments and business methods and our altered views as to what constitutes a security do not render a change necessary. How our notions in regard to what is expedient and sound in business are constantly changing is demonstrated by the fact that in the seventies the loaning or advancing of money on the security of a ship's bill of lading was looked upon by most of the banks as a reckless way of doing business ["Very true"] although a maritime bill of lading is just as good security as the goods represented by it. The action of the Deutsche Bank, which was the first institution to engage in such transactions on a large scale at that time, was regarded with suspicion, and I frequently heard the remark, "The advancing of money by the Deutsche Bank on bills of lading is a light-minded piece of business."

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If such an expression were uttered to-day—and it was already the same thing ten years ago—everyone who is a judge of banking methods or an economist would smile at such an objection. I am referring to this merely in order to remind you that there is no such thing as stability of forms and rules in the various economic fields. What I am suggesting to you now with reference to the contents of the bank statements may be good for to-day, but this does not mean that I may not come to you myself in the course of nine or twelve months and say “I consider this all wrong now; we must try something different.”

We have heard it said that the banks that publish statements and which are going to publish the improved statements are not sufficiently numerous and that a whole string of prominent banks are not represented, many of which are the very ones whose statements the public ought by all means to have. But, then, gentlemen, I have always considered it as a matter of course that a feature of this spontaneous outgrowth would consist in our appealing to the Reichsbank with the dictum so excellently expressed a little while ago by Doctor Ströll: “Reichsbank, when circumstances require, be rigorous.” I, too, should like to call out to the Reichsbank: “Reichsbank, be rigorous at times and behold this injunction ever before thee, written in shining, golden characters, and reflect that thy apparent severity is indeed no severity at all.” And to come back to Herr Ströll: “Thou comest not clad in the robes of a bailiff appointed by the Government, but thou comest as a representative of the public interest; it is thy task and thy duty to examine and to admonish, and, if there are those who are unwilling

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to hear, to compel them to hear; thou art able to warn effectually better than any one else."

No matter what sort of a supervisory bureau you may have in view, do you suppose it can ever attain to the organization of the Reichsbank? Could it ever command such a thorough insight into every corner of our German realm and into every kind of economic activity as our Reichsbank can, which has its officials and confidential representatives right at the very spot? ["Very true."] The Reichsbank would simply have to issue the following confidential instruction to its various agencies: "Just ascertain which banks in your district continue to publish no statements. Enter into oral communication with one after another of them, talking either to the president or, if the management is in the hands of a supervisory council, to a member of such council with whom you are intimately acquainted and explain in a friendly manner that publication is a necessity for these banks, too." As far as I know anything about the heads of the main branches and subbranches of the Reichsbank, I am willing to make a wager with you that there will be mighty few banks which after such a representation or after a repetition of it will hold out any longer, saying that they are unable or unwilling. But if there should be a very few that refused to yield, they would, as a matter of course, be quietly told in the name of the Reichsbank: "Very well, if you are not going to agree to this thing, there is nothing left for us but to take measures that will compel you." But this necessity will hardly present itself, for the agitation that has been going on these past two years in a more or less acute

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form in the press and in the Reichstag before the very eyes of the banks has reached the point where an insistent demand on the part of the public, or, at any rate, a firm determination on the part of our legislators, will lead to legislative enactments unless assurance is forthcoming, not merely of a readiness on the part of the banks to adopt the course of voluntary and adequate publicity, but of the certainty of their effectively pursuing such a course.

Another complaint that has been made is to the effect that the requisite information is submitted to the public in an inadequate manner. It is acknowledged that reports are published indeed in the *Reichsanzeiger* and that a number of papers publish the statements themselves and discuss and criticise them editorially—and this is, of course, true—but it is asserted that all this is inaccessible to the public at large. I should therefore suggest to the Reichsbank that in prescribing the form which the statements are to have in future it shall proceed to issue the following instructions, which it is presumed the banks will follow: Every bank shall in each room that is accessible to the public post up its last statement, printed in visible and legible letters; furthermore, a printed copy is to be furnished to any person on request. By this means the banks would be saved a very great and useless expense in the way of advertisements in the newspapers [“Very true ”] and would be enabled at a minimum cost to satisfy the legitimate requirement in the matter of the ability of the public to have an insight into their condition.

Assuming that the Reichsbank adopts this course of action—that is to say, assuming that we have succeeded

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in obliging all the banks to publish statements and to publish them in a form that will satisfy all legitimate criticism—we shall then perhaps hear a note of dissatisfaction coming from various quarters, a prediction to the effect that when the present momentary feeling has subsided the matter will be permitted to go to sleep. The Reichsbank, it will perhaps be said, will gradually begin relieving itself of the duty of exercising a pressure which for one reason or another may be unpleasant, and at the end of a year the matter will be dropped or reduced to a mere formality. If this apprehension is felt and the belief entertained that the arrangements—of which we now have an abundance—that might be utilized for the purposes of the proposed supervision or control, together with the central committee of the Reichsbank (through which organ the bank thrusts out additional feelers into the various realms of business), may not be quite adequate for the accomplishment of what is desired, or if these organs are regarded as too prejudiced or otherwise not just the kind of mechanism that is required, then, gentlemen, I think we shall perhaps still be able to remove this objection in a satisfactory manner without the enactment of any laws. Can not the Government create a “permanent banking commission?” This should not be a legislative measure. If no special appropriation is made for the commission and if its acts are not invested with the force of law, the Government can create as many commissions as it pleases.

Such a commission might, perhaps, most advantageously consist of twenty members. One-third of the members—I am taking, of course, merely an arbitrary number—are

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to be appointed by the Reichstag from its midst and the remaining two-thirds would be composed of two or three leading economists and about a dozen men of practical experience and untrammelled in their views, without regard to party affiliations. Do not be afraid to put extremes together and insist—this admonition is intended for the Government—on having men drafted into this service who are actively engaged in the work of the community, men who know how to deal with matters in a pragmatic and businesslike manner.

The organization of this banking commission would embody the following three features:

(1) The commission is to meet at least every three months, unless special circumstances render more frequent meetings necessary.

(2) At least two-thirds of those members of the commission who are not members of the Reichstag are to withdraw annually under all circumstances. The term of office would therefore be about one year. The object of this regulation is to prevent any unwarrantable or one-sided action on the part of the commission and to make room for persons who in the opinion of those exercising the appointing power are perhaps still better qualified than the retiring members to come into close touch with the banking interests and to obtain a clear insight into everything and who would be able to form the best judgments, give the most practical advice, based on experiences in the industrial and commercial world and tendered with due regard for the public welfare, and to apply the necessary remedies in a practical manner.

(3) The persons appointed to serve on the commission must bear in mind that it is not merely their duty to

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approve what is submitted to them, but that the obligation has been imposed upon them to take the initiative themselves whenever they consider that a due regard for the public interest and existing economic conditions seems to demand it. Whenever two or three of the members say they would like to have a special session, the chairman shall, pursuant to their request, at once proceed to call such a session.

This would, in a rough way, indicate the three main points to be considered with respect to the organization of the commission. It would be expedient to have a permanent secretary for this commission, representing the Government or the Reichsbank, instead of having a special secretary deputed for each session, whose activity and interest would naturally be diverted to other matters as soon as the session was over. A permanent secretary would mean a regular and wide-awake conduct of the commission's business. Such an arrangement would prevent the commission from proceeding in perhaps too theoretical a fashion. It would possess something like a center in the permanent secretary, who would keep his eyes constantly open with reference to the functions of the commission, would, for example, himself elaborate the form of the bank statement that would have to be adopted, would enter into the practical details, and who would be at the service of the commission whenever it had anything to propose.

But you will probably ask, gentlemen, What will be the practical value of the commission? Well, this commission would have to consider, in the first place, on its own initiative, and, secondly, at the instance of the authorities,

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suggestions and complaints arising out of occurrences in the commercial and industrial world with reference to the possibility and usefulness of remedial measures, and it might perhaps occasionally go so far as to ask the Reichsbank whether it is doing its full duty or to put the same question to the commissioner of the Bourse. The officers of the Reichsbank and other government officials would be enabled, when they happened to be intent on some question or another, to discuss it in the commission with practical men and even perhaps to devise efficient protective measures before a recourse to legislation was found to be necessary. On the other hand, the members of the commission who ought to represent the various currents of economic thought and the various departments of industrial and commercial activity, would, of course, come forward with their suggestions, and thus the commission, as a merely deliberative body, would devise ways and means, which would be submitted to the decision of the appertaining imperial authorities.

It would naturally be the business of the commission to consider whether an improvement in the form of the bank statements was not called for and whether measures ought not to be adopted in order to do away with abuses of one kind or another in the banking system, or at least to render their occurrence less frequent.

I had a notion at the outset that a little legislative provision by which the designations "bank" and "savings institution" would carry with them a sort of privileged status would not be altogether useless. I have, however, reached the opposite conclusion. In the first place, I had to say to myself: Is it actually going to make a difference

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of any real practical significance whether in a large or small town a concern styles itself "bank" or "credit institution" or something else of the sort? Would the public which has been bringing its money to such a concern cease to bring it because of a change in the name? I am convinced that it would hardly ever happen that a person will not come with his money because he would be placing it, not in a "bank," but in a "credit institution" or in an establishment styling itself one thing or another. I thought at first also that it would be a good thing to prohibit by law the use of the designations "savings-bank account" and "savings" by any concern outside of savings institutions and Genossenschaften in business transactions, in dealings with the public, on placards, in newspaper advertisements, etc. I therefore made visits to various small towns, with reference to which the matter would have its main importance, and tried to sound the sentiments of the small tradespeople in order to get some idea as to whether they would be likely to be frightened off if the wording of the placard in the window would be changed from "Interest allowed on savings accounts at the rate of so much per day, per month, per three months" to "Interest allowed on deposits repayable at a day's notice, at one month's notice," etc. My answer to this question is decidedly in the negative, and, moreover, I am of opinion that the actually existing abuses can in the main be removed and ought to be removed without recourse to legislation. One way has already been suggested by Doctor Riesser. You are aware that a paragraph in the law relative to unfair competition provides that a person may be prohibited from making use of the designation "bank" in a way to mislead people.

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The Reichsbank would send instructions to its various branches: "Inform us at once in case any concern in your district is making an illegitimate use of the designation 'bank' in such a way as, considering the whole position and character of the establishment, would make it appear likely that the public will incur danger." The Reichsbank would not even have to go to the trouble of taking further measures, for all it would have to do would be simply to instruct the Central Union of German Banks and Bankers to attend to the matter, which, of course, they would be glad to do.

In regard to the designation "savings institution," I believe that in the last two or three years many of the medium-sized and small banking concerns have given up using the terms "savings," "savings-bank accounts," etc. There would not be the least difficulty, as far as I can see, in the way of the Reichsbank giving notice to a delinquent concern by means of a brief summons addressed to it in due form by the superintendent of the branch office of the Reichsbank and worded as follows: "We desire to call your attention to the fact of your making use of the terms 'savings-bank accounts' and 'savings.' There is no doubt that these designations are applicable only to savings institutions and Genossenschaften, and we would earnestly recommend that you drop them." I believe that this would suffice in the great majority of cases, and if in a few cases no result should be achieved, I am sure that, even without recourse to new laws, there would be some means of exercising effective pressure which the savings institutions and Genossenschaften could employ in order to guard their interests against unfair competition.

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Herr Schinckel dwelt upon a matter which I also had in my program. He said that it is necessary for the sake of self-instruction—and he appealed in particular to the teachers of political economy—that certain ten commandments shall be inculcated in the masses. I should consider it necessary, for example, gentlemen, to address the following pressing summons through the mouthpiece of the Reichsbank or of this commission to the various German ministers of public instruction: “See to it by all means that in all the schools, seminaries, and philological institutions the boys and girls who have attained the age of 14 years—especially if they leave school at 14, but also in case they continue to attend school—have certain economic principles explained to them in a way suitable to their age, such as an intelligent father ought in general to inculcate in his children, but unfortunately too often does not.” In these ten commandments which Herr Schinckel enjoined we should, of course, include a clear understanding of the term “savings institution,” and furthermore an understanding of the fact that, if one desires to become a good citizen, it is necessary in the first place that a person shall make sure that he is able to pay for what he wants to buy in order to satisfy his needs, and, secondly, that he shall make it clear to himself that it is his duty to pay quickly. I should naturally recommend that this kind of A B C be introduced in the military schools. [Laughter.]

The economic ten commandments have got to be formulated in a thorough manner and impressed in clear-cut fashion—I was going to say, with flaming characters—upon our fourteen-year-old students, male and female.

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If the proposed commission will dispose of matters in the way I have roughly indicated and if fresh blood is constantly brought into it, the movement will be promoted which Herr Schinckel has characterized as conducive to the self-training of our present and future banks and bankers and to the development of our whole economic existence. And if we can get so far as to infuse into our growing youth from the richest to the poorest the economic ten commandments in an intelligent and convincing manner, so that it may pass from school into actual life with a certain understanding of economic principles, our efforts will bear fruit a thousandfold and our people will in many respects know how to manage its affairs with much more mature judgment than heretofore. [Applause.]

Having submitted my proposition to you, gentlemen, I find it unnecessary to refer to the individual questions submitted to us, all of which I have answered in the negative.

There is one matter on which I should like to dwell for a moment. I must join in a protest that has come from several of the members. In the course of our previous discussions the statement was made that there were a great many people who did not exactly care to put their money in the savings bank but who, at the same time, for local or other reasons, were unwilling to entrust it to the private bank. These people, it was urged, had a right to demand that an institution be created where they could safely leave their money; that is, an imperial bank of deposit.

As far as the imperial bank of deposit itself is concerned, I should consider its creation the most unfortunate

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thing I can conceive of. In the first place, regarded as a business, it would be a very poor sort of business, and its operation would render the difficult task of our Reichsbank vastly more difficult unless it was organized on such lines that the expediency and wholesomeness of the institution would thereby be necessarily made to appear problematical. The demand for the proposed imperial bank of deposit may be readily met by arguing that, since we have made a beginning with the system of post-check accounts, the next thing to be done is, as soon as the post-office has been rendered efficient in this field, to tackle the question as to whether the development of the post-check arrangements may not lend itself to the opening of interest-bearing accounts. If the problem of interest-bearing accounts is satisfactorily solved through the arrangements of the post-office, due regard being had for the interests of the savings institutions and Genossenschaften—this being a necessary condition—then the whole question of the establishment of imperial banks of deposit or similar institutions is divested of all-practical importance.

I must beg you once more most earnestly in the first place to regard the proposition which I have formulated as a mere skeleton, something that can be improved upon, and, furthermore, to consider that by means of this step—which does not aim at the creation of a new imperial authority responsible in any respect to the public—we shall not only promote in an increasing measure the training of our bankers, but that the public will have the satisfaction of seeing a new agency installed by the side of the Reichsbank capable of rendering it a

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great service at times, and finally that the imperial Government will not be burdened (a matter of some importance, in my opinion) with any expense outside of the salary of the secretary and the traveling expenses of the members of the commission, in so far as they are not residents of Berlin.

If there are some points in regard to which I may have been misunderstood, or have not expressed myself quite clearly, I shall be glad to answer any questions put to me.

Doctor WACHLER. Gentlemen, I can express myself in a few words in regard to the questions under No. II, 1 and 3.

I answer in the negative the question as to the need and expediency of legal regulations in regard to the acceptance, management, and investment of deposits and savings, and particularly with reference to the banks. The matter may perhaps be slightly different in the case of the savings institutions and Genossenschaften, but I believe that even here there is no need of regulation, for the reason that the savings institutions and Genossenschaften, especially the former, are under governmental supervision, and that the Genossenschaften have instituted supervisory agencies which can intervene whenever the occasion demands.

I do not believe, therefore, that it is necessary for me to deal specially with the individual points under 1 and 3, inasmuch as I have already expressed my general opinion in regard to them and have based my negative position (in so far as I have not made this clear in my general statements) on the same considerations which

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the various experts who have supported this view have already adduced, and which it would hardly be worth while to repeat.

I am consequently only called upon to say something in regard to "other suggestions" and "other measures." I am convinced, as far as this is concerned, that the admonitions and warnings of the public organs that are charged with passing judgment upon the conduct of the banks—including, of course, the public press and the Reichsbank with all its branches—would be quite adequate to prevent any possible abuses on the part of the banks in the matter of the granting of credit, especially in connection with the reports and the statements that are published every two months by the leading banks and which—here I concur fully with Herr Roland-Lücke—ought to be obtained from all the other banks. If, having all this as a basis for its censorial activity, the Reichsbank should undertake to exercise its scrutiny, and, in case it finds anything wrong, should procede to exert pressure on the banks in the way it considers most suitable—I am sure we need not dictate the manner, as it will be able to decide for itself—we shall undoubtedly be enabled to achieve results in a sense conformable to the aims of the Reichsbank, in which case there will be no need for any further measures.

Herr Roland-Lucke has been expounding a proposition of his, which is very seductive, but I have not quite grasped the distinction between the bureau of supervision and the commission. At this instant the term "commission" appears to me to be only another name for "bureau of supervision," and, as the whole matter is not

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so simple, I shall beg to be allowed to defer my judgment, inasmuch as Herr Roland-Lucke's proposition exhausts at the same time points 2 and 4 and I was under the impression that I was permitted to talk only in regard to points 1 and 3. If his suggestions amount to more than a mere substitution of "commission" for "bureau of supervision," then the matter would have to be considered more fully. For my part, I am not so quick of comprehension as to be able to grasp all the details which have just been laid before us with reference to the consequences involved. However alluring all that was said has appeared to me, especially as the proposition does not aim at governmental interference, but has for its purpose not only to give full scope to the spontaneous activity of the banks and the assertion of their power to decide matters without external dictation, but also to incite them to adopt a policy conformable to approved principles and to exercise moderation in the granting of credit—a thing which I regard as so essential with reference to the matter of fluidity—I must nevertheless say that one statement has excited a doubt in my mind as to whether the commission is not going to be after all, or might not become, a bureau of supervision. My esteemed colleague has stated that the function of the commission would be to investigate all complaints brought forward by the press in regard to the banking system, and particularly to question the imperial commissary and the bourse commissary as to whether they were doing their full duty. This to me would seem to involve the idea that this commission was to be a bureau of supervision. I am absolutely opposed on principle to a supervisory bureau. At the same time,

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if after close reflection I should arrive at a different conclusion, perhaps I may agree fully with Herr Roland-Lucke's proposition. I do not care, however, to go on talking about the matter, as I have requested to be enlightened in regard to the subject.

Mr. ROLAND-LUCKE. If I may be permitted to explain briefly now, perhaps the matter can be disposed of at once.

The commission which I have suggested would be something entirely different from a supervisory bureau. It is not at all an office that has any rights whatsoever, one that is based upon some law; it is nothing more than a body of men who are to be consulted and to receive suggestions. In order to bring out the clear-cut distinction between a bureau of supervision and this commission, I want to tell you that this commission is going to be the "faithful Eckart" of the Reichsbank, of our money market, of our banks, and of those engaged in solving banking problems. Faithful Eckart advises, but he does not "supervise." The commission has no legal right formally to interrogate a bank or any individual; it is in reality merely a trusted advisory council. It goes without saying that the commission can not undertake to discuss everything relating to banking that is ventilated in the press. If a member of the commission happens to come across anything in some newspaper or another whose importance in his opinion would seem to warrant discussion at the next session, or at an earlier date in case there would be danger in delay, it will depend on him whether he shall bring up the matter at the next session or forthwith propose a special session, or whether he shall, without any

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discussion of the matter by the commission, make confidential communications to the president of the Reichsbank, to whom the chairmanship of the commission would naturally be assigned. I take good care to keep on my guard against anything flavoring of a bureau of supervision. A supervisory bureau would render everything I have proposed nugatory.

A VOICE. The change of the personnel is a very important matter.

Doctor WACHLER. The idea at any rate is deserving of very thorough consideration, and the statements that have been made leave no room for any objection unless, perhaps, the question might be asked whether the whole thing is not a little too vague. We must have a well-articulated and definite organization for the kind of activity we are discussing.

This matter of the change of personnel, which has just been introduced, is certainly of great importance. The change strikes me as being somewhat too rapid. The arrangement by which every year two-thirds of the members—these are to be taken in a measure from the ranks of the private people—are to be changed would perhaps not be as good a one as if one-half were to withdraw every year (thus making a constant biennial rotation) so that by means of the personnel a certain continuity in the conduct of business would be realized, which is useful and, in fact, necessary.

The idea appears to me on general grounds so long as the outcome is *not* to be a supervisory bureau an extremely plausible one, but I regret that my understanding is no longer so quick and acute as to enable me to consider it

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with reference to all the consequences, so that I must reserve my definitive judgment for a little while yet.

Otherwise I have nothing to add with reference to the points which are submitted at this time for discussion except to say that I do not believe in the expediency and necessity of legislative regulation and that I am all the more in favor of a recourse to such action as Doctor Ströll, I believe, has recommended, consisting in admonitions and warnings wherever in the opinion of the Reichsbank abuses in the matter of credit are manifesting themselves, such, for example, as the granting of credit to concerns that are not sound. I admit that this is attended with more or less difficulty, but, on the other hand, it is quite necessary that pressure from some quarter be exercised at a time when it is especially evident that the banks are acting in a light-minded manner. I assume that regulations in regard to the conduct of business would not work, if for no other reason because credit can be granted somewhat more readily or less readily according to the state of the money market. With respect to such matters there can be no such thing as making regulations even within the compass of the ten commandments of the bank presidents. The head of a bank must be allowed to be governed by his touch, by his feelings. When he gets the sheet in the morning showing the state of his cash, he will do one thing one day and something else another day, according to how he views the horizon. I do not believe that any absolute norms can be prescribed with respect to such things. It is all a matter of the feelings and impressions of the bank manager. Nor can this be acquired; it has got to be in-born in such a man. A third party outside of the bank can

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not get an insight as to what ought to be done. If the Reichsbank, in whose hands all the threads converge and which by means of its discounts, its loans, its giro transactions, etc., can gaze into the heart of the whole world of business, were to talk to the consciences of the dispensers of credit in a friendly or a less friendly way, a little more earnestly or a little more sharply, whenever it considers it necessary, by that means alone a good deal, I believe, would be accomplished. No other authority can do that so well as the Reichsbank. It is in human nature that it should at times be unpleasant to have some one peering into your affairs in this manner, but the thing has to be done. The bank is bound to assume this difficult task by the side of the exalted duties which it discharges as the head of our whole credit system.

The CHAIRMAN. Gentlemen, it is 6 o'clock. I suggest that we resume our discussions at 10 o'clock to-morrow morning. (Close of the session, 6 p. m.)

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FRIDAY, November 26, 1909—10.30 a. m.

Chairman Wirklicher Geheimer Rat HAVENSTEIN, president of the Reichsbank Direktorium:

I hereby open the session and request Herr Mommsen to take the floor.

Mr. MOMMSEN. I have already stated in the course of the general discussion that I, in common with others of the members, am at the present time on the whole opposed to governmental regulation. I do not consider it necessary in view of the experiences that we have thus far had with our credit banks, and I concur entirely in the opinion expressed in such detail by Herr Roland-Lücke yesterday that such legislative measures—whatever form they may assume—are very dangerous and might easily prove extremely mischievous. I should like to remind you that, with all the ill-feeling against the great banks, so-called, that has transpired here in several of the addresses, we can not assume that legislative regulation would be intended merely for the “great banks” or for the large banks in general. Every measure of the kind in question would in all probability be a much greater hardship for the small and medium-sized banks, especially those located in the provinces, than for the large banks, which, by reason of their mobility and, in part also, by means of their great resources, as well as through their ability to expand their operations, can, of course, much more readily accommodate themselves to the regulative provisions. This easy adjustment on their part will

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have the effect of making the small and medium-sized banks, which are already badly handicapped by the favor shown the very large banks by the public, suffer very serious detriment.

There is another matter I should like especially to dwell upon. We have had to deal with the proposition to make it obligatory to set aside some sort of a reserve (cash, etc.) against deposits and savings and in fact—since it is now generally admitted that there is no way of distinguishing them which for the time being, at least, does not present some objection—against the outside moneys of the banks in general. If it is proposed to fix a minimum percentage, this can be nothing else than a purely arbitrary fixation, which will operate in one way with one institution and in an entirely different way with another. It must not be forgotten that the cash reserves which the manager of a bank has to maintain must be appraised very differently in the case of each institution with reference to the character of the clientele. One bank is not like every other bank. It is a different matter in Berlin from what it is in Hamburg or Frankfort. Likewise, too, in the case of those institutions which have branches in many places the cash reserve has naturally to be measured closely with reference to the momentary needs of the customers and the character of the clientele of the particular branch, as well as the nature of the business transacted there, and to determine just what is required in each case is a task that has to devolve on the management of the branch in question. This is something that does not admit of regulation in a systematic manner. Such regulation is not within the scope even

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of the general management of the bank. The matter has got to be arranged by the person who has the disposition of the funds at the particular place. The business man's feeling must tell him how much of a cash reserve he must have at particular times and under particular conditions if he is to be enabled to do justice to the demands of his customers. With respect to this regulation could do no good whatever.

There would be no particular object, gentlemen, in going ahead and dwelling on the individual aspects of the matter before us, for the measures that are enumerated here under Questions 1B are largely such as can in general be carried out only by means of legislative enactments. That a great deal can, of course, be accomplished by educating the bank managers and bankers and the public as well, as Herr Roland-Lücke explained yesterday, does not admit of any question.

I shall pass on to one special point, the question as to the restriction of the volume of the outside moneys held by a bank. The one scale that could be adopted would be the capital of the bank in question. There is something of this sort already in the case of the mortgage banks, the maximum volume of debentures in circulation being dependent upon the capital of the bank. But the practical result in this case has been that when a mortgage bank is able and eager—on account of the profit involved—to issue additional debentures, if it is approaching the limit of the issue of such obligations, all it has to do is to increase its capital in order to issue debentures up to fifteen times the amount by which the capital has been increased. I fear, gentlemen, that precisely the

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same thing would happen in the case of the banks. A bank is not in a position, as Herr Schinckel pointed out a little while ago, to maintain the limit in the matter of outside moneys with respect to an individual customer, for if a regular customer sends money it is simply bound to take it. If, then, in making up its accounts, say, at the end of a year, it has reached the limit which it is proposed to fix by legislation of the aggregate of outside moneys or finds it is approaching that limit, it would have to proceed to increase its capital in order not to bring its business to a standstill. The enlargement of the capital for such a reason in the case of credit banks would appear to me, however, to be a dangerous thing from an economic standpoint, and we ought to refrain from doing anything in the way of inducing the banks to increase their capital from considerations of such an extraordinary nature. I believe, gentlemen, that for this reason alone we ought to be very careful about proceeding in this direction.

It is not my purpose to take up the single points here, as, for example, the preferred claims of creditors having deposit or savings accounts. This matter has been already thoroughly discussed. These questions all depend upon the practicability of separating deposit and savings creditors from simple creditors. We have heard from practical business men on every hand that in the present state of things, at least, a distinction of this sort to which no objection would attach is impossible, and that is sufficient reason for our abstaining from doing anything in this direction, irrespective of the circumstance that a preference of the kind in question would affect our legal system in a way that might involve considerable danger.

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I have already expressed myself in regard to the cash cover.

I am now coming to the question of the investment of part of the bank's funds in government obligations and similar securities. I should like to remind you, gentlemen, that our prominent banking institutions—I must call your attention particularly to the latest statistics regarding the Deutsche Bank and the Dresdner Bank—have at present very considerable sums invested in such securities. It will be an easy matter, of course, if something of the sort is considered desirable, for our large institutions to adapt their action in future to demands or injunctions aiming in this direction. But here, too, we are confronted by the difficulties encountered in the case of the small and medium-sized banks, which, inasmuch as they have put in no more capital than is needed for the absolute requirements of their monetary transactions, are, of course, not so easily in a position to invest part of their funds in securities which are very safe, indeed, but yield small returns. This applies also to the investment of the surplus.

Looking at the matter from a juridical and economic standpoint, I am not prepared to say that it might not have been a good thing at the start to have inserted a provision in our laws relative to joint-stock companies similar to the one that has been enacted in Switzerland, permitting of the investment of the surplus in stable securities which must not be touched. These securities, could, of course, not be offered as collateral, for using them as such would prevent them from being available when required. I believe that a measure of this kind

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would have been of advantage. But to introduce one now all of a sudden would naturally be a more or less difficult matter. Nevertheless, I am of opinion that it would be well to provide that the legally prescribed surplus be kept apart from the resources directly utilized in the business transactions. Supposing that by means of an agreement or through legislative means—I trust we shall not have to enact a provision to that effect, for no one can tell what else would be tacked on to it—we could arrange that the legally prescribed surplus shall in the future be invested in government securities; this would mean, of course, a heavy temporary investment in such securities, the surplus funds being largely not invested in this way at present, but the whole thing could hardly have any great significance as regards the future, inasmuch as the great majority of the large and medium-sized banking concerns, as well as the majority of the provincial banks, have raised their surplus up to the legal requirement, so that a fresh accretion to the surplus funds, by means of the issue of stock, can hardly be expected. For if it were to be made obligatory to invest all that comes within the compass of the legally constituted surplus fund in government obligations, that is to say, in securities bearing a low rate of interest, the issue of fresh stock with a premium would prove a delusion for the bank managers.

Let us take a practical example. The shares of the Deutsche Bank are at present quoted at about 240. If it were to proceed now to issue fresh stock at 200 or 220, it would have to invest the 100 or 120 in government securities, which would yield $3\frac{1}{2}$ or $3\frac{3}{4}$ per cent interest. But the Deutsche Bank pays on its stock 5 per cent of

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the amount paid in, so that it would sustain a direct loss with respect to this part of its new capital, and it would therefore have to consider whether it would not be more advantageous to adopt the principle, frequently advocated in financial circles, of issuing stock in future, not at a premium, but at par plus expenses. It would, in that case, of course, increase its nominal capital to a greater extent proportionally in order to have the same resources, and there would perhaps be a drop in the dividends and the price of the bank's stock, but, all in all, everything would remain as before. I believe that if we are to have propositions of this kind with respect to the premium, the result would be that the issue of stocks at a premium, especially in the case of very high priced securities, would get to be a rare occurrence, and in any case future investments in government securities would not be greatly promoted by such measures. I consider it doubtful, too, whether the imperial government and the individual states would find it in their interest to enact regulations of this kind in order to meet temporary requirements. I regard the question, however, of the investment of the surplus as something standing apart, and I am not at all prepared to assert a priori that measures of the kind in question might not perhaps prove quite efficacious.

The chairman, I understand, does not expect us to deliver an opinion for the time being in regard to the publication of balance sheets, or is it only their precise form that is to be left out of the discussion? Herr Roland-Lücke has dwelt upon this subject, and justly so, for whosoever is opposed to legislative regulation can not entirely ignore it, inasmuch as the publication

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of these balance sheets and statements is the only means of satisfying the legitimate claims of the public, on the one hand, and on the other hand, of causing the gradual introduction in the banks of an arrangement that we all, or at least most of us, consider very desirable. For this reason we can not afford to pass over the matter entirely. The question as to the precise form to be adopted is in itself not a very simple one, and we must bear in mind that a very detailed scheme not only makes it much harder to obtain a clear view of the figures, not merely for the layman, who anyhow is not going to get much out of the published balance sheets and statements, but also for the experts, especially when the number of banks that publish statements will go on multiplying. I believe, therefore, the idea ought to be to give as few figures, but as characteristic ones, as possible, and, as far as I am able to judge, this coincides on the whole pretty well with the scheme on which the great banks have agreed. I fully concur with Herr Roland-Lücke in recognizing the fact that a certain development of the scheme employed is likely to take place. But you must remember, gentlemen, that if the publication of statements is to be of any service, we must not alter the scheme too frequently, for their usefulness will be in the comparison and not in the individual figures. ["Very true."]

We must therefore manage in such a way that when we have settled definitively upon a scheme of statement, either now or, should amendments be found necessary, in the immediate future, this scheme shall serve as a basis for a number of years, else the whole thing will fail of its object. ["Very true."]

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I am willing to go so far right now as to say that even if we are to retain the present form of statement it will be practicable without sacrificing any part of the advantage to be derived from a comparison extending over a succession of years to introduce greater detail with respect to certain points. I am not speaking as the head of a bank, but as a representative in the Reichstag; but I may say that I have no objection whatever from the standpoint of a person who has to deal with banks to specific entries in the matter of the figures relating to securities, as suggested yesterday by Herr Roland-Lücke. I am sure that what the banks publish every year in the reports of their business—and nowadays it is a universal practice to itemize the securities account—could as a matter of course be contained in their statements if there is not too much additional labor involved. This is certainly the case with the securities account, for whether the securities account is composed of one item or of five items is, of course, altogether immaterial with reference to the preparation of the statement and also with respect to its appearance at the proper time.

There are other points with respect to which this is not the case. The question was repeatedly brought up in the course of the hearing of the experts as to whether it would not be well to distinguish between the different kinds of debtors, and there are some banking institutions which in their reports distinguish between secured and unsecured debtors and in the case of the former make a separate class of those whose collateral consists of securities listed at the Bourse, the so-called "security debts" being often regarded, and justly so, as especially liquid. A

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customer to whom a bank has loaned money can be advised or compelled to sell, and the bank then gets back its money. But these are things that do not admit of being done four or five times a year, off-hand, without great additional labor, and I believe the consideration that is gradually being allowed more and more weight in the field of governmental administration should be allowed to influence the conduct of private business, the consideration which tells us that we ought to be careful not to create things demanding from the start a greatly increased expenditure of labor and, of course, of money likewise without possessing any real practical value.

The suggestions which Herr Roland-Lücke has made relative to what further steps might be taken in connection with the publication of statements appear to me deserving of serious consideration. I will not deny, however, that I am not willing to accept everything unreservedly. If we install a commission which is to be kept permanently busy with these bank regulations, we shall actually have—let us call it once for all by its true name—nothing else than a permanent bank inquiry. You are aware that in our midst and also in political circles, especially among the Liberals, loud protests were heard, particularly at the time of the severe crisis, against the institution of the Bank Inquiry Commission. I admit that these objections have not been borne out by the events. No evil consequences have followed and I presume none will ensue. All the same a permanent commission of this kind might justly be considered objectionable on some grounds.

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I am willing to allow, however, that there are certain things that are capable of being developed only in this manner and can not be regulated by law, and this is especially the case with the classification in the balance sheets and bank statements. In regard to this matter, we are absolutely unable to make any legislative provisions. Such provisions could only be in the nature of minimal regulations, and, if they were to be at all practicable from an economic standpoint, they would have to be made so loose as to make it possible to get in everything in the way prescribed. If the law were to proceed to specify details in the manner proposed by Herr Bernhard, then the law enacted in 1910 would in all probability be already antiquated in 1912, and, instead of a benefit, it will become an irksome constraint not only for the banks but also for the entire public that is interested in the matter. These things, as I have said, can not be regulated legislatively.

But if, in order to develop the proposed method of regulation within the compass that I have already indicated, we are to have such a commission of experts, it seems to me that the results may be very beneficial. We have commissions of this kind at present, only they are not invested with like authority. If you take, for example, the Berlin *Stempelvereinigung*, in which all the so-called great banks are represented, and the resolutions adopted by it, we may look upon it as a sort of commission already active along the lines in question, which has not always set itself against legislation, having urged it with respect to certain matters. If, therefore, we had such a commission of experts with amplified powers, there could certainly be no harm in it.

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There is still one aspect of the matter before us that has to be considered. Supposing that this commission is in existence and that, with the aid of the Reichsbank, it has managed to bring about a very general publication of statements on the part of the joint-stock banks, as well as a pretty general agreement in regard to the form of the balance sheet, on which great stress should be laid, then there is a further consequence with which we have to reckon. For, if such statements are to be published by the hundred, they can be of real value to the public only if they are collected and published together. The whole thing, therefore, in this broad application, would amount to a sort of running statistical summary, of which we have before us the first fascicle in the supplementary pages. Otherwise I can not see what use there would be in it, and I am pretty sure that the statistical department of the Reichsbank, which would probably be brought into requisition, would hesitate before it would declare itself able and ready to undertake the task in question. It is my opinion that we should have to draw a line somewhere if we wish to achieve any real result. If we look at the statistics, in particular those relating to the very small banks, say, those under 1,000,000 marks—I ought to go further and say the banks under 2,500,000 marks—the thing has a certain value, to be sure, as a matter of comparison, but it has in reality no meaning in regard to general economic problems. For the aggregate of the outside moneys in these small concerns, although very large relatively to the capital, much larger, indeed, than in the case of the great banks—the ratio, if I remember right, is 92 per cent or even more—has no significance with respect to the public

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at large, as it amounts to very little in comparison with the total funds accumulated in the other banking institutions. I would recommend, therefore, that the scope of the commission's activity be limited from the start in this respect.

This is practically all that I have to say with reference to these individual points.

If I may be allowed to say a word still in regard to the supervisory bureau for banking, for which there has been a constantly recurring demand, I must tell you, gentlemen, that I should consider it a melancholy outcome of this long and painstaking discussion on the part of experts if all that could be got out of it was only an addition to our administrative force. For this supervisory bureau can be nothing else, and even those of the gentlemen who urge its creation are willing to admit that to install a new administrative authority which, to use the words of Professor Wagner, can in reality exert nothing more than a merely censorial activity, would, indeed, considering the interests which it is to represent and the responsibility it is to assume, be altogether superfluous.

Professor Wagner has devoted special consideration to this question of a supervisory bureau, but he has been obliged to admit that such an institution can not amount to much. He looks upon it as necessary only in so far as we should have an office charged with verifying the publications of the banks—statements, balance sheets, etc.—by means of comparison with the figures in the books. I have already told him that for this purpose it would suffice to take an expert accountant. If we have so little confidence in our banks as to imagine that the figures

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which they publish with the full responsibility of their head officers and managers and with full responsibility toward the stockholders do not agree with the books, then there is an end of everything ["Very true"], and I should protest emphatically against this expression of opinion touching the whole banking world coming from the mouth of a man of science at this very table. For, gentlemen, we are not here in order to sow distrust, particularly in connection with a matter in regard to which there is no occasion whatever for any distrust. I should, therefore, like to lay special stress on this point, for no one, as far as I am aware, whether a man versed in business or a layman, or a man of science, has hitherto allowed himself to express a doubt as to whether the published statements of our joint-stock banks—and Professor Wagner in all he says is thinking only of the great banks—are above suspicion in the matter of their agreeing with the figures in the books. Besides, every practical man knows that there can be perfect agreement with the books while the securities represented by the figures are altogether worthless. There probably never was a bank, gentlemen, that had a more splendid bookkeeping than the Leipziger Bank, and yet in spite of this splendid bookkeeping the securities were for the most part rotten. Am I not right? [Expressions of approval.]

A VOICE, The credits were too large.

Mr. MOMMSEN. Yes; the trouble was with the securities.

I really believe, gentlemen, that the view which Professor Wagner has so prominently put forward actually amounts to this, that we have in Germany—he was

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speaking specifically of Prussia—too many people who have an income exceeding 100,000 marks, which is a dangerous matter, something that leads to plutocracy.

Doctor WAGNER. I did not say "too many."

Mr. MOMMSEN. You said that in the last thirty or forty years their number has increased from 100 to 4,000, and that we have got to put a stop to this. Now, as you are not altogether a Social Democrat and do not mean simply to deprive the people of their fortunes and their incomes, you come and tell us: "Then I am going to stop up the spring whence this income flows, and this spring is the activity of trade and industry and the activity of the banks." Well, gentlemen, this is a view which we can no longer discuss. Besides, Professor Wagner is very much mistaken if he imagines that the great majority of the people who have an income of 100,000 marks or over derive this income mainly from accumulated wealth. This is false, and there is no doubt whatever that in the very circles on whom Professor Wagner lavishes his particular affection, among the banks, there are probably a very considerable number of persons whose main income is derived not from their property but from the exercise of their profession. This is an immense difference, a great difference even with respect to our national economy, for it is, of course, just this very class that, by virtue of its position, spends relatively a great deal. Now, we may call this extravagant, or plutocratic, or anything we choose, but it is my opinion that all in all we may be well satisfied with reference to our economic needs if those who have large incomes have likewise, compared with others, very respectable expenditures, for the money they spend

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becomes once more a great benefit to our national economy.

Doctor WAGNER. Which was, first of all, deprived of it!

Mr. MOMMSEN. No, your excellency; it was not deprived of it.

Doctor WAGNER. I say it was deprived of it.

Mr. MOMMSEN. I can not understand how anyone can assert, from an economic standpoint, that the salaries and commissions—let us call these things for once by their real names—of the managers of the great banks are purloined from the nation's property. If it can be said that they are taken from anyone's pockets, it is at most from the pockets of the stockholders.

A VOICE. They, too, are part of our national economy.

Mr. MOMMSEN. Yes; they, too, are a part of our national economy; but there has never yet been a man anywhere in the world who, having embarked in a business and having engaged others to work for him and make money for him, instead of working himself, says he is not going to pay them for their services. His paying is a matter of course; it is in the essence of the joint-stock system.

A VOICE. Extravagant.

Mr. MOMMSEN. You say it is extravagant; well, the stockholders can decide about that. You may believe me, Exzellenz, what they pay there is not extravagant. It is necessary if you want to get the men you need for these difficult positions. I do not believe in looking merely at the bare figures. We must consider the men who are back of them, and I can not see that this matter of personal incomes has anything to do with our bank inquiry.

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A VOICE. It is an important factor in it.

Mr. MOMMSEN. But it has essentially nothing to do with it.

Doctor WAGNER. It is closely connected with it.

Mr. MOMMSEN. That is what you say, Exzellenz, but I want to tell you something else. Suppose all you have been proposing here had been made into law. Suppose you had your itemized bank statement, your cash reserves deposited at the Reichsbank, the investment of the surplus in government securities, your supervisory bureau, and everything else you think you ought to have, do you believe that all this would have the effect of materially cutting down the incomes of the bank presidents—that is to say, that in place of hundreds of thousands they would be getting tens of thousands? That is beside the point entirely. All you would accomplish by means of these measures—that much I am willing to admit—is that you would make it more and more difficult for men of independence, character, and ability to accept such positions, in which they would, on the one hand, be exposed to the charge on the part of the public (I am speaking in your sense) of having stolen from the accumulations of the people in order to put the money into their pockets and, on the other hand, be subjected to a police supervision, to a supervision exercised by persons incapable naturally of knowing as much as they themselves, who have grown up in the business and have borne its responsibilities for so many years. A great many of them would say, “No, sir; that sort of a business, I thank you.” And what would the result be? In place of really good men you would find in future only mediocre or poor men. Is that,

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forsooth, in the interest of our national economy? I am sure it is in the interest of our national economy that we should get the best men for the most responsible positions, and, as we are all human beings—I am not excepting the professors either—it is an old rule that the better you are the more you want to be paid and the more you can ask.

A VOICE. Rule?

Mr. MOMMSEN. I am also a little acquainted, Professor, with university circles, and I know well enough that it is a very common thing in the case of the Prussian universities, in order to secure professors of great prominence, to offer them salaries far in excess of the normal, independently of the fees.

A VOICE. Not one-tenth.

Mr. MOMMSEN. Well, I know a little bit, too, and I know that it is precisely the same with the professions in their small way as with our entire national economy, with our industrial and commercial world, and it is much better instead of simply ignoring this fact to try to recognize it. In any case we ought not to permit this view to serve as an incentive in the making of propositions here. One thing is certain, that what you seek to achieve with your suggestions, the exertion of pressure upon these rich people, you will never achieve.

Doctor WAGNER. You did not apprehend the connection rightly. I shall take the liberty later on to talk about this.

Mr. MOMMSEN. I may have conceived it differently from what you may have intended, but I took note of it very carefully, and you will find a number of gentlemen here who understood the matter precisely in the way I did. And if this is the case, I am justified in expressing myself

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here publicly, and I shall be glad if you will later on supply a different interpretation.

I merely wished to make these general remarks because no opportunity was afforded me within the scope of our general discussion of dwelling upon this point, which is a matter that does not interest us personally, having, of course, nothing to do with persons. But with reference to the development of our national economy—and it is this thing that I was intent upon—this personal view always butting against large incomes is of the greatest significance.

A VOICE. View!

Mr. MOMMSEN. To be sure I am one of your pupils, Exzellenz, but, of course, not in that sense, for I have not attended your seminary but only your lectures and have at any rate formed my own opinions and retained them.

I believe I may sum up, gentlemen, by saying that, in common with the other members who have spoken from this standpoint, I consider the carrying out of these individual measures which have been proposed, or, more properly speaking, are being ventilated here—they are not propositions in reality—by means of legislation as something that I can by no means advocate. We should thereby produce the greatest mischief.

As regards the question of the establishment of governmental banks of deposit and of the assumption by the Reichsbank of the business of taking interest-bearing deposits, others of the members have already spoken on the subject and I can refer to what they have said as an expression of my opinion also. We ought not to urge fresh legislation in regard to these matters either.

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It is interesting to observe how the whole question has in reality been shifted. We started out with the question of the security of the deposits and savings, but when it became evident from the statistics that if the great banks had a large volume of deposits and savings—which is not yet shown to be the case, the distinction that has been made being a purely arbitrary one—such funds would in any case be better off with respect to safety at the greater banks than elsewhere, then we got to discussing the matter of fluidity. But here, too, every one must admit that fluidity is best assured in the case of the great banks. That it is no longer as great as it was formerly is evident. That is the result of economic changes. This is true of all classes of financial institutions. The fluidity is no longer what it was, owing to our commercial and industrial development. It is in the essence of mercantile intercourse that it should exploit its credit, and we Germans would be fools if we were not eager to exploit our credit, which has grown so enormously in the last thirty or forty years. That would, I am sure, be simply a violation of the fundamental principles of political economy, and inasmuch as we exploit our credit in so far as it is legitimate—I admit that we at times transgress the legitimate bounds—it is a natural consequence that the fluidity is diminished in the case of the various institutions on which the system of credit rests, and there is no harm in this as long as the whole structure remains sound. That some of the members are unsound is true, but that is no reason for knocking everything on the head. In regard to this matter of questioning the fluidity in the case of the great banks, you see there is nothing in it either.

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The savings institutions, however—this is now admitted—are much worse off in this respect. That these institutions are not fluid in the sense we are considering is, I believe, no longer a matter of dispute. For we have seen that even those savings institutions which have a large stock of securities were by no means fluid when it came to a financial crisis. If you will take the trouble of consulting the statistical tables, which include the Berliner Sparkasse, you will have to admit that, according to the figures submitted to us, this institution in the sense at least that we have been considering in our discussions, is one of the most fluid. If I am not mistaken, it had invested 70 or 80 per cent of its deposits in securities and it had a comparatively small amount in mortgages, which is quite natural as regards the metropolis, inasmuch as the mortgage business is really a local business and in the case of large cities this local interest is less prominent than elsewhere. The Berliner Sparkasse has also at all times kept a considerable stock of prime bills, which can be done only by the institutions located in large cities. The small savings institutions are not in a position to buy prime bills. This must be left to Berlin and Hamburg, such business being impracticable in the smaller cities. But what is it that has taken place, as a matter of fact? When, as a result of the rising rate of interest, the Berliner Sparkasse was obliged for a year or a year and a half to pay out more money than it took in, it had naturally to have recourse first of all to its bills, the stock of which consequently dwindled away. The managers knew perfectly well, of course, that it would not work to sell mortgages at such a

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time, and so they had to think of disposing of their securities. "But if we proceed to sell our securities," the people in Berlin said to themselves, "we shall lose, according to the present quotations, 2 or 3 per cent." It was a time of very great stringency, and the city of Berlin had in the space of a year to draw out of the surplus of the Berliner Sparkasse no less than 13,000,000 marks in order to cover losses incurred by that institution on its securities account, so that the surplus was reduced to a comparatively small sum. If the savings bank had been compelled to sell the securities the surplus would have remained at such a low ebb and it would have been necessary to begin building it up again by long-continued efforts. The institution did, under these circumstances, what is generally done. It did not sell the securities, in order not to have to suffer the loss that would result from the bottom prices, but it proceeded to borrow money on the strength of its stock of securities.

But then, gentlemen, would you call it fluidity in the case of such an institution, if it is unable to sell its so-called very liquid securities without great loss and is compelled to contract debts on the strength of them? And I have selected the very best savings institution to be found in Germany, with the exception, perhaps, of the Danziger Sparkassenverein.

Well, I am willing to admit that the savings institutions may have to be treated differently from the credit banks, but if you wish to develop the savings institutions one of the worst means of doing it would be to have the Reichsbank take interest-bearing deposits or to create governmental deposit institutions, for both

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would afford (this I confess) the one thing that is not afforded at present by the savings institutions—these give you all the security you want—and that is fluidity, especially the Reichsbank, and the result will be that everything will flow to the Reichsbank instead of the savings banks, which, I am sure, is not at all desirable. This much you are certainly willing to concede, that we are not bound to go on resorting to artificial means in order to promote centralization at a few points. That will take care of itself. For that we require no laws or new measures, and I believe that, looking at the matter before us from this standpoint, we ought to examine carefully every proposition that is submitted to us. You ought not to enact any measures, gentlemen, that would be calculated to promote centralization at few places and in a few banking institutions. [Very true.] Everything that has been advocated by the gentlemen who are bent on doing something must tend in that direction, and we ought for this reason once more to subject these things to a close scrutiny. I believe we shall come to the conclusion rather to do nothing, else we should be doing more harm than good. [Very true.]

Doctor WEBER. In regard to myself, some of the questions under II have dropped out, inasmuch as in the course of the discussion various assumptions with respect to these questions have been eliminated. The “security and fluidity” of the investments of the banks—apart from the savings institutions, which I am no longer called upon to consider in dealing with the question before us to-day—have in reality not been seriously questioned by any of the speakers. It will be easy to show that just

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in the case of the great banks, in which, of course, our main interest centers, the fluidity is greater than in the case of most of the small banks. And as regards the safety of the investments, we are all agreed that there is no occasion for enacting any regulations at present and that they will not be required for a long time to come. All that is left for me to discuss, then, is the question of the restriction of deposits to certain institutions and that relative to the fixing of the maximum amount of the outside moneys, inasmuch as most of the gentlemen are convinced that the present system has hitherto worked perfectly well.

In regard to the question of legislative provisions relative to the separate management of deposits, I shall take the liberty of saying a few words with respect to the opinions expressed by some of the gentlemen who have a technical knowledge of banking. Several have said in the course of the discussion that it would be a good thing, for instance, if the Deutsche Bank—this was mentioned as an example—were to set apart its deposits, so called, and entrust them to the management of a special bank, which would have a corporate existence as an annex of the Deutsche Bank. What is to be achieved by this I can not understand. If the Deutsche Bank were to own and direct the sister bank we should have an institution very similar to the arrangement which exists in the case of the Austrian mining concerns. In the domain of mining in Austria there are in reality only two masters, who control the entire coal market, the individual operating concerns being constantly grafted by one of the sister companies upon the other, and all

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that we should accomplish by the measure in question would be to bring about the very thing that we are anxious to avoid—extreme difficulty in the matter of oversight. I believe, on the contrary, that it would be best to stick to the system we have had and leave well enough alone.

I should in all modesty like to say a word with reference to the utterances of Doctor Wagner which we heard yesterday. It is apparent from the way in which he expressed himself that in his opinion the German banks, and in particular the great banks, are not adequately equipped to meet the contingency of war and the eventualities of political crises. I must tell you, gentlemen, in the first place, that the question of preparedness for war has been discussed in a most able and thorough manner in a pamphlet by a man who has been engaged in the profession of banking and who in this publication has brought his technical knowledge to bear upon this important matter for the benefit of the banking fraternity, the esteemed neighbor of Doctor Wagner—Geheimrat Riesser. So you see, Doctor Wagner has brought up a subject which has already for years been considered and dealt with by one best qualified technically to speak for the banking world.

I should like, however, to declare—and I say this in all due modesty—that the utterances of Doctor Wagner have seemed to me to go to rather extreme lengths in so far as he has considered the matter of regulations and, indeed, the whole treatment of the question before us almost exclusively with reference to this factor of preparedness for war. Now, in my opinion, it would not do, under the conditions of our industrial and commercial life, to have

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all the measures and normative regulations that we are going to enact framed with reference to the one eventuality of a political crisis. We should thereby badly cripple our whole commerce and business by measures whose results and consequences, even with reference to a political crisis, no one would at present be able to gauge with any positiveness. No one can say in advance in what manner and form such a crisis is going to manifest itself or what proportions it will assume. All the apprehensions, therefore, that Doctor Wagner has expressed with respect to the operation of normative regulations in the event of the outbreak of a political crisis are likely to prove groundless. For my part, I should consider it eminently desirable and proper if the German banks and bankers—I shall refer to this matter again later on—were to invest a larger share of their resources than they have done hitherto in state and imperial securities. I assume that the obligations of all the federated states would be as suitable for these purposes as those of the imperial government. I must say emphatically, however, that I should consider it a great mistake with reference to the development of our whole economic existence to be constantly telling the banking world, "You are not adequately equipped for the contingency of war." Gentlemen, we can not tell, I repeat, what is required in order that our banks shall be thus thoroughly equipped, as we have nothing on which we could base any speculations regarding the extent and nature of a possible political crisis.

Doctor Wagner, in dealing with the question of increasing the cash reserve, declared that it would probably be practicable and expedient to oblige the banks, especially

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the large concerns, to keep a larger stock of cash than they have hitherto kept. Doctor Ströll, the manager of the Bayerische Notenbank, retorted that no bank had ever collapsed by reason of an insufficient cash reserve, and that the real and sole cause of such collapse was, to use his expression, the circumstance that the debtors and bills "were rotten." It is an ascertained fact—the calculation has been made by the *Deutsche Ökonomist*—that at the close of December, 1908, all the banks having a capital of over 10,000,000 marks had a cash reserve of 13½ per cent, and the figures in the case of the very large concerns were even more favorable. Even the Leipziger Bank, when it was forced to close its doors, had a 20 per cent cash reserve, and yet this did not avail to avert losses. An increase in the cash reserve would occasion but little loss to the banks, but suppose the legislative power were to decree, for example, that the Deutsche Bank shall put aside a sum amounting to at least 10 per cent of its billion marks of outside moneys as a cash reserve—and nothing short of 10 per cent could be considered a normal percentage if we were to go into this thing—what would take place is that the Deutsche Bank would be withdrawing, relatively to its present condition, a much larger amount of cash from business, from circulation, and from our whole economic organism than is desirable. To the bank itself the matter would be immaterial, as it makes little difference to the managers whether they pay out one-half per cent more in dividends or not. It is always a mistake to imagine—and I am speaking now to Doctor Wagner—that the banks are so extremely eager to distribute 10, 11, or 12 per cent in dividends. When we come down to it,

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it is quite immaterial to the bank managers, and, in particular, the managers of the great banks, whether they pay out one-fourth or one-half per cent more or less in dividends. But our whole national economy would suffer through the withdrawal of cash from business, manufactures, and agriculture. I can not in fact see what advantage there would be in this setting aside of cash considering the amount of money due these large banking institutions and the stock of bills which they carry. Such cash reserve could never be made to bear any particular ratio to these obligations.

I am decidedly in favor of the investment in imperial and state securities, but, of course, only if this is not made obligatory by law. It would be a good thing—and its desirability was manifested in the discussions of this commission yesterday—if it were to come about as the result of a generally expressed wish that our banks and industrial concerns would make it a point to invest an ever-increasing share of their surplus in such securities. As a matter of fact, I do not anticipate so much from it as some of the gentlemen who have given us the benefit of their views have promised. Herr Mommsen very properly reminded us of the fact that if in a critical state of the money market we should proceed to dispose of these securities, we should be able to do so, if at all, only at a loss. Suppose, for example, that the surplus fund—let us take, without of course intending any special reference to it, one of the small States, Brunswick, Oldenburg, or Mecklenburg—were to consist of ten millions in Oldenburg consols, do you imagine that you could find a purchaser for them if you had to sell them? I am convinced that

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these consols would have to be thrown upon the market piecemeal, simply because the market there was not large enough. If we are going to enact regulations of the kind in question, we must have regard for the conditions that prevail in the individual States. The Oldenburgers would be obliged to invest a certain percentage in Oldenburg consols, just as was done in my own country, the Kingdom of Saxony, when it was decreed in the case of the savings institutions that such and such a part must be invested in Saxon securities. No, I must correct what I have just said. A decree to that effect was issued and then recalled. But it will surely go into effect sooner or later. It was repealed—I desire this to be a rejoinder to Herr Fischer—because all the savings institutions in Saxony protested most earnestly against it.

Herr Mommsen adduced the case of Berlin; I shall adduce that of Leipsic. In 1907 the savings institutions of Leipsic, with all their surplus funds, not only made no net profit for the year but had to transfer a loss to the new year. Such losses are certainly not very desirable in the case of such institutions as the Saxon savings banks, which are a considerable source of income to the various communes. I should, for instance, mention to you the fact—this will perhaps seem rather curious to one accustomed to South German conditions—that in the little town in which I reside, a town of 11,000 inhabitants, the savings institution nets 140,000 marks a year, which sum is placed at the disposition of the commune. Were this not the case, where we now pay 100 marks income tax we should perhaps be paying 240 marks. You see, therefore, gentlemen, that if you were

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to proceed along those lines you would be causing a tremendous upheaval. I do not care to dwell on the recent financial reforms, which disturbed communal affairs in the most violent manner. But a law of the kind proposed would bring about a disturbance which, in view of the existing financial stress, ought by all means to be avoided.

We have been called upon to discuss the question of the creation of special deposit banks and the expediency of instituting a deposit department in the Reichsbank. Herr Roland-Lücke referred very properly to the advantages afforded by the post-check and postal-savings systems. For my part I am opposed both to the creation of deposit banks and the taking of interest-bearing deposits by the Reichsbank. I believe that the real function of the Reichsbank would thereby be in a measure lost sight of and that the institution would be hampered in its special activities. As regards the postal savings system, I believe that probably the last opportunity was presented in the Reichstag this past year of carrying out the scheme of establishing savings institutions throughout Germany. I must say for myself that on that occasion regard for the interests of the savings banks determined me to oppose the measure in question, all the more so as the Union of Savings Institutions in Germany, which has its seat at Magdeburg, declared most emphatically against it because—whether rightly or wrongly, I am unable to ascertain—it feared that the interests of the savings banks would be very seriously affected. The Genossenschaften also submitted a protest against the introduction of the system of postal

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savings banks. In Austria this system works quite well and it is somewhat better adapted to the conditions there for the reason perhaps—and I should like to call Herr Roland-Lücke's attention to this point—that in some of the Austrian provinces the system of savings institutions is not developed as with us, and that the character of the savings institutions in several of the provinces is altogether different from what it is in Germany. The Austrian institutions are essentially banking concerns, pure and simple. An Austrian savings bank, particularly in Bohemia, does all kinds of banking business. It discounts bills, loans money on collateral, allows account-current credits, in short, does precisely the same thing as every banking house does, and invests its resources—this not pursuant to any special legal requirements—in just the same way as any banking institution in Germany or Austria.

As regards the creation of a supervisory bureau—a scheme urged by Doctor Wagner already years ago—my opinion is that the idea may be very plausible, considered theoretically, but that it can never be carried out in practice. The comparison with the supervision exercised in the case of the private insurance companies and the mortgage banks is a doubly lame one. It is lame—I can see Doctor Wagner shaking his head—for the reason that in the case of insurance concerns and mortgage banks we have to consider only one or two classes of investments, while in the case of banks we have to deal with a thousand kinds; and if one of these theorists were to try to form an impression in his mind as to the way in which a supervisory bureau would keep an eye on such a concern, for

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example, as the Deutsche Bank, I think he would have a pretty hard time trying to explain to us just how this is to be accomplished in practice. The Deutsche Bank, if I remember rightly, has 220,000 accounts, and it has branches in every part of Germany. From this number I am going to deduct 150,000 accounts of creditors which do not call for examination and there will still remain 70,000 accounts. But if an inspection is to be undertaken by a supervisory bureau, such inspection must necessarily be something more than a mere visit from the inspector and an examination as to whether the bank statement has been correctly made out and published. Herr Mommsen has already pointed out how meaningless such inspection would be, and although I have not taken quite so serious a view of the matter as he has, I, too, consider this kind of supervision superfluous. For this purpose we have the auditing concerns and the association of expert accountants, who have executed such commissions in the most thorough manner and will do as well in future. Here you have the essence of the whole thing. If there are 70,000 accounts in the Deutsche Bank of debtors from whom sums are due ranging from 50,000 marks to 10,000,000 marks, then the examining or supervisory bureau, if it is really to discharge its functions in a practical manner, must come to the bank and say: "Well, Deutsche Bank, just tell us for what special reason and on what security you have granted credit to Meyer of Buxtehude?" How far, gentlemen, will the examining bureau get in the case of such a concern? [Very true!] I must tell you, furthermore, that the imperial supervisory bureau for insurance is not always

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in accord with the companies and that the action of the supervisory bureau for private insurance has at times had the effect of obstructing the business of the companies. I took the liberty, on the occasion of the discussion of the same question in the commission charged with drawing up amendments to the Bank Bill, of mentioning in the Reichstag that I knew of a case where an insurance company had made a mistake in its favor of 200,000 marks. Now, I should just like to let Doctor Wagner see how the supervisory bureau went about its task. It sent a summons to the gentlemen at the head of the concern to come to Berlin with their books. The manager declined, on the ground that he would have to take an entire car for his books, which was too much for him. Finally, after the lapse of three weeks, it was resolved that all business must be suspended until the discrepancy was cleared up. The supervisory bureau was enabled exceptionally through the intermediary of some well-known personages to reach the point, after three weeks' deliberation, of sending a man to the place. He was there perhaps four weeks, going over the figures with the mathematician, for the error was one of calculation. The discrepancy, as the company stated, was duly accounted for, and then at last, after eight weeks of supervisory activity, the insurance company was permitted to go about its business in peace. [Hear! Hear!] Of course this was a very flagrant case. It ought not to have taken place with the supervisory bureau; but suppose, gentlemen, you had to deal with the following case: The Deutsche Bank has a loan outstanding at some place or another of which the supervisory bureau thinks it can

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not approve. If the bureau means to take up the matter in real earnest—otherwise the whole thing is a mere formality, which can just as well be attended to by others—it must go about it in a thorough fashion; and now, gentlemen, think what a dangerous thing it would be if the bureau were to come and say: “Meyer, in Buxtehude, to whom you have allowed credit up to a million marks, appears not to be sound. The man is at this very moment insolvent; no one is going to lend him another red penny.” Think what would happen if the supervisory bureau were to concern itself in this manner with such an individual’s affairs in that little bit of a place.

Moreover, while I fully recognize the qualifications of our officials and, in particular, the imperial officials, with whom I had an opportunity to become acquainted in the last two years, when I was at work in Berlin, I hardly believe that the gentlemen would be in a position to weigh all the economic possibilities and considerations with reference to the matter of credit as correctly as a man who is at the head of an institution and learns to appraise all the various factors through daily visual contact. If we should go to the length of framing such a scheme for the regulation of our trade and industry and of carrying it through, I believe that the development of our country will gradually and soon come to an end. For if we have once for all taken this step with respect to the banking business we shall be compelled eventually to invade—and this, gentlemen, is the serious result that is bound to ensue—indeed, we shall soon find ourselves invading the domain of other great undertakings, as, for instance, the great industrial concerns. These also have

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important tasks to perform, and perhaps in some respects involve a much greater danger to our economic life than one of our so-called "great banks," which, after all, with the aid of other institutions, would be able to extricate itself from its difficulties in very critical times, if its own resources were inadequate. I want you to understand this in particular with reference to the Dresdner Bank. The Dresdner Bank has withstood the stress of very hard times in a splendid manner. It sent its bills to the Dresden branch of the Reichsbank.

A VOICE. The Reichsbank.

Doctor WEBER. Yes, Exzellenz, it is only the reservoir of the bank of issue that holds the cash reserves, and that is what the bank of issue is for—to place the money at such times at the disposal of people against securities which represent things that have value in trade. What do you expect our banks to do? If they have a billion marks to dispose of, must they let it lie idle in the form of cash? They have got to hold securities, and you yourself, Exzellenz, as well as your pupils, have declared that the great banking institutions must keep stocks of bills and securities, on which they may realize in times of crisis or which they may offer as collateral. But every theorist will have to admit that in very critical times, if it should have become the practice of all the banks to invest their outside moneys in securities up to 20 per cent—and I am thinking now only of internal crises, not of external crises—it would be absolutely impossible to dispose of these stocks of securities. As a last recourse then—Doctor Wagner will perhaps be willing to concede this—the banks would have to take their securities to the Reichsbank and

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obtain loans on them. ["Very true."] And so we are always getting back to the Reichsbank as a last resort, and I subscribe absolutely to what Doctor Ströhl expressed yesterday in such a splendid manner, namely, that we must do our best to strengthen the Reichsbank, but that in times of crisis we must ultimately have again recourse to the Reichsbank. All the stocks of bills and imperial securities will not avail, and if we do not mean to keep pace with modern development we may as well put up a Chinese wall and get back to the German agrarian state of 1213.

I should, therefore, gentlemen, reject *a limine* the idea of a supervisory bureau, because I consider it, on the one hand, one of the most mischievous and uncalled-for experiments, unwarranted with reference to the whole development and activity of the great banks, which would be justified in regarding it as an expression of a lack of confidence in them, and because I feel sure, on the other hand, that such supervision would mean, in addition to its effect upon the development of our banking system, the imposition of trammels upon our economic organism, which under all circumstances would be very detrimental to our industries, as well as to our trade and business in general; much more so even than in the case of the banks, which might still perhaps continue to do business. This would be the inevitable consequence of the inability of the banks to act at the right moment with the requisite despatch and dexterity and of their being forced, when about to engage in a transaction, to see the Damocles sword of the inspectors dangling over them. And suppose a firm like that of Krupp, whose president we are glad to see in our

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midst, were to come to-day to a big banking concern in order to arrange some important financial transaction and were compelled to negotiate with a bank president who constantly sees the inspector's sword hanging over his head, I am pretty sure the firm of Krupp would say, "I thank you"—let our friends, the theorists, take note of this—and prefer to have the financial transaction in question executed, not in the German Empire, but by foreign bankers, who are not bothered by inspection and regulation. And let us not forget, and let our theorists bear this in mind, that we must see to it that our people shall retain the means required for the production of the commodities that must serve to offset our imports.

I may, perhaps, be allowed to remark, gentlemen, in my capacity as a representative in the Reichstag—I know that I am not here as such, but I am speaking advisedly—that I am going so thoroughly into this matter of a supervisory bureau because I have been constantly hearing in all the discussions in the newspapers and on the platform, and particularly from persons who are apt to be strenuous advocates of special interests, that the supervisory bureau is best calculated to bring about so-called sound conditions in the German banking world. I deny emphatically the existence of this unsoundness, and I insist that the very institutions we term "great banks," which I, as head of a small banking concern, have not only learned to know with respect to the conduct of their business, but which I have made use of day after day, are under such sound management and in such sound condition as we do not find anywhere in our public offices. Or do you suppose perhaps that a government official with a salary of 12,000

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or 15,000, or say 20,000 marks has a greater sense of duty than the representative of a great bank, who has been born and who has grown up in the business and has had a share in its whole development, and who, with respect to all his relations to our political life and to our foreign policy is at least on a level with the men who occupy the prominent posts in the imperial administration? ["Very true."] I place the president of a world bank, such as, for example, the Deutsche Bank—not because I belong to the trade—with respect to his training and education in all that pertains to political economy, finance, and even politics at least on a par with the heads of our imperial offices. ["Very true."]

For you know perfectly well, gentlemen—I beg you will not take this to be lack of modesty on my part—that in our imperial administration, in spite of a thousand checks, things are far from what they ought to be. And do you suppose that the secretary of the bureau of supervision—let us assume that the head of the bureau, as an official of the highest rank, would be invested with the title of "secretary"—would be in a position to exercise an effective oversight in the case of a single one of the great banking institutions that we have in Germany? The direktorium of the Deutsche Bank—I shall speak of this as being our leading institution—is composed of six or eight gentlemen, who come down to the bank and, if I may so express it, nose a round from morning till night, busying themselves with every department of the business in order to have a general oversight, and poking their heads everywhere, and then you imagine that a secretary who has made his reputation perhaps as a court officer and

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has possibly worked his three years in some large industrial establishment (I believe Doctor Riesser suggested that this be a qualification)—I don't care how able and clever he may be—is going to have the knowledge which those men possess who manage the business in a bank like this of world-wide reputation. Herein lies the great mistake of those who have too much faith in the efficacy of administrative interference in cases where it is bound under all circumstances to prove ineffectual. We should do much better to say: "It is not the banks that are in need of supervision on the part of government officials; it is the undertakings managed by the state governments and the Imperial Government that ought to be under the supervision of business men."

A VOICE. Modern.

Doctor WEBER. It is modern but necessary, for when we see that such a thing, for example, can take place in the post-office department as people asking how the expenditures are footing up in the construction of the Dresden post-office and no one having any inkling about it, we have there a bit of slipshod management about as bad as we can imagine. Or, how is it, if I happen to visit the docks at Kiel no one can tell me how much oil there is on hand, and while in private establishments the oil is kept under lock and key as an expensive item in the running of the works—the manager has charge of the key and lets the foreman have it when necessary—at the Kiel docks 50,000 quarts of oil are allowed to flow into the sea in the course of a year? You may judge from this, gentlemen, that government supervision does not necessarily imply that the people charged with such supervision are really able to exercise it.

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Doctor WAGNER. But you know this is not a regular thing.

Doctor WEBER. I should now like to say a few words regarding the bank commission which Herr Roland-Lücke has proposed. I fully share his opinion that such a bank commission would be of the utmost utility and benefit. In this I hold a contrary view to that of Herr Mommson and would amplify somewhat the functions of this commission. I believe—and I assume that I shall not encounter any opposition on the part of Herr Roland-Lücke—that it can prove of especial usefulness in connection with the flotation of loans for the Imperial Government and the federated States. The complaint is frequently heard that the Empire and the various States, Prussia included, issue their loans at the most unfavorable times, and I am sure that in this respect the timely counsel of such an advisory commission would be of great advantage to the minister of finance.

In what concerns the other propositions, I wish to advert briefly to the utterances of Herr Gontard. He has likewise had to deal with the matter of the supervisory council in connection with the commercial code, and, while he was unwilling to express himself fully in regard to it, he called attention to the fact that the supervisory council in its present form is not adequate to the task of performing everything that is required of it. I believe, gentlemen, that the functions of the supervisory council in connection with our larger institutions are not quite fully understood. That the supervisory council can not, for example, set to work and go over the columns of figures in the arbitrage department of the Deutsche Bank is a matter of course.

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For that purpose the bank has got its expert accountants. The business of the supervisory council is to keep an eye on the general business management and, in case the managers have been acting in a way that they can not approve, to set them on the right track. But, judging from the utterances of Herr Gontard and others, there would appear to be an impression that the members of the supervisory council in the case of the great banks feel that they are dependent on the banks—that is to say, on the managers. Now, just take a glance at the list of the members of the supervisory councils connected with these big banking concerns and see what names they contain. Do you suppose they would allow themselves to be treated as though they were fools by the managers of the bank? Some of them formerly worked in the very same institution, and most of them occupy positions similar to those of the managers of the bank in some large industrial or mercantile concern. Take such members of a supervisory council as Wiegand and Ballin; do you suppose that such men feel a sense of dependence with respect to the Deutsche Bank? They would simply laugh at the idea. It would be a great mistake to talk to a man of this stamp about his dependence on the Deutsche Bank. But such a person is all the more useful to the Deutsche Bank in his capacity as a member of the supervisory council through his ability to establish new relations with other institutions, while his activity is rendered more fruitful by his being in close touch with the banking institutions that lead in the world of finance and with their ministers, for we may designate as such the gentlemen who are active in the higher spheres of finance. I am willing to admit, Doctor Ströll, that it

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is not right that any man in the German Empire should fill twenty-four important supervisory posts, for, of course, he would never be able to keep a close watch on everything. If a person is a member of the supervisory council of the Deutsche Bank he can not at the same time fill a score of similar positions and accomplish what you have in mind when you speak of the functions of a supervisory council. My notion of the duties of a supervisory councilor is, however, a different one. If some one, for example, occupies such a position at Krupp's or at the Stumm works, it goes without saying that he can not afford to bother himself about every little trifle. That is not his business, but that of the managers. His duty is, as I have said, to give general directions.

A little suggestion, which I consider a good one, was made in this connection a few days ago in the *Frankfurter Zeitung* by a man who knows all about banking. His idea is that the larger institutions might be willing to have the examiners appointed directly by the supervisory council instead of the managers, in order that their position might be independent and free from the influence of the management.

A VOICE. Riesser's suggestion.

DOCTOR WEBER. As independent officials placed directly under the supervisory council, they would at any rate be in a position to do the inspection in the sense in which the supervisory council means it shall be done. I consider this proposition decidedly worth discussing, although I should not like to see it embodied in legislation, for then we should have government accountants, who understand nothing of the whole business. The

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men required for the position are such as have grown up in the concern and who know something about bills, arbitrage, etc. If you, Herr Gontard, were to step into such a concern and set to work verifying accounts, you would soon find that it was impossible for you to do it.

Mr. GONTARD. I know I am not competent for that.

Doctor WEBER. I will not say that you are incompetent, but it will be impossible for you for the reason that only a practical banker can understand these things. There are so many technical and intricate questions, regarding which only a practical business man can form a judgment, that I believe such examination can be done only by a man who has grown up in the business and who at the age, say, of 40 or 45 is made independent of the management in order to be able to work altogether along the lines recommended by the supervisory council.

Mr. GONTARD. That is just what I mean.

Doctor WEBER. This would be an excellent scheme, and I should be glad to see it gradually adopted by our big concerns.

I need not say more than a few words in regard to the resolution under No. 4, inasmuch as on the occasion of the discussions in the bank-law commission no great value was attached to it and because I can not see that it would lead to any appreciable result, at least in its present ill-adapted form. If we look over the list of bankruptcies—the periodical *Die Bank* has taken the trouble to compile such a list—we find that of all the bankruptcies in the last four years there were only four cases of regular embezzlement. There is, therefore, hardly any

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actual basis for this whole resolution, and I attach no importance to it.

To sum up, gentlemen, I wish to say that I consider the enactment of regulations for the management of the banks a most mischievous thing. Such provisions might perhaps already on the morrow become out of date by reason of our whole economic development and the advance in our banking system, for to nothing so much as to our economic existence and in particular to the world of banking does the expression apply, *πάντα ῥεῖ*, things change from day to day.

It is the same thing, gentlemen—I may as well say a few words in regard to this now in order not to have to take the floor again—with the matter of prescribing the form of the bank statement. Supposing we had to-day a scheme according to which the balance sheet would have to be made out, it would be doubly defective from the outset. In the first place, a scheme has been elaborated by the gentlemen who have assumed the rôle of critics—I mean particularly a pupil of Doctor Wagner's, Herr Bernhard—which has been prepared merely with reference to the great banks. This form of statement is not suited at all to the provincial banks, not being adapted to the private bankers nor yet to the small banks like the one, for example, with which I am connected. We know nothing about the thirty-day loans in connection with stock speculation; we have nothing of the sort. Imperial treasury bills are of less importance with us than the matter of loans to our customers. Now, in one of the written opinions, I believe in that of Herr Bernhard, it is suggested that a list be inserted in the bank's report, or

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the statement, of the largest debtors—as, for example, in the case of banks having a capital of 1,000,000 marks, those from whom more than 100,000 marks is due—arranged in the order of the amounts. He takes, let us say, a small bank in Mühlheim and puts the matter in this way. Here is a bank with a capital of 1,000,000 marks; there are ten loans exceeding 100,000 marks; the names of the ten parties will have to be published. Suppose you take a balloon and transport yourself to Mühlheim, a city of 10,000 inhabitants, and you will find that a legislative enactment of the kind proposed is going to cause the greatest trouble there. You can afford to do this in Berlin but not in a small provincial town, where everyone is acquainted with every other person's affairs. Exceptionally it might perhaps be rendering a service to the public, but, generally speaking, it would be calculated to bring about such mischief as making everybody in the place lose all faith in the standing of an individual who owes the bank the sum of 100,000 marks, and nowhere—I tell you this as a fact after my many years' experience—does the success of a business concern excite such envy as in a small town. The information thus spread about concerning industrial establishments would cut off their credit completely. It sometimes happens in the case of factories doing a business of a million marks, as well as in the case of small banks like ours, that when an inquiry is made in regard to their credit—such inquiry often coming from petty tradespeople—the answer reads, “Whether he is good for 10,000 marks is doubtful.” When these petty dealers find out that the party in question has a debit of 100,000 marks, a sum that is quite inconceivable for these people, that is the end of his business.

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The fixing of a regular form for the balance sheet, if the voluntary action of the great banks in the matter of publication is imitated by the provincial institutions, can not fail to be of advantage. I believe that the public is the best critic and the best overseer of the management of our banking institutions. But the scheme of a balance sheet must not be made uniform for the whole Empire. Anything like that would not work under such varying conditions. You see yourselves, for example, in the domain of the savings institutions that the conditions are entirely different in South Germany from those in Saxony. It would not do, therefore, to prescribe a universally comprehensive scheme. The thing to be done would be to bring about voluntary agreements for the various districts, adapted to the particular needs of each individual district. There would be no sense in comparing the conditions in East Prussia with those in the Rhenish-Westphalian district. The form of statement would have to be altogether different in East Prussia from that required in the Rhine Province and Westphalia or in Bavaria. The first-named district has no manufacturing industry and the last-named but little, while the Rhine Province and Westphalia are altogether manufacturing regions. The scheme laid down for the balance sheet would consequently have to be constructed on a very different basis for each of these districts. I should, therefore, consider it very desirable, as I have said, that the banks go ahead in this matter of giving statements to the public, but in heaven's name let us not ask our legislators to get up a prescribed form of balance sheet, for that would be only mischievous. A further factor that has to be considered in connection

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with such a prescribed form is that the conditions in this field change so frequently and so rapidly that a change in the scheme would very soon be rendered necessary. Our commercial and industrial organization can not afford to be treated like our postal system and similar institutions, a treatment that imposes trammels which are bound to be out of date almost immediately. And, moreover, you must not forget, gentlemen, that we have been conducting this inquiry all along from the standpoint of Germans. It might be well for once—let me conclude with this—just to cast a glance at the conditions in other countries in order to appreciate the vast extent of the relations that we have with them. The Deutsche Bank, for example, has a large branch in London. Now, what is to be done with this branch; that is to say, is it to be included in dealing with the scheme of a balance sheet? The Englishman does not care a particle what kind of form we prescribe here for our bank statements. And we must not forget that the world at large, when it sees us constantly taking hold of one thing or another, is bound to become mistrustful in regard to our development. As it is our big concerns afford little scope for ridicule, but we ought to see to it that obstacles are not thrown again and again, for the sake of some political advantage, in the way of our free development—things that do not fit into our economic organization and which, even if they might be capable of being introduced into our administrative offices (which perhaps would often be the worse off for them) must absolutely not be permitted to find their way into the business of a nation that changes

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from day to day and which is called upon not merely to exert its activities in Germany, but above all things to promote the relations of Germany with the rest of the world. [Applause.]

Mr. SCHINCKEL. Gentlemen, I must first of all express my views with reference to what is under II: The enactment of regulations relative to the taking, management, and investment of deposits and savings. After my previous utterances you will certainly not expect anything else from me than the expression of my unqualified opposition to legislative regulations and measures. As I have already stated, I not only can not see any use in such legislative provisions, but, on the contrary, I even fear very serious harm to our entire national economy in case we have recourse to such means, and in order to demonstrate this mischief to you I must beg you to allow me to advert briefly to a matter that came up in our discussion yesterday.

Doctor Wagner favored us yesterday, for a second time, with a most interesting discourse. I wish to tell you right at the start that I think the tenor of his words was much more moderate yesterday than the day before, although he did not fail to dwell once more upon his favorite word "plutocratism," a word which he has managed to invest—whether this is not merely my personal feeling about it I can not say—with a singularly repulsive expression. He would have us believe that a bank manager is a born plutocrat. Well, of course, he may be that in so far as the stuff he deals in is gold, this nasty gold, which is looked upon, especially by those who haven't got any and who would like to have more of it, with a good deal of contempt. [Laughter.] But let me

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add right now that even with millionaires money does not always constitute the greatest boon that life can offer, as our men of science are apt to assume. Nothing can relieve the bank manager from the charge that he deals in money, but even at the previous session of the commission I could not help wondering at the speeches delivered by Doctor Wagner on the subject of plutocratism. I can not see how we in our bank inquiry can get around discussing this subject that is so closely connected with money. It appears queer to me, too, that a disciple of Wagner's should have selected "Plutus" as the title of his periodical. [Laughter.] No, I shall not let this plutocratism offend me any longer. I am glad to get this designation into the bargain. At any rate, it is not going to spoil the pleasure I have in my calling.

What I did, however, take to heart was the doctrine which yesterday again pervaded Wagner's address—and it is not Exzellenz Wagner who can propound such doctrines; it can only be Professor Wagner [laughter]—the doctrine of restriction of production. With the acuteness of intellect to which, in spite of his age, I am willing to certify, Doctor Wagner has conceived the notion that there must be a restriction of production and, above all, in the matter of the begetting of offspring. This was, perhaps, treated at first as though it were a joke, and yet, gentlemen, this is such a serious matter that I am unable—I beg you will not take it ill of me—to shake off my anxiety in regard to this teaching.

This theory, gentlemen, which is gaining ground more rapidly and is being adopted more widely in the neighboring countries than is the case in our own country, where

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unfortunately it has also begun to assert itself, this unhal-
lowed theory of a family limited to one or two children, I
regard—I must frankly declare—as abominable from the
standpoint of morals and as pernicious from the standpoint
of political economy. ["Very true."] I even consider it
un-German and I think it deplorable with respect to our
country's interests that teachers of acknowledged reputa-
tion should be contributing in the least, directly or indi-
rectly, to the spread of such a doctrine. I arraign and I
pity a nation which is willing to be the instrument of its
own decadence. ["Very true."]

Doctor Wagner spoke of the breeding of millionaires.
To judge from some incidental remarks that he has dropped
he would have us understand now that he did not mean to
say exactly that he deplors the breeding of these million-
aires. That is the only impression I could get from his
address, and I must say that we have not had such bad
experience with our millionaires in Hamburg. We folks
in Hamburg, as a matter of fact, are always glad to see the
number of our millionaires expanding.

A VOICE. More badly needed elsewhere.

Mr. SCHINCKEL. For the present, I just wish to speak
of Hamburg, and what is true of Hamburg I hope is true
of the rest of the country. We in Hamburg find that these
gentlemen are by no means given up to idleness and that
they are not at all the people who indulge in that extrava-
gant living which I condemn as much as Doctor Wagner.
We find that they keep on working and make the money
which they have earned do work in their business. What
has all along made the greatness of Hamburg is that its
inhabitants have never had the time to run after show and

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that its wealthy men, impelled by an acquisitiveness which Doctor Wagner characterizes as immoderate, have allowed their money to go on working for them. And there is this to be said—that is what brings me to my point—that the very theory which Doctor Wagner is combating has been remarkably justified in the case of Hamburg. If you look at the men of wealth in Hamburg, you will discover that there is not the faintest idea of such a thing as the rolling up of big fortunes in the way it is being done in the United States. There may be one man who has as much as twenty millions, but what becomes of them? Thank God, it is still the custom in Hamburg to allow one's self the most precious of all luxuries, to wit, a big family. [Laughter.] And the result is that the money is divided up again into innumerable parts, some of it being still put to productive uses, but the greater part of it very soon getting back into the circulation. This is a principle, gentlemen, that I wish to see upheld not only for the sake of Hamburg but for that of our entire country.

Doctor Wagner asserted that the great banks have been favoring——

A VOICE. Favoring?

Mr. SCHINCKEL. Well, encouraging—usury in connection with the land. This may occur here and there. I must call your attention to the fact that the statutes of the banks with which I am connected provide that no real estate whatever is to be acquired except what is needed for the use of the concern. It is, moreover, a well-known fact that in by far the greater number of cases the banks that are engaged in the business of loaning money on real estate, that is to say, the mortgage banks,

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are the very ones that loan money on building lots, and everybody knows, furthermore, that with few exceptions it is not the banks that advance money for building operations and the like. I may as well mention that the tax on the increment has had the effect of diminishing this evil of usury in connection with mortgages while producing more or less revenue for the Government.

Doctor Wagner declared, and I should like particularly to revert to this matter, that in the event of war the banking world, or at least the world of private banks, would suffer a collapse. I must, however, point to the fact that this was not even approximately the case at the time of the last war. When war broke out in 1870 we had no Reichsbank yet in Hamburg to which recourse might be had, but the Hamburg banks, thanks to their liquid surpluses and the confidence which they enjoyed, gave absolutely no reason for any apprehension that they might collapse. It was they, on the contrary, that made the largest subscriptions to the war loan. I regard such an assertion, therefore, as based on nothing.

Much stress is laid on the circumstance that a bank at a time of crisis had to fall back upon the Reichsbank to the extent, as is supposed, of 60,000,000 marks. This is represented as something awful. Gentlemen, what is 60,000,000 marks by the side of the fact that not longer ago than the autumn of this year the Imperial Government had to call upon the Reichsbank at the most inopportune moment for several hundred millions? These are things that the Reichsbank has got to put up with.

Herr Singer assailed violently what Count Kanitz said, with my approbation, in regard to the excessive burdens

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imposed by governmental action for social welfare. He wanted us to understand how little, reckoned in pfennigs, such social burdens amounted to per capita of the population. The example adduced was certainly a very seductive one, but alongside of that I have another which affords a much more precise indication of the truth of what we were saying. The United Königsberg and Laura Works have, according to their published reports, been paying out every year in the way of obligatory and voluntary expenditures for the benefit of their employees, a sum exceeding 3,000,000 marks, that is to say, more than they have at any time paid out in dividends in a single year, and now something has happened that will rejoice the heart of Doctor Wagner. The dividends of the United Königsberg and Laura Works have come down from 10 to 4 per cent. Formerly one might say that, with dividends ranging between 10 and 11 per cent, it was no crushing burden, but when dividends are 4 per cent the thing begins to press like a pretty heavy load, and if you go to-day to the city of Königsberg, whose population is largely made up of people employed in the works, you will find that the inhabitants are greatly troubled on account of the falling off of the revenue from taxes and the likelihood that the Königsberg and Laura Works will no longer be in a position to provide for their benevolent undertakings as generously as heretofore. This goes to show that the imposition of excessive burdens in the way of compulsory provision for social needs may actually become a serious handicap for our industries. It goes without saying, gentlemen, that not one of us thinks of deploring the fact that industry is active in the field

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of social betterment, and as long as such activity is kept within proper bounds, no one will object to its continuance.

My countryman from Hamburg, Herr Raab, has repeatedly said that he considers foreign trade and exportation to foreign countries a dangerous card. I am indignant every time I hear this from the mouth of a Hamburger, for Herr Raab must have learned in Hamburg that Hamburg has from the beginning become great and powerful and prosperous only through its maritime trade. There are people, of course, who are afraid on the water, but we all know that *navigare necesse est*, and thank heaven there are still people who are ready to go into it, for unless you risk something you will accomplish nothing. I must say that not only Hamburg but our whole German Empire owes a vast deal to our foreign trade and the commerce of our seaports, among other things our "share of the sunshine," the colonies, and all that at present contributes toward the support of our population—let us hope in an increasing measure—by means of its own native products.

How mischievous may be the influence of laws not enforced has been shown in the case of the law relative to the Bourse. For, as a matter of fact, gentlemen, the government commissary and the detailed prospectuses are not the only thing that remains of the Bourse law. What has above all been left of the Bourse law is the notion spread broadcast among the public, hitherto quite innocent of it, that one is not legally bound to fulfill one's obligations. That is something unfortunately which no revision of the Bourse law can ever get out of people's

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minds. In the domain of practical matters the Bourse law has left us a legacy in the swarm of brokers who rejoice our hearts with foreign speculative securities and who bring more foreign securities into Germany and into the possession of Germans than are enumerated in the statistics of stock and bond issues published by the Reichsbank, and finally it is to the Bourse law that we are indebted for that excessive concentration of business in the great banks which I as well as others deplore. These are evils which when once introduced could not be removed by the amended law, being evils that do not admit of a remedy. For you can not ask, for instance, that the great banks which have become altogether too big to suit my taste—a tendency it was impossible for them to escape—shall split up again into smaller ones.

As regards the next thing on the question sheet, we have to deal with the matter of a prescribed cash reserve. I can not see any use either in the accumulation of a cash reserve in the bank's treasury or of a compulsory credit balance at the Reichsbank. Just try to imagine for a moment the position in which a credit bank would thereby be placed. For the sum, gentlemen, that you are obliged to set aside from your ordinary funds and keep in the Reichsbank represents an equivalent amount added to the demands upon the Reichsbank, inasmuch as these very resources could otherwise have been made use of by the banks to meet the demands of the country in the matter of credit. But should it happen—and under certain circumstances this must occur—that a bank is compelled to have recourse to this compulsory reserve, the

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obligatory credit balance at the Reichsbank would mean at once an increased demand upon the Reichsbank until the time when the bank that has withdrawn its balance is in a position to meet the general demand for credit by means of the money thus released. I believe, therefore, that no advantage would be derived from this proposition.

I consider the keeping of an adequate stock of bills and other liquid resources a bank's prime duty, which does not need to be impressed upon it by legislative enactments. I have already stated that we have always looked upon bills of exchange as the soundest investment.

A word now concerning the investment in securities. The views held by the great banks in regard to such investments has undergone a slight change. In the early period of my career a bank statement was supposed to look well if it could show an investment of this sort. When later on we entered into a combination with the Discontogesellschaft and referred with pride to our securities, the old Hanseman, an authority in this field, exclaimed: "Just sell them as soon as you can. I absolutely can not see why you should be anxious to burden your statement with them. For us bankers securities are the wares in which we deal. We try to turn them over as frequently as possible and you are going to get stuck with them often enough. The whole thing strikes me very much as though a dealer in cloth were to say, 'No, I am not going to sell this pretty cloth; it is too nice and I think I had better put it away.'" Well, we have had our experience, too, and we have been stuck often enough, especially with Prussian and imperial obligations. [Laughter.]

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Now, a bank manager has to overcome a feeling of repugnance in order to introduce in the statement of his bank things that in a certain sense seem to work the wrong way. He was heretofore taught to believe that a large stock of securities would be set down as an evidence of lack of fluidity and that he would do better to have more bills in his portfolio. I admit that securities are of great importance with reference to the contingency of war. You may see from this what a change takes place every ten years or so in the notions regarding fluidity and unfluidity and the expediency and in expediency of investments. Would it not be much more natural and effective to have the banks made cognizant of these things through the agency of those who are experts in their field, such as the managers of the Reichsbank? And I wish to say right here that the educatory factor which consists in the circumstance that one bank or another—it need not be more than one at the start—is going to listen to such an admonition is a very big factor. If the Deutsche Bank and the Discontogesellschaft were to come out to-day in their statement, because it is considered the proper thing, with a goodly amount of securities available as collateral, the other banks would soon follow suit and say, “Well, this seems nowadays to be something that is expected in a good statement, and so we had better get a supply [“Very true”] else we shall not be considered altogether up to the mark.” [“Very true.”] Whether this stock of securities shall be part of the surplus is a merely formal matter. Of course the bank would always do well to say that this or that part of its surplus or the whole—as will gradually develop, it

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being impossible to arrange these things from one day to another—is invested in government securities available as collateral.

Under No. 3 there is the question regarding the deposit in the Reichsbank of a certain percentage of the outside moneys. I have already spoken about this. I consider it altogether impracticable; it would cause a revolution in the entire banking system. I should have supposed also that already at the last session of the bank inquiry commission the question of the creation of governmental deposit institutions or the assumption by the Reichsbank of the business of taking interest-bearing deposits had been disposed of. On that occasion I expressed my humble opinion to the effect that I should consider it an unnecessary burden for the Reichsbank if it were obliged to take interest-bearing deposits. It would mean that at a time of crisis there would be an additional way of making demands upon the Reichsbank. But there are other reasons, which have already been adduced to-day. I should regret exceedingly if it were proposed to cut off the inflow into the savings institutions by letting the Reichsbank or other state institutions take deposits under the guaranty, to a certain extent, of the imperial government. On the contrary, I should urge that the savings institutions be strengthened in every way and guarded against attacks that are every now and then made upon them.

In regard to the creation of a supervisory bureau for the banking system, I shall express myself very briefly. I believe it is adequately characterized in the document handed in by Freiherr von Wangenheim. [Very true. Laughter.] Yes, I am in earnest. It shows you what the

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public—and I include in it at this moment Herr von Wangenheim, a member of our inquiry commission, who has not been present in order to hear what others had to say—in a general way expects from such a supervisory bureau. It expects it to prevent crises. Yes, I should also like to see a way of stopping these violent ups and downs. It is anything but a pleasure to be a bank manager when a crisis comes along. But I am of opinion that a certain “up and down” is absolutely required in our national economy. What would be the end of it if we could always see everything sailing along nicely before the wind and stay at home in our cosy quarters, cutting off our coupons, and were no longer obliged to bother ourselves over much in the banking business? [Laughter.] No, gentlemen, we need an occasional crisis; we must have ups and downs every now and then. I am sure it is a splendid lesson when we have once got through a crisis. It gives a sharp edge to our experience, and I am speaking from my personal experience. I shall, therefore, drop this matter of a supervisory bureau.

I shall just say a few words with reference to Herr Roland-Lücke's suggestion in regard to the creation of an advisory commission. On the whole, it appeals to me very strongly, but only in so far as it does not partake in the least of the idea of a supervisory bureau. It goes without saying that such a thing would be impossible. Otherwise it would be hard, I believe, to find anyone who would care to be a member of such a commission. No, that is out of the question. But I can readily see that the great tasks which the Reichsbank has assumed could be facilitated by the advisory council which it would

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have in such a commission. I need say nothing more about this, as you have already gathered from what I have said how much importance I attach to the exercise of a certain supervisory activity on the part of the Reichsbank. I realize, of course, that there are manifold ways in which such a commission might be active. We had better not discuss the matter of the bank statements at present, nor do I wish to take up your time to-day. I hope I shall have an opportunity to return to the subject later on. I may say, however, that I believe the commission would render an excellent service as a bureau for taking charge of the intermediate statements to be submitted by the banks. I agree with Herr Roland-Lücke that it would be altogether unnecessary, too expensive, and, indeed, meaningless to have the great mass of intermediate statements appear every two months in the newspapers. Let them be hung up, and let everybody who is interested be enabled to obtain a copy. This much ought, of course, to be required. But then there must be some supervising organ to see to it that these intermediate statements are prepared and made available for statistical tabulation. I should consider this commission a very good intermediary. It might, perhaps, with the assistance of the statistical department of the Reichsbank, undertake the collating of the intermediate statements, which, after having been examined by the commission, could be quietly submitted to the public and to expert scrutiny, just as these statistical tables have been submitted to us to-day. But, as I said at our first sitting, statistics are a very dangerous field, especially when, proceeding from actual figures, they lose themselves in estimates. There is no use in my going

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further into the matter. I shall take the liberty later on of handing to our president the statistical tables which I have revised, and I must say that, to my great regret, what was feared has happened in the case of the statistics before us. There are a great many more errors in them than I myself suspected—actual errors; not mistakes in estimates. These are errors which I believe everyone who has much to do with issues of securities will recognize at a glance, but in regard to which I must say, however, that the direktorium of the Reichsbank has something else to think about and has not so much to do with the flotation of foreign loans as to be able to exercise an immediate oversight in these matters. I should, consequently, consider it of the greatest advantage if, for example, such statistical material relative to the activity of the banks were to be submitted to the members of this commission, who would examine them once more before publication, supplementing and correcting them or making needed comments, according as the necessity will manifest itself in course of time. I merely wish to hint that there would be all kinds of useful work for this commission to do without our imposing upon it the great responsibility that would attach to a bureau of supervision dealing with these thousands of banks. The whole thing would have to be organized from the start in such a way as to preclude this altogether. That is something that even the Reichsbank can not undertake.

But if I may be permitted to say a word in regard to the other measures, let me add that everyone of us who is engaged in the business of banking knows what a great influence the Reichsbank can exert in this respect. And

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when it finds that it is necessary to interfere, when it is persuaded that it can not allow things to go any further, the Reichsbank has the power to restrain the offender. It is not only able to exercise this power by refusing to discount his bills, but it is not bound any longer to take his acceptances. You are all aware that, as it is, we have to keep a compulsory credit balance at the Reichsbank, and so, if it sees fit, the Reichsbank can increase the amount of this credit balance. It has still another means in the personal intercourse of the managers of the main branches with the public. In short, when it is generally understood that such and such a thing ought to be done and that the banks have a right to insist on its being done, I am convinced it can be accomplished without recourse to legislation by means of the influence of the Reichsbank.

Mr. PETER. In the course of the general discussion of the question I have stated that I do not consider it desirable to provide for the security and fluidity of deposits and savings by means of legislation. Such regulations, gentlemen, seem to me useless and mischievous. I regard them as impracticable for the reason, as I have already explained, that there appears to be no way of separating the outside moneys into savings, deposits, and account-current funds. I shall content myself with brief answers to the questions submitted to us.

In regard to the matter of limiting the aggregate of deposits that each individual banking institution can take, I must declare that I should consider it very detrimental to the credit business. The result would be that credit would be dearer, which would prove a serious burden to business men of small means. For if the

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restriction of the taking of deposits should have the effect of raising the rate of interest—and it would be bound to affect the debtor in this way—it goes without saying that the rise in the rate of interest would be felt most by the weakest portion of the business community.

With respect to the limitation of the aggregate of deposits, I should let the matter rest at what has already been done in this direction. As regards the *Genossenschaften*, I wish to call your attention to the fact that there is already a restriction in their case. Paragraph 43 of the law relative to *Genossenschaften* provides that the general assembly shall fix the maximum amount of the loans and savings for which the association is liable. In what concerns the savings institutions no one would think of restricting the aggregate of deposits.

I am persuaded that any provisions regarding the separate management of deposits and savings and the preferred claims of creditors having deposits or savings would practically not be feasible, as I can not imagine how a preferred claim in a case of bankruptcy could be enforced.

In regard to the matter of a prescribed cash reserve, I concur in what my colleague, Direktor Schinckel, has expressed in eloquent words, "investment in bills and other liquid resources;" that is something, gentlemen, that is already frequently done in banking practice. I, for my part, at least, have always made it a point to keep a stock of bills corresponding to our demand liabilities, and I have, moreover, urged the *Genossenschaften* with which I have had business to adopt the same policy. As for the investment in government bonds and similar securities, I consider it, of course, a good thing, and would

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recommend keeping a large stock of them. I consider them especially desirable with reference to the investment of the legally prescribed surplus. It has been objected that this is not an easy matter by reason of the fact that the holders of government securities have not fared well the last few years. If in the fresh issues of German government securities we were to proceed at a somewhat less rapid rate, so that there might be a better market for such securities, the managers of our cooperative credit associations would be enabled to adopt the policy in question in an increasing measure and to give greater scope again to the investment in government bonds and the like.

We come now to "other kinds of measures." Under (a) there is the question regarding the deposit of a certain percentage of the outside moneys with the Reichsbank. I must say that I should not anticipate any result worth mentioning from this, and, moreover, I consider it impracticable. I am unqualifiedly opposed to the creation of governmental deposit institutions. I fear that injury would result therefrom, not so much to the banks, and, in particular, the great banks, as to the local institutions from which the money would be withdrawn that is required for the discharge of their economic functions. Nor do I share the wish expressed yesterday by Herr Roland-Lücke that the post-check system might develop into a postal savings system.

Mr. ROLAND-LÜCKE.—I did not express such a wish.

Mr. PETER. Then it was a misunderstanding on my part. The desire is frequently expressed that certain sections of the population ought to be afforded an opportunity

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of setting aside their savings. It seems to me, however, that such opportunity is afforded in the country districts by our savings institutions and by the rural credit associations. The post-check system would in my opinion admit of further development if the work of reckoning up the charges could be made less expensive and less complicated.

I have already expressed my opposition to the assumption by the Reichsbank of the business of taking interest-bearing deposits in connection with Question IV. I should consider it a disadvantage if, in addition to its great function of acting as the guardian of our gold, the Reichsbank were to be obliged to provide, as a credit bank, for the placing of these deposits.

In regard to a bureau of supervision for the banks, I believe it would be a very dangerous thing for the Empire, as I feel sure that such a bureau can by no means undertake to guarantee against losses. I should consider it mischievous, inasmuch as it would have the effect of making people at times careless about making sure that the institution to which they want to intrust their deposits is sufficiently safe. The Genossenschaften have, as a matter of fact, a certain supervisory institution in the legally prescribed examination to which they have to submit. The law provides that every such cooperative credit association must, every two years, allow its affairs to be examined by an inspector not belonging to the association. The unions of associations are invested with authority to appoint inspectors. Now, gentlemen, my experience tells me that this system of inspection has been working to the advantage of the associations. But then these examina-

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tions, which in the nature of things can not extend to an investigation into the character of the assets, has not prevented the occurrence of losses through dishonest manipulation, unsound investments, or bad debts.

As regards the savings institutions, they are, of course, under the supervision of the state governments. It is my opinion that a revision of the regulations in certain respects through administrative agencies is necessary. But you see, gentlemen, we have an organ which is preeminently adapted for carrying out along practical lines all that a supervisory bureau could possibly be expected to undertake, and that is the Reichsbank. What the Reichsbank is capable of accomplishing for the whole German bank organization and the maintenance of our credit system on a sound basis through timely admonition and, if need be, through energetic interference, has been so splendidly set forth by Doctor Ströll and Herr Roland-Lücke that I must express my unqualified concurrence with them, having nothing to add to what they have said. I believe it would be a good thing if special stress were laid upon this view of the matter.

I consider Herr Roland-Lücke's suggestion in regard to a bank commission a very happy idea, which, if transmuted to action, would give the public a feeling of security and could not fail to be beneficial to our whole economic life. For we shall find men who will combine the tact and, if need be, the energy required for a rather difficult office with the necessary knowledge of pertinent conditions. Let us hope, therefore, that where improvement is needed the correction will be made and that the work of the commission will serve to promote the healthy development of

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our credit system and make the task of the Reichsbank easier.

Doctor WAGNER. I had no intention whatever, gentlemen, of taking the floor again to-day with the result, perhaps, of eliciting fresh contradiction. But I have been quite personally assailed by Geheimrat Riesser and several other gentlemen who have been speaking, and so I am compelled to make a rejoinder. I shall be as brief as possible with respect to the general questions and the individual points likewise, but I can not let the general questions go entirely, inasmuch as the attacks have been leveled against me particularly on account of certain utterances of mine in connection with them. This much by way of introduction.

I shall first reply to Direktor Mommsen. He has brought the charge against me that in asking for a bureau which is above all to be a sort of supervisory authority I have shown a lack of confidence in bank managers and the other gentlemen of the banking world which is insulting. I can only say that nothing was further from my thoughts, and I believe, moreover, that this is implied neither in my words nor in the contents and tenor of my statements. I feel like retorting in a like strain: Gentlemen, how do *you* talk of the government officials? What you say hits a good many of them. You frequently represent them as people who have very inadequate knowledge of economics and, in particular, of your banking affairs [exclamations of protest] and who are altogether too little in touch with things. You intimate that they are, on the whole, at best of mediocre intelligence, persons from whom one can not expect that they could actually

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discharge the functions of an office like that of a member of the supervisory bureau in a respectable fashion. That might be taken as an insult, too. [Very true.]

All I have done was merely to refer to a certain weakness. For the gentlemen of the banking world will not deny it—and Herr Schinckel specifically affirmed it—that they carry on the banking business mainly for the sake of gain. There is no reproach in that. Banking is a business in which people engage in order to make money. But in doing this—you can not gainsay it—you are interested in your capacity as officials and interested, too, on account of your superiors, the shareholders. You would like to go on increasing the dividends. You say you do not care to do it beyond a certain point; but, all the same, you would like to make them as large as possible. The bank which in this respect has the best showing is regarded as the most important. This is a glory that in general redounds to the managers of the bank. I dwelt yesterday with perfect justice upon the fact that in this way you often not only make large profits but make your property go up in value by reason of the great rise in the market price of the shares. When bank stock has gone up above 200 and beyond it means an immense advance in the value of the holder's property. Of course that is what you are there for. Consequently, when attention is called to the fact that money considerations play a part in these things, there is nothing whatever to take offense at, and I must say I consider this an exhibition of super-sensitiveness. Every official has the same right to be offended.

Doctor MOMMSEN. A *censorial* supervisory bureau.

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Doctor WAGNER. I expressly laid stress on this. I said that, for instance, the statements ought to be supervised in order to ascertain whether they agree with the facts. Everybody has to put up with this. I may remind you that this is the case with our tax declarations. They are not accepted pure and simple on their face as a correct basis for the tax levy. Everybody must put up with the necessity of having his declaration verified. It once happened—and I have not heard this as an anecdote, but as something that actually took place—that a gentleman in one of our eastern provinces exclaimed: “If anybody in any way takes exception to my declaration, there is but one answer, and that is my revolver.” This is, indeed, a terribly extravagant performance. Everyone has got to submit to having his declaration verified.

But there is something besides that I meant to say in speaking of a supervisory bureau with censorial authority. I thought in a general way that such a bureau (it might be a commission, such, as I am told, Herr Roland-Lücke suggested at yesterday’s meeting, which unfortunately I could not attend—a commission of experts or the like) might have an eye on what was going on and be ready to speak out when necessary. It might, for instance, call a bank to account by asking it point-blank whether it would not do well to strengthen its reserves, or to see to it that its assets are more liquid, or to keep a larger balance with the Reichsbank, or not to stake too much on one card.

It is in this sense that I was speaking of censorial authority in contradistinction to what I should designate as a positive exercise of authority on the part of the supervisory bureau expressed in such action as prescribing that

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such and such a thing may be done or that it may not be done. This is not what I had in mind, and I even added yesterday that the bank might have the right to appeal to a board of arbitration or to a court of appeal. Judging from what I have heard in to-day's discussion about Herr Roland-Lücke's proposition it would probably not differ so very greatly from my idea of the functions of a censorial supervisory bureau. I believe the distinction is not as great as has been represented.

Allow me to proceed. Herr Mommsen and several other members, in particular Herr Schinckel, objected to what I had to say about the "breeding of millionaires," about plutocracy, and, lastly, about the possibility of retarding the rate of increase in the population. As regards the "breeding of millionaires," I am willing to admit, gentlemen, that it is a rather strong expression. No charge was, however, intended in this, either against individuals or against banks. What I had in mind was our entire economic development, which in my opinion favors our banks unduly. The trend of this whole development is such that our economic régime tends to increase the fortunes and incomes of a small upper stratum of the population. It is true that the lower strata, and especially the laboring classes, are likewise advancing, but yet these classes, and still more the middle strata, are dropping behind more and more relatively to the upper strata, and it is the relative and not the absolute that is the essential thing. I tried to show yesterday that while the impoverishment theory of Marx is certainly false the fact remains that the great mass of the workingmen, taking the aggregate of their incomes, although the individual incomes have risen,

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have not secured such a rapidly increasing share of the increment to the nation's wealth as the small stratum of the very rich. The teachings of Marx are decidedly erroneous, too, when they tell us that the tendency of our economic development is such that a steadily diminishing number of people get to be very rich. No, what is characteristic in this development is that from the midst of the ever growing number of rich people there springs a class (of course a small class altogether) of very rich people and—this is the essential thing—while fifty years ago (I have to content myself with estimates as I haven't got the precise figures in my head) an upper stratum, those who we say have an income of at least 100,000 marks, had barely 1 or 2 per cent of the aggregate national income, at the present time these very rich people, as we may call them, probably own at least from 8 to 10 per cent, or even more, of the entire income and wealth of the nation. This is a very serious matter. We have here a more unfavorable distribution of the whole national wealth, the whole property of the people, the entire national income, or whatever you choose to call it. This is the new moneyed aristocracy that we see arising here, and this class is being favored by our modern economic development.

Doctor Mommsen asserted that the salaries paid to bank managers were by no means particularly large and that they could be paid only by reason of the large sums of money that were invested in the concerns. He declared that it was just as it should be. Well, gentlemen, I fully appreciate the work of these men, and you ought to have sufficient confidence in a theorist to take it for granted

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that he does not in any way underestimate the importance of their services. The question remains, however, as to whether these men do not, in spite of all, receive a disproportionately high remuneration, and this can be the case only by reason of their having to manage such a large capital, from which they know how to extract these big profits. But, gentlemen, the bank officials are, after all, officials, and a comparison with our government officials is, therefore, in order. Now let me tell you that when a man like the Imperial Chancellor, Prince Bismarck, to whom we are much more indebted with respect to our economic development than to all our bank managers and business men put together—for it was he who won for us our world-wide prestige, which has served as the foundation for everything else—received during the most telling years of his activity a salary of 50,000 marks (that is what it was), which is quite little relatively to the salaries of bank presidents, all we can say is that those, too, are services that count for something. But the fact is that there are a number of other people who derive their big incomes mainly from the possession of capital and like sources. It is this development which, I maintain, we ought to regard as dangerous. And we can not shut our eyes ourselves to the fact that the further this development proceeds—there is no denying its progress—the more marked will be the class distinctions. There is no use in going up to a workingman and telling him, “You are not getting on so very poorly; you are faring much better than your ancestors fared.” He will answer you, “That is all right, but how are you getting on alongside of me?” And if Herr Schinckel chose to say something about

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the "simple life" in Hamburg, with which I am also familiar—I was teaching there a couple of years, having come from Vienna, where I had been getting different impressions, especially in financial circles—all I have to say is that I have due respect for the Hamburg merchant who goes forth into the world as a young man and who has, indeed, done much for Germany. All this I will not deny. But there are other parts of the world where relatively great simplicity prevails among the rich. I need only remind you of Switzerland, where there is certainly a good deal of wealth. But what is so bad in the matter of rapidly acquired wealth is that extravagance and display come with it as something inseparable from it, and especially that extravagance among women, which, I must say, has something ostentatiously repulsive about it. I need only speak of the extravagance in the matter of hats. One day, as I was riding on the railway, I heard a lady say to another, "Oh, this cost only 600 marks." I tell you, gentlemen, these "only" 600 marks lay for a while in my critical stomach. [Laughter.] For I could not help saying to myself, "Suppose a workingman were to hear this, whose wages for a whole year amount perhaps to 1,800 marks—and such a workingman is doing pretty well—and who, therefore, in the course of four months' hard work just earns as much as this one hat cost, what sort of a sensation will such a man experience? These things are worth pondering on. These are dangerous symptoms that are actually manifesting themselves. It is in this sense that I am warning you against our plutocratic development. And when we see in addition how the middle classes are getting worse and worse off, how by reason of the recent

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development of the big stores, which is connected with the activity of the banks, a very considerable part of the small tradespeople and even of the better class of dealers are ruined and put out of business, and how these big stores introduce needlessly luxurious facilities in the matter of making purchases—this is all part of the same thing—there is reason enough for my sticking to what I said in regard to plutocracy and extravagance. I do not believe, I repeat it, that anyone can maintain that the millionaire—or, as is now the fashion to say, the billionaire—is as such a desirable or beneficial thing for society and our whole national economy. Of course, we need large accumulations of capital and means must be found of furnishing such capital for certain objects, for public undertakings, for the needs of the State, and for municipal purposes. We have, besides, created the joint-stock companies, but then the stockholders ought not to belong exclusively to the richest classes. It would certainly be a good thing if the middle classes could have a larger share in these concerns.

A VOICE. That is the case.

DOCTOR WAGNER. There ought to be a greater distribution of income and wealth from above downward. It is just the other way, as in the case of lotteries where there are a few large prizes. What we need is governmental action tending in the opposite direction. We do not want this welding together of big concerns. That is an unhealthy process, one that is characteristic of our whole economic life, and it is there that the danger lies. That this is bound up with the development of our banking system there is no denying, for the banks must aid

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directly and indirectly in the process. They are themselves more or less involved in it. But you see, gentlemen, it is a matter here of the rate at which things are to be allowed to proceed. Taking it all in all, it appears to me that we differ not so much with respect to fundamental principles—they may occasionally come into play—as with respect to what we regard as the proper rate for a sound economic development. I hold that the rate of development is too rapid and that the wealth and incomes among the upper classes are increasing too fast, and to this excessive rate the development of our banking system contributes materially.

This brings me back to the matter that Count Kanitz brought up a little while ago. You keep saying, gentlemen, that we have got to have such an immense importation from abroad. I am willing to admit this up to a certain point. On the other hand, however—and to this extent my standpoint is that of the agrarians—we ought not to follow altogether the example of the English, producing only 10 per cent of our breadstuffs ourselves and importing 90 per cent. This is not a matter that concerns the agrarians only; it is something that concerns our entire people and our whole national economy. ["Very true."] Our whole development will tend more and more in this direction if we are going to follow altogether in the footsteps of the English. And even if I have been reading to-day, for instance, that a prominent member of this commission and of the business community of this city has been standing up for free trade, I will say, all the same, that we here can not have free trade because it is going to plunge us into English

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conditions. And you have got to consider the question as to whether we can reckon on this export system as a permanent thing. Count Kanitz and others have rightly dwelt upon the prospect of further increases in the tariff of the United States and the agitation in favor of protection in England itself. We can not take it ill of the English if they, too, go over to protection. And is not imperialism in itself a warning? It means that the English are to allow themselves to be dislodged from their position. I can imagine that they rather rebel against it. Now, when we see that this development is proceeding with us at such a feverish pace, a development from an agrarian to an industrial country, the necessity and wholesomeness of which I do not deny, I think it is but right to sound signals of warning. Things can not be permitted to proceed in this unrestricted fashion.

It is from this standpoint, gentlemen, that I have now (just as I have done before) drawn the problem of population into our discussion. People always look at the matter simply as though the rapid increase in our population were purely an absolutely necessary natural process. Now, is it not a fact, gentlemen, that the number of children varies greatly in the different sections of Germany according to the habits of the people? And is it a desirable condition when such a large percentage of the children are carried off so soon after they are born? Is that a healthy way of dealing with the matter of population which, for example, lets nearly half the children in certain parts of Germany die before they are a year old? No, gentlemen, this is shameful, and for me "un-aesthetic" and "abominable," to use the words of Herr

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Schinckel. These are things to be worried about. We in this country are not proposing to ourselves a system of two children and no more. I said nothing whatever about that and I was not even thinking of it. Neither do we propose to be guided by the notion that having six, eight, or more children is the real salvation of the country. A nation, inasmuch as it is not the only one in the world and as the earth is already occupied, can not allow its population to go on increasing forever at such a rapid rate, a rate which entails this forced export system. Having this in mind, one may verily be permitted to say that the reproach of "immorality" and "abomination," or whatever other expressions you choose that are at once heaped upon one's head, is by no means justified and that the excessive increase in the population ought really to cause us anxiety.

But in the opinion of the public at large such an increase in population is always a blessing. No, a moderate rate of increase is in reality the right thing for the country and for the people, if for no other reasons, on account of the density of the population in Germany. The density is greater by 25 per cent than it is in France, which is much more highly favored by nature and which is economically and politically on a firmer basis. A people that has such a dense population as ours will have to ask itself—and the business world will have to put the question to itself likewise—whether it is after all such a splendid thing to have the population increase so rapidly. I do not consider it right. I have been requested individually by several persons to come back to this subject and that is why I am referring to it now. With reference to our special question this is, of course, altogether an

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incidental matter. But a country that has just such resources as Germany and is economically so situated as Germany can not permanently allow such a growth of its population. The whole thing has nothing to do with "immorality." I wish I could just now exchange words with a certain theorist who can claim great eminence in this field. I mean Rümelin, who was chancellor of the University of Tübingen. He said: "There is no sense in always bringing up such objections; that is mere talk. The question of morality does not enter into this matter at all directly. There are many factors involved." We can not take issue with this. There is nothing pernicious in the matter; it is proper, and nothing else. We do not want to overdo the thing, on the one hand, as is the case in France and the United States, where the women no longer care to be mothers, and, on the other hand, we do not want any proletarian increase. I should like to lay special stress on this for the benefit of Herr Singer, for there is no use in shutting our eyes to the fact that our lower classes in particular are suffering greatly from the number of births. What use is there in a woman having a child to-day that is to die next month? That is not an ideally fine condition. On the contrary, everyone who is interested in the welfare of the laboring man must realize and admit that proletarian conditions will recur again and again if the rate of increase in the population is excessive. And in your socialistic state, too, Herr Singer, the problem of population would present great difficulties. It is in this sense that I wished to be understood.

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As far as I can see now, these points are herewith disposed of. I shall refrain from saying anything more about them, especially as my esteemed neighbor, Herr Riesser, is not present, being obliged, like myself, to attend to professional duties in the afternoon. Only one thing more. One of the speakers made a remark yesterday to the effect that we shall be obliged to make it a necessary condition of the filling of a professorial chair by a jurist, and still more so by a political economist, to have been actively engaged in business for a considerable length of time. Well, if this is feasible, *à la bonne heure*. But whether it can be done appears to me questionable. I know it to be a fact that when young men who have had to do with banking take up theoretical studies and pursue them for a long time, they get to treading the path along which I am traveling. The outcome of such a proposition, gentlemen, would be—an outcome that we university professors absolutely reject—that each individual class in the community having particular economic interests to uphold would want to have its representative at the university among the teachers of political economy. You would have, for example, a champion of the gold standard and a bimetallist, a free trader and a protectionist, an advocate of unrestricted handicrafts and a representative of those who stick to guilds, a spokesman for the believers in an agrarian state and one for those who desire an industrial state, and so on. But this is not practicable. You would have to increase the number of professorships greatly. Instead of one, two, three, or four professors, you would be obliged to have

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perhaps forty, fifty, or a hundred, which is out of the question. And then the jurists! Of course, it is desirable and even necessary that a jurist shall understand something about the agrarian question, the industrial, the mercantile, and the bank question. But there is no use in exaggerating here either. We must after all have faith enough in theorists to believe that they at least mean well and that they are not all born idiots, who have invariably narrow and perverted views. In short, I believe that is going too far.

And now a word or two at the end in regard to the actual question. Well, I see, gentlemen—what was clear to me from the start—that in so far as you are connected with the practical business of banking, you reject almost entirely every kind of legislative interference. This is, indeed, psychologically comprehensible, and, as I have said, does not surprise me. But I must confess, on the other hand—maybe it is nothing but perverseness on my part, or prejudice—that I am absolutely convinced that you are going too far in this matter. The proposition of Herr Roland-Lücke—a commission—contemplates, indeed, something similar, as I have said, to what I and others have been thinking of. We should like, at least, to have something in the nature of a commission invested with censorial functions. That is his scheme, if I understood him rightly.

Doctor WACHLER. Some sort of activity?

Doctor WAGNER. The activity of the advisory council, of a commission or other authority that has first of all to be installed. Whether this is to be done by legislation or in some other way may have to be considered. At

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any rate, the way the matter stands is this: That it is generally admitted, even by those of the members who are practical business men, by the gentlemen connected with the Reichsbank (in particular, his Excellency Havenstein) and, from what I have heard, by Doctor Ströll likewise, that it is absolutely necessary to introduce some restraining factors which shall do away with the habit of always considering the Reichsbank, or it may be the other banks of issue, as the last resort whenever one has—if I may use the expression—got stuck. That is what happens, on the one hand, in case of unusual demands for credit and, on the other hand, in case of panic. I am told that the Dresdner Bank at the time of the panic which burst upon it a few years ago with the withdrawal of deposits, etc., did not avail itself to any extraordinary extent of the credit accorded to it at the Reichsbank and elsewhere. I am glad of it; the help, I see, came from another quarter.

Doctor WACHLER. From within itself.

Doctor WAGNER. But the discounts at the Reichsbank were kept within the admissible limits.

A VOICE. Far-stretched limits.

Doctor WAGNER. Nevertheless, they did not transgress the assigned limits. They were not in excess of the amount to which the bank was entitled. The upshot of all this, however, is what the members of the commission who are in the banking business affirm, to wit, that when you are obliged to make these heavy calls for money at the quarter days, at the end of the month, or at other times, you come, as a last resort, to the Reichsbank. But suppose that all of a sudden the demands upon the

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Reichsbank run up into the hundreds of millions, what then? The situation becomes more precarious, the rate of interest advances, and the cash reserve is drawn upon. What right have you to ask such assistance? It is an evidence that you have been overstraining your resources to be unable to get along without such aid.

You say one ought not to be constantly reckoning on the danger of war. But neither is it right to take no heed of it. Until now we have had only economic crises; but assume, for a moment, that we have to deal with troubles in the political field, that we are confronted with the other kind of danger, to which after all we can not shut our eyes. You will see what kind of a panic we shall have then, and whether the banks will not be obliged to have recourse to even a much greater extent to the Reichsbank and the other banks of issue. And what will be the outcome? I fear that our great banking system would in the event of war not be quite so well fitted to weather the storm or, in the more emphatic language I made use of yesterday, it might collapse, if it does not organize its business beforehand with reference to such possibilities. If the only way the great banks can get along is by securing credit in such cases from the Reichsbank and the other banks of issue, and if this credit is accorded them—as under the given conditions it must be accorded them—a situation may arise, or at least a situation is more apt to arise, which may compel forced circulation and a suspension of the redemption of the bank notes. But why is this to be feared? This irredeemability is not brought about by the situation of the bank in itself, in that it is obliged to place large sums of money at the disposition of the State, but

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by the needs of the banking world. These things are all closely connected, and when I look at the matter I think I am justified in asking whether it is not necessary to take measures to restrict the demands made upon the Reichsbank by the credit banks and the banks engaged in the flotation of securities. We must see to it that the investments of these banks are made more liquid and that on an average a larger cash reserve shall be maintained, whether in coin or in the shape of a balance at the Reichsbank. If this can be effected by voluntary agreement, very well. But I have doubts, and so have others, as to whether a voluntary agreement would suffice. We see what happens in other cases. No one, as a rule, is in favor of coercion, and even the most arrant doctrinaire will say that coercion is by no means an ideal thing, but, on the contrary, something that is very disagreeable. But we can not get along without coercion, seeing that voluntary agreements do not work, or at least are not sufficiently efficacious, and that they can not be brought about quickly enough. It is not that we have any preference for coercion; we are simply reduced to the bitter necessity of coercion.

The question is: What particular legislative regulations shall we make? I am, of course, willing to subscribe to a good deal of what you propose, but I am not willing to go so far. How is it that the banks of issue can be subjected to such legislation? And yet, on the whole, it has been held to be salutary. I may remind you that on the occasion of the discussion of the question relative to the quotas of notes to be assigned to the individual banks the view was expressed by myself and other theorists, including Doctor Arendt, that it might be well that the Reichsbank

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at least be exempted from the limitation of circulation, and this in spite of the fact that the limitation proposed was a convenient and flexible one. But those connected with the Reichsbank itself argued in this wise: "It would be a good thing for us to have such a limit, to be bound by it, and to be able to refer to its existence in order, if necessary, to justify our refusal to grant certain credits in the eyes of those asking for them; in short, we must have at least a minimum guaranty of security." It is on this account that the proposition of a one-third reserve was urged, the provision regarding which is still in force. Similar things may be done voluntarily and, if so, it is very well. But if you are not going to do it, or if one or another of the institutions backs out, then nothing is accomplished. We ought at least, in my opinion, to discuss the desirability of a cash reserve and the enactment of a regulation compelling the banks to invest a considerable part of their resources in good bills, discountable at the Reichsbank. We ought, moreover, to consider whether it would not be well to have a legislative provision in regard to the investments in securities, especially applicable to those banks which have large deposits, constituting an important part of their working capital. Such banks might be prevented from letting this capital go altogether into the securities of industrial establishments and similar concerns, to the exclusion of imperial and state securities, it being made obligatory upon them to have also permanent investments in government bonds and similar securities bearing a fixed rate of interest. This is what has been done in other countries. Else how do you explain the whole legislation relative to banks of issue in the United States? As you

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are aware, it dates from the time of the civil war in the United States, when the regulation was framed compelling the national banks to secure their notes with government bonds. This provision is ill adapted to ordinary needs, but it was very expedient at the time with reference to the enormous loans which could not easily be floated in the course of the war. I believe, gentlemen, that propositions of the kind in question deserve to be discussed, and there is no use in saying beforehand that there is nothing to be done.

The same thing applies to the question of a bureau of supervision. It is a decided advantage to have a board with censorial authority. It is the essence of what I am saying and is perfectly in accord with what Herr Roland-Lücke said. And if the only result of our discussions should be the creation of a quasi supervisory authority of one kind or another I should consider that an extraordinary gain. Whether it is adequate may still have to be demonstrated, but some sort of supervisory authority would in itself be a great advance, and, therefore, I can only say once more that I can not see why you persist in rejecting it absolutely and insisting that it will not work.

Gentlemen, I have been talking too long, but so many attacks have been made upon me from every side that you will not take it ill of me. What I have been discussing has practically nothing to do with the special points of the bank question, but then most of the speakers who have preceded me have also adverted to the same broad subjects. And now just another word more in this connection. The case is different with the so-called deposit banks and the savings institutions. I wish to

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say that I fully agree in regard to this matter with President Heiligenstadt, who, I believe, is not present to-day [exclamation: No], to the effect that we are able in the case of the savings institutions to make the distinction, so difficult in the case of the other banks, between deposits, account-current balances, savings, and other outside moneys. Savings are, if not entirely, at least in very great part—I should assume up to 80 or 90 per cent—money actually set aside from one's daily earnings. The remainder is the cash of people of small means, which they carry to the bank for safe-keeping on account of their having no arrangements themselves for the purpose, until the time when they have to make use of it, just as is the case with a government official who receives his salary at the bank and takes it out in the course of the quarter. And it is only with respect to this fraction that the question would arise in the case of the savings institutions as to whether more regard might not be had for the matter of fluidity and as to whether a larger cash reserve might not be desirable. And I must remark in opposition to Doctor Weber, who has also assailed me, that the fact (which he alleges) that the rate of interest would thereby be lowered I do not regard as an objection. The principle that obtains in the case of the savings institutions of Saxony, which are the source of a large revenue for the communes, is rightly regarded in the rest of Germany as a wrong one. For just so much goes to swell the revenues of the Saxon city in which the savings bank is located as is withheld from the depositors. This is poor finance.

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My neighbor, Herr Riesser, charged me yesterday with suffering from a perfect "tax mania." ["Very true."]

Well, you may keep on saying "very true" and "tax mania," but what else is it than providing means for the State, the Empire, and the commune? You are not willing to raise the money out of the profits of the industrial concerns and would rather not have the railroads show such a large net income. You do not care to have the mines that are owned by the Government operated at a profit, although it may well be argued that government monopoly is preferable to private monopoly as represented by combines and trusts. Whence, let me ask, do you expect our public revenues to come? Are not the great expenditures for army and navy devoted primarily to the safeguarding of our national economy? Let my view of the matter be called "tax mania" for all I care. We can not avoid burdening the great mass of our population with indirect taxes and for that reason we have got to get hold of the wealthy people and lay the direct taxes on them. Call this a "tax mania" if you choose. I am not a bit afraid of that expression. What I ask means only that those who are able to pay shall be taxed more or less. For this very reason I have deplored the position taken by those parties in the Reichstag which have rejected the inheritance tax. The inheritance tax is, of course, no ideal tax. All sorts of arguments may be advanced against it. But then we are not going to have the imperial property and income taxes, which, of course, are preferable, or at least there is much less likelihood of our getting them. And here again, I must say once more, the "tax mania" with which I have been

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charged is connected with my views in regard to social legislation. When I think of the number of wealthy men who are concerned with tax legislation; when I reflect that Miquel's first income-tax bill was defeated in the upper house because that body did not dare to go beyond a 3 per cent tax; when I see that after having got as far as 5 per cent we do not venture to go any further; and when I consider that we have not yet introduced a progressive property tax, but make all fortunes alike pay this beggarly one-half per thousand whether they are big or small, then I must say I am seized with a "tax mania."

Doctor MOMMSEN. For our part we are ready to do it.

Doctor WAGNER. But the others will not have it. And one thing more to wind up with; we are finally going to have the increment tax. It happens—I may boast of it—that it owes its origin to an idea of mine, conceived in my study, an idea which at first was anxiously thrust aside by my friends, the theorists. Well, we have got it at last everywhere. But just see how afraid we are to go ahead with it. In Berlin they intend to take only 15 per cent of the actual increment.

Doctor MOMMSEN. Twenty.

Doctor WAGNER. Very well. Then there is still 80 per cent left. Gentlemen, we must go further; these small percentages will not suffice. We have really got to think about it. We must have taxes that are levied on the masses; the masses will be able to accommodate themselves to them, but they must be permitted to say, "But then, you wealthy people, you have got to pay what you can afford to pay."

Doctor MOMMSEN. That is precisely my opinion.

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Doctor WAGNER. We must have a great increase in the direct taxes that are borne by the strong shoulders of the wealthy; and let no one come to us and say, "We Germans are suffering from an excess of heavy taxes." We have but a very moderate burden of taxation as compared with other countries, even in the matter of direct taxes.

The CHAIRMAN. Herr Kaempf has the floor. I shall ask him to give his opinion regarding the first general question, which he failed to do at the time it was discussed.

Doctor KAEMPF. I shall endeavor to include the questions of a general nature in what I have to say, which will be all the easier for me, as I have in part to reply to the utterances of Professor Wagner, who has delivered an interesting address to us, but who has been speaking not only concerning the questions submitted to us, but, I believe, *de omnibus rebus et quibusdam aliis*, which are not always connected with the subject before us, the deposit system in the German Empire. I am able to declare in response to what he has said that my views respecting taxation are not so very different from his. ["Very true."] It would be a good thing in my opinion, however, if regard were had also for what goes to support our labor; that is to say, if the taxes on the prime necessities of life were to be reduced, if not at once, by degrees, at least. I believe this would be altogether in line with our views in regard to what is best for the development of our whole national economy.

Doctor Wagner referred to an address which I delivered in London day before yesterday. There is no necessity, I believe, for my dwelling on the matter, as what I said

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had no connection with the deposit system in the German Empire. The address was not a preliminary to what we have been discussing to-day, being concerned with an entirely different field. In regard to the huge stores and the big hats of the women Doctor Wagner expressed himself very fully. [Fully.] I have also a good joke to relate about a hat. You are aware that in France they have just introduced a 5-centime rate of postage on postal cards on which there are no more than five words in writing, outside of the address. I recently read in a newspaper that people are squeezing their communications into five words and that one of these communications, from a lady to her husband, read as follows: "Send hat by special car." [Laughter.]

The question of the increase of our population has perhaps some connection with this, a question which Doctor Wagner discussed to-day from very interesting viewpoints, but in regard to which I, nevertheless, can not agree with him. Doctor Wagner thinks that it is not necessary that the population shall go on increasing in the way it has done, inasmuch as the infants die for the most part soon after their birth, so that it would be better if they had never been brought into the world. My opinion is that if the babies are born, we are bound, above everything, to take care that they shall not die, and it is the universal aim and endeavor to diminish infant mortality.

It is not quite clear to me in how far this question is connected with the deposit system, but I thought I might as well advert to it briefly. There is one matter that I should just like to touch upon—the utterance of

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Doctor Wagner in response to Professor Riesser, who had declared that it would be a good thing if the professors at our universities were to acquire more or less practical knowledge and that nobody should be appointed a professor who had not previously acquired such knowledge. I fully agree with Doctor Wagner in his view that it would be a splendid thing for our whole economic development if our young men who attend the universities were to be taught by professors who have had an opportunity to examine the inner workings of mercantile and industrial life. I equally believe that it would be an excellent thing for our business men if they were to learn at our universities and commercial academies to think soundly about matters connected with the law. Many an improvement would result therefrom in the business world.

Much more closely related to the matter of the deposit system in the German Empire were the remarks made by Doctor Wagner in regard to the Dresdner Bank, the contingency of war, the activity of the Reichsbank, and the demands made upon the bank. As regards the Dresdner Bank, I must again emphatically call attention to the fact—a fact that has already been dwelt upon, it appears—that the Dresdner Bank did not ask for any other assistance than what it would have obtained through the discounting of bills at the Reichsbank if there had been no crisis. It had bills discounted at the Reichsbank and these were by far the most part such bills, which would in any case have been accepted by the Reichsbank without reference to the giro relations of the Dresdner Bank. I believe that no fault whatever is to be found with the

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Dresdner Bank in this connection, and as for the contingency of war, I agree with Herr Schinckel in believing that if we were all our lives to be thinking of the danger of war, every kind of activity and every mercantile and industrial business would be hampered.

We hear a good deal of talk about the excessive demands upon the Reichsbank at certain dates, particularly at the quarter days. All the money, they say, is withdrawn on one day, which, of course, must weaken the Reichsbank and make the whole situation appear unfavorable. I have nothing whatever to say against this. But it is beginning at the wrong end to lay the blame for this upon the banks. We have got to start out altogether differently. In order to enable ourselves to make a change in this respect and bring about conditions similar to those in other countries, we must see to it that obligations in Germany do not all mature on one and the same day, that salaries are not paid on the last or the first day of the month, that neither rents nor the interest on mortgages are payable on the first, and that the business in connection with mortgages has not got to be all transacted at the quarter days. Then the demands upon the Reichsbank at the quarter days will no longer seem so excessive as is the case at present.

We must also consider that what is lacking in Germany is a judicious development of the method of payment by means of checks and drafts, which, in spite of all efforts, has not become sufficiently popularized to afford substantial relief to the mechanism of our monetary intercourse. And I can only add that I regret that our recent legislation, in seeking to provide an additional seven or eight

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millions of revenue, should have proceeded at once to impose a tax, a more or less prohibitive tax, upon the use of checks after it had begun to develop in a measure.

I come now to the questions that are before us to-day, and, in conformity with the instructions of the president of the Reichsbank, I wish to declare at the outset that I intend to treat all these questions with reference to the public interest and that all the questions which we are to discuss and answer to-day are capable of being dealt with from this same standpoint. I regard the public interest with reference to two different aspects. I have to consider first the safety of the deposits and secondly the question as to what is best for our national economy. I believe the matter of the safety of the deposits has been adequately discussed. I am willing to assert that all the losses that the depositors have thus far sustained are insignificant by the side of the extraordinary economic benefits which the deposit business through the agency of the banks and bankers has conferred on the people. In what particularly concerns the safety of the deposits in the hands of the banks, I am also ready to maintain that there is no evidence whatever to show that they have not been sufficiently safeguarded. And, as far as I could understand, I have not heard any of the speakers at our meeting to-day assert that any fault whatever could be found with the banks in this respect. I am not dealing with the question, however, merely with reference to the safety of the deposits, but also with reference to the advantage to our whole national economy that has resulted from the management of the deposits and other outside moneys by the banks. I maintain that if we had not had

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the development which our banks have brought about, our industry would not have been able to take these extraordinary leaps. Such progress could not have been realized had it not been for the possibility of applying the temporarily liquid funds that exist in Germany to the needs of commerce and industry. And when people come and tell us that nevertheless it would be better if these deposits were to go into government banks and savings institutions, so as to be placed under special supervision, I must say, on the contrary, that the German people are so eager for the development of our industry and that their life is so closely bound up with this development, that the depositors have intended, as they still intend, that the very money, which they happen to have to spare shall be made productive in this manner for the sake of the general development of industry in the German Empire. Without this development of industry in Germany itself we shall by no means be in a position to perform all the tasks that have been laid upon us. I maintain, therefore, that it is quite natural and in conformity with the needs of our industrial life that our banks should have made it their business to place at the disposal of industry the money that happens to be lying idle and is brought to them. In no other way could this great development have taken place which we have been witnessing and which must go on henceforth if we hope to make it possible for our population, which, in spite of everything, is growing at the rate of about 800,000 souls each year, to be supported by industry and commerce—which alone can support it [exclamations of protest]—and if we expect to retain within

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the bounds of the German Empire the annual accessions to the numbers of our people.

If I subject the questions submitted to us, taken collectively, to this general criterion, I think I shall be able to answer them individually from the same standpoint. We have, first of all, the question as to whether the Reichsbank shall engage in the business of taking interest-bearing deposits. The principle has been laid down, I believe, by which we are to be guided in dealing with this question. What I mean to say is, that it is not the function of the Reichsbank to carry on a credit business in which it is the owing party. For, in connection with this business, in which the Reichsbank is the debtor, there would necessarily have to be a credit business in which the Reichsbank is on the creditor side, and in the case of the Reichsbank the credit business should be a subordinate one. It ought to carry on such business only to the extent that it is necessary for the regulation of the circulation in the German Empire. Nor should I consider it a desirable thing to have a large amount of interest-bearing deposits accumulate in this way at the Reichsbank, which could be used only in connection with discounts and loans. Just as little do I believe that government deposit banks are calculated to produce the results that we have a right to expect from the utilization of our deposits in the German Empire. Here, too, if such funds are conveyed into government deposit banks, the resources will to a certain extent be lacking for our industrial development, which we all have reason to encourage.

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With respect to the obligation to keep at the Reichsbank a cash reserve against deposits, I have merely to add one more argument to those that have been already adduced, putting it in the form of the following question: When shall the banks which are to deposit a certain percentage of their deposits at the Reichsbank be enabled again to make use of this money? It is necessary that it be placed again at their disposal when their outside moneys are being withdrawn. To what extent is this to be done? When are they to be permitted to begin drawing upon their cash balances at the Reichsbank in order to make use of the money in the repayment of deposits to their customers? I do not believe it would work to impose any regulations whatever upon banks and bankers in this matter. The funds ought to be left at their disposition for the very purpose of providing against the contingency of their being called upon to repay the money deposited with them.

In what concerns the restriction of the amount of deposits that may be taken, I believe the question will at once be answered in the negative if one attempts to distinguish between deposits and other outside moneys. It is evident that it is impossible to make a distinction between the two that is free from objection. With respect to what is the restriction to be made? With respect to deposits merely or with respect to outside moneys in general? I believe that every restriction will fail of its object and can only be detrimental to our whole national economy.

The same is the case with the question of separate management. And now I come to the matter of investments

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in government securities, with reference both to the deposits and to the surplus. Herein I differ altogether from most of the gentlemen who have spoken to-day. I am of opinion that the banks should not be compelled in any way whatsoever to invest their deposits or other outside moneys wholly or in part in government securities any more than they are obliged to do so in the case of the surplus. If we were to make this obligatory on the banks, we ought, in my opinion, to give them a guaranty that they will not sustain any loss on government securities. I need only call your attention to the circumstance that if our insurance companies had only had the greater part of their premium surpluses and other surpluses invested in government securities, they would have found themselves in the position of being obliged to publish such annual statements as, I need not assure you, would have made a very queer showing. Our banks and other financial concerns, in particular the insurance companies, will of their own accord set about to invest the funds which are at their disposition in government securities as soon as our finances have been placed on such a footing as to make it reasonable to anticipate stability in the quotations of government bonds or even an advance in their prices. So long, however, as our government securities have to suffer by reason of the condition of our finances, and so long as every year large amounts of new government issues are placed upon the market—as has been the case during the last ten years—with the inevitable result of a decline in the prices of the securities, it will not be possible to impose any obligations on our banks and insurance companies in this regard. Their own interest has restrained

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them from such action, and it will, I am sure, cause them to keep aloof in the future, unless there is to be an upward turn in the prices of government securities. For I agree with Doctor Wagner when he tells us that if our finances are in good condition, the prices of government securities will be high. But in that event we shall not need any legislative enactments relative to the investment of deposits in government securities.

In regard to the matter of a prescribed form for the bank statements and in what concerns the question of the creation of a supervisory bureau or an advisory council in connection with banks and banking, it is my belief that every prescribed scheme, whichever way you take it, whether emanating from the voluntary action of the banks themselves or whether imposed by the public authorities, is bound to suffer from the great defect that, no matter how cleverly contrived, it will not afford a view of the actual condition of the bank or enable one to form an accurate judgment in regard to the fluidity of its resources. For the fluidity of a bank is not to be inferred solely from its ability to show that it has so and so much in securities, so and so much in syndicate participations, and so and so much in loans, but it has to be judged of with reference to the soundness of each individual item embraced within these various categories. And even if a large amount is invested in government bonds, which are shown to figure among the securities, I believe that the person was right who said that in case of a crisis it would be impossible to dispose of the government bonds or else that the bank would perhaps not want to dispose of them on account of the loss that might be

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incurred. The publication of the condition of the bank, therefore, even if every effort is made—as is necessarily the case—to render everything as palpably manifest as possible, can never enable one to form a correct judgment in regard to the actual condition.

Neither will this be accomplished, gentlemen, through the creation of a supervisory bureau for banks. It is utterly impossible in the case of such large concerns as our banks for anyone not connected with the establishment to make himself actually acquainted with the condition and circumstances of the bank by means of periodical examinations, which, of course, is all the supervision could amount to. I should be willing to support a proposition for the creation of an advisory council if what is meant is not an administrative office and as long as we are not to have what Doctor Wagner has designated as a “quasi supervisory authority.” Anything savoring of supervision is mischievous. The only way of going about it is to have this advisory council connected with the Reichsbank, of which it ought naturally to be an adjunct. We have already something that will help to guide our steps in this direction. I hardly think I am telling tales out of school when I say that the Reichsbank was a party to the agreement in regard to the publication of bimonthly statements and that the banks pledged themselves not to make any changes in the scheme prescribed for the balance sheet without the consent of the president of the Reichsbank. The conferring of this prerogative upon the Reichsbank in the matter of the publication of statements may, in my opinion, be made to serve as a stepping stone for the requisite action if we mean to have an advisory council,

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and I think by all means that we ought to take advantage of it. But to create a new administrative office, a quasi supervisory authority, would, I am convinced, be a mischievous thing—mischievous not with respect to the great banks, but with respect to the public interest. It might perhaps be in the interest of the great banks to have such an administrative office for the purpose in question; for the more this is in the nature of an administrative authority the more prone the public will be to say, "There, you see, we can safely intrust our deposits—our money—to the banks." I believe, therefore, that our banks as such would have no reason to object to it. But with reference to the public interest—and that is what we here represent—I should consider it a mistake if an authority of any kind were to be instituted that would in the least degree create the impression that we were to have a new administrative organ, a quasi supervisory authority. It is my opinion, therefore, that the only thing that has been evolved out of our discussion, the scheme of an advisory council in connection with our banks, has to be dealt with in the most careful manner and altogether with the understanding that whatever is done is to be undertaken in connection with the beneficent activity of the Reichsbank.

The CHAIRMAN. I move that we adjourn. It is half past 1 o'clock. I shall request you to be present again at 3 o'clock.

[Recess.]

Mr. GONTARD. Gentlemen, I am greatly indebted to Direktor Weber for having afforded me an opportunity

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of bringing up once more the subject of the system of supervisory councilors, for whose alteration and improvement I have contended on other occasions. I am aware that among the members of the supervisory councils there are a large number of able men and, above all, I know that the gentlemen assembled here belong to that number. I am aware also that there are many gentlemen who accept such a supervisory office by no means on account of business considerations, but entirely out of regard for the public interest, although the discharge of its duties is something that they do not invariably relish. But, as the term "supervisory councilor" indicates, the public believes that the supervisory councilor attached to one of the great banks, so-called, or to any other bank is actually there in order to exercise a supervision. I myself was likewise under the impression that he was able to do this in the case even of the larger institutions until I became part of this Bank Inquiry Commission. In this connection it may be stated that in the prospectuses the names of the supervisory councilors figure by way of advertisement.

A VOICE. They have got to be there.

Mr. GONTARD. Of course they have to be there. But if the law provides expressly for a supervisory council and the council is in reality unable to discharge its supervisory duties according to the meaning of the law, one has a right to ask at least that the designation be changed.

A VOICE. Administrative council.

Mr. GONTARD. At any rate we ought to see to it that the designation "supervisory council," now universally used, is not retained.

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A VOICE. But the law has it so.

Mr. GONTARD. Then the proper thing to do is to make the alteration in the law.

In what especially concerns the legislation in regard to supervisory councils, and, in particular, those attached to the banks, I am happy to say that I share the views of Doctor Weber, in part at least. In my opinion it is not proper that there should be a large number of men filling individually so many of these supervisory positions, and I am not sure that Doctor Wagner is not right in insisting in his pamphlet (one of the documents to which we are referred), entitled "Zur Frage der Regelung des Depositenwesens," that the number of such positions that any one man can fill shall be restricted by law. I am aware that this would not have the effect of making it more difficult to control other kinds of concerns, as, for example, industrial concerns, inasmuch, as recourse could be had to men of straw. One can not help feeling, however, in many cases that the men have in reality not the time to discharge the duties of their supervisory positions. I do not mean, of course, the gentlemen who are present.

As for the second point mentioned by Doctor Weber—the communications of the *Frankfurter Zeitung*—it is probably something of the same sort as what Doctor Riesser complained of in his pamphlet, "Zur Aufsichts-ratsfrage." The matter has reference to paragraph 246 of the mercantile code.

It has been asserted here that the supervisory council is under all circumstances dependent on the men who are at the head of the bank, and that this is inevitable. I

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concur in this up to a certain point, but up to a certain point I also disagree. It is invariably the great banks that are referred to, and in particular the Deutsche Bank. It may possibly be—I am not in a position to judge myself—that the supervisory council is obliged in this case to depend upon the managers simply because it is unable to have an eye on the whole business, but in the case of many small banks I think it would be better if the supervisory council were more unrestrained in the exercise of its powers and had not to defer so much to the management.

A VOICE. But that is the case.

Mr. GONTARD. This is by no means true with respect to the powers of the individual members, and otherwise in actual practice it is frequently not the case when it comes to an action, or what appears to be such, on the part of the head of the bank.

I come now to our question sheet, and shall deal as briefly as possible with questions 1 and 3. While the individual States look to the security of the savings institutions, I think the Genossenschaften ought to be called upon, or some of them at least, to exert all their energy in order to make their condition as favorable as possible. If we were to set about legislating at once, I am sure that we should be hurting the Genossenschaften, something I would by all means avoid doing. I believe, nevertheless, that if the cooperative credit associations do not see their way to making a great advance in the near future with respect to fluidity and other matters which we have already discussed, recourse will ultimately have to be had to legislation.

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In what concerns the banks as such, I have said before that I anticipate comparatively little from normative regulations, simply for the reason that it is extremely difficult to distinguish deposits and savings from other outside moneys.

As regards the matter of a cash reserve, I concur pretty much in the view expressed by Herr Mommsen, although I am still looking to some of the other members for further light on this subject. From patriotic motives I am decidedly in favor of having the banks, and in particular the great banks, invest in government securities. Whether these are included in the surplus or figure in some other way on the books does not matter much, in my opinion.

If I am expected still to add a few words in regard to other measures, I must express my regret at our having had so little to say regarding one matter, the depositing of outside moneys with the Reichsbank. I, for my part, am not in favor of it, being opposed for various reasons to the arrangement that has been suggested. But our experts have gone to such an immense amount of trouble in this matter that I believe I am speaking for all of you in expressing our thanks to these gentlemen for the pains they have taken. I would take this occasion also to convey the thanks of this commission to the officials of the Reichsbank, as well as to Herr Fastenau, which has not been done as yet. The results of these extremely painstaking labors ought to be given wide publicity.

Government deposit institutions would not pay, in my opinion. The same would probably be the case if the Seehandlung were to take deposits. Such an arrangement would be prejudicial above all to the savings institutions.

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There is no need, however, of my dwelling upon this matter. Neither is there any use in discussing further the question of the taking of deposits by the Reichsbank.

As regards the question of a bureau of supervision, I am decidedly opposed to such an institution in the form in which it has been proposed. I have had occasion to devote considerable attention to the subject of insurance legislation and I have been impressed with the fact that we should never have witnessed this extraordinary development of the system of insurance in Germany in the last hundred years if the supervisory bureau for private insurance, for whose activity I have the greatest respect, had existed from the outset. In like manner the development of our banking system would probably not progress in the way it has done till now if we were to have a bureau of supervision. My opinion is that this development has, with a few exceptions, been a decidedly sound one. I can not agree with Doctor Wagner in the advocacy of a supervisory bureau in regard to which I can not make out where the line is to be drawn limiting its activity. It is possible, however, that I have not fully caught Doctor Wagner's meaning.

As for Herr Roland-Lücke's suggestion that a commission be created, I am altogether favorably inclined to the proposition as far as its essence is concerned. If a vote were to be taken, I should, without committing myself to it, vote in favor of it.

A VOICE. Without committing one's self to it?

Mr. GONTARD. I mean without committing myself to it at this moment. I should, however, like to call attention to certain difficulties that present themselves. It

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will probably not be an altogether easy matter for the Reichsbank to pick out suitable persons, such as will give general satisfaction. We have such an immense number of trade associations in Germany, including a great many associations of manufacturers and other producers, and they represent such a diversity of opinion that if each one were to come with a request to be allowed to have a representative in the commission it would be a rather troublesome matter. There would be no need of complying, but then we should have to anticipate more or less dissatisfaction.

A word more. The only real experts in all technical matters of banking—let us be frank and say that we do not mean to labor under any illusions in this regard—are, after all, the bankers, and it may easily happen that questions are occasionally brought up for discussion with respect to which the interests of the Reichsbank are not at one with those of the bankers, so that there will be a clash of duties if the banking men desire to take part in the discussion. I am aware, of course, that there are a great many men of high standard who, when it comes to it, will manage to keep clear of these rocks.

As for point 3, in so far as Herr Roland-Lücke has taken it up, I will say that I should welcome a voluntary publication of statements by the banks if it were practicable, but I doubt greatly whether the banks can be induced to do it.

I agree perfectly with Herr Roland-Lücke in believing that it is the proper thing, under all circumstances, not to itemize the foreign and domestic bills separately. I am an exporter myself, and am therefore in a position

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to judge of the results. If the Reichsbank is interested in knowing precisely the proportion of each, it would be better, in my opinion, if the banks were to communicate the information regarding foreign and domestic bills directly to the Reichsbank and not place the figures before the public.

Herr Roland-Lücke was of opinion that a prescribed form of statement would not work, as conditions were continually changing, making it impossible to fix upon a scheme that could be adhered to for any length of time. A way out of the difficulty would be to intrust the matter to the Bundesrat. It might be provided that "the Bundesrat is authorized, after consultation with the Reichsbank or in connection with the Reichsbank, or otherwise, to prescribe a fresh scheme at any time."

As regards the method of placing facts and figures before the public which Herr Roland-Lücke has designated, I can say that I am heartily in favor of it. But what particularly impressed me was what Herr Roland-Lücke had to say in regard to the education of our people in money matters. I must admit that it is simply frightful to note, especially in the case of our female population, what a lack there is of knowledge in the domain of finance. Whatever can be done in the way of educating our people in these matters, and in particular through the schools, would, I am sure, prove of great advantage, although I doubt whether many of our ladies would be able to make out anything from our prescribed form of balance sheet. All the same, a prescribed scheme of bank statement, would in the case of many people, make things much clearer.

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As for Herr Roland-Lücke's assertion in regard to the savings institutions to the effect that there would hardly be any use in enacting a prohibitory regulation relative to the use of the designation "savings bank," I agree with him entirely. I had originally a notion, indeed, that it would be a good thing—inasmuch as it is impossible to prohibit the use of the word "saving" in the name of the concern and as we have a number of banks in whose title the word occurs—if we could invent some new designation and were to make it incumbent on the real savings institutions to adopt it, say, "savings bank under legal supervision," or something of the sort. But, then, this would have also its great disadvantage. I have therefore given up the idea and concur altogether in Herr Roland-Lücke's view of the matter.

That is all I have to say in regard to these points, gentlemen. Shall I proceed at once to point 2? If his excellency will permit me to express myself with reference to point 2, I would say, to begin with, that we ought not to expect too much from supervision in the matter of published statements. There is no use in overestimating the importance with respect to the bank's customers of the information given out to the public. I know of a case where the timely disclosure of the fact that there was something wrong about the bank had the effect of making the well-to-do, and particularly well-informed, people withdraw their money, so that after the collapse of the bank the small depositors, who of course were not so well informed, did not fare as well in the distribution of the assets as they would have done otherwise.

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What I anticipate from the publication of balance sheets is a heightened sense of responsibility—in which I only repeat what some of our experts have said—and, as a result, a healthier development of our credit system. In one of the pamphlets submitted to us, “Zur Frage der Verstärkung der Goldreserven in England” (p. 27), J. Spencer Philipps is quoted as saying: “No reform is so essential as the introduction of a uniform statement, arranged according to identical principles, for all banks.” This has interested me greatly, although I am not sufficiently familiar with conditions in England to be able to form a judgment in regard to them. The real advantage of the frequent publication of statements consists in the opportunity afforded for comparison and in the possibility of preventing the cooking up of accounts.

As regards the pattern for the annual statement, I believe that the scheme ought to be made as detailed as possible. I thought at first that the scheme on page 56 of the publication before us would afford an adequate basis for our discussion. I am willing to defer in this matter, however, to the expert opinion of our bankers, which up to a certain point I consider conclusive.

I should like to say a few words still in regard to the intermediate statements. In this respect I share the views of an expert who enjoys high repute and whose written opinion you will find on page 281 of the stenographic reports of Subcommission II. I shall beg permission to read part of it aloud to you. It reads as follows:

I should urge, on the other hand, that steps be taken to compel all the financial institutions without exception to publish more detailed and more

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frequent statements than they have published heretofore. Although I am aware that a printed balance sheet, no matter how clearly it is drawn up, can not always afford an accurate view of the actual state of the assets and liabilities, it is nevertheless much easier to form an opinion in regard to the condition of the institution in question:

1. If the balance sheet is published monthly.

This strikes me as going rather too far. Bimonthly statements, it seems to me, would answer for the present.

2. If the aggregate amount of indorsed bills for which the bank is responsible is entered.

3. If all the sums guaranteed by the bank are entered.

4. If all the collateral (bills, securities, etc.) repledged by the bank, is entered in the statement.

In addition to this the author of the scheme proposes that in the enumeration of the assets—

1. Cash and account-current balances shall be entered separately.

2. Bills shall be specified according to the time they have to run, their number, and their amount.

This last is certainly asking a great deal, and I doubt whether it is feasible.

3. Securities shall be specified with respect to their being listed or not listed at the Bourse, and there shall be a further subdivision into domestic and foreign bonds and domestic and foreign stocks.

This is what Herr Roland-Lücke was talking about yesterday. I myself do not believe in distinguishing between domestic and foreign items.

I have nothing to say in regard to syndicate transactions.

4. Debts shall be divided into unsecured debts and secured debts, and the latter again into such as are secured by guaranty or by mortgage, such as are secured by stocks or bonds listed at the Bourse, and those secured by stocks or bonds not listed at the Bourse.

This would of course entail an immense amount of labor. Our expert suggests further:

The debts shall be entered besides according to the amounts.

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This is, of course, at variance with what my countryman, Doctor Weber, said this morning. We have this additional suggestion:

5. Loans (*lombards*) are to be divided into those in which the collateral consists of securities listed at the Bourse, those in the case of which the securities are not listed, those secured by merchandise sanctioned by the Bourse, and those secured by merchandise not belonging to the specified kinds.

In the case of the entries on the liabilities side regard shall be had for the length of time allowed for payment after notice has been given.

I should like to supplement this by suggesting that it might perhaps be expedient to place at the head of every intermediate statement a caution to this effect: "This balance sheet takes no account (or only partial account) of deductions for depreciation that have to be made. This is in order to prevent misunderstandings in this respect and false expectations in regard to the annual statement.

A VOICE. Impossible.

Mr. GONTARD. Now it appears to me that a legislative enactment prescribing such a detailed form of balance sheet for joint-stock banks would not be quite fair unless we are to have similar provisions applicable to the private banks. I am aware that the publication of statements might injure the private banks, and with respect to this I may refer you to page 178 of Herr Fastenau's compendium. Quite a number of gentlemen, however, for whose opinion I have the greatest respect, have declared that this obligation to publish statements ought to be extended to the private bankers as well, and you will

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find a passage relative to the matter on page 175, reading as follows:

A particularly vexed question with the experts is that as to whether the obligation to make public their condition is to be extended to the private bankers. Apart from the above-mentioned gentlemen, it is the opinion of the experts (a list of them follows and they are very respectable names) that this goes without saying.

The considerations that have actuated the gentlemen may perhaps have been most diverse ones, but in any case it is a very important matter. We shall be better able to deal with it when we have got the stenographic reports of the whole commission. The publication of statements is a much more serious matter in the case of private bankers than in that of joint-stock banks, and under certain circumstances the giving out of information would mean the end of their business or transformation into a joint-stock company, which is certainly a not very desirable thing.

Well, I have asked myself whether there is no possibility of accomplishing what we want without our having to put up with such drawbacks. I trust President Kaempf will not be frightened—he was not present the other day—if I am going to put this question: Would it not perhaps be possible to have the listing committees do service in this matter?

A VOICE. Don't provoke him any further. [Laughter.]

Mr. GONTARD. What I mean to say is that the private bankers should be required to hand in bimonthly statements to the listing committees. This is my idea. I am myself a member of a listing committee and I am aware that the gentlemen who belong to it, when they hear

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what I have been saying, will perhaps be indignant on account of the work that is laid upon them.

A VOICE. And something else besides!

Mr. GONTARD. I know what you mean, on account of the responsibility. I should be sorry indeed to impose any additional responsibilities on the listing committees, and I am thinking, therefore, whether the matter might not be arranged in the following way. The listing committees shall be required in the first place—in the way Herr Schinckel had in mind when he spoke this morning of a commission in connection with the Reichsbank—to make regular reports to the Reichsbank and, in the second place, to examine the statements that are handed in merely with reference to whether they satisfy a certain requirement, the requirement that I have in mind being one with reference to the ratio of the outside moneys to the aggregate resources and to the capital employed in the business. If the showing falls short of the prescribed ratio—that is to say, if the money belonging to the concern does not amount to a prescribed percentage of the outside moneys—the tables relative to the joint-stock banks have been submitted to us—the listing committees would not be called to do more than to publish the statement in question. What would be the result? Either nothing will happen—you can not do anything with those people who, in spite of being aware of the insufficient means of their “banker,” persist in depositing their money where they can lose it—or the concern in question will be helped over the situation, or else, if the worst should befall, the concern might possibly be prevented from continuing in business. But would it not in reality be better, gentlemen, if firms that do

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business with entirely inadequate means ceased to exist? If some of you are inclined to believe that the bankers have the upper hand in the listing committees I can say that, as far as I am aware, this is not everywhere the case.

A VOICE. The law prescribes the proportion.

Mr. GONTARD. Yes; one-half. The bankers belonging to the listing committees are, however, not likely to be such as are dependent on the great banks, and they are in any case apt to be informed regarding the circumstances of the small bankers in their district. We may, therefore, assume that they will not be likely to get hold of anything particularly new in the way of information through these statements, and at any rate the thing would not be different from what it is in the case of a tax commission, which, as a matter of course, is in duty bound not to disclose anything. To be obliged to submit his balance sheet to experts bound to secrecy can not injure any respectable business man. There would consequently be no harm in it if some one who is not a banker in the actual sense of the word were occasionally called upon to submit a statement.

I have endeavored to reach such a solution of the question before us as would in my opinion not be detrimental to the banking middle class and which might even be of advantage to it—a solution that does not bring in its train the disadvantages (including the actual expense) of the publication of balance sheets. We know that the public regards the published statements of the joint-stock banks as something in their favor, as some sort of guaranty of their soundness. I believe that my scheme would have an educatory influence, just as we expect the publication

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of balance sheets on the part of the joint-stock banks to exert such an influence. If my suggestion should not meet with favor in your eyes, I trust you will look upon the matter merely as an endeavor on my part to do my best.

I am now through, gentlemen, with what I have to say, and I wish merely to add in response to something that Count Kanitz said yesterday that I myself, as an individual belonging to our industrial realm, do not by any means hold the same views as Count Kanitz in the matter of governmental action for social welfare. I should, on the contrary, rejoice to see our social-betterment legislation make substantial progress. The kind of progress that I should desire to see, however, would be rather in the direction of organization, as, for example, in the matter of establishing a system of employment bureaus, than in the assumption of fresh burdens, which, of course, in some respects will be unavoidable.

Doctor RIESSER. I regret to have been prevented by my professorial duties this forenoon from hearing Doctor Wagner's reply to my statements. I have consequently only a few notes of what he said, which one of the members was kind enough to make for me. I must reply, although this time Doctor Wagner is not present, after his having replied to me—there was no other way of arranging it—when I was not present.

What I particularly wish to dwell upon is this. I regard the propaganda which Wagner is making—I may be permitted to speak of him for once without the "Exzellenz"—as an extremely dangerous one with respect to our political and economic future. Doctor Wagner,

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said to me: "You overestimate my influence." This is not the case. When a man of such deservedly great reputation as Wagner sends forth every year several thousand hearers from his lecture room into the world, men who listen to him without being able to influence him, who have felt the fascinating effect of his discourse, and who are destined to become our administrative officials and judges, I am sure that the influence which they carry away with them and spread abroad is so great that it can not be overestimated, and, as a matter of fact, we perceive an ever increasing multitude of people of all classes embracing the doctrines, not merely of state socialism, but of socialism pure and simple. Our esteemed colleague, Herr Singer, will not disapprove of this, but we do disapprove of it and have got to disapprove of it because we hold different views.

I believe that many of the teachings which Wagner, who is certainly no socialist himself, but a good conservative man, is inculcating, as, for instance, when he sets up the proposition that no joint-stock company ought to be allowed to distribute more than five or six per cent, can no longer be distinguished from socialistic views except by a microscopical examination. The notions in regard to the regulation of production and the restriction of the increase of population through governmental action and the far-reaching propositions in regard to governmental monopolies mean not only state socialism but regular socialism and lead us into a path which, we believe, we ought not to tread and which we do not want to tread.

Doctor Wagner has been letting us have the benefit again of his predilections for a supervisory bureau.

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Whensoever and wheresoever governmental supervision has been proposed and carried into effect, the result has been disastrous. There is no use in suggesting things which experience has shown to be untenable, and one ought at least to go to the trouble of proposing something now from which practical results may be expected. It is from considerations of this nature—as I have already pointed out—that we abandoned our system of chartering joint-stock companies. We have had the worst experience in the matter of governmental supervision, yet, in spite of this, governmental supervision is held up to us again and again as an *ultimum refugium*, which is to rescue us from alleged dangers. That is a weak remedy, to which recourse should be had only if we are given absolute assurance that it is going to be a panacea. If that were the case, even though defects were shown to exist in our present banking system, I should be the first to counsel such a policy. But this is not the case.

Let us try to make the possibilities clear to us that the scheme of a bureau of supervision may be assumed to afford. For its functions are to be either of a purely censorial character—that seems to be Wagner's intent—or else of a mandatory character. If it is to have merely inquisitorial functions, then there is really no use in our discussing the utter futility of such an arrangement. For all the banks, as, for example, my former bank—I believe, the other banks also—have a whole staff of people who have nothing else to do than to go every day into the offices in order to ascertain several times in the course of the month by means of random tests and the examination, one by one, of all the documents, securities deposited

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with the bank, etc., whether everything is as it should be and to make reports. Every report concerning one such examination in the case of a single bank makes a thick volume. The examination of a single steel chamber of every great bank, or even of a single compartment in which securities are deposited for customers, if each document is looked at separately, requires from six to eight weeks. Just think of the time required to look over all the compartments in which securities are deposited, and then we have not yet got to the bills, nor the participations, nor the loans.

Now imagine our having a bureau of supervision which shall have the task of supervising upward of 400 German credit banks in the manner Wagner would have them. The performance of such a task is a sheer impossibility. We must bear in mind that an inspection of the kind in question must be undertaken with reference to a particular day, with the result that by the time the examination is finished, at the end of six weeks, conditions have changed altogether, and that, if we want to know how they are now, we should have to begin all over again. This sort of thing can originate only in the brain of a theorist who has not had a chance to gaze into practical life, and just there lies the danger. This is not meant to be a reproach, for the requirements in the way of greater practical knowledge and a larger share of practical experience are of recent origin. There was no idea of such a thing when Wagner was a young man. Nothing personal was therefore intended in what I have been saying. I can assure you that nothing could be further from my thoughts with reference to a man whom I esteem so highly. But it is the duty of everyone—

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and this applies to jurists as well as to economists—to try to get a clear conception of the practical assumptions and practical consequences to which the proposals that he makes are going to lead, for, as the poet says, “things jostle each other in space.” He who does not know what space looks like and what the things are that jostle each other in it ought not to be permitted to put forth his theoretical propositions.

I must also remind you, gentlemen, that formerly in our law relative to joint-stock companies we had inspectors whose business it was to examine into the facts when a company was organized—they possessed merely an inquisitorial authority—and how we soon perceived that all that would lead to nothing. Let me remind you of that celebrated case where a prospectus appeared in which the names of the inspectors were entered in big letters because they were men of high standing. The document stated that the proceedings in connection with the organization had been passed upon by such and such gentlemen, and so everybody said: “Everything is bound to be right, as these are highly respected gentlemen.” It transpired afterwards that these gentlemen had handed in a condemnatory opinion, which, however, was not published. In those days publication was not required, a mere examination being deemed sufficient. The thing had simply been allowed to stop short at the declaration of the inspectors. [Laughter.] We have changed this, saying to ourselves that we must have something more than a mere examination. Suppose now, gentlemen, that this change were made also with reference to the supervisory bureau, for a merely inquisitorial authority is, for

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the reasons I have set forth, a monstrosity. Well, then, we shall have a bureau of supervision with mandatory powers. The responsibility will consequently rest upon a dozen gentlemen, of which this supervisory bureau is composed, and not on the managers of the bank, for they are to be supervised by the dozen gentlemen who constitute the supervisory bureau. It devolves, therefore, upon men who are less experienced and less well informed than the actual managers of the bank whom they are to supervise.

They would be unable, however, to discharge this function, even if they were willing. Let us just take the case of a great private concern and likewise that of a government undertaking. Do you believe that a manager of one of our so-called great banks is in a position to tell you every day what has taken place in the individual departments of the other managers? That is inconceivable. We have the division into departments in order that each manager shall be responsible for his own and that he shall be able to inform the other managers whenever there is a meeting in regard to the most important doings in his department. The same is precisely the case with the government undertakings. Do you really believe that a chief director in the post-office or the president of any other public-utilities institution operated by the Government can be posted in regard to all the details of the business over which he presides? Here, too, we have the division into departments, and the director or president ascertains only what the heads of the various departments communicate to him. What they do not communicate to him he can not ascertain or know. We simply can not conceive

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of its being otherwise. Would you have us believe then that there can be such a thing as a bureau of supervision which can be posted in regard to all the banks at every moment, in regard to the thousand intricacies of their business? Do you believe that such a supervisory bureau can afford a better oversight, not to say control, of the affairs of a single bank than is possible within the individual institution where provision has been made by a great many of the most ingenious devices for the exercise by the general directorate of the supervision which the individual manager can not possibly exercise and where the managers and officials possess the necessary detailed knowledge and experience?

But what will be the result? If the bureau of supervision is to be called upon to exercise actual control (being invested with authority to act, not merely to supervise)—the only kind of control which at first sight seems possible—this is what it will have to say to itself in laying down the principles that are to govern its action: We are the responsible persons, consequently we can not permit any risky business. We assume the responsibility when we sanction or carry out anything, consequently we can not permit any risky operation to be carried out. Do you suppose, gentlemen, that our private railways, our electrical works, our lines of steamships, or our aerial navigation would have come about if it were not for men who were willing to take chances? Do you suppose that such a development would be conceivable if behind every organizer of a business undertaking—for after the banks will come the other great concerns—you are going to place a controller who will tell him: “I can not allow any risky

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business to be transacted, because I can not assume any responsibility for it." Gentlemen, a business man can not exist unless he is willing to venture. We all know how the telephone was regarded as a plaything when it first made its appearance, something that interested everybody, but which nobody supposed was destined to have a great future. I remember how, at the time when I was a young lawyer, the firm of Sulzbach Brothers, at Frankfort-on-the-Main, entered into the first arrangement with the young engineer Rathenau relative to the electric light and the introduction of electricity throughout Germany. In those days that was considered a venture of the first order. Rathenau was universally regarded with distrust, and people kept saying: "This can not possibly have any future; such an electric pear will do perhaps for the Christmas tree, but for everyday use, never." The same distrust at the outset in regard to railways, the same distrust in regard to our aerial navigation. Had we not had such venturesome men as Count Zeppelin we should never have got so far. Yes, just imagine him coming with a balloon to the bureau of control. They would have made fun of him and told him to go, exclaiming: "Are we to assume the responsibility for such nonsense as this?" ["Very true." Laughter.]

No, gentlemen, you had better not subject our business men and our industry, which without this spirit of daring would never have brought Germany to its present high level, to such a system of control. Do not forget that we Germans would not have made any progress had we not had captains of industry endowed with a spirit of initiative and daring and far seeing men

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at the head of our banks, and see to it that you do not deprive our banks and other great concerns—for along with our banks we shall weaken our industries—of the strength which is still fortunately theirs, in order to benefit the outside world, which is only waiting to see whether we are not going to make the same mistakes over again as we have already made in such abundance. So much for the bureau of control. In regard to the various protests against the large percentages and high salaries which our bank managers receive, I wish to remark that it would make very little difference with respect to our national wealth or the dividends if the few individuals in question received smaller salaries and percentages and that the famous *propter invidiam* has something to do with the whole matter.

Doctor Wagner went on to say that the great contrasts, the social contrasts, which we witness originated mainly through the fault of the banks. Gentlemen, no one can regret it more than myself that we should have such far-reaching social contrasts. But I believe with Herr Singer that social contrasts, and sharp social contrasts, are inevitable under every capitalistic régime, and I am inclined to think that they are inevitable under any economic system. The one essential thing is that the dominant classes, in particular the millionaires, whom Adolph Wagner abhors on principle, shall be made conscious of their duties and imbued with the feeling that they have not merely social privileges, but also social obligations. We ought all to strive toward this end, we who have the unenviable lot of living in a period of transition in which all these social contrasts are still struggling

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with one another and consequently manifest themselves in such a striking manner. We ought night and day to be mindful of our duty to mitigate the social contrasts by bringing together as far as possible all classes of the population, inducing them to work at the same table, and compelling them to take a deep interest in the cares, aspirations, hopes, and needs of others, and we should above all seek to educate the rich and powerful to the feeling that they have not merely privileges but also duties with respect to the propertyless and weak. [Very true.] Having postulated this much, I must say that, in contrast with Adolph Wagner, I consider it an extraordinary gain that we have progressed so far by means of the labor of our hands, by our productive toil, and that at last we have rich people in Germany, too, while formerly the world at large had such a poor opinion of us because it could say that we are not strong enough financially to withstand even a small campaign carried on against us. And who is it, after all, gentlemen, who is going to subscribe to our loans? It is those who are fortunate enough to be in possession of adequate means. The mass of the people are not going to take up these loans in case of war. Let us, therefore, not weaken these wealthy people by means of shortsighted measures, else in times of trouble we should in vain be wishing we could draw out from their graves the very millionaires whom we have suppressed by such legislation.

But, gentlemen, is it not a gross exaggeration to talk of the "breeding of millionaires" and to say that we are getting down to American conditions or something similar? No, gentlemen, it is not so. I want to remind you of the

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fact—I gave the figures at the hearing of the experts and again a few days ago—that the savings of people of small means in Germany amount at present to fourteen or fifteen billion marks. It is from this class that the savings issue. In Prussia the deposits in the savings institutions more than quintupled between 1882 and 1907. In 1882 there was one pass book for every eight inhabitants and at the close of 1901 there was one for every two inhabitants. The aggregate amount, as statistics show, is made up of small sums, contributed by a class of people who have nothing to do with the flotation of securities. In place of a dismal picture of “plutocratic” Germany, which is beginning to groan under the number of its millionaires, I want to set before you the inviting picture of a sound, vigorous, and progressive Germany, the lowest strata of whose population has fortunately been in a position to lay aside fourteen billion marks of its hard-earned money.

But, how about the export system? Gentlemen, the export of capital—we have got to conceive of it in this way, inasmuch as export includes the export of capital, the founding of establishments in foreign countries, investments in foreign companies, etc.—this is the export that appears so threatening to Doctor Wagner. Well, gentlemen, the export of our manufactured products is, for the time being at least—we have explained this repeatedly—absolutely indispensable as regards the feeding and employment of our vast surplus population. It is this overflowing population that has forced the export business upon us, because we have got to pay with our manufactures, that is to say, with our labor, for what is

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imported from abroad in the way of raw material and the necessaries of life. The character of our agriculture and the needs of our manufacturing industries oblige us at present to import great quantities of raw materials, including the necessaries of life, because there are many raw materials that we are unable to produce at home or in our colonies. This foreign credit balance, which is created through the importation of foodstuffs and other necessaries of life and of raw materials for our manufactures, has got to be paid by us. We can not pay it out in cash, however, for, if we did, we should slowly but surely be ruined. We pay, therefore, with our labor, that is to say, with the manufactures which our export industry and our export trade furnish to the outside world as the equivalent for its imports.

That in all this the bounds of moderation have not always been observed, that there have frequently been excesses in the flotation of foreign securities, foreign credits, investments in foreign undertakings, etc., can not be denied. I have on a previous occasion, with the concurrence of Freiherr von Gamp, set forth the conditions under which alone, in my opinion, flotation of foreign securities and a participation in foreign undertakings can have beneficial results. I shall supplement my assertions by saying that I agree fully with Count Kanitz in believing that our export, in so far as it means the export of capital, can be beneficial only provided it does not set in until our domestic needs have been met, and that it is, therefore, the business of those who set the pace in banking and industrial matters to see to it that our home market comes to its own. In so far as

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this takes place, however, our export of capital—our whole export business, I should say—is not only justified, but is of the utmost benefit to the whole country. We could not exist without it. Without it we should relapse into the modest rôle that we played centuries ago.

A word in regard to the question of the growth of population. I understand that Doctor Wagner has today circumscribed somewhat his previous rather oracular remark concerning measures directed against the increase in population. I can not, however, let it remain unsaid that wherever such measures have been proposed and carried out this has been about the surest indication of the beginning of the decadence of a people. Thank God, we have not got to that point yet. We shall show our adversaries—and we have plenty of them—that we are still full of strength and that we do not intend to get into a path that we shall afterwards be ashamed of having trodden.

Doctor Wagner protested against the remark I made to the effect that it is absolutely necessary that our economists and jurists—I did not confine myself to economists—ought not to be permitted to occupy their professorial chairs unless they have had a long practical experience in connection with industrial and mercantile undertakings and that I consider it much more important to begin our reforms at this end and not by making our examinations more and more comprehensive, strict, and numerous; in other words, to begin with the teachers and not with the students. But I demand the same thing in the case of bank managers and those who are at the head of our big concerns. I demand that they shall not enter upon their

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great and responsible office unless they are provided with the whole apparatus of theoretical and practical knowledge. The counterpart to this is the demand that no one ought to instruct our youth unless he has a clear idea of what practical life really means and that not until then shall his theories be permitted to be carried among his countrymen. And it is mainly because Adolph Wagner's theories in the matter of state socialism, in so far as they enter into our field, are purely theories which have not withstood the ordeal of practical application, that I fear our state, our society, and the promise of our future will be made to take a downward course by means of these theories. This is my firm conviction, and I believe that any school that champions its far-reaching theories without regard for the practical things of our existence and the stern demands of the daily struggle which industry and trade have to endure assumes a great responsibility which it can not afford to bear.

It is not true that in that case we should be obliged, as Wagner says, to have special professorships for the "individual economic tendencies," a professorship for the cause of protection and another for that of free trade. There is no idea of such a thing. I myself have the honor of being a university professor and am strongly attached to the principle of not being bound to the advocacy of any particular doctrine. Woe to every age and to every nation in which professorships designed to propagate certain doctrines should become a regular thing. [Applause.] That can not be. We have never had it and we shall never have it. Of course, nothing could have been further from my thoughts. But how can Wagner infer this from a

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demand that professors shall not occupy their chairs unless they come equipped with an abundance of practical knowledge? If they are thus equipped, they may teach what they choose, but in that case we shall not see the things taught that Wagner teaches—not social-betterment legislation, not the system of taxation *à outrance*, nor the dogma that joint-stock companies shall not be allowed to pay more than 5 or 6 per cent in dividends, which by others will logically be developed to the effect that no one, in fact, shall be allowed to earn more than 5 or 6 per cent. That would not only kill the eagerness to acquire, as I recently asserted, but the very quality of acquisitiveness. For who will want to work in the severe struggle for existence, who will be willing to endure for his own sake and that of his family a conflict that drags one down and makes a daily drain upon one's best energies, if he is obliged to say to himself that when he has brought his earnings up to the level of the regular rate of interest everything beyond that is no longer his? No, gentlemen, it is necessary that the egoistic impulses of men, which in this case are also national impulses—inasmuch as they promote our national prosperity—shall exist. We must exploit them in the interest of the community as a whole. In my opinion it is the weakness of the "state of the future" that it fancies it can dispense with them. For this reason I am convinced that the future of the state of the future will be measured only by days or weeks.

And to wind up, who is it that in this whole inquiry has actually made any positive suggestions capable of being carried out in a practical manner? Is it Adolph Wagner, with his regulation of production, his bureau of control,

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and his rather vague suggestions in regard to the increase of population and the necessity of restricting earnings? Hardly. It is we, we who have honestly sought an expedient that would satisfy those who really believe that we are being badly hurt already. I am willing to adopt their standpoint, for it is not good to shut one's eyes, and we must also listen to those who are pessimists. We sought to meet the wishes of these people by making this proposal to the banks ourselves: "Even if you do not anticipate that anything will come of the periodical publication of rough balance sheets, believing that it would not bring about the result that in the opinion of many it is calculated to achieve, go ahead and publish such statements nevertheless. See to it that you do not arouse the impression that you are trying to stem the current of popular feeling that is manifesting itself. Do it voluntarily and in accordance with a scheme which the judgment of experts pronounces the best possible. While the other banks have had similar forms of balance sheets, that of the Deutsche Bank has met with the most general approval. Then take this scheme, which experts have universally indorsed."

That is what happened, but we did not stop short here. I myself some time ago—possibly your excellency, Mr. Chairman, read the article in the *Tag*—asserted the practicability of an advisory council, to be created by ordinance, not by legislation, one composed of bank managers (former as well as present) and of bankers, which the Government might consult in regard to banking matters and which, perhaps, would be able to do good service in various fields, such as those which have here engaged our attention. Such a board might, among other things, ask

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to have the prescribed form of statement submitted to its inspection in order to see whether there is nothing in it that calls for emendation. There is one thing, however, that I want to express in regard to the prescribed form of balance sheet. Assume that a law is enacted providing for a prescribed form of statement—to which I am decidedly opposed—and suppose, moreover, that the keenest critic was commissioned to draw up a scheme. There is sure to be another critic, a criticizer of critics, more clever than the first, who will come and say: “Do you think the scheme which your man has drawn up is good enough? Under no circumstances.” We should consequently never be able to devise anything that would satisfy everybody’s requirements.

You see, then, that it is we who have in this manner taken the lead with practical suggestions and who are striving honestly to do more in the same field. In my first address I called upon his excellency to cooperate with me, as chairman of the Central Union of German Banks and Bankers, hoping that in this way we would gradually succeed in prevailing upon the banks that are not yet doing it to publish periodical rough statements in accordance with a uniform scheme. As a matter of fact, the force of circumstances will oblige them after a time to fall into line inasmuch as the public will want to know why they are not publishing such statements. People will imagine they have something to conceal. We want some assistance in order to make things move faster.

And who was it that repeatedly brought up the subject of financial preparedness for the event of war for serious

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consideration and public discussion? It was the third general conference of German bankers, held at Hamburg on September 5 and 6, 1907, at which I, as chairman of the Central Union, had the report which Herr Max Warburg, the Hamburg banker, had drawn up in such a splendid manner introduced in the programme of the discussions, and it was my neighbor, Herr Schinckel, who at my request wrote in my "Bankarchiv" concerning what the banks are able to do, and ought to do, with reference to the contingency of war and other crises. And, finally, it was I myself who published a more extended tract on "Financial Preparedness for War and the Financial Conduct of War" (Jena, Gustav Fischer, 1909). We have, therefore, been making honest efforts not merely to revolve these questions in our brains, but, as far as in our power lies, to discover some solution. We have endeavored to be constructively active, but whatever we have done has always been done with reference to what we know to be the highest end, the common good.

But we ought with the same zeal and earnestness set ourselves against proposals which we are convinced are suitable to the conditions of a previous century—I refer to the system of state guardianship—or else might be suited to a future century, which, we trust, will never come, and what I mean now is the proposition that would do away with our political and social order, the foundation on which we stand for the good, as we believe, of our fatherland. [Loud applause.]

Freiherr VON CETTO-REICHERTSHAUSEN. It is hard for me to take the floor after Doctor Riesser's address, so exalting and so full of sentiment. I am destitute of the

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gift to clothe what I have to say in the alluring garb that excites the interest of every listener. But I shall beg you to permit me at least to express myself with a free hand in regard to the questions that have been submitted to us by our president.

Taking a summary view of these questions, I believe there are two things that particularly claim our consideration. The one question is that relative to the supervision that is to be exercised over the policy and management of our banks—banks and credit institutions in a broad sense, inclusive, therefore, of private bankers, savings institutions, and Genossenschaften—and the other is the question which my esteemed countryman and colleague, Direktor Ströll, brought up yesterday, the question concerning the gold reserve. Everybody wants gold and struggles for gold, we proclaim with the poet; and the rest we have suppressed: Alas! We poor people!

Well, gentlemen, if I have to express myself in regard to the first question, I have to ask myself, What is the function of our credit banks? What is the nature of their task, considered with reference to the public duties which they have to discharge? The answer to this question has been furnished us in splendid form by Doctor Riesser and other gentlemen, including Herr Schinckel.

By the side of this task, however, there is another actuating impulse on which I am not sure that sufficient stress has been laid. Our credit institutions, and especially the joint-stock companies, do not consider their sole task to be the furnishing of credit and the regulation of our monetary intercourse. They are intent in a great measure on performing this task in such a manner as to be

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able to look to a profit for themselves, and as large a profit as possible, and this is a point on which various expressions of opinion that have been clashing with one another in the course of our several days' discussion have, perhaps insensibly, been concentrating.

I have already stated, gentlemen, that our agriculture, which in my eyes is the prime subject for consideration, is in reality rather aloof from the credit banks, having mainly to do with savings institutions and the cooperative credit associations. The reason is that the business of the majority of our agriculturists is on a rather small scale. They are not able to dispose of a large amount of capital, and they have therefore felt themselves obliged, instead of having recourse to outside assistance obtained at a high price, to place themselves in a position to command credit by means of their own strength and exertions and by making the most of a sense of solidarity and a community of interests. They have set to work, through the credit afforded by their associations, to procure the means required for putting their farms in good condition and keeping them up, as well as the funds that are to serve as their working capital. And herein, gentlemen, lies the real difference between the policy pursued by the banks and bankers, on the one hand, and that pursued by the savings institutions and *Genossenschaften*, on the other.

Here is an illustration drawn from my own experience. There is no doubt that our great mortgage banks make ample provision for credit based on mortgage when such credit is required on a large scale, but what is done by them in the way of satisfying the needs of the small

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agriculturist amounts to very little, and that is the reason why the small agriculturists have combined and that the modern Genossenschaften have come into existence on the principle of the flourishing Prussian agricultural loan associations (*Landschaften*)—that is to say, on the principle of cooperation in the matter of credit, which has stood the test of ages. The instance I am adducing has reference to my own narrow country. In the kingdom of Bavaria we have at present eight mortgage banks, large and small. Of these eight mortgage banks there was formerly only a single one that made provision for the needs of the small agriculturist. This was the Bayerische Hypotheken- und Wechselbank. We must bear in mind, however, that this bank did not by any means perform the service voluntarily, but that its activity in this direction was the result of an agreement into which the bank had entered. It was an obligation which the Bayerische Hypotheken- und Wechselbank had to assume at the time of its foundation in return for the privilege of issuing bank notes. In order to get this concession it bound itself to furnish credit to the small landowners. Outside of the Hypotheken- und Wechselbank, however, not one of the existing Bavarian mortgage banks thought it worth while devoting much attention to the matter of credit for the small agriculturists. Hence arose the need of establishing the Bayerische Landwirtschaftsbank, which announced it to be its programme to afford every one, even the smallest landowners, credit based on mortgage that would be cheap, granted for a long term, irrevocable, and carrying a provision in regard to ammortization. At present, after twelve years'

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activity, we have reached the point of being able to say that about one-fourth of the aggregate demand for agricultural credits that the Bavarian mortgage banks are obliged to meet is satisfied by the Bayerische Landwirtschaftsbank. I shall take the liberty of submitting to you on the proper occasion the statistical data on which I base my statement. They are not at hand at this moment, but it will be worth while inserting them in the report of our proceedings.

And now, gentlemen, I come to the other point, the one I mentioned before, namely, the fact that our great banks, apart from their public task, in regard to which I do not mean to say that they are not mindful of it, entertain—*sit venia verbo*—the egoistic principle (which I do not at all begrudge them) of carrying on their business in the first place for their own profit. I believe that owing to this principle the necessity has made itself felt of supervising the management of the great banks and credit institutions in such a way that they shall be prevented from going too far in their egoistical activities—I trust you will not apprehend this in any hostile spirit—in other words, that a *ne quid nimis* shall be observed. I believe I am not far from the mark when I say that, apart from the matter of the soundness of the investments, or, in other words, the safety of the bank accounts, a control is required in order to hinder an altogether too egoistical policy, which would be prejudicial to the interests and ill-suited to the needs of the customers and consequently detrimental or dangerous with respect to the public good.

In regard to this matter of a system of control, there is the question in the first place as to whether such an

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arrangement is desirable and whether it is necessary. The next question is as to whether it is feasible. There is no denying the fact that many will regard a supervision over the credit institutions as desirable and, under certain circumstances, as even necessary, and, looking at the matter with reference to general principles, I am bound to declare that such control, whether it be in the shape of normative regulations, or of a supervisory board, or of a supervisory bureau with its government officials, is something that admits of discussion. But another question, gentlemen, is this: In what manner is the control to be exercised and effectuated? And, with reference to all this, I can only say that I concur in the utterances which Doctor Riesser has just made in such eloquent language.

I shall now proceed, gentlemen, to discuss in detail the measures that are submitted to our consideration, and, first of all, the normative regulations. We have been reminded of the fact that we had similar regulations for the Prussian mortgage banks, which were embodied subsequently in the German law relative to mortgage banks. But in what way does the main provision of this law affect the conduct of the mortgage business? I can not see any particular point in prescribing that the aggregate of the debentures issued shall always be covered by the aggregate of the mortgages that have been made out. The fact is easily verifiable and, indeed, the whole thing goes without saying. This is, of course, involved in the very idea of a system of mortgage debentures and the control is not difficult. But another matter, and this is the main point, is the following: To what extent is the security of the mortgages guaranteed by the legislative provision? Here

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we have to deal with two very essential factors. The first is the question of the limitation of the amount up to which the property can legally be mortgaged. The other is the question relative to the proper appraisalment of the property that is to be mortgaged. With respect to these two points not only have the normative regulations been ineffective, but, in my opinion—I have an experience of fourteen years to look back to—the provisions of the law relative to mortgage banks are likewise altogether ineffective, especially in the matter of appraisalment. These provisions are so elastic—as necessarily they must be—that it is absolutely impossible, even with the best system of supervisor, to make sure that the values of the properties on which the debentures are based are actually such that the limitation of the amount up to which a loan can be made to one-half of the value of the property mortgaged will afford an adequate guaranty for the debentures.

From all this I draw the following conclusion, gentlemen: If you admit that this proposition, so significant with respect to the mortgage business, is a correct one—and it can easily be fortified by reference to actual cases, in particular those occurring in the urban mortgage business (the rural business affording fewer examples)—do you consider it possible that such normative regulations, which are not adequate for the mortgage business, can be made effective when applied to credit based on movable property? Do you believe they would work in the case of a credit business having infinite delicate ramifications, such as is carried on by our credit banks? Do you consider it practicable to enact such provisions

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with reference to the flotation of securities, the stock business, and accounts current?

To explain my position, I need only refer you to the well-informed utterances that you have heard from the lips of Geheimrat Riesser. I must confess that I do not believe that we shall ever be enabled, even with the best of regulations, especially with legal regulations, to prevent in every case the occurrence of evils and abuses. It is for this one reason that, while, as a matter of theory I am heartily in favor of a system of supervision, I hesitate to advocate it, having my grave doubts as to whether such a system could be made practically effective, and, in particular, as to whether, if applied to our great credit institutions, it would not do more harm than good.

I wish to say a word now, gentlemen, with reference to the creation of a bureau of supervision. Several of the members have discussed this subject already and have dwelt upon the difficulty we should experience in getting hold of the large number of officials that would be required to make up the supervisory bureau, or rather bureaus, for I am sure that a single bureau could not possibly suffice, considering the magnitude of the credit business in the German Empire. The least that could be done in my opinion would be to install such a bureau of supervision in each State of the Empire and perhaps to have a central bureau. But then I must ask whether you believe that it would be practicable to introduce such a supervisory machinery in the shape of a body of government officials and that it could be made to work effectively in this form? The main thing to be considered would be the personnel. Herr Roland-Lücke

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made the commendable suggestion that in place of creating a regular administrative bureau we should install a supervisory board.

A VOICE. A commission.

FREIHERR VON CETTO-REICHERTSHAUSEN. I believe that this supervisory board or this advisory council—

Mr. ROLAND-LÜCKE. No advisory council; an independent commission.

FREIHERR VON CETTO-REICHERTSHAUSEN. Or whatever you choose to call it—the precise term doesn't matter so much and I beg you will not take the expression I use so literally—well, let us say, this supervisory board will on the whole work better and is capable of working better than a regular bureau of supervision. But here, too, the composition of the body is of prime importance. The question would have to be considered as to whether these persons are to hold their office as something aside from their main business or to make the discharge of its duties their chief occupation. I assume that in view of the importance of the duties imposed upon them the members will devote their main energies to their office. Then comes the question as to how long these people are to hold their positions. Herr Roland-Lücke says that they shall be appointed for two years [One year]—or one year. One-half shall retire each year and not be re-eligible, in order that fresh blood may enter. The body shall continue in this way and not be given a chance to become fossilized. This is all very well, gentlemen, but I have my grave doubts as to whether you will find a sufficient number of persons who have had the practical experience that will fit them for discharging their functions

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in such a way as to exercise an effective supervision over the existing credit institutions.

A VOICE. That is not what they are to do.

FREIHERR VON CETTO-REICHERTSHAUSEN. Gentlemen, if you merely glance over the reports of our great banks you will have to admit that the magnitude of their operations renders an acquaintance with their whole business policy and management such a difficult matter that even a well-qualified manager when he first enters upon his duties requires some time before he can say that he has acquired a complete oversight of the business of his institution. Now, let us assume that we have installed such an advisory council and let it go ahead with its work and that at the expiration of a year, after its members have perhaps with great difficulty succeeded in acquainting themselves with their task, one-half of their number are to retire in order to make room for another half more or less or possibly altogether unacquainted with the business. I beg you to consider—I am willing to be set straight—whether this in itself does not constitute a great and perhaps insurmountable obstacle to the success of the whole scheme. You will have to admit also, gentlemen, that if we mean to go ahead in real earnest we shall have to put this question to ourselves: Will it be possible to carry out this scheme in a way that shall satisfy the far-reaching requirements which such an institution will be called upon to meet, and, in particular, the legitimate demands of the public in behalf of its own security and shall afford a guaranty that the evils of which we complain or which we believe to exist will really be permanently eradicated?

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I thought it well to lay special stress upon this point, gentlemen, because we are inclined to indulge in expectations with respect to this matter, which, however justifiable they may appear, may not be realized, in which case the responsibility for the institution will have to be borne by those who have advocated it, a responsibility so great that we feel that the legislator who shoulders it will subject himself to the danger of being overwhelmed with reproaches should the institution at any time signally refuse to work in the manner anticipated.

I should like to say a word now in regard to the position of the Genossenschaften with reference to the proposed scheme. Attention has been called to-day to the fact that in the case of the smaller Genossenschaften a supervisory institution already exists in the inspection unions and furthermore in the central clearing establishments. As regards the inspection unions, I have no doubt as to their working very well. The supervisory activity of these inspection unions does not extend merely to the regular business management of the individual small associations. They supervise the entire policy of the associations, in particular their policy in the matter of granting credit. It is a decidedly good arrangement, one that promises satisfactory results. As far as this branch of the cooperative credit institutions is concerned, I consider any other arrangement superfluous, although I doubt not that the associations will come at once and say: "Of course, if you have something to propose that is better than what we have, we shall not hesitate for a moment to embrace it. On the contrary, owing to the great risk involved in our

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collective responsibility, we are intent on securing the most far-reaching guaranties against the occurrence of abuses and losses." It would certainly be a good thing for the savings institutions if a similar arrangement could be created for them. It would be a much easier matter in the case of the savings institutions because, as we have been informed, only a few large savings institutions in the big cities engage in business of the nature of banking. The only thing requiring supervision would be the investment of the savings, in regard to which there are already very comprehensive and, in my opinion, quite satisfactory regulations in the individual states. Nothing remains, therefore, but the banks, concerning which I have already expressed myself.

I have still to touch upon another matter. In connection with the question relative to normative regulations the following points are mentioned under No. 3: Cash reserve, investment in bills, investment in government loans and similar securities, investment of the surplus. I do not propose to discuss the individual points in detail. This has already been done by speakers much better informed than I am. There is one thing, however, that I should like to dwell upon. If the provisions in question are applied to the cooperative credit associations these will in a great measure be deprived of the resources which they possess and which they need in order to discharge their functions. They would no longer have the means required in order to meet the daily demands of their customers.

I do not propose to say anything in regard to the publication of statements, a subject which the programme of

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our president excludes from our discussions to-day. Nor do I intend to take the floor when this question comes up for discussion, because, as I must frankly confess, I do not feel that I am able to grapple with it. My experience does not extend to the domain of the great credit institutions, but is confined to the modest field of the mortgage banks and Genossenschaften. There is another matter, however, which I wish to discuss, and this brings me to the second point of the programme with which I started, the question concerning the augmentation of the gold supply.

I believe that in that part of the interrogatory given under B 3 reference is had to the matter of an enlarged gold supply. The questions are those relative to a cash reserve, the investment in bills, investment in government loans, investment of the surplus, and other kinds of measures—the deposit of a certain percentage of the outside moneys with the Reichsbank, government deposit institutions, the assumption by the Reichsbank of the business of taking interest-bearing deposits. I believe there is an implication here that all this, taken together, is to be discussed more or less with reference to the possibility of strengthening the gold supply. Now, I am willing to admit that something may be achieved by such arrangements. But as to whether under the circumstances that exist in the German Empire it is possible thereby to attain the object aimed at—the permanent increase in the stock of gold in the Reichsbank—you must allow me to express my modest doubts. I believe that the reason of the insufficient supply of gold is to be sought elsewhere. With the rapid development of our industry and trade,

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the demand for cash in the German Empire has become so great as to be the main reason why our supply of gold is inadequate to satisfy the needs of our monetary intercourse. I am of opinion that in this regard we might perhaps learn something from our western neighbors, that we ought perhaps in the future restrain our spirit of enterprise somewhat, even if I have to admit that we have for the most part been fortunate enough hitherto to see the undertakings that have been started in the German Empire crowned with success, and that this spirit of enterprise has largely contributed to raise our national prosperity to its present height with such rapid strides as to excite the envy of foreign nations.

In this connection I should just like to touch upon one point that Doctor Riesser has dwelt upon—the question of our export business. Doctor Riesser stated incidentally that we are obliged to expand the volume of our exports, inasmuch as the imports, which are indispensable, must be paid for with the exports. This proposition is perfectly admissible. There is one point in regard to it, however, that I think we ought to consider. I believe that the equilibrium between exports and imports may also be established by reducing the volume of the imports. This would be in accordance with the principle that obtains in the United States, the so-called Monroe doctrine—America for the Americans. The American reasons according to this principle: What I can produce in my own country I am going to produce in my own country in order not to have to buy it abroad. He is intent on promoting his home industry by every means and spares no effort in that direction in order not to be obliged to pay

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foreign countries for commodities imported that might be produced at home. ["Very true."] Proceeding from this standpoint, I am led to the conviction that we ought to bend all our energies toward the promotion and support of the productive activities of our country—and I have reference above all to our agriculture—in order to reduce, as far as possible, the importation of articles that enter into our consumption.

Doctor MOMMSEN. Copper, for example.

Freiherr VON CETTO-REICHERTSHAUSEN—You will not deny that this is practicable. I called attention in my first address to the enormous increase in the quantity of German agricultural products. A great deal can still be done, gentlemen, in this direction. Here is something with which I am particularly concerned. Among the various honorary positions that I hold I am president of the union of Bavarian fruit growers' associations. I have inquired into the question of what we pay every year for the fruit that we import. It runs into the millions. Let me give you a little illustration which will be very instructive in this regard. A number of years ago I was talking with an American. The conversation turned on the matter of exports—I was at the time in Budapest—and I noticed that a number of hogsheads, all of one size, were standing there, which on inquiry I found to contain nothing but plum butter. All this plum butter was bound for the United States. "How is it," I asked the American, "that with your vast agriculture, or rather fruit culture, you are obliged to get so much plum butter?" "That is a very simple matter," he replied. "If our plum trees would thrive we should not find it necessary to import European

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plum butter, but unfortunately they will not thrive." Ten or twelve years later I learned that the people in the United States had actually discovered a variety of plum that would thrive in that country and that since then the cultivation of plum trees had assumed such proportions that the export of plum butter from Germany and Hungary had practically ceased. This is merely a little illustration, drawn from my own experience, which I thought I would place before you in order to show how much scope is still afforded for cutting down foreign importations by an increase in our domestic production and thus rendering the balance of trade more favorable to us.

I should like to say a word still in regard to a matter in which I am myself actively interested. Doctor Riesser was speaking of the professor who has to treat his subject from a prescribed standpoint, an utterance which elicited a smile from some of the gentlemen assembled here. Now, you are aware that an association was formed—

Doctor RIESSER. I made no reference to anything of the sort.

Freiherr VON CETTO-REICHERTSHAUSEN. No; of course not. An association whose aim was the promotion of a so-called exact economic research. The formation of this association led to the famous controversy at Leipsic in regard to a professorship whose teachings are supposed to represent a certain prescribed tendency. Gentlemen, after the extremely interesting addresses of our highly esteemed Doctor Wagner to which we have listened these last few days, I can not help believing that the endeavor to initiate exact economic research is not altogether such a futile thing. The utility of such economic

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investigations was emphasized in Doctor Riesser's utterance to the effect that we must oppose national impulses to egoistic impulses. It was this idea that led to the founding of the association, and it is with reference to this alone that I have sought to remove the misconception according to which a professorship with a "tendency" is something odious.

I have said everything that I wish to state, gentlemen. To sum up I pronounce the suggestion of our esteemed colleague, Herr Roland-Lücke, as excellent as it is original, and I may say the only plausible proposal that has been made in the whole course of our discussion. But while, on general grounds, I am in favor of a system of control and would gladly lend my assistance toward the carrying out of such a system *quovis modo*; while, I repeat, I am in favor of supervision of the kind in question, I must nevertheless warn you against making regulations, if I may so express it, *ab irato* and in particular against making them through the process of legislative enactment. There is something peculiar about legislation and especially about imperial legislation. Just imagine what a mass of material must be got together, what an amount of work has to be done, and what conflicts and compromises there will have to be in the Reichstag before an imperial law is enacted, and then think how difficult it would be to repeal such a law, how much time would elapse before it was possible to demonstrate that the law in question ought to be amended, and that some of its provisions were mischievous or dangerous. It is for this reason that I am dubious in regard to this question, although, as I have said before, from the standpoint which I have to represent

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here *in specie*, from the standpoint of the agricultural credit associations and the agricultural interests, I have no objection whatever to the introduction of some sort of supervision; and I believe I may say, in the name of the agricultural credit associations, that, as far as the principle of it is concerned, there will be no opposition whatever on their part to the promulgation of regulations of the kind in question. I should, however, object to any provisions that would be calculated to interfere with the activity of the Genossenschaften and which would consequently not be acceptable to them. What the associations need is a better condition with respect to fluidity. I am willing to admit this, and, indeed the associations have all along striven to bring about such improvement. I hope and I feel confident that they will succeed—for example, by increasing the size of the shares—in making a better showing on their books in the matter of fluidity than they do at present.

To wind up, therefore, I shall say that, just as the representatives of the banks are for good reasons skeptical in regard to the proposed regulations or averse to them, I should make it a necessary condition with reference to the Genossenschaften, in case such regulations were to be put in operation, that they must be of such a nature as not to interfere with the sound and efficient conduct of the business of these associations.

Doctor WACHLER. I feel some hesitation, gentlemen, in bringing up once more the general topics that have been discussed to-day. I shall confine myself to the proposal made by Herr Roland-Lücke yesterday, with reference to which I begged permission to take the floor

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again to-day. I declared yesterday that the scheme appealed to me very strongly. I have nevertheless had a feeling that after all there might again be some sort of a supervisory bureau lurking behind this thing. Herr Roland-Lücke explained to me at once that this was not at all in his scheme. But, gentlemen, you have heard to-day from Doctor Wagner and just now from Herr von Cetto that they take the proposal to mean something very different from what Herr Roland-Lücke has in mind. Doctor Wagner said: "My notion is not so far removed from that of Herr Roland-Lücke; this is a quasi supervisory bureau." Our esteemed colleague, Herr von Cetto, has also said that he does not quite understand how this advisory council is going to supervise the various banks and credit institutions, how it is to get acquainted with the details of their business, and how it can form a judgment in regard to their management. You see, therefore, that the notion obtains more or less that this advisory council is to supervise the management of the credit banks.

Mr. ROLAND-LÜCKE. That is a misconception.

Doctor WACHLER. Certainly, and you will therefore allow me to draw the inference that there is in reality an element of great danger in this scheme because it is regarded as the beginning of a bureau of supervision. At present we are all pretty much agreed that there is to be no supervisory bureau. Even Herr von Cetto is in favor of regulations and supervision only on general grounds. Before long, however, he will not merely be advocating them on general grounds, but will embrace them *de facto*. The scheme of this advisory council should be elaborated

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in such a way as to make us feel that certain specific objects will be accomplished. If the proposal were to involve a decided tendency in the direction to which I refer, I should be absolutely opposed to it. I believe, however, that this is altogether foreign to the author's intent, and I am sure that I understand him perfectly. I declared yesterday that if this scheme contemplated in the remotest degree the installation of a governmental supervisory organ I should oppose it most strenuously. I find that the proposal, taken in its true sense, is far removed from such an interpretation. I consider it altogether acceptable and practical and am by all means in favor of it. I should insist, however, in case the directorate of the Reichsbank approves of this course, that the advisory council, in the sense contemplated, shall be an advisory board for the Reichsbank management only and not for any organ of the administration. I should consider that objectionable from the circumstance that the external appearance of the thing would suggest an imperial authority, an organ with bureaucratic arrangements, while it is our express purpose to make this advisory council an aid to the Reichsbank alone, something that shall enable it to have a better oversight of the whole economic situation. The Reichsbank, to be sure, already possesses an advisory council in its central committee. The activity of this body is, however, restricted within certain definite bounds, while the proposed advisory council is to be allowed greater latitude and more initiative. There is to be, moreover, a central bureau, which shall receive and examine the published statements, which are to be submitted by the credit institutions

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every two months, and, of course, such a central bureau can work effectively only as an adjunct of the Reichsbank. I stated yesterday—and some of the gentlemen have expressed the same opinion—that, as it is, the Reichsbank, in case it discovers that the policy pursued by our large and small banking institutions in the matter of granting credit is a defective one with reference to the general economic and financial situation, has adequate means of administering a remedy through admonitions, instructions, etc. But our esteemed chairman has told me: “The trouble is that by the time we come it is too late; it is incumbent on the great banking world to see to it that a situation shall not arise of which we shall become sensible only when we are no longer in a position to avert certain critical conditions.” Now, my idea is that Herr Roland-Lücke, through the very circumstance that this advisory council is to be composed of men of scientific training and experience in connection with our industries and banking, intended that these persons, whenever they thought they detected anything wrong in the published statements presented for discussion at their meetings or whenever their personal experience revealed strange conditions within the sphere of their own business activities, would go to the Reichsbank and suggest that precautions be taken right then against such and such a contingency. I fancied, moreover, that the Reichsbank would be helped in its portentous and disagreeable activities by having behind it an advisory council which in a measure will force it to take action. Although I am persuaded that the presidency of our Reichsbank requires no cloak, still we are all human

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beings and know how pleasant it is not to be always the person who is to blame but to be able to shift the responsibility upon a body of men, picked out from the world of business, who have made suggestions that we have no right to disregard. Viewed from this standpoint the scheme that has been proposed meets with my entire approval. Nor do I believe in the objection raised by Herr Gontard that, if there are to be bankers in the council, disagreements are likely to arise and differences of opinion between the representatives of the large banks and the Reichsbank. I should not worry about this. In the first place I do not think there would be any serious disagreements, and if differences of opinion should manifest themselves, it would be of the greatest benefit to our economic life if they were to be made patent. It could only result in the clearing up of the situation.

It would be superfluous in my opinion for us to do anything in the matter of the prescribed form of balance sheet if we are willing to accept Herr Roland-Lücke's proposal. We have such prescribed forms of bank statement already. The balance sheets are being published in accordance with a generally adopted scheme. Herr Roland-Lücke declared that he would be perfectly satisfied with an amplification of this scheme. But we had better leave this to the advisory council, the commission, which will make this a specific part of its business. It would not do for us to begin by imposing upon the commission a certain compulsory scheme of bank statement. Let us leave that to their expert judgment, fortified by the experiences gathered in connection with the publication of statements that has heretofore taken place.

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Herr Gontard suggested that the listing committee might be brought into requisition in connection with this matter. I consider this, gentlemen, altogether ruled out, if for no other reason, because the listing committee is an organ provided by the law. If we were to make use of the listing committee, this could only be done by means of legislation. As far as I have gathered, however, we are all opposed to a recourse to the law, and all the more so because we have learned by manifold experience that we can tell how a law is going into the Reichstag but that no one can tell how it is going to come out. Besides, the listing committee is not at all suitable for this. It has a definite field of activity, which is prescribed by law. I have been a member of the listing committee in Berlin ever since its establishment, and I am sure that Berlin has the advantage over every other place in the matter of experience. At all the meetings that have been held of the central unions of the listing committees we have invariably found that most weight was attached to the experiences of Berlin. I can assure you that there could be no greater mistake than to have recourse in any way to this organ for the purpose of promoting the object before us. In addition, it is absolutely impossible to impose this task upon the listing committee, which has plenty to do as it is.

I should like to say a word with reference to the publication of statements by the private bankers. This is not a very simple question. On general grounds it is natural to ask why, if the banks, which are legal entities, are to be obliged to publish statements, should not private persons be compelled to do the same? It is my

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opinion that we ought not to generalize in this matter but that we ought to have regard for the particular conditions that manifest themselves. Herr Roland-Lücke himself, the author of the proposal we are considering, pointed out that the prescribed scheme of balance sheet might do for one kind of business and be altogether impracticable with reference to another. This applies precisely to the case of the private bankers. I can think of no legal grounds on which, if the law prescribes the publication of statements, the private bankers could be exempted from its action. And that is the reason why I am opposed to the enactment of legal provisions in connection with this matter. What I say is this: Let us have no law to this effect; let us simply say that the statements are to be published as the necessity arises, and then we shall be in a position to exempt the private bankers entirely if we choose. To say the truth, I can not see what difference it makes with respect to the welfare of our people whether or not we get a statement of his condition from a banker in some very small town, who does a business of perhaps 300,000 marks at most by selling securities, loaning small sums, effecting other little transactions, occasionally discounting a bill for a peasant who has brought his grain to town, etc. I really consider this quite immaterial with reference to the public good. I am, therefore, in favor of our not drawing up any resolutions in regard to the matter and of leaving it to the friendly consideration of the advisory council.

Herr Gontard laid stress on the importance of printing on the bank statement the words "No account is here taken of deductions for depreciation." This is a matter

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of course. We are not concerned here with a regular balance sheet but with a statement, and can not take account of items that are to be written off.

I shall say, then, in the way of summing up, that I am in favor of Herr Roland-Lücke's proposal, although I have some apprehensions that inferences will be drawn from it at variance with its intent. I have not come to this conclusion on the ground that, as Count Kanitz expressed it, the Reichstag has once for all adopted a resolution, in consequence of which the Bundesrat has to submit a bill to the Reichstag, and we are therefore bound to furnish the Bundesrat with the necessary material. That is not my position in the matter. I consider it to be the business of an expert inquiry commission like ours in such cases, if I may so express myself, to stiffen the backbone of the Government and to give fresh evidence by our vote that such a resolution on the part of the Reichstag does not admit of being carried out. The Reichstag is our authority of last resort in matters parliamentary, but what it has done thus far in the field of economics is indeed not of such a nature that we must bow our heads humbly and say, "The Reichstag has adopted such and such a resolution, consequently we are bound in accordance with the vote of the Reichstag to supply such material as will gratify its wishes." As I have said, this is not my standpoint, but I think we should do well, all the same, provided that false inferences are not drawn from what is suggested—such as Doctor Wagner and, I fear, Herr von Cetto have drawn from the proposition of Herr Roland-Lücke—to adopt the proposals that we consider practical and capable of being carried out, even if there be danger of misunderstandings.

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In regard to No. 4, concerning which I said nothing yesterday, there is no need, in my opinion, of regulations designed to protect the public against loss through the offer of a higher rate of interest on deposits and savings on the part of so-called corner bankers. In this matter, too, the advisory council which we are about to create will perhaps be able to do good service in the way of enlightening the public, in order that it shall not allow itself to be prevailed upon by such inducements to place its deposits in the hands of certain people. I should vote against the consideration of measures of the kind in question.

Mr. SINGER. I beg to be allowed, gentlemen, to make some remarks with reference to the utterances of Herr Wagner and Herr Riesser. The main difference between Herr Riesser and Herr Wagner with respect to the question of social betterment, as indicated by what Herr Riesser said at the end, may be stated to be that while Herr Wagner, who represents my views and those of my party, urges legislation for the improvement of the economic condition of the laboring classes, Herr Riesser believes we must educate the well-to-do classes and, above all, those who are at the head of our industrial concerns, to the consciousness that they have social duties toward the working people and the propertyless which they are bound to discharge voluntarily, without the compulsion of the law. This is a very fine principle indeed, Herr Riesser. It is in accord with the theories of the Manchester school, which fortunately can no longer be upheld by those who formerly supported them. The principle that the law ought not to intervene and that it is the duty of the well-to-do people to promote the welfare of the poorer classes

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and, in particular, the laboring class, by providing better conditions of existence and of labor for the masses has been carried *ad absurdum* by the Manchester school itself. The course of events has shown—and this has been the impulse for our social-betterment legislation—that the reliance on the spontaneous readiness of the propertied class to defray out of their superabundant wealth, obtained for the most part through the labor of the working people employed by them, the cost of providing the means required for the elevation of the laboring classes has not been justified. On the contrary, what happens is—and this explains the gradual change that has taken place in the views of the representatives of the Manchester school—that those capitalists who, having embraced the principles of the Manchester school, have retained that humanity and sense of duty to which Herr Riesser referred to-day in such enthusiastic and elevated language, when it comes to discharging these obligations find themselves handicapped in their business. While they shoulder the burdens which social reforms within our existing society undoubtedly entail upon the propertied classes and capitalists, their competitors, holding different views, exploit their advantages—cheaper labor, longer hours, etc.—and are therefore in a position to undersell them in the market. There is no use in appealing to the moral obligations. Legislative enactments alone, to which everybody must submit, can furnish an effective remedy.

If Herr Riesser has found fault with the socialistic organization of society on the score that under such a system it would, in his opinion, be impossible to discharge the obligations that society has with respect to the welfare

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of all its members, I shall say in response that, after having heard Herr Riesser set forth the principles of social obligations in such a splendid manner, I am ready to place my trust in this matter in the Riessers of the future. I am convinced that when the organization of society shall have been transformed from the capitalistic into the socialistic, the Riessers of the future, that is to say the men of science and the theorists, will teach with equal enthusiasm that socialistic principles ought to prevail in society. The welfare of all will then be raised to a guiding principle that will become dominant with respect to all social institutions and in every department of the spiritual, political, and economic life of the people. In this regard I have no apprehensions whatsoever. Indeed I believe that the development of the details of the socialistic organization of society is merely a matter of education.

At the present time the principles in regard to education correspond to capitalistic society and their essential aim is to equip the young generation, particularly in so far as it belongs to the propertied classes, for the rivalry in the matter of income and wealth, and in this way to protect and promote the capitalistic organization of society and its system of production.

If we were to convert these principles into the opposite ones and adopt as the guiding principle in regard to education the commandment, "Each for all, and all for each," the framing of measures in behalf of social betterment such as are now extorted by law would be considered part of the plain duty of everyone. The capitalistic organization of society, by means of its system of production, concentrates ownership and wealth in the hands of an insignificant

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minority and, at the same time, by means of its political arrangements, gives to this insignificant minority the greatest advantages with respect to political and economic matters and invests it with the most extraordinary legislative powers, which, wielded in the interest of this minority, renders the masses, the laboring people, politically and economically almost powerless and incapable of protecting themselves.

It is quite natural, gentlemen, that if, in connection with the questions that have engaged our attention, several of the members have seen fit to extend the discussion to the various views of the world, the differences of opinion should have manifested themselves in sharp contrast, and I thought I was only doing my duty in not listening to these utterances without raising my voice. I consider it an extremely meritorious action on the part of Professor Wagner that he, imbued with the scientifically founded conviction that it is the duty of society to look to the welfare of all—and it is the masses, the laboring people, that constitute the most important and essential element in the population—has opposed his view to the view that the existing capitalistic organization of society was able and willing to perform this task. I do not agree with Herr Riesser in believing that these obligations can be discharged by an appeal to generosity and a sense of duty. The vigorous intervention of the law alone will avail.

I consider that I am in duty bound to add that, while I fully appreciate the views that Professor Wagner has developed in regard to social betterment, I do not concur with him in the view he has expressed respecting the

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increase in population. I regret his position in this matter all the more, as it detracts considerably from the weight of his utterances in general. I have the misfortune to be compelled to attack Professor Wagner in his absence and shall therefore be brief. Perhaps he will read my rejoinder later on. I believe with him that the mortality among infants, the physical wreck of so many mothers, etc., are evidence of a most deplorable state of things. The incontestible fact that so many human beings die in early infancy calls, however, in my opinion, for very different remedies from the one suggested by Professor Wagner—the restriction of the growth of the population. He is aware himself that this sad phenomenon is attributable mainly to the dismal social condition of the great mass of the people, the laboring population. The women who bring children into the world that are not fitted to survive are for the most part incapacitated by their social condition from giving birth to healthy and perfectly viable children. They are not in a position during pregnancy to provide adequately for the needs of the new life that is unfolding. They are not able to give that care to the infant which might perhaps avail to save its life. But while we agree entirely with Professor Wagner as to the fact itself, we can not understand how he does not perceive that the means of eradicating the evil is to be sought in measures for social betterment. A great task indeed would confront us, one calling for the most energetic action in the way of the adoption of measures for the protection of women and little children. What Professor Wagner suggests as a remedy for the existing evil strikes me—I can not refrain from saying it—as something very

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similar to the means employed by the bear in the story who wanted to drive a fly away from the brow of a sleeping man and who gave him such a blow with his paw as to kill him. That is just about the sort of cure we should effect if we were to attempt to diminish infant mortality by means of the remedy of reducing the rate of increase in the population. I believe, gentlemen, the commission will be thankful to me if I cease spinning out this subject any further. My object has merely been to insist, on top of the statements made by several of the members in regard to the social condition of the working classes, that the organization of society which these gentlemen represent in general, and particularly with reference to the business before us, is not fitted to enable us to grapple successfully with the social tasks that we are bound to assume for the preservation of the welfare of the people in every branch of its intellectual and economic life.

In regard to the intimation that the suggestions made would in the end be tantamount to a proposal for the nationalization of the banking system, I have no hesitation in saying that, however apprehensive I am with respect to government monopolies under existing conditions, my opposition is not based on any fundamental aversion to the idea of government monopoly but mainly on the circumstance that, if we are to create monopolies for the State as it is at present—I am referring to Prussia and the Empire—we shall have a fresh swarm of politically and economically dependent officials. This is the political side of government monopoly, which, in the existing situation, with the principles that at present obtain in regard to government and the powerful influence of

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capitalistic interests on legislation, stands in the way of my advocating a bank monopoly for the Imperial Government. But if I am asked to decide on fundamental grounds which is better for the economic welfare of the community, government or private monopoly, I must decide in favor of the State, which devotes the profits of monopoly to the public needs. I shall therefore dismiss from my consideration the question of the nationalization of the banking and credit system, and, withdrawing from the field of general discussion, shall try to reply to the individual questions, although I am by no means mindless of their connection with general conditions and always derive an esthetic pleasure from listening to such interesting and brilliant addresses as those of Herr Wagner and Herr Riesser. It is also more in accordance with my practical bent of mind to confine myself to answering the concrete questions, in doing which I shall, of course, not lose sight of the broad aspects of the situation.

If, in accordance with this mental habit of mine, I proceed to make a few remarks, it will be all the casier for me to be brief because I am able to agree in regard to a great many individual points with the speakers who have preceded me. I have already in the course of the general discussion expressed the opinion that the deposit and credit business ought to be regulated in the public interest. At the same time, I believe that a law in regard to deposits is not necessary and would be of no service. Having thus adverted to my general standpoint, I shall try to answer the subordinate questions in a brief manner.

I do not anticipate any important results from the proposed regulation compelling the deposit of a certain

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percentage of a bank's capital in the Reichsbank. What would such a measure accomplish? In order to afford a perfect guaranty of the safety of the business of the banks in question, this percentage would have to be a pretty large one. I believe it to be preposterous to imagine that 1 or 2 per cent of the original capital would go far enough to have the effect, in case one has no faith in an institution, of inspiring confidence in it on the ground that it has deposited 1 or 2 per cent of its capital in the Reichsbank. The percentage must consequently be a large one. If that is what you propose, gentlemen, I do not see that you will be rendering any service to trade and industry. Through the deposit of a large percentage of the capital in the Reichsbank you deprive trade and industry, and likewise agriculture as far as it is involved in these matters, of the resources that would otherwise be at their disposal for the successful prosecution of their business. If the word "security" is to have any meaning, then a bank can not do any business with its capital, or else, if it does apply this money to business, it must see to it that it has other money which, in case considerations regarding the soundness of the institution should demand, can be made liquid. If, therefore, it is not proposed that a large percentage be deposited, the safety of the deposits in private banks will not be materially increased. And then, if we have to deal with an institution that is not doing a safe business, the deposit of 1 or 2 per cent would soon be absorbed and would have to be renewed. My opinion is, however, that the fluidity of the banks is not at all affected by the circumstance that 1 or 2 per cent of their capital is lying in the Reichsbank. And perhaps I may

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be permitted here, gentlemen, to express an opinion, based on my former—and perhaps I may be allowed to say, not altogether unimportant—business activity, although I have been out of business for a long time. My experience is that tightness in the matter of money is generally by no means an unfavorable indication with reference to the soundness of a concern. Such tightness at certain times is no evidence of unsoundness or poor condition. [“Very true.”] The better a business is, the more it expands, and the greater the means required for its conduct—I am referring to concerns of unimpeachable character—the greater will be the need of money, especially at certain times, and the greater will be the tightness the banks will experience. The tightness, therefore, which such a concern, one that is otherwise thoroughly sound, has to meet temporarily by means of a recourse to credit is no evidence of the retrogression or actual unsoundness of the business. It would be a great mistake to suppose so. I do not believe that the deposit in the Reichsbank guarantees either the security or the fluidity of the funds deposited in the private banks.

The question as to whether it is desirable to establish government deposit banks or to authorize the Reichsbank to take interest-bearing deposits I must answer in the negative. I believe that the government deposit banks, if they are intelligently managed, can do nothing else than the other banks. They must operate according to the same principles. The taking of interest-bearing deposits on the part of the Reichsbank does not seem to me to accord with its essential character and the task it is called upon to perform. One of the speakers has pointed out, rightly

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in my opinion, that the main function of the Reichsbank is to regulate the monetary circulation and—what I regard as its most important task—to render assistance and prevent confusion in crises and other critical situations. I believe that the gentlemen who have warned us against arranging everything with reference to the possibility of an unfavorable turn in business are not entirely wrong. Holding the views that I do, I was glad to see the president of the Reichsbank insisting in such an earnest and admonitory manner that the operations of the Reichsbank must be regulated with reference to such a contingency. That is perfectly correct from his standpoint, and I am sure that when he speaks thus he has the interests of the Empire at heart. But, gentlemen—I believe that the president of the Reichsbank will agree with me—an institution like the Reichsbank is very different from a private concern, which is dispensed more or less from the considerations for which the Reichsbank is bound to have regard. A private bank can not, like the Reichsbank, reckon on attracting business in virtue of its position, but is obliged to seek its business connections. And here I must say, with reference to my previous position as a business man, that trade and industry can not exist without taking risks. He who asks every time he undertakes a business transaction whether it will be sure to pay will abstain from an endless number of transactions, while he who does not refrain from them will prosper by means of them. This is incontestable. Whosoever wants to do business must occasionally take risks.

As some of the other gentlemen have given us illustrations and experiences from their own careers, I may

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perhaps be allowed to mention a reminiscence of my own. I underwent my apprenticeship in one of the very first silk factories in Berlin and I recollect that my old boss, who afterwards had quite a reputation—some of you will remember him, Herr Meyer Magnus, of the firm of Jakob Abraham Meyer & Co.—was furious whenever he heard of a failure which did not affect his house. [Laughter.] Well, gentlemen, he said this merely for the reason that he thought losses are part of the business and can not altogether be avoided, inasmuch as certain risks have to be assumed in order to keep business going.

What I mean to say by this is that I also believe that a certain amount of risk is permissible in connection with banking operations. The Reichsbank has to be more careful, I admit. But if that is the case, it must keep its hands off from such transactions as it would be compelled to undertake if it were to take interest-bearing deposits and be obliged to use the money thus deposited.

It may be argued, however, that the Reichsbank is obliged to take some risks in connection with the discount business. True, but that is something very different, gentlemen. In the first place, it has the security afforded by several firms, and secondly, in the case of short-term bills it is much easier to guard against risks.

I should like now to discuss briefly the question of the publication of statements. I shall endeavor to show, when it comes to expressing my views further on, that the proposal of Herr Roland-Lücke is well worth considering; but I think we ought to be careful not to conclude from the form of statement recommended by Herr Roland-Lücke that there would be a real increase of knowledge

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of the condition of the institutions in question on the part of the general public. It has already been justly remarked, gentlemen, that the advertised statements are of no use whatever, because scarcely anyone but the stockholders pays any attention to these advertisements, and because—what is far more important still, and here I fully agree with those who have spoken—the general public has not the remotest idea how a balance sheet should be read [“Very true”], and how a balance sheet ought to be regarded in detail. Whether it mends matters for the banks to hang the statement in some corner near the window where the people throng to attend to their business is, I think, very doubtful.

Every person, it is said, that desires it is furnished with a copy. That may be; only I have the somewhat skeptical notion that when he has the copy in his hand, he does not know from which side he should commence reading. [Laughter.] I see no advantage in this arrangement. However, it may be worth while discussing it; some other way will be found.

As regards the bureau of supervision, gentlemen, I have already expressed my views, in the general discussion, to the effect that I do not expect anything from such a bureau. I agree entirely with the opinion of the gentlemen who have said that if this supervising bureau is established it will be absolutely unable to fulfill the task that will be imposed upon it of examining the banks and their operations. Herr Geheimrat Riesser is perfectly right. Whoever is engaged in practical concerns knows what examination means. I think I am not going too far, and I appeal to the gentlemen who are similarly

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situated, when I say: Whoever has any conception of the conditions in our private institutions and other concerns, banks, etc., notably such as are below the level of the great banks, but which nevertheless engage in great business operations and possess great funds, and whose examiners are chosen from the ranks of their members, and whoever knows that the *spiritus rector* in these examinations is a careful, able director, conscious of his duty, showing and telling the employees what should be examined, will—always assuming the gentlemen of the supervising bureau to possess the most intimate knowledge of the subject—be able to estimate what it signifies to undertake a real examination, going to the heart of the matter, and how much time must be devoted to it. If it was stated that such an examination of a single institution takes about six weeks, then just calculate upon your fingers how many supervising officials you need in order to undertake the examination of all the institutions.

I believe—and here I come to Herr Roland-Lücke's proposition—that he has no such supervising bureau in mind at all. My interpretation of his proposition is that he does not mean that the commission advocated by him shall exercise control over the separate institutions; that he has not in view the direct proposal of legislation by the commission, but that he wishes to try, by the aid of this advisory council, to lead business in this field into better, healthier channels.

Mr. ROLAND-LÜCKE. Exactly so.

Mr. SINGER. I am glad that I understood your proposition right. From this standpoint he should, indeed, be supported.

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Such an advisory council, gentlemen, is not really anything so extraordinary. We have—on that point the gentlemen connected with agriculture are probably better informed than I am—in the agricultural committee about the same kind of an institution. We have until lately—I do not know whether it is still in operation—had a colonial council.

VOICES. That is dissolved; it did not prove successful.

Mr. SINGER. Yes; but I know that it is seriously contemplated to introduce it anew. We have such an advisory council also—my colleagues of the Reichstag can confirm this—specially occasioned in the sphere of colonial affairs, in the acquisition of land in Africa; a commission was appointed there, likewise, which, as far as I know, is still in existence. In short, if we follow the matter more closely, you will find such advisory councils in other fields also. And what is our inquiry commission but that? Its only purpose after all is to give advice and suggestions, if we think fit, after studying the actual conditions, as to what should be improved and how it should be done.

And Herr Roland-Lücke will presumably not insist upon his proposition being categorically followed. I take it as meaning, since we can not, indeed, decide anything, that it is a suggestion emanating from the deliberations of the inquiry commission, which will be further elaborated in the proper quarter. But as it is, I can only say this, that if within the limits of present conditions a better measure as regards the general welfare can be devised, then the advice of persons who are practically engaged in such concerns will be of great value to the bank manage-

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ments also; and I may conclude from the readiness and affability with which the president of the Reichsbank, the head of our deliberations, has repeatedly acknowledged the value of these deliberations, that if in this field something like this is introduced, the activity of this new body will be welcomed by the president of the Reichsbank also, and the attempt be made to turn that activity into useful and expedient channels.

The other questions, gentlemen, that have been touched upon, particularly the contested point whether it is desirable to chastise millionaires [laughter], which Exzellenz Wagner, Herr Mommsen, and Herr Geheimrat Riesser entered into, I do not wish to discuss. I would only remark that if millionaires sprang from the air, so to speak, and did not exert any influence upon the other classes, then there would be no objection to the chastisement. But you must not forget one thing, gentlemen, that the millionaires and the multimillionaires, or, as in America, the billionaires, are, under present social conditions, made possible only by the cooperation of all. Gentlemen, I am the last person to underestimate the activity of the leaders of our industry; nor do I begrudge them their emoluments. But one thing I will say, that before the industrial combines and establishments distribute those great proceeds and dividends to their heads and shareholders, it should be their business to see to it that those people who—I will not say are the *only* workers, but whose toil and moil and the utilization of whose labor create the profits, should be shielded from economic care, from want and wretchedness. That can not be demanded of a single entrepreneur or a single establish-

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ment; therefore all must be bound by legislative measures. That is the salient point, and if social legislative enactments are passed which—even though they involve the diminution of the dividends of the joint-stock companies, the diminution of the personal incomes of their directors—shall safeguard, from the proceeds of these undertakings and individual concerns, the mass of laborers from want and misery, from the consequences of old age and sickness, from the consequences of want of employment and economic crises for which they are not to blame, then I regard that as only the fulfillment of a duty, and a national, a social problem toward whose solution I would gladly stretch out my hand, even at the risk of the income of those people whose number is infinitesimal when compared to those engaged in the various industries, being diminished. The gist of the matter lies there, it seems to me. Consequently I do not contend about the millionaires, but about the system that breeds millionaires at the expense of the working class and of the public welfare.

I would therefore conclude my remarks by repeating that I gladly declare myself in favor of the Roland-Lücke proposition. The details remain in reserve. I would gladly subscribe to the hope that the deliberations of the commission—even though I do not believe that they will exert a material influence in changing our economic conditions, especially in their social aspect—will, at any rate, have the effect of diminishing the economic evils which make themselves felt in our banking and credit systems.

Now allow me to add a few words which, from my point of view, have in the course of the debates appeared necessary to me. It has repeatedly been remarked that it is requisite to secure the best possible market and prices

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for imperial and state loans. I perfectly agree with this, and if through any regulations as to reserves imposed upon the banks, the market price of imperial and state loans could be raised, it might be made a condition that these reserves must be put into the form of imperial and state loans. But, gentlemen, the complaints as to the difficulty experienced by the Empire, the State, and the municipalities, too—as I know very well from my own experience of 25 years—as to the price at which they can place their loans, may perhaps be overcome by still another means. It should at least be considered whether the increase of share capital and the taking up of new obligations by corporations should not be made dependent upon government sanction. What I suggest is, of course, only an idea, in very crude shape, to which I should like to give expression, namely, whether it is not possible to meet the diminution of the market for our imperial, state, and municipal loans by restricting the uncontrolled, and in many cases perhaps also unnecessary, increase of private share capital. I would ask the president of the Reichsbank to consider this idea; I can not, of course, make any definite propositions at present in that direction.

Mr. SCHINCKEL. Gentlemen, just a few words. We shall not reach an agreement here upon social contradictions; I do not wish to enter further into that again. I only wish to say one thing in reply to Herr Singer's last remarks; I believe that the representatives of the laboring interests undervalue the part that the millionaires, as you always term them, take in the steadily improving conditions of the working classes.

But, gentlemen, even if we can not agree upon all questions, and, as a matter of course, entertain and will

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continue to entertain different opinions, I should not like errors to arise among us, and I would therefore revert to some observations made by Herr Cetto. Something that he said in a former speech, and which lately I could not recall, has again occurred to me. He said at that time: "Shall we, then, in Germany come to a point in agriculture that the English have reached? In other words, instead of cultivating our fields use them for pasture and abandon agriculture?" That is a serious error. In Germany intensive agriculture, even under the present economic development, or precisely on account of it, is yearly making great headway.

It is likewise an error if Herr Cetto thinks that the credit banks do not take a proper interest in the progress of agriculture; on the contrary, they are most vitally interested in it. Herr von Cetto says: "I do not see in my experience, indeed, that the credit banks do anything in the way of giving personal credit in the country districts; we are dependent upon the *Genossenschaften*." Yes, that is quite natural. There where the *Genossenschaften* are so excellently organized; there where the strong arm of the central *Genossenschaften*, of the *Preussenkasse*, for example, suffices, since, subsidized by the State, it is the opposite of a money-making association, pays only 1 per cent interest on the State's money and is in a position, therefore, to grant personal credit in the country through the *Genossenschaften* at extremely low rates to the smallest people—there, naturally, the credit banks can not compete. In my little State of Mecklenburg the matter is indeed different. We have there the great *Mecklenburgische Hypotheken- und Wechselbank* (The Mecklenburg Mortgage and

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Bill Bank); as you perceive from the name it is not merely a mortgage bank, but likewise a credit bank. I am surprised at the abundance of personal credit open to the small farmer in Mecklenburg without there being any Genossenschaften there. The Mecklenburg Hypotheken-und Wechselbank grants these farmers credit upon astonishingly flexible and low terms. In Mecklenburg the great landowners lack working capital far more than the small farmer; it is amazing and it is a great joy to us all to see how in the domain of agriculture, at least in our northern regions, the productive capacity increases from year to year; how great harvests, in exact opposition to the case of England, are steadily reaped; how the smallest peasant can at times procure and retain better machinery than the great landholder. Why is that? Because the peasant is provided with a quite sufficient—sometimes too great—personal credit with the merchant, who, on his part, has the benefit of credit with the credit bank; he gets almost too large a loan on the machines that he buys, almost too great an advance upon the harvest that he has not yet reaped. Thus I could not observe that even there where there are no Genossenschaften, but where there is a credit bank in the vicinity that is circumspect and well conducted, personal credit in the rural districts suffered from the credit bank's doing too little for agriculture or displaying too little interest in it. I should like to dispel the error that any opposition exists between credit banks and agriculture. Just the contrary is the case, and, Heaven be thanked, the productive capacity of agriculture in Germany—Herr Cetto is the one who knows that best—has increased enormously in the last decades.

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Another error that he has slipped into is his interpretation of the Monroe doctrine; I did not want to leave that unmentioned. It consists in the United States of America wishing to assert its supremacy over the South American States, and that for the cogent reason that they know very well that they can not produce everything in their own country, that they must import coffee and cocoa from that continent. That is why they lay their hands upon South America and tell everybody who wishes to fasten upon it: Hands off! That is the Monroe doctrine. We should take that lesson to heart. We, too, could make other countries serviceable to us, because we are the only country that can export potash and kainit. This exportation should not be antagonized. But we must feel no constraint in getting saltpeter from Chile in the interest of agriculture, and in this respect everything is being done that it should not fall into other hands. The two great companies in Germany that have their factories in Chile are, I believe, an excellent investment for German capital.

Our standpoint, therefore, is that the interests of consumption and agriculture must be most carefully considered. We are on that account in favor of developing our colonies and of cultivating in our own dominions what we need for our consumption.

Doctor RIESSER. I should like to make a few personal remarks.

I would beg to say in answer to Baron von Cetto's cordial words, that he misunderstood me on one point. It did not occur to me in the remotest to touch upon an incident to which you referred and which is of recent occurrence. I had before me, as I stated at the outset of my remarks, only the notes, kindly taken by one of my

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colleagues, of what Exzellenz Wagner had said during my absence, and in them it was stated that the effect of my proposition (that it is necessary for teachers of law and political science to be instructed in mercantile affairs) would be that we should be obliged to have a separate chair "for every economic attitude [*tendenz*], free trade, protection, etc." To that I replied: To create *tendenz* professorships was certainly not in my programme, and I would roundly protest against them, believing them to be incompatible with science. A reference to anything but these words of Herr Wagner was absolutely beyond my intention, and it did not then, nor does it now, seem to me an appropriate subject of consideration here.

And now a word in answer to the remarks of Herr Singer, regarding which I can soon come to an understanding with him. I beg him, in looking over the stenographic record of his speech, not to count me among those who take the Manchester standpoint; I have repeatedly declared that I do not do that.

I fully agree with him, on the contrary, that our existing social laws as well as any additional ones (such, I hope, however, as will have regard to the presumptions pointed out by me) that may be passed concerning the urgently necessary care for the workingmen can not subsist without compulsion. It did not, therefore, occur to me in the remotest to say that these things could be accomplished by mere persuasion. I only said in reply to Doctor Wagner, who has a holy horror of millionaires, that in itself I, for certain reasons, do not share that feeling, but that I consider it by all means requisite that our rich people, too, should be trained—and this I regard as absolutely essential, in as far as they may not have reached

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that point—to realize that they have not only rights but also duties.

The CHAIRMAN. Gentlemen, on our list of speakers there remains only Herr Raab. I should be pleased to have the gentlemen give him their attention. I should be glad to accede to the wish of the gentlemen that we shall conclude our deliberations to-morrow evening. [Assent.]

Freiherr VON CETTO-REICHERTSHAUSEN (rising to make a personal remark). I was very glad to hear the friendly words in which Herr Schinckel spoke of the relation of the great banks to agriculture. I did not, really, assert that the great banks occupied an inimical attitude to agriculture; I only said that the farmers are not in a position to avail themselves of the activity of the great banks, but that they have established for their needs institutions of their own which are better suited, and can be better suited, to their demands than the great banks are or can be. I would point to the single fact that in the year 1907, when the rate of discount at the Reichsbank was 7 per cent, the Bayerische Zentraldarlehnskasse [The Bavarian Central Loan-bank] was in a position to steadily give its patrons money at $4\frac{1}{2}$ per cent. That was simply because the margin of difference in the Bayerische Darlehnskasse could be kept lower than was the case in the other banks. In this sense, therefore, I uphold the assertion that the great body of the farmers—I emphasize this distinction; I eliminate the great landholders, who, having other capital-resources besides, are in a position to have dealings with the great banks—are absolutely not so circumstanced as to deal with the great banks, and thus it became evident that they had to establish institutions of their own.

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Now, as far as the Monroe doctrine is concerned, its origin is well known to me. But as a consequence of this doctrine, I only cited the fact, laying special stress upon it, that the Americans proceeded from the standpoint of claiming everything produced in America for themselves, as national property; and that is the right principle, which we, too, ought, I believe, to introduce on a grand scale.

That led me to raise objections against the principle of export industry such as set forth by Herr Geheimrat Riesser. I might multiply instances like the one I adduced regarding the produce of the plum trees. Take, for instance, the much antagonized policy of the duty on barley. There can assuredly be no doubt that we are very well able in Germany to raise the amount of barley that is required by our breweries at home.^a Through

^a According to the data of the "Allgemeine Brauer- und Hopfenzeitung, officielles Organ des deutschen Brauerbundes" (General Brewing and Hops Journal, official organ of the German Brewers' Union) the figures for 1908 were as follows:

	Beer production.	Taxed malt.	Barley.
	<i>Hectoliters.</i>	<i>Double cwt.</i>	<i>Double cwt.</i>
Brewing-tax district.....	44, 164, 573	7, 383, 898	9, 845, 197
Bavaria.....	18, 482, 847	3, 735, 000	4, 980, 000
Württemberg.....	3, 545, 360	745, 506	994, 008
Baden.....	3, 226, 167	660, 066	880, 088
Alsace.....	1, 270, 388	285, 678	380, 904
Total.....	70, 689, 335	12, 810, 148	17, 080, 197

For Bavaria the consumption of barley was reckoned from the amount of malt, 6,916,947 hectoliters, at about 54 kilogrammes per hectoliter.

According to the statistical yearbook for the German Empire there was harvested in the year 1907: Summer barley, 3,497,745 tons, or 34,977,450 double hundredweights; the average of the decade from 1899 to 1908 was 3,059,885 tons, or 30,598,850 double hundredweights. Consequently the demand for brewing barley for 1908 would have been more than twice covered by the home production of barley if the harvested barley had all been of a good quality. In reality, however, somewhat over 3,000,000 double hundredweights of barley were imported.

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the increased duty on barley its production has multiplied to a remarkable extent, particularly in Bavaria, and our large breweries in Munich now often find themselves in the mutually pleasant position of being able to supply their needs from barley raised at home. Our Bavarian barley-culture unions—and there are such in other places likewise—are prospering so well that we cherish the hope of being able to satisfy the demand for brewing barley—provided, of course, we have normal harvests—before very long from our home products and of driving foreign competition from the field. I just wish to mention this incidentally as an additional proof of the justice of my views.

As regards Herr Riesser's reply, I am glad to take cognizance of it, and am grateful to him for it. My assertion regarding him is, consequently, without foundation, and I am pleased to learn that he had no intention of using the occurrences in Leipzig as a special example.

Mr. RAAB. Gentlemen, I have listened attentively to the reasons for and against governmental measures, and it would be ungrateful in me not to acknowledge that I have received a good deal of instruction. I could not help feeling a certain inward regret that this instruction led me to realize that more than one of my wishes were impracticable. Still I am thankful to you in so far as you have reclaimed me by pertinent information from error and from wishes that can not be fulfilled.

Accordingly but little is left in the question sheet before us that I could answer in the affirmative. I think I likewise have had the experience that even a good law, while it does away with abuses, destroys at the same

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time, here and there, springs of action that are wholesome and instinct with life. This seems to me specially probable in the domain of the credit system, and that is what makes me doubtful in considering certain questions.

We are asked whether we would express ourselves in favor of confining the restriction of the right of receiving deposits to certain institutions. Here I should naturally desire that we may succeed at least in crippling, so far as possible, the little one-horse banks, the touters, etc. It is to be hoped that we shall arrive at some sort of positive solution in answering question 4.

We are asked whether we would express ourselves in favor of limiting the total amount of deposits received. I believe that it would be extremely difficult to practically observe such a restriction and that it would hit the *Genossenschaften*, in particular, unnecessarily and too hard. I would, therefore, not as yet answer that either in the affirmative.

We are questioned in regard to a separate administration and preferential rights for deposits and savings. I admit that a definite line of demarcation between deposits and credits is impossible. But neither can we grant preferential rights to all, for that would leave conditions as they are.

Now as to the requirement of a definite percentage of reserve as cover for deposits. To be sure every one is desirous that the cash holdings should be as abundant as possible. But here, too, legislative measures appear to me like a strangling element, something like a corset, which, though it may produce a fine figure, checks circulation.

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Then we are asked whether we should demand certain species of investments—it may be investment in bills. The same thing applies here; desirable, yes, but not always feasible.

The investment of a portion of the deposits in state loans is likewise a thing to be advocated by all means. A certain degree of compulsion, a friendly constraint, may, indeed, be exercised by the Reichsbank and others, but I should not, here either, assent as yet to legislative prescriptions.

As to the investment of the surplus, at least the legal surplus, in state securities, all doubts regarding that measure can not be dismissed. It has assuredly its advantages, but, in my opinion, also serious disadvantages.

We are questioned about "any further propositions." I know myself too well to wish to make any seriously, although this or that thing may appear desirable to me. I am a great stickler for propriety, and I ask myself whether in the case of bank directors, too, the question of certification of fitness and the like might not be raised. However, I do not wish to have that point seriously discussed here at present, but I believe that something might be done in that direction in the future.

The subject treated in No. 2, the publication of the balance sheet, is to be separately discussed to-morrow; I would pass over it to-day.

Under 3a it is asked whether the laying by of a portion of the banks' deposits in the Reichsbank would be advisable. I can not see any material advantage in it; it would limit to an appreciable degree, in the first place, the efficiency of the smaller banks, of the Genossenschaften, etc. And

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I am ignorant on this point; did I possibly not pay close enough attention, or has the question not been brought up at all?—What, in fact, is to be done when a bank manager reaches this conviction: “Now, I must resort to what I laid by in pursuance of a law or a regulation?” Shall the return of this reserved sum take place simultaneously with the winding up of the concern or the announcement of bankruptcy? I do not know. A regulation which says: “Lay by a reserve, and in case of necessity, take it,” must be accompanied by a condition [“Very true”] as to what shall be done if one is compelled to make use of this obligatory reserve.

The establishment of state deposit institutions would only serve to give a number of officials an all too easy berth, and that I would not readily advocate.

The acceptance of interest-bearing deposits by the Reichsbank seems to me to be decidedly questionable, and, as far as I know, we need no law for that; the Reichsbank is free to do as it pleases about it. But so long as the Reichsbank itself does not desire it, in spite of its scarcity of gold—a certain stock of these outside moneys would, according to our experience, remain, in any case, permanently in the Reichsbank—so long then, as it has no interest itself in attracting interest-bearing deposits and undertaking the labor of lending out moneys that would be connected with it, we should really not make a point of compelling the Reichsbank to such action.

We are further questioned in regard to the organization of a bureau of supervision. This name must by all means be avoided, for I have become convinced that we must not have an authoritative body which may create

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the impression of being in any way charged with responsibility. It might even be that this official supervision by persons who might be the last that should be entrusted with such a task would be used as an advertisement, as we have observed here and there in other allied spheres. But that for which Herr Schinckel, and especially, to be more exact, Herr Roland-Lücke, have expressed a desire, appears to me practicable and it is entirely fitting that it should be given a trial; not so much a control, a supervision, as the instruction of the bank managers. You might, indeed, infer from my previous remarks to the effect that it might be well to require proof of efficiency—this may sound somewhat presumptuous on my part—that I feel convinced that not every bank manager sufficiently understands the great economic points of view which should be contributing factors in his judgments. Many a bank manager may be a superior and practical business man within the limits of his own branch of business, but may not know enough about economic relations, about national obligations, about the necessity of all the various factors fitting into each other. I have in mind the association examiners with whom I became acquainted in the *Genossenschaften*. We benefited in many ways by these examiners. Can it be said of the association examiner that he exercises actual supervision? We never really had that feeling. It is assumed, to begin with, that technically, and as a matter of bookkeeping, everything is, in general, all right. But even here he gives valuable advice as to simplifying the management and diminishing its cost. If, then, in the future, a bank examiner will call together the super-

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visory council and the management of a bank and, after examining the entire condition of affairs, give them a practical and, better yet, a theoretical lesson, it might prove very serviceable. That in the case of many a banker such instruction may not be superfluous, in view of the intricate problems that enter into the conduct of the banking business may, I should think, be assumed. I believe, indeed, that the heads of the greatest banks are sufficiently trained in banking principles and economics. We have 53 great banks—banks with a capital of over 10,000,000 marks—that manage most of the deposit moneys; these amount in round numbers to 6,800 million marks. But the 239 remaining banks also manage deposit moneys amounting to about 1,600 millions. That is a sum, after all, regarding whose management something might be done, and among the managers of these banks there may be many who would be very grateful for any instruction. It would, of course, be very desirable here that the person commissioned by an official advisory council should consider himself rather as an instructor than as an official searching for petty defects.

There is, in my opinion also, but little of the question sheet left to be considered. My hopes are limited to-day simply to a favorable solution of the questions under No. 2 and No. 4, and, beyond that, to the carrying out of Herr Roland-Lücke's propositions.

Even though it has grown late, gentlemen, I should like to settle a little domestic dispute with my esteemed compatriot, Herr Schinckel. He discussed my attitude toward export trade and said "there may even be people who are afraid to trust themselves on the ocean." Now,

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I do not take that to myself. I know Herr Schinckel is not cruel enough to affront a Hamburg man by considering him afraid of the water.

Mr. SCHINCKEL. Figuratively!

Mr. RAAB. I am not afraid of the water economically either. But I come back to the same point—export trade remains an uncertain thing. The whole world contends for the world market, rivalry is the natural result, wars are made possible, a vigorous mobilization, a powerful navy becomes necessary in order, as far as possible to prevent war. Herr Schinckel remarked also that precisely I, as a Hamburg man, should comprehend the significance of export trade. I do comprehend it well, but the profits of export trade are, I believe, nowhere considerable to-day. I have been told by Hamburg exporters that they would at times be glad to come out with a net gain of 1 per cent in their foreign transactions—commerce therefore can not gain much—and this 1 per cent may through unfavorable discount conditions at home sink to zero or below zero. And we have, indeed, been having a high discount rate almost continuously in the last years. Heavy losses, too, threaten the trade with foreign countries, not to speak of fluctuations in exchanges and monetary standards as far as the silver countries are concerned. We must, however, not decide this question according to Hamburg points of view alone. To be sure, it would be to our interest as Hamburgers if nothing were produced in Germany—[Oh!]
—yes, from a theoretical point of view if in Germany nothing were produced and nothing consumed that did not pass through the Hamburg quays. [Laughter.] We Hamburgers

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would surely reap benefits from it for a while. But it would be a very shortsighted policy; for the moment that the back country that we served began to decline, we Hamburgers would decline too. Such an isolation—where we figured in a way as part of a foreign country—we actually experienced in pursuance of the wishes of our great merchants in Hamburg after 1879, inasmuch as Hamburg remained outside of the interior customs area. We were not able to maintain the thing long; the conclusion was soon forced upon us that the interior was, after all, worth a good deal; we had underestimated it. Free intercourse with foreign countries is, to be sure, a valuable thing; but the small free-port district suffices for that. We experimented for nine years, and then Hamburg conformed to the conditions prevailing in the rest of Germany. Our vacillation proved disadvantageous enough already at that time. In those nine years Hamburg forfeited a great deal in the way of its former business dealings with the interior. We lost almost completely the provinces of Schleswig-Holstein, Hanover, Mecklenburg, etc., for a certain portion of our trade, and it has not yet been restored to us, partly in consequence of the shortsightedness of our commercial circles. I think I remember from the newspaper controversy of that time that Herr Schinckel took a very different position on this matter at a very early date. We are pleased to have an export trade as long as we can have it. It doubtless invests us with consideration, a position as a world power, etc. We should consequently exploit it as long as we can have it by all the means that seem at all practicable, but we should always keep clearly in

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mind that the whole thing is, after all, somewhat uncertain, and that we must not sacrifice the other and permanent interests of our country to the demands of export trade.

Gentlemen, if I may still make a brief reply to Herr Geheimrat Riesser's remarks, I should like to say something in advocacy of Professor Wagner's point of view. I am a disciple of Professor Wagner—though he has no idea of it; it is only here that I have come into personal contact with him—and I may say that his illuminating activity has had a decisive influence upon my political course also.

Naturally, I do not wish to defend Professor Wagner; he would probably deprecate my doing so, because he would not think me sufficiently equipped. But I shall venture anyway to make a few objections.

Herr Geheimrat Riesser observed that Professor Wagner's train of thought is really of a socialistic character, and, as a proof of it, he stated that Professor Wagner had taken the position that a profit of more than 5 per cent is inadmissible, can no longer be defended. I have not heard that Professor Wagner characterized a profit of 5 per cent as too high, in general; he had reference to a pure property revenue—an income from capital, obtained without personal exertion—and there I, of course, agree with him. Professor Wagner would not object, no judicious man could have any objection, if a person would draw a far greater revenue from his capital—perhaps small in amount—provided he added his own personal effort.

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Mr. RIESSER. He had reference to the joint-stock companies.

Mr. RAAB. Very true. He referred, then, to the dividends, and they are, so far as the shareholders are concerned, pure property income obtained without personal exertion. Those who perform any work, the management, the supervisory council, etc., receive additional compensation. They are not disposed of by the 5 or 6 or 10 per cent. The defect at which Professor Wagner aimed, therefore, was the large incomes obtained without work, and in this I decidedly agree with him. Even with 5 per cent we are departing very far from the old Christian-German view, which forbade the taking of interest altogether. If to-day we regard a rate of 5 per cent as admissible, we are making a great concession.

I consider the fear expressed by Herr Geheimrat Riesser, gentlemen, that Herr Wagner's mode of treating problems will produce Social Democrats as likewise unfounded. I may assert that it is Professor Wagner who has converted former Social Democrats to a view of life that is the direct opposite of Social Democracy.

The CHAIRMAN. I shall now close the session for to-day, and ask permission to continue the proceedings to-morrow promptly at 10 o'clock.

(Close of session, 6.38 p. m.)

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SATURDAY, *November 27, 1909—10.15 a. m.*

Chairman, President of the Reichsbank direktorium, Wirklicher Geheimer Rat HAVENSTEIN. Gentlemen, we shall now continue the proceedings. I will call upon Herr Kommerzienrat Fischer first.

Mr. FISCHER. Gentlemen, I have the special pleasure and advantage to-day of being able to express myself very briefly, inasmuch as I can fully subscribe to what Herr Roland-Lücke stated, elucidated, and proposed the day before yesterday. I am gratified that these suggestions came from that quarter and in that form, and I can not refrain from addressing the wish to the President of the Reichsbank that he should not shun the difficult task which Herr Roland-Lücke has assigned to him, of cooperating in the onerous duty of seeing to it that not the management of our great banks alone, but likewise that of the smaller banking concerns, should become increasingly conscious of the obligations and problems, as related to the common economic interests, with which they have to deal, and incidentally I am of course very grateful to Herr Roland-Lücke that he raised the question of paying interest on postal checks.

This has nothing to do with any injury to the savings institutions, nor with savings at all, for that matter, but rather with a species of deposits, and, in reality, not even that, only fluid capital which shall receive a daily interest, at an exceedingly low rate; for any interest

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rate above 2 per cent—for the sake of simplicity of calculation, perhaps 1.825 per cent might be used—is out of the question. But even such a low interest has in Switzerland promoted to a remarkable degree the introduction and the popularity of the postal check; and it would, in my judgment, be unpardonable in us did we not also introduce a small payment of interest—with all possible onerous conditions, if you please—on amounts left some length of time in postal-check form. That is a thing that would not hurt anybody, neither the great banks nor the *Genossenschaften*; and if we have heard that in critical times great sums were withdrawn from the savings banks for the sake of a difference of one-half per cent, a total interest rate of from one and a half to two per cent will assuredly not induce anybody to take out a sum of money from the savings banks. It will, however, make it easier, and indeed possible, for provincials to find an opportunity of investing their fluid money temporarily in a business, the state and imperial postal business, that they consider absolutely safe, and the security and fluidity of that money would thus be absolutely guaranteed.

And with this I have come to the close of my remarks. There is one thing that I would still revert to; the observations of a number of the members showed how desirable it is that our imperial loans, as well as the loans of the individual States, should enjoy far greater favor, and be taken up somewhat more largely by the banks and the great industrial concerns. Would it not be possible to revive the old practice of the *Reichsbank*, of accepting a lower rate of interest on pledges of imperial papers, etc.—i. e. on government papers only—exacting only $\frac{1}{2}$ per

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cent beyond the bank's discount rate? I feel convinced that this would have a beneficial effect in the way of causing the greater business concerns to buy and lay up again larger quantities of imperial and state securities. I know that my voice does not carry far in this hall. I hasten to conclude, therefore, like the rest of the Commission; but I can not refrain, before closing, from expressing my hearty thanks for all the highly interesting matter I have heard here. I have not been able, indeed, to contribute much myself, but I may complacently say, that the bank inquiry of 1908-9 has really effected much that is useful, and, what is far more, it has prevented much that is evil and dangerous.

Doctor SCHMIDT. The chief thing that has been brought out in our discussions here concerning the deposit question is a certain anxiety and apprehension aroused by the concentration of enormous resources in the hands of the banks, especially of the great banks; that is why the question of the security and fluidity of the deposits and savings which find their way to the savings banks and the Genossenschaften has occupied but a small space in the discussions. We said that back of the savings banks there is the responsibility of the community; that their safety, consequently, is unqualified, and as to fluidity, the community and the boards of inspection have to see to that. In the case of the Genossenschaften, security and fluidity are likewise provided for, partly through unlimited guarantee, partly through the control exercised by the central organs. The great anxiety, however, that is felt as regards the banks, has found frequent expression here, and various reproaches have been

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brought up against the banks and their vast money power. The main question, after all, that touches the public interest is this: Are the great sums intrusted to the banks so managed as not to create a danger to the common welfare?

The banks have been accused of granting too much credit to industry and supplying it with too great resources; and from this standpoint industry, too, has been subjected to various accusations, for instance that of engaging in export trade to an immoderate extent. I agree entirely with Herr Cetto that it is desirable for us not only to increase our exports but, by fostering our home productions, to decrease our imports. I should be greatly rejoiced, for example, if we should succeed in raising brewing barley at home, if we should succeed in placing our husbandry in a position to multiply the production of fruit and eggs to a considerably greater extent, and by that means become independent of foreign countries in those fields. We hope, too, that agriculture will draw more and more upon home products for its needs; that the preference for English and American agricultural machines will yield to the better judgment that just as good machinery is produced at home; that agriculture will emancipate itself as far as possible from the Chilean saltpeter lauded by Herr Schinckel yesterday, and will obtain steadily increasing quantities of nitrogen, so necessary to agriculture, at home, whether in the form of ammonia sulphate or of nitrogen extracted from the air.

My neighbor on the left (Mr. Singer) has also cast some reproaches at industry, consequent particularly upon a view expressed by Herr Geheimrat Riesser that legislation

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should not interpose everywhere, that the idea that rights involve duties should be left rather to sentiments, habits, education, and that, consequently, a certain degree of moderation should be observed in social legislation and the duties of social care be intrusted to the industries concerned. Herr Singer held, on the contrary, that no such result could be looked for; that it would be a futile waiting, and that without the interposition of legislation we should never have had any provision made for the workingmen. That is, indeed, a mistake. Journeymen's associations existed long before there was any question of social legislation. Before any such laws were introduced we had in the various trades sick funds, widows' funds, burial funds, etc., on a large scale, and, as a matter of fact, social legislation only followed in the wake of what, at least in the case of many trades, was already in existence; and even now there are a great many arrangements in the large industrial concerns that involve the expenditure of immense sums for social purposes and far transcend the limits of present legislation.

Herr Singer figured—and here I would correct an error of fact—the expenditures incident to social legislation in the shape of cooperative trade associations, journeymen's funds, sick funds, or, in a word, the arrangements that rest on a legal basis, as amounting to 10 pfennigs per day per head; and he remarked that if a burden like this, of 10 pfennigs, was too great for a given industry, such an industry might as well go to the wall, for it would, in fact, not be worth keeping up. I have a few business reports at hand which show the uses to which the legal and voluntary expenditures are put, in all their broad significance. It appears from them, for example, that in the Hoesch steel

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works, with a force of 8,900 men, the legal expenditures amount to 909,000 marks. This is 102 marks annually per man; 34 pfennigs per man, therefore, per day. Over 300,000 marks were, besides this, expended for pensions, widows' relief, etc., so that the total expenses, including taxes, in the Hoesch steel works amount to 11 per cent of the capital, while the dividends—it is well known that they are unusually high in these works—amount to 14 per cent. The shareholders, therefore, receive 14 per cent, while 11 per cent is expended in workmen's relief, taxes, etc. And we must take into account that the shareholders must pay taxes, besides, that range as high as 15 to 20 per cent of the dividends they receive.

The expenses of the Concordia Mining Company, with a body of 5,989 men, amount to 711,000 marks; 40 pfennigs, therefore, per man per day. The past year 10 per cent of the share capital was paid out by this company in legal expenditures and taxes. I would remark that this company is a very good example of how little remains of a 10 per cent dividend. His Excellency, Herr Wagner, to be sure, held that 5 per cent is sufficient for the shareholders.

Doctor WAGNER. Six per cent. [Laughter and cry: "The decline is making itself felt!"]

Doctor SCHMIDT. The company issued new shares at a market price of 250. It is to be presumed that a dividend of only 5 per cent will be paid for the current year; therefore, only 5 per cent for the new shares at 250 also, making only 2 per cent for the capital paid in. The taxes and burdens will remain the same; and, accordingly, for the current year, which closes on the 31st of December, matters in this company will stand so that, reckoned upon

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upon the share-capital, the taxes and the expenditures upon the laborers will amount to 11 per cent and the profit of the shareholders to 2 per cent. Such a proportion can, I believe, not be regarded as normal or desirable.

In the Gelsenkirchen Company, with a force of 30,000 laborers, the expenditures amounted to about 4,000,000 marks. That makes 130 marks a year for each laborer; 40 pfennigs, therefore, per day. The example of this company affords a good illustration for the warning that Count Kanitz expressed here that the further development of social legislation should be proceeded with deliberately and not too impetuously. It may be known to you that this company, with an outlay of a great amount of capital, forty to fifty million marks, is constructing new steel works; not, however, in Germany, but abroad, in Luxemburg. If the great burdens imposed in Germany, through taxation and the expenditure for the legal provision of 130 marks a year for each laborer, if this was not the sole cause of the removal of a great industry, with a capital of 50,000,000 marks, to a foreign country—though, to be sure, a country within our customs zone—it was, at any rate, a contributing factor. This gives occasion for thought and makes Count Kanitz's warning appear not unjustifiable.

Other criticisms directed against the great banks in regard to their support of industry I touched upon in my first address. Existing industries certainly do not welcome this proceeding of the banks, which creates new competition for them, but it must nevertheless be admitted that the banks in collecting quantities of small capital and placing them where they are utilized, render

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an immense service to our economic system as a whole, and that the development of German industry may be ascribed in part to this function performed by the banks. ["Very true."]

Another great merit of the German banks which can not fail to be recognized is that by this massing of capital in a few hands, amply provided with the necessary resources, they have brought about the result of making some establishments preeminent, and thereby investing them with great consideration, not only at home, but abroad; and these powerful establishments have raised German credit abroad in a most remarkable measure. They have built railroads and constructed other works in Africa, Asia, and South America, and have thus furnished home concerns with orders and exerted a fructifying influence upon German industry.

Still another great merit of the banks is that they have made our foreign trade independent of foreign countries. ["Very true."] The German merchant occupied a prominent place abroad in former years also; it appeared—I know this from an experience of more than twenty-five years in Turkey and in Egypt—from the official inquiry into railway management, etc., that the German merchants were always the principal importers and exporters, but that what they imported and exported principally came from and went to England, the general metropolis of trade. The sterling bill of exchange was the only one recognized as a general international medium of payment. Then three of the great German banks founded establishments in London, and from there through branch institutions they spread feelers into America, Asia, Africa, and they suc-

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ceeded in putting the mark bill on a level or par with the sterling bill, and to-day the matter stands so that our foreign trade has completely emancipated itself from its tributary position toward the English banks; it is independent of the sterling bill of exchange, and I regard that as an enormous economic gain, which our German economic system owes to the German great banks.

After making these general remarks I would now turn to the details of the question sheet; and here I must, in the first place, do as other gentlemen have already done, declare myself emphatically against the enactment of normative regulations concerning the management of deposits and savings by the banks. The savings banks and the Kreditgenossenschaften are, indeed, provided with such regulations, promulgated by the appointed authorities. In the case of the banks, however, deposits and savings can not be at all sharply distinguished, by any fixed forms laid down by rule, from account-current credits and other outside moneys. I have heretofore called attention to the point that, in my judgment, the account-current credits are, from an economic standpoint and from the standpoint of the general interest, very considerably more significant, important, and dangerous than the so-called deposits, where a shorter or longer notice is given, and which originated exclusively in our own country. It is precisely the account-current credits, which represent demand obligations, and particularly the certainly considerable account-current credits based on moneys coming from abroad, that may be the source of great embarrassment in critical times. I call your attention, gentlemen, to the fact that in the year 1907, the

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time of the great crisis and money stringency, the embarrassment was essentially caused—at least so it was always claimed—by the withdrawal of foreign credits, and that is a danger that must constantly be kept in sight in case of an economic crisis, and still more in case of a political one, because then political considerations may enter in.

I consider the introduction of legislative regulations, therefore, regarding the acceptance, management, and investment of deposits and savings as entirely unnecessary; it appears to me neither feasible nor advisable; I regard it, on the contrary, as decidedly dangerous.

As to the second question—what should the regulations contain?—I would only say that the restriction to certain institutions seems to me out of the question, for I recognize the chief danger to the public to lie not in the acceptance of deposits by the banks, but by the wild-cat bankers and private business men. There are in every city retail merchants, horse dealers, pawnbrokers, etc., who, in addition to their ordinary business, engage incidentally in financial transactions and seek to procure money from the public, which, again, they lend out at a high rate of interest. Such transactions can not be prohibited. If in these dealings money is frequently lost, there is, unfortunately, no remedy but to exert an influence through instruction.

There follows the question as to limiting the total amount of the moneys to be accepted. As regards this measure, I would only express my agreement with what those gentlemen who have spoken adversely concerning it have said.

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As far as the detached management of the banks is concerned, it appears to me impossible, here likewise, to lay down any fixed rules. Conditions differ in every bank, and we feel confident that the director of the bank is familiar with the special conditions obtaining in his and takes the measures necessary to secure the safety of the moneys intrusted to him.

The question, too, of establishing a preference for deposit and savings creditors I would answer adversely.

The question of fixing a quota of cash cover in the case of the great banks not in proportion, of course, to deposits and savings alone, but in proportion to outside moneys in general, has been abundantly discussed and answered emphatically in the negative on the ground that the cash taken from the banks and placed in the Reichsbank is, economically speaking, lost; it is locked up and can do no work, just like the 120,000,000 marks in the Juliusturm. That is true; it is, however, so small a part of the total capital that it plays absolutely no part. On the other hand, it is a fact that has often been acknowledged that our entire German economic system, not excluding the German banks, operates with too little actual cash. We are making a successful effort to diminish the use of cash, to economize it through the check and transfer systems. But we need greater quantities of cash, and our banks have too small a basis of it. If you look at the balance-sheet statistics in the document that has been handed us, two things will strike you. In the first place, the immense cash cover of outside moneys in the hands of the English banks, an average of 15 per cent as against an average of 4 per cent for the nine German great banks; and, secondly, that on

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December 31 the cash cover in the German banks was much greater than on the succeeding quarter days. Now, the 31st of December is a time of great strain, and if it was possible at that date to have a cash reserve of 8 per cent against the outside moneys—the obligations of the banks—and afterwards this reserve went down to 4 per cent, this is proof that 4 per cent of cash cover is not sufficient for that date, and that, in spite of any economic disadvantages, it would be desirable for the ready money of the banks to be increased, so that the cash cover for outside moneys should be 6 per cent instead of about 4 per cent.

Furthermore, gentlemen, one proceeding might appear worthy of consideration that will doubtless find many opponents in this circle and may perhaps also seem somewhat peculiar. The Juliusturm has been repeatedly characterized as a wrong arrangement, by which 120,000,000 marks in gold are tied up and withdrawn from business as an insurance against risk in the event of war. It has been remarked that the banks with all their liquidity always have to turn to the Reichsbank as *ultima ratio* in case of a crisis, so that the Reichsbank is a reservoir which we must strengthen in order to maintain the liquidity not only of the Reichsbank but also of the great banks and other financial institutions. But the liquidity of the Reichsbank is based exclusively upon its stock of gold. More gold in the Reichsbank! That is the *ceterum censeo*, and every effort must be directed towards strengthening the gold holdings of the Reichsbank. ["Quite right."] We are, indeed, agreed that no legislative measures should be resorted to, but we wish that the Reichsbank, by a gentle pressure, and above all

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by means of agreements, would seek to attain that which, undertaken by legislative means, is always most hazardous. The Reichsbank has already prescribed a certain cash reserve for the different banks through the requirement of a minimum for giro accounts. It could further recommend to the banks that they should aim to make their cash cover for outside moneys at least 2 per cent higher, and that this 2 per cent should not be given to the Reichsbank on the giro account but as a closed deposit. The Reichsbank would then have to see to it that this deposited amount be changed into gold as soon as circumstances permit; and thus the banks would have from 150,000,000 to 200,000,000 marks in gold, as a closed deposit, in sacks at the Reichsbank—a Juliusturm No. 2. This Juliusturm No. 2 would open automatically as soon as the strain upon credit attained certain proportions, indicated by the discount rate of the Reichsbank. When the Reichsbank discount rises to 5 per cent or more, this Juliusturm No. 2 opens without further ado, the Reichsbank pours out the deposits contained therein, takes the gold supply into its own till, and puts the respective amounts to the credit of the various banks that had made the deposits, in their giro accounts. Thus, just as the Juliusturm forms a war reserve in the event of mobilization, this Juliusturm No. 2 would form a crisis reserve.

The great crisis of 1907, gentlemen, was undoubtedly intensified by the withdrawal from the Reichsbank, for shipment abroad, of comparatively small amounts of gold—about 100,000,000, or at any rate less than 200,000,000 marks in gold was withdrawn from the Reichsbank in order to be sent abroad. Now, if at such a time of gold

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scarcity the Juliusturm No. 2 opens automatically and its contents swell the gold supply of the Reichsbank, it will undoubtedly have a reassuring effect. If the question be then asked: Where is the money for the crisis reserve to come from, I would refer to the statistics of flotations. We see recorded there a series of foreign loans that Germany bought and did not pay for with its industrial products but with its gold. Two hundred million marks less of such foreign loans, and in their place 200,000,000 marks in gold in the crisis reserve of Juliusturm No. 2!

As regards the investments of the banks in securities and other values considered as liquid, I would specially favor investment in state and imperial loans. I believe that in future the banks will of their own accord increase these investments, if in the regular balance sheets the imperial and state loans will, as Herr Roland-Lücke has proposed, be separately recorded. A rivalry will thereby arise among the bankers not to allow this class of investments to sink to too low a figure. The object will then be attained that in the event of a serious political crisis the banks will not be dependent upon the resources of the Reichsbank alone, but will have resources in their own hands also.

A thing that specially appealed to me was a suggestion made yesterday—it is, to be sure, somewhat beyond the scope of our inquiry—the suggestion that the surplus, or part of it, should be invested in state securities. That is a wish, gentlemen, that I have entertained for a long time; it is a question, however, that does not belong to the bank inquiry, but, in reality, to the law respecting

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joint-stock companies; for it is not the surpluses of the banks alone that are involved, but those of all the joint-stock companies. The legal surplus in the joint-stock companies, particularly in the industrial ones, is nothing but a fiction; the surplus exists only in the books, and consists of chimney stacks and machinery, while the law intended to create a genuine surplus reserve fund that could be resorted to in case of necessity. It would for that reason be the right thing, in case the joint-stock companies law is revised, to make a regulation, equally applicable to all joint-stock companies, that the whole, or it may be the half, of the legal surplus reserve fund of 10 per cent must be invested in imperial and state loans. One objection to this Herr Mommsen mentioned yesterday, it is true, and that is the loss in market value of these securities to which one would be exposed ["very true"], and I shall take the liberty of reverting to that later on. This is a point, however, that does not come into question here, but falls under the last head, "Other measures."

The publication of the balance sheets, gentlemen, I regard as most desirable, and the form should, in my judgment, be modeled upon Herr Roland-Lücke's suggestion. The supervising bureau I object to, however, and should wish the Reichsbank to take the place of the supervising bureau, perhaps with an advisory council, which might be composed of members of the Reichstag, members of the Stempelvereinigung, the committee of the Reichsbank, and men of science.

As for the acceptance of interest-bearing deposits by the the Reichsbank, I can not approve of it; I do not see that it promises to serve any useful purpose; but I do recog-

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nize that it is fraught with great danger. The deposits of the Reichsbank would either yield interest only after a rather long period of retention, and at a very low rate at that—then it would, of course, obtain but few deposits—or the deposits would bear interest soon after being placed in the bank, and then a great part of the moneys now in giro accounts might be converted into interest-bearing deposits, and the Reichsbank by its obligation to accept deposit moneys and to invest them would unquestionably be diverted from its real mission of regulating the monetary system.

As regards the establishment of government deposit institutions, however, I do not altogether agree with the view that has been hitherto expressed. The voices heard thus far have declared against the establishment of such government deposit institutions. I can not do that in such a sweeping way, for I believe that these government deposit institutions might prove useful in two directions. My neighbor on the right (Mr. Fischer) begged Herr Roland-Lücke not to use the term "postal savings bank;" he agreed with the idea, however, of introducing interest at a low rate upon postal check accounts. I, for my part, would raise my voice in favor of postal savings banks, and believe that the violent opposition of the representatives of the savings banks is without foundation. Postal savings banks would exert a beneficial influence even upon the savings banks, since all those moneys would be attracted and made useful that have hitherto been unable to find their way to the savings banks, but will be able to do so to the postal receiving stations. The postal savings banks would grant only a low rate of interest, a materially lower

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one than that paid by the communal savings banks; if the latter give $3\frac{1}{2}$ to 4 per cent, then the postal savings banks could by no means give over 3 per cent, and under these circumstances all competition would, I believe, be precluded and the introduction of postal savings banks offer advantages only.

I can conceive a sphere of activity for imperial and state deposit banks also, which, if confined to this sphere, would be of decided benefit to the public. Owing to our financial embarrassments, we have devised and introduced all possible types of government loans; we have 3, $3\frac{1}{2}$, and 4 per cent loans; we have a sliding-scale loan, the interest upon which drops automatically from 4 to $3\frac{3}{4}$ and $3\frac{1}{2}$ per cent; we have long-term five-year treasury bills and short-term treasury bills. The five-year treasury bills were issued in large quantities, although there is danger that when the time for redemption comes complications of some sort may make it very difficult to redeem them. One of the chief objections to the investment of money in state loans is the loss on the market—a thing that has actually occurred in these last years. Now, if a state debt account or an imperial deposit account were opened, by the terms of which deposits would be allowed a rate of interest somewhat below that of state loans—at present, therefore, about $3\frac{3}{4}$ per cent—with a mutual obligation to give about a year's notice, this would furnish a desirable method of obviating the disadvantages that pertain to investment in state securities to-day.

Herr Mommsen stated that insurance companies and the public savings banks—he spoke of this in connec-

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tion with the surplus reserve funds—could not possibly invest in government securities because a large part of the profit in interest, and also of the capital, might be forfeited by the loss in market values. That would not be the case in the arrangement of such a state deposit account as I have indicated, with the provision of a year's notice, and I believe these state deposit accounts would be widely used.

I should like to illustrate this by an example. In nearly all industrial undertakings there are savings banks for the officials and laborers. Thus, in the Krupp works, there is an arrangement for the savings of the workmen, who receive 5 per cent and a premium of 1 per cent, so that all the credits of the workmen bear interest at 6 per cent. These moneys are the small savings which are automatically deducted from the wages after the dropping of a card into a closed letter box. This arrangement has proved highly successful; there are, if I am not mistaken, after ten years of its existence, 13,000 workmen who participate in it; and the total of the savings deposits amounts to over 4,000,000 marks, which are intrusted to the city savings banks. The receiving station in the factory is only an agency, as it were, of the city savings bank, which, on its part, pays $3\frac{3}{4}$ per cent; the difference is made up from the funds of the factory. But there is another arrangement besides this in the Krupp works for savings deposits of officials and laborers, which, according to the last balance sheet, amount to 30,000,000 marks and bear interest at 5 per cent. These deposits are invested in consols, and with them the question of loss in market value is, of course, a very serious considera-

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tion, as is that of the difficulty, or even impossibility, of disposing of them in the event of political or grave economic complications. It would, therefore, be very desirable for all establishments supplied with such arrangements if there were a government bank of deposit where they could place deposits bearing $3\frac{1}{2}$ per cent interest, with the provision of a year's notice, but without any danger of loss on the principal.

I should, consequently, most heartily welcome the establishment of such a bank of deposit. Whether it is compatible with the financial interests of the Government to accept such short-term credits is another question, which can not be answered offhand in the affirmative. But that such an arrangement would be welcomed by the public, that I feel is quite beyond doubt.

The organization of a bureau of supervision for the banking system has been so abundantly and searchingly discussed that I can limit myself to expressing my assent to the suggestion that the Reichsbank should take the place of such a bureau of supervision, which would do more harm than good, and unite with the banks in framing measures that seem requisite in the public interest.

It is to the initiative of the Reichsbank and to its cooperation with the committee of the Bank and the Stempelvereinigung that we are, indeed, already indebted for the first step in this direction—the publication of the intermediate balance sheets—so that we may confidently expect that this step will be followed by others.

To the proposition of Herr Roland-Lücke to assign an advisory council to the Reichsbank—somewhat corresponding to the council attached to the government

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railway service—which, if the Reichsbank so desired, might consist of members of the Reichstag, of the Stempelvereinigung, the committee of the Bank, and men of science, I can but express my assent.

The question whether the operations of petty bankers, who entice the public to invest their deposits and savings, should be met by legislative measures has been answered in the negative. I likewise expect no good results from it.

I will sum up my remarks, gentlemen, in a few propositions which I submit to your judgment:

1. The Reichsbank shall induce all banks to submit and publish bimonthly bank statements drawn up in accordance with a prescribed form.

This obligation should be entered into by the banks on the basis of a friendly understanding with the Reichsbank.

The Reichsbank should publish a summary of such statements for banks having a capital of 10,000,000 marks or more.

2. The Reichsbank shall provide itself with an advisory council of about 20 members, comprising members of the Reichstag, of the Stempelvereinigung, and of the standing committee of the Reichsbank and also men of science, for the purpose of obtaining their judgment in regard to matters pertaining to the banking system.

I conceive the duties of this advisory council to be, like those of the railway advisory council, purely advisory.

3. The Reichsbank shall induce the banks to maintain greater cash reserves—

and here likewise this obligation should be based on a friendly agreement—

preferably by depositing an amount equal to from 1 to 2 per cent of their outside moneys as a closed money deposit, which shall be reckoned to

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the credit of the various depositing banks in their giro accounts when the Bank's discount rate shall reach or exceed 5 per cent.

4. The Reichsbank shall induce the banks to hold a certain amount of state loans, which are to be separately entered in the statements.

A VOICE: Shall that be a friendly agreement, too?

Doctor SCHMIDT. Yes, certainly; everything is to be based upon a friendly agreement; a slight pressure may, to be sure, be exerted if necessary. That this is possible is proved by the fact that it is owing to the gentle pressure of the Reichsbank that the bimonthly balance-sheets are appearing now. For that matter, all these things are in the interest of the banks themselves; the banks must, in case of necessity, fall back upon the Reichsbank, and it is, therefore, decidedly to their own interest to have the gold holdings of the Reichsbank strengthened. They can consequently very well make the slight sacrifice of handing over from 1 to 2 per cent of their outside moneys to be held without interest. You see how great the stock of cash maintained by the English banks is as compared with the German banks. If the English should look at the statement on the last page of our bank statistics their criticism of the condition of the German banks would not be very favorable.

I would furthermore recommend:

5. The establishment of postal savings banks that shall grant a low rate of interest, or a rate low enough for them not to compete with savings banks and Genossenschaften.

6. The establishment of state or imperial banks of deposit, with the mutual obligation of a year's notice; the rate of interest always to be lower than that obtained upon consols.

The additional suggestions that I would make, gentlemen, relate to the last point, No. 5, of the question sheet. In the main their purport would be to urgently advise the

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Reichsbank to withdraw the 10-mark pieces from circulation and shut them up, in order to make room for the small notes and silver. I regard the public circulation of 10-mark gold pieces to the amount of 10,000,000 marks as superfluous and injurious. It would, in my judgment, be an easy matter to increase the stock of gold in the Reichsbank in six weeks by 200,000,000 marks if banking concerns were most urgently bidden by the Reichsbank to call in all the 10-mark pieces and not to let them go out again.

I would further recommend, if the joint-stock companies law is to be changed, that it should be provided that the surpluses of the joint-stock companies should no longer be merely set down as a matter of bookkeeping, but that the whole or the half should be expressly invested in German state securities.

These are the suggestions that I would make on point 5.

Mr. ROLAND-LÜCKE. The gentleman who has just spoken pointed out that the banks, in part, state much larger holdings of cash at the end of December than at other times, and that they could consequently keep a stock on hand such as they regard as more or less necessary at other times also. To this, speaking from a practical standpoint, I would reply: This morning everyone of you gentlemen on leaving home looked around for his umbrella. [Laughter.]

If it had been clear and sunny no one, of course, would have thought about his umbrella.

Here you have the natural explanation. I, too, am, for that matter, ardently in favor of the Reichsbank having the greatest possible accumulation of gold in its vaults,

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and the other banks, too, in due degree; but I would most earnestly warn you against making too precise prescriptions or giving too precise indications as to the way in which this object is to be secured, for we should, in the first place, enter a boundless field, and, secondly, we should do far more harm than good. I wish to take up a few points.

The learned member who has just spoken discussed with me in a private interview a matter which I shall now speak about, and I took the liberty of calling his attention to the fact that every broker who has anything to do with the importation of gold is bent upon getting a very clear answer every morning to this question: Is there any spot on earth to-day from which it is possible to bring gold to Germany? If there is a possibility of doing so without having to make a sacrifice, then begins the race to draw this small or great stream of gold into the country. Now, the gentleman who preceded me always declares—and he said that in reply to me, too: Yes, you always say that when you wish to get gold you must pay for it with gold; that is, with foreign gold bills. There he is perfectly right; we must, in the first instance, pay with foreign gold bills; at best, therefore, if we push gold imports too eagerly, we despoil the portfolio of foreign bills in Germany or we deliver over credits upon other places—for example, London—and that brings the necessity of exporting gold nearer. If we export gold bills or gold credits, it is to be deplored, but the general public does not regard it in that way; while if a gold movement takes place it is evident to the public and often gives rise to exaggeration. That is why it is more convenient and

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better to give up foreign gold bills in settling foreign obligations. On the other hand, it is a pity—since we admit that the foreign gold bill is, in most cases, a desirable substitute for gold—to be compelled to reduce the stock of foreign gold bills in Germany.

Here the gentleman would interpose: That is not what I meant; I brought out this point distinctly—you bankers take over foreign loans; you must pay for them, practically, in gold; if, then, you did not take them over you could with that gold balance the gold that is imported. It is regrettable, gentlemen, that you do not sometimes visit the banks that handle foreign loans and get closer information on this point, How do matters actually stand as regards the taking over of foreign loans and paying for them? I believe you will find in a great many cases the following state of things. Assuming that a foreign government loan—let us stick to that—is accepted, the point as to what Germany will gain will, in most instances, play a great part in the respective negotiations. Even the severest critic among you would find in this part of the matter many cases which, to be sure, do not exhibit to the distant observer within a few months those economic benefits to Germany that Doctor Wagner has referred to, but whose beneficial outcome—visible, perhaps, only after a considerable time—he will acknowledge. Furthermore, in the proceedings there has been a very careful consideration of the question, How does the settlement of the payment to be made by Germany take place without impairing our stock of gold or making difficulties for our money market? I could prove to you—at this very moment a number of examples come into my head,

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and Herr Schinkel also is familiar with some of them—I could prove to you that, in cases where we have taken over large loans, the millions that seemed to be paid so imprudently by Germany to other countries have actually had the effect of causing more than twice the sum in question to stay right here in Germany for years and even until the present time, and I could prove to you that Germany received this double amount from foreign countries, and chiefly in the form of gold. Be assured that I do not advocate an excessive importation of foreign securities; on the contrary, I admit at once that in certain cases some flotations had better been omitted, and I think no one of us who is engaged or has ever been engaged in practical business will hold a different opinion on this point. I am to-day nothing but a private individual; I have no relations with any banks and no influence upon any banks. My judgments are therefore formed from an entirely independent standpoint; I have no interest in view but the interest of the community, in which interest I of course include the justifiable claims of the banks. I should imagine that Herr Geheimrat von Gamp himself would be a person eminently qualified to take up any dozen or so of flotations—he could select them for himself—and study from A to Izzard the question of why these issues were taken over and what effects, direct or indirect, immediate or postponed, they have actually had upon our whole economic condition. I think that he would most likely be convinced that a critic must be very careful about such things.

Now, the honored gentleman who preceded me placed before us definite measures (a) (b), (c), (d), as definite

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suggestions for us to make, or resolutions for us to adopt. Well, gentlemen, I should like to utter a warning on this point. I should not like the proposed banking commission to be provided at the outset with an iron suit of armor from which it can not emerge and can have no incentive to emerge; we should be setting up this commission upon a very weak foundation if we were to limit its initiative and responsibility, and fix the bounds of what it shall and what it shall not do. If you admit that we should not confine ourselves to efforts in the direction of intelligent self-government, but should set up a commission as a sort of trusty companion for the Reichsbank and the other authorities, then let us merely advise that such a commission be formed, and let us give only general suggestions as to how it should be composed. Its function should be, not only the giving of advice when its advice is sought, but also the making of suggestions to the Reichsbank and thus indirectly also to individual companies or individual branches of industry, as German economic conditions may require. I have laid great stress upon the necessity of frequent automatic changes in the membership of this commission, and the speech made yesterday by Freiherr von Cetto absolutely failed to convince me that these frequent changes are not advisable. Of course, a certain continuity must be maintained, but my plan allows for this, and I do think that every year three-quarters, or at least one-half, of the members should be automatically discharged, so that new blood may always come in without anyone feeling hurt. I should like, in closing, to warn you once more

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against such formulations as those proposed by the previous speaker.

Doctor SCHMIDT (rising to make a personal remark). In order to exclude the possibility of misunderstandings that might arise later, I wish to remark that I do not wish my proposals to be looked upon as proposals of the commission. Under Nos. 3 and 5, measures of various kinds are proposed, and I thought the members of the commission might bring forward in this connection whatever additional proposals they might desire to make.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, before I pass to the questions themselves which are concerning us just now, I feel called upon, in view of the eminence, not only among us, but in the country at large, of Exzellenz Wagner—I feel called upon to make first of all a brief reply to him.

I frankly acknowledge that I have been, and on the whole still am, an unqualified adherent of his scientific views in the domain of social policy. But the more I have had to do with practical affairs, the more I have felt it necessary to correct my views in some essential points, and I think that Exzellenz Wagner too, if he should ever be placed in a similar situation, would change his mind on many matters.

I should like to select a few points.

First as to the question of what dividends can be regarded as justifiable. If I am not mistaken, Exzellenz Wagner was inclined four days ago to draw the line at 5 per cent.

Doctor WAGNER. Only by way of example.

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Freiherr VON GAMP-MASSAUNEN. To-day he has sanctioned 6 per cent, and if he goes on like this, he will soon come to dividends that overstep even the limits that I think desirable. [Laughter.]

Doctor WAGNER. I meant to give only an approximate figure; my idea is that as a general thing it is sufficient if the interest on the shares is such that they stand, on the average, at par.

Freiherr VON GAMP-MASSAUNEN. But the market price of shares depends primarily upon the safety of the undertaking. If we take the case of a sound railroad, for example, or the Berlin street railway company, or any undertaking whose shares on the whole command a higher price than that of state securities, then if we take 5 or 6 per cent as being the normal rate of dividend, these shares will rise to 120, 130, or 140. To correspond to a par quotation for these shares the return on them would have to be only 4 per cent.

But if, on the other hand, we are considering risky over-sea undertakings, we shall, of course, regard a much higher interest as normal and justified.

And should not undertakings that are conducted by particularly efficient and intelligent persons be regarded as having a just claim to higher dividends?

I should also like to have Exzellenz Wagner consider that in every industrial undertaking, especially in the old, safe undertakings, the working capital is considerably larger than the share capital. I can tell you about an enterprise with which I have close relations that has a share capital of 36,000,000 marks and a working capital of 100,000,000 marks or more. The additional working

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capital consists of surplus earnings that were laid by perhaps ten or fifteen years ago; of dividends that the shareholders have renounced in order that the undertaking might be better equipped. In this way one comes later to dividends which are considerably higher than what Exzellenz Wagner regards as proper, while if he knew the circumstances he would have to admit that they are not so very much higher. It is a cardinal error to assume that the working capital of a joint-stock enterprise is identical with the share capital.

Exzellenz Wagner speaks also of the excessive expansion of industry. Here, too, I can only say that I am obviously in closer touch than he is with the circumstances, and I know how very carefully the ground is examined before a great enterprise decides to apply large amounts of capital to the extension of its plant. It is unfortunate that I had to be absent yesterday and the day before, but I do not regard this absence as altogether without benefit to myself, for in these days I have been obliged to take up in all its bearings the question of how necessary it is, in case of an excessive strain being made upon the capacity of one's plant, to consider whether one should or should not enlarge it to a considerable degree. You make a squeeze; you try to satisfy the constantly increasing demand from the consumers by lengthening the hours of work. Finally this won't do any longer, and the management is simply confronted with the necessity of enlarging its plant. As for its being a fine thing to expend millions, I should not often be willing to go so far as to say that; but the decisive thing in the matter is dire necessity. Our manufacturers would have to take a back seat

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if they were not in a position to satisfy the needs of the market.

Then, too, Exzellenz Wagner says that there is a lack of regulation of the amount of production. Now, many of the syndicates have found excellent ways of regulating it. I think the services of the syndicates in this matter have been greatly undervalued. I myself am of the opinion that, leaving aside certain excesses—and these happen in everything—the syndicates have had an excellent effect on the regulation of production and that they have taken up and carried through the task of propping up and maintaining the smaller enterprises.

And as for the great expansion of our industries, that is largely the result of competition with other countries. Our industries have developed gradually. Even to-day there are hundreds and thousands of small manufacturers whose equipment is not by any means up-to-date; they are trying to make both ends meet and to keep in the running by denying themselves any improvement in their standard of living. Finally, they become convinced that this will no longer do; they have to raise large means, and when they come to the bringing of their plant up-to-date, they generally become convinced that the best plan is to build up an entirely new plant and make full provision for the future, feeling that the expense of the transformation is not greatly increased thereby. Our state enterprises are often accused, and not unjustly, of building railroad stations, for example, in such a way that by the time they are completed they are again too small. This consideration weighs with every manufacturer when he is deciding whether he had not better make a little extra investment

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in his factory, and, as a rule, he comes to the conclusion that it is the best thing to do.

Now, I do not at all deny that the transformation of so many branches of industry into joint stock companies and the connection of these branches of industry with banks has occasionally led to excessive expansion, since it is often to the interest of the banks to raise large sums of money, etc. It also sometimes happens that personal factors, as Exzellenz Wagner has said, play a large rôle in the management of the joint stock company (which does not always keep on having the same manager). Especially operative is the inclination to outdo others. The Dresdner Bank was a very small bank when it was first established, and when the Deutsche Bank increased its capital and the Dresdner Bank followed suit, it was easy to see that personal motives entered in. But to lay down the law to industry as to what investments it shall or shall not make—that would be quite impossible. Nor, indeed, did Exzellenz Wagner mean that this should be done; he merely wished to describe in a general way the state of affairs. But from these premises he draws what seems to me the wrong conclusion—that our legislation is of a plutocratic character.

DOCTOR WAGNER. No; our economic development, not our legislation.

FREIHERR VON GAMP-MASSAUNEN. Very well, then; our economic development. I am glad that Exzellenz Wagner does not describe our legislation as plutocratic. But what of the accusation that our economic development is plutocratic? We still have such a small number of millionaires in Germany that it would be a very good

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thing, indeed, for our economic condition if the number were doubled or tripled. Here I do not share the view of Exzellenz Wagner; on the contrary, I agree with Prince Bismarck, who said, "We always need rich people to defray the expenses of our production." But I should really like to ask Exzellenz Wagner to explain what the millionaires have to do with the social question and the question of wages. Do you really think that if wages were doubled this very day, everyone would be better off? It is only by an increase in the grain harvest and in the other means of subsistence that the people can be better nourished. If our people are being better nourished to-day than they ever were before in spite of the fact that the hours of work have been shortened, that is because agriculture has rendered the eminent service of supplying the nation with larger quantities of food supplies for the same expenditure of labor.

But one somehow got the impression from what Exzellenz Wagner said that he meant to accuse our legislation itself of being plutocratic. He made special reference to our tax legislation. Now, I am convinced that Exzellenz Wagner has a hundred times as much influence on our legislation as Krupp and other very rich people ["very true"], though I do not, to be sure, regard this as being always a good thing. ["Very true."] I think that men like Krupp, and all the rest of them, who give employment to thousands of people, might be allowed to have a much greater influence upon our legislation, and I do not think this would have any objectionable effect upon our economic life. ["Very true."]

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But to go on with the question of social policy. I have made in the past practical proposals in several directions, and when I glance over the development of our social legislation I find that the things I recommended in 1880 have mostly gone into effect. But of this there can be no doubt—we have come to have a mania for social reform at any price, and I wish Exzellenz Wagner would remember that the burdens of social reform fall not only upon the millionaires, but also upon the little employers, who have to go through great privation in order to raise the funds necessary for insuring their workmen.

And Exzellenz Wagner must not forget the competition with foreign countries. Many branches of our industry have to come into competition with other countries; and the industries of other countries, especially of America, are obliged, just as ours are, to send a large part of what they produce into foreign lands at minimal prices. Our industries will be ruined if we put heavier burdens upon our production than other countries put upon theirs. This is why I have always told the Social Democrats—and I should like to give the same advice to Herr Singer to-day—that they had better see to it that the same reform legislation is introduced into America, France, England, Belgium, etc.—then we shall have less trouble in coming to an agreement on these questions.

- Mr. SINGER. Our people in other countries are trying to do that very thing.

Freiherr VON GAMP MASSAUNEN. Well, we shall probably have to wait a little while yet, for there is a good deal of difference between trying to do a thing and doing it.

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Only yesterday I heard another outcry about the bureaucratic legislation which requires an industrial concern that introduces the nine-hour day to maintain accurately the intermissions for lunch, dinner, etc. It is this sort of thing that stands in the way of cheerful co-operation on the part of our industrial interests.

But Exzellenz Wagner himself could have told us, since he certainly knows, what enormous amounts are spent by the employers as voluntary contributions for the welfare of their workmen. ["Very true."] Every year the statistics are made public in the Central Union, and it is shown that more than a hundred million marks have been spent in voluntary contributions. But these figures do not come near to representing the amount of voluntary activity carried on by the industrial concerns for the benefit of the workmen. I once mentioned a few examples in the Reichstag; I referred to the Königs und Laura-Hütte; I referred to Krupp, and I believe it was only the modesty of Doctor Schmidt that kept him from giving you these figures. I should award the first prize to the firm of Krupp, but I wish to add at once that, though Krupp has broken all records in this field, still a great many other firms have striven to make progress in the same direction so far as their means permit. A year or two ago—I do not know what year it was that I spoke of the matter in the Reichstag—the firm of Krupp paid 14,000,000 marks in dividends, and in the same year it spent 12,000,000 in taxes, in compulsory insurance contributions, and above all in voluntary contributions for improving the lot of the workmen. Thus the amount spent for the benefit of the workmen or of the community was

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83 per cent as much as the amount received by the shareholders, and whereas the amount expended on compulsory insurance was three and a half millions, the amount given in voluntary contributions was 5,000,000. The voluntary offerings, therefore, were far more than the amounts given under legal requirement.

I once made a similar statement in the Reichstag in regard to an undertaking concerning which I have more definite and detailed information—I mean the Elberfeld dye works. It was calculated—I shall now have to trust to memory—that for each workman employed about 143 marks a year was spent by the concern in voluntary contributions, and if Exzellenz Wagner will be good enough to turn to his right-hand neighbor (Herr Geheimrat Riesser), he will hear how the Elberfeld dye works care for their workmen, how they have put up hundreds of dwellings, how there exist the best economic and social conditions, and how, in spite of what Exzellenz Wagner would certainly call enormous dividends, the workmen are well paid and happy and contented. He would also learn how the workmen there are treated, how gratefully they acknowledge what the concern does for them, and how well off they think themselves. I think it is very desirable that the men of science should at last give due weight and consideration to this aspect of the matter. It must be a source of bitter feeling to the employers to be told over and over again, on every occasion, that they do nothing for their workmen, that the wages are too low, etc. Once, on the floor of the Reichstag, I pointed out to the former secretary of state, Count Posadowsky, that the ill feeling prevalent among employers is not due to

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the heavy burdens they have to bear, but to the constant badgering and the rigorous control of their management, and that it is largely this kind of ill feeling that is causing the old established industrial families to withdraw more and more from business. They say, "We can not stand this treatment any longer."

A VOICE. It is disgusting to them.

Freiherr VON GAMP-MASSAUNEN. Yes, disgusting; that is the right word. And Exzellenz Wagner will be as sorry as I to see things pass more and more into the hands of joint-stock companies.

I wish to bring up one more point, one that Exzellenz Wagner also touched upon, but from another standpoint. He referred to the extraordinary increase of riches. It is my belief that this increase has been greatly over-estimated, and that the figures that Delbrück and Steller have given in regard to the national wealth are very incorrect. I have myself tried to convince my colleague and old friend Delbrück that his estimate of the value of country real estate is entirely wrong, and I hoped he had been convinced.

Doctor WAGNER. I did not say a word in support of Delbrück's estimate.

Freiherr VON GAMP-MASSAUNEN. I am glad of that, but it would be nice if you would plainly say so; you spoke in a general way about the increase of wealth—

Doctor WAGNER. Not in connection with country real estate.

Freiherr VON GAMP-MASSAUNEN. Then I must set Exzellenz Wagner right on this point. Of course, the wealth of the landed proprietors has increased, as well as that

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of the industrials, but this prosperity shows itself most of all in improvements in the instruments of labor. Look at my estate, for example. My father bought it fifty years ago for 200,000 marks, and it is now worth 800,000 or 900,000 marks. The reason it is worth so much more to-day is that there are buildings upon it to the value of 300,000 or 400,000 marks; that the chattel value runs up into the hundred thousands; that the land is drained; and that there are better means of communication.

It is the same way with industry; much the greater part of the money acquired in industry is reinvested in the plant; and through improvements in the plant the wealth of the owner is again increased and also of course the possibility of larger cash income in future.

A VOICE. That is a crime. [Laughter.]

Freiherr VON GAMP-MASSAUNEN. Just compare America and Germany in this respect. How is it that America has so great a productive capacity in all branches of agriculture and industry; how is it that it can always keep on increasing its output? The reason is that in the great factories there are the best equipments; the machinery is improved and perfected to the very utmost. It is absolutely necessary for our industries to make strenuous efforts in this direction if they are not to drop way behind. ["Very true."]

I now come to a question in regard to which I am much more in sympathy with Exzellenz Wagner. I agree with him that our banks have much too small an amount of cash cover, and I think it is fair to demand that those institutions that have large quantities of savings deposits and demand obligations should be

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required always to fulfill their obligations by means of their own resources, without calling upon the Reichsbank for assistance. The English bank inquiry commission appealed to the banks to make some sacrifices on their own part in order to make the money and credit system more secure—an appeal which until that time had found little favor among the English banks. This same appeal we must make over and over again to our banks, and if they will not respond to it, they can not blame legislation if it finally steps in and overrides them.

I say that the cash reserve of the banks is too small. Reference has been made to the enormous cash holdings of the banks on December 31. Now, I do not imagine, Herr Roland-Lücke, that the banks keep these reserves merely by way of a buttress. The bank act prescribes that balance sheets must be made out every year. Now the banks have chosen, so far as I know without exception, the first of January as the date for the balance sheets, and one can easily see why they should make an effort to appear before the public in full dress on this occasion. The consequence is that on December 31 the Reichsbank is deluged with demands. The banks simply try to draw money from the Reichsbank into their vaults, in order to be able to shout "Just see how prudent we are; we have so and so many millions of cash, outside moneys, and coupons," and a month later it has all disappeared; the banks no longer need to declare their cash holdings; the figures given on December 31 are true only for the moment and lead to false conclusions.

I will add at once that these balance sheets are entirely inadequate. It is doubtful, for instance, whether credits

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at the Reichsbank are or are not included under No. 1. Now we have at the Reichsbank about 150,000,000 marks of so-called compulsory credits.

A VOICE. That includes imperial credit.

Freiherr VON GAMP-MASSAUNEN. Well, even if you subtract the compulsory credit of the Empire there will still remain a very large sum—a hundred and odd million—of credits that are plain compulsory credits, and can not, therefore, be demanded at any moment.

A VOICE. All the holders of giro accounts taken together?

Freiherr VON GAMP-MASSAUNEN. Certainly; all the holders of giro accounts taken together. Well, then, these compulsory credits can not be regarded as cash holdings that are always at one's disposal. [An interruption.] Unfortunately statistics do not show how much of the compulsory credits belongs to the accounts of the banks. Perhaps the Reichsbank will have the kindness to accede in future to the wish of Herr Mommsen, with which I sympathize, and will make a separate entry for the banks. [Laughter and an interruption.] But you said there was no separate entry for the banks.

Mr. MOMMSEN. I expressed no wish on the subject.

Freiherr VON GAMP-MASSAUNEN. Then I should like to express the wish, and I hope to have the support of Herr Mommsen. Then, again, what is meant by foreign money? Does the term include foreign notes? Surely these also are not realizable at any moment. In short, the balance sheets do not give the information one would like to have from them. The suggestions of Herr Roland-Lücke on this subject are very well worth consideration,

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since they embody just about the minimum of what must be required.

Doctor Schmidt says it is absolutely necessary that an increase of the gold holdings of the Reichsbank be brought about. I think this in some sort questionable, and that for two reasons. In the first place, the gold holdings of the Reichsbank serve as the basis of its business transactions; it has to make them yield interest; it is bound to give the shareholders certain dividends on them. They must, therefore, be put into the business, and for this reason they can not, in my opinion, perform the function that a second Juliustrum would be designed to perform. In the second place, I am afraid—and this is something still more important—that the gold holdings of the Reichsbank may at any time be taken away by foreign countries. When we read the moving complaints of the English bank inquiry commission, when we hear it said openly by the first authorities on the money and credit system that the English bank can no longer keep up its standard of paying all demands that are made upon it in gold—when we hear such things as these we should take them as a warning that we must protect our Reichsbank more effectively against the export of gold. Doctor Schmidt has called attention, as I myself did some time ago, to the great risks we are taking in this continual placing of foreign loans one after another in Germany. He has shown how we borrow the money in part from other countries for a little while and how we may and often do fall into difficulties when the other countries take their money back again. The separation between domestic and foreign credits at the bank

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is absolutely necessary to enable us to get a proper view of the business activity of the banks.

Herr Schinckel tells me, and he has also recently made the statement for himself, that the statistics concerning the introduction of foreign loans are very incorrect when examined in detail. I admit that; but if, of the 969,000,000 marks that are given as the amount of foreign investments for this year up to October 1, we have actually paid for only 500,000,000 or even 400,000,000 with German capital, even this is, in my judgment, under existing money conditions, such an enormous strain on our gold resources and our means of payment that I regard it as in the highest degree objectionable.

Now, it has been said—and I am willing to admit it—that the banks have business relations that must be kept up. Yes, but in that case business activity must in some way or other be curtailed, and it would seem that the best way of curtailing it would be to require the banks to keep on hand in the form of cash a certain proportion of their demand obligations and of all those that are due at eight days' notice or at shorter notice. Gentlemen, I am of the opinion that even without legislation this might be accomplished if the Reichsbank would not only adopt a friendly attitude toward the banks, but would also not be shy of exercising a gentle pressure, or even of giving an occasional poke in the ribs. In England everyone says that it is an unheard-of thing for the banks to be neglectful of their duty; and I think that in this way our banks would finally build up a certain amount of security, and that even in critical times they would be able to fulfill their obligations. Somehow or other this is what we must accomplish.

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Herr Roland-Lücke, or perhaps some one else, has said that the fear of the Reichstag as legislator runs like a red thread through the whole of our discussions. I understand this fear perfectly; but if you realize what is to your own interest, you will take care to order things on your own initiative in such a way as not to afford public opinion and the Reichstag such a wide field for attack. The inclination to get hold of the reins of legislation is not present in nearly as many of us as you suppose; but the fact is the pressure of public opinion can not be resisted, and if the banks will do nothing, and if nothing comes of these bimonthly balance sheets—and I do not believe they will be of any real service—then the time will arrive when the Reichstag will say: We have waited long enough, we have tried everything, we have instituted the Bank Inquiry, but nothing has been accomplished; now legislation must come to the rescue at last.

For both these reasons, gentlemen, I am opposed to causing these gold holdings to go to the Reichsbank. In regard to this proposition I am in entire agreement with the view of President Heiligenstadt, who has also been supported by Exzellenz Wagner, that the banks ought to hold a not inconsiderable cash revenue, so that they may be able to fulfill their obligations when, in times of crisis—even of small and short-lived crises—demands are made upon them.

I am also in sympathy with the opinion expressed to-day by Dr. Schmidt that we need an imperial deposit bank—or rather a deposit institution, for it ought not to be a bank—to which the savings banks, Genossenschaften, and banks that have savings deposits and short-time obliga-

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tions—to use a general phrase—should be required to bring a sufficient supply of cash for securing these obligations. The institution should also be required to receive deposits, at least from public institutions. The question of whether it should also be made accessible for private business is one to which I shall not at present give a definite reply. But if our commercial law were to establish the obligation that the surplus must be invested in state paper, or if such an obligation were laid upon the savings banks and the Genossenschaften, then certainly the necessary arrangements would have to be made; for we can not expect these institutions to keep on losing ten per cent of their whole capital as they have been doing for the last ten years. Guarantees would have to be given that these obligations would be redeemed at par.

The proposal I made in the earlier deliberations of the inquiry commission was perhaps not quite rightly expressed. Nevertheless, Dr. Schmidt understood it aright, for in essentials he adopted it. I wish to have an imperial deposit institution, and say it should give bond for its deposits, but I repeat that I would not entrust to this institution really short-time deposits. Nor is there any necessity for this. To meet the needs of the public institutions referred to, of the bank surplus, etc., it is quite sufficient to have the acceptance of deposits limited to deposits which can be demanded only upon three months' notice.

But, gentlemen, if this imperial institution issues imperial bonds for the deposits, and gives them to the depositor, that will be nothing more than to replace the certification of the deposits—which, after all, is likewise

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an imperial bond—by the issue of a coupon bond. Of course these would be peculiar bonds, involving the obligation to return the principal upon three months' notice. This scheme presents the very great advantage that the institution would be saved a great deal of labor, and there can be no doubt that it would be far more convenient and agreeable for the depositor to get his coupons along with the bond, and to be able to use these coupons as cash at the post-office and everywhere. It is self-evident, too, that this will furnish a means for the Government to borrow at a low rate of interest, for if these bonds were even to bear only 3 per cent interest, every depositor would be entirely satisfied with it, and in this way several hundred million marks would perhaps flow into the imperial treasury.

Of course an imperial institution of this kind would have to be managed upon quite distinctive principles, and first and foremost it would have to have absolute fluidity.

Mr. MOMMSEN. But a lower rate of interest?

Freiherr VON GAMP-MASSAUNEN. If the banks wish to get a higher rate of interest, then what we ask of them would be no sacrifice, but would only give them a favorable opportunity to increase their dividends. There is, of course, a sacrifice they must make—a sacrifice of 1 per cent. This is the contribution that they must make to the guarantee fund; there would be no difficulty about that.

This institution will also be in a position to help the Reichsbank. But it makes a very great difference whether, when the Reichsbank is in need, this institu-

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tion lends it 40 or 50 millions of gold, as the Bank of France lends to the Bank of England, with the obligation that the gold shall be returned as soon as the critical time has passed, or whether the Reichsbank gets the gold as working capital. I can not see what objections can be made against the latter course.

It may, to be sure, be urged that it would result in a diminution of the rate of interest which the imperial institution would be able to pay on its deposits; but this disadvantage is insignificant in comparison with the great advantage that we should have this second Julius-turm. In 1907, when the Bank of England was in such straits that it had to borrow gold from the Bank of France, the Reichsbank succeeded in absorbing into its treasury about 200,000,000 marks of the gold that was being used in the channels of trade. This process, however, is extremely difficult, and in the future it will be still more difficult, since the chief means that was employed at that time—the putting of small notes into circulation—can have, after all, only a limited effect.

But, gentlemen, if we establish an imperial deposit institution, and thus create a gold reserve of 200 millions, then this gold will be at the disposal of the Reichsbank whenever a serious crisis arises, although of course the Reichsbank will be obliged to give it back again as soon as the crisis is past, and not to employ it as part of its own working capital. Even so, it will be a very great source of relief to the Reichsbank.

Now, in consideration of the fact that the reserves of private banks, savings banks, and Genossenschaften are very largely concerned in the matter, I should advise that

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the private banks, savings banks, etc., be given some share in the management of this institution. I wish also that there may be a committee, such as was suggested by Herr Roland Lücke, which should likewise take part in the management. Gentlemen, I have often had occasion—though I wish to keep clear of personalities—to speak of the Reichsbank committee as it exists at present; at any rate, no one will maintain that this commission is allowed to participate in any effective way in the management of the Reichsbank or that it has the power to initiate measures that are too radical.

But if we make this arrangement, we should be most decided in our opposition to an imperial supervisory authority. I was for many years an official, and I certainly have no excessive prejudice against bureaucracy; but, gentlemen, I must say that in the domain of practical economics such things are almost always failures. ["Very true."]

We have instituted the bureau of supervision for private insurance companies. Doctor Wagner said that in spite of the activity of this bureau there still remain certain defects in connection with fire-insurance policies. [Remonstrance.] Yes, you said there was still something to be desired in the matter of policies; I think I am not mistaken.

Doctor WAGNER. I never said a word about policies.

Freiherr VON GAMP-MASSAUNEN. Then it was some one else. But in order to remove the evils existing in connection with many insurance companies, it would have been sufficient to appoint an inquiry commission; and a commission should have been appointed to investigate

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the conditions and to give specific directions as to what reforms must be effected. But as for the creation of a permanent institution, what has that led to? The insurance bureau has now accomplished its real task, and is looking for work—it is going up to the little institutions, the printers' death fund, and the like, which have existed for several decades in small places, and raising the question whether they are in sound condition.

I think that if the imperial institution were established and if such an additional council were established as I have indicated, then the chairman of the imperial institution—and I have other reasons besides those which I have given for considering him the proper person, rather than the president of the bank—the chairman, I say, might be empowered to establish normative regulations in regard to the arrangements of the bank, the balance sheets, etc.

And, gentlemen, one thing more. Why is there such agitation among the banks against an arrangement based upon legal compulsion, when it has been thoroughly tried and tested in the case of the cooperative institutions; why is there such agitation against the requirement of examination by trustworthy public agencies for the banks that receive deposits? At one time we had unhappy experiences with the *Genossenschaften*, and public sentiment demanded an examination of them; the state was urged to take charge of this examination. The Reichstag hit upon a middle course and introduced the system of obligatory examinations. Every two years each *Genossenschaft* must be subjected to examination, and that by persons whose trustworthiness is, I believe, attested by the government; the results of the examination to be laid before

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the supervisory bodies of the *Genossenschaften* and their management. This system of obligatory examination has been thoroughly tested, and the banks would also be in a position to create these organs for themselves on their own initiative. [An interruption.] Ah, Herr Riesser, that would be an entirely different thing! If the banks were to intrust the examination to their own agent, or ten agents, and have them submit a report that is to be seen by no one else but the bank directors, why that, to my mind, would be a farce. [Laughter.] I think that independent agencies should carry on the tests; I think the appointments should be made without reference to the managers of the banks and that the trustworthiness of the examiners should be officially attested. And then—I have this idea from Doctor Weber; I do not know whether he has given it here, but at any rate I can not claim to have originated it—then this board would submit their reports to the supervisory council, which would thus be enabled to remove whatever defects might have been found to exist.

Such examiners as these would, of course, have a very different function from that of the examiners or auditors who are now employed by the banks themselves; they would give the supervisory council a chance to exercise conscientious and effective supervision, and this is a thing greatly to be desired. For the supervisory council would be very much indebted to an agency independent of the management of the banks, which should keep watch over developments and report on them at the proper times, laying its finger upon doubtful and dangerous spots. The bankruptcy of the *Leipziger Bank* would certainly not have taken place, had the supervisory council known three or

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four years beforehand what was going on in that bank. At present the supervisory council of the banks can exercise no reliable supervision over the conduct of business. Often the choice of members actually lies with the board of directors. But many men would be careful about accepting a position on the advisory council, with the obligation laid upon it by the stock companies act, if they knew that by the report of the examiners they would be given an insight into the doubtful affairs of the business, and that they would be liable to such reproaches as this: You did not obey the requirements of the stock companies act; you did not apply yourself to the task of supervision with the care of a sound business man; you are responsible to the shareholders for this. The result of this would be very great carefulness on the part of the supervisory council, so that from this standpoint, too, the system of obligatory examination is imperatively called for.

In conclusion, I should like to make a remark on the subject of how the dangers mentioned in the fourth question can be obviated. I attach very little importance to this question. I believe that if the proposals I have made meet with approval, it will very seldom happen that any appreciable danger of this kind will arise for persons who are fairly careful; if, that is, the following regulations are adopted:

First, that demand obligations and obligations payable on short notice shall constitute only a certain percentage of the bank's own working capital;

Second, that for these investments an adequate cash reserve shall be created by deposition at the proposed imperial institution;

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Third, that the banks be required to submit to a regular revision by trustworthy organs;

Fourth, that the banks be required to publish detailed balance sheets every month.

I should recommend that we await the issue of those measures which the legislature or the management may think good to take.

Doctor RIESSER. I did not suppose we should finish our deliberations to-day. Unfortunately, however, I must take my departure to-day, and I therefore beg that our president will permit me to hand in, in written form, the observations to which to-day's discussion has given rise, or will give rise, in my mind.^a

The CHAIRMAN. I have no hesitation in acceding to this request.

^aThis paper of Herr Geheimrat Doctor Riesser, which was handed in later, is as follows:

To the observations made at the last session by his excellency Professor Doctor Wagner I merely wish to make the following reply:

I agree with him that Germany has long ceased to be a purely agricultural country and has become even predominantly a commercial and industrial country, and I should not like to see it develop into a country engaged in commerce and manufactures exclusively. On the other hand, there are two points in which I do not agree with him.

We have fixed the denomination of the shares at a minimum of a thousand marks and have declined to authorize shares of such small denominations as they have in England—shares of £1 sterling, or 20 marks—precisely because (contrary to Wagner's view) we did not consider it desirable that the lower and middle sections of the community should become in any large measure interested in stocks. If the state of a man's finances is such as to oblige him to look anxiously every day at the stock quotations, that man should, in my opinion, steer clear of buying dividend papers, since at any unfavorable turn of affairs not only the dividends themselves, but also the market price of the papers, which depends upon the amount of the dividends, may go down.

Furthermore, I do not agree with Wagner in thinking that here in Germany the rate of increase of private means and private incomes is on the

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Doctor HEILIGENSTADT. Like several others of the gentlemen who take part in these discussions I am prevented by official duties from being present at all the sessions. Much as I have tried to postpone meetings it has in many cases been impossible to do so, and much to my regret I was obliged to be absent yesterday and on the afternoon of the day before yesterday. Permit me, therefore, to examine briefly the criticism that has been made of my paper of the day before yesterday before I express my opinion on the special points under discussion.

Gentlemen, in the list of questions there is one (I., 2a) concerning the nature and meaning of deposits and savings. Herr Direktor Doctor Schmidt has to-day again pointed out—and I emphasized the fact in my own paper—that the account-current moneys must by all

whole too rapid—a question that I have repeatedly investigated statistically; and I think that the respect and consideration that is accorded to us by foreign countries, and also therefore in international world politics, is in large measure dependent upon constantly increasing our national prosperity.

But leaving aside this element of the case, there has happily not been in our country a one-sided increase of mobile capital and the incomes derived from mobile capital. On the contrary, there has been all along a very notable increase in agricultural production, which now amounts to some fifteen billion marks a year, also in the profits derived from agriculture; in the amount of arable land; and in the prices of agricultural products and of country real estate, the aggregate of country real estate being now valued at fifty or sixty billion marks. This increase in the value of country real estate has been brought about, or at least largely influenced, by the considerable improvements in farming methods and machinery, as also by the improvement in the agricultural credit system.

I am convinced, therefore, that, fortunately enough, there can be no question here in Germany of a one-sided expansion of the national prosperity caused or encouraged by the banks; no question of this expansion being confined to mobile capital. This conclusion is confirmed in many other ways by the material officially published on the occasion of the establishment of the so-called imperial finance reform of 1908-9.

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means be included in our investigations; the account-current moneys are, indeed, in my opinion, too, of much greater importance than the deposit moneys.

On the day before yesterday, in the afternoon, Herr Schinkel and Herr Roland-Lücke were engaged in criticising the remarks I made a few days ago. With the permission of his excellency the president of the Reichsbank I was given the stenographic report, and I shall now proceed to make some reply to their criticism of my remarks about the classification of outside moneys. I do this because I regard the classification of outside moneys as enormously important for the clearing up of a great many questions. Although I do not imagine that my classification will be at once accepted, I still believe it to be the right one, in spite of the criticism of these gentlemen.

This is exactly what Herr Schinkel said, according to the stenographic report:

“But for the rest the considerations he brought forward are pretty far removed from the sphere of really practicable legislation.”

A literal quotation, gentlemen. But I said nothing at all about legislative measures.

Mr. SCHINCKEL. I merely pointed that out.

Doctor HEILIGENSTADT. In the stenographic report that I have before me what you said surely has a somewhat different meaning. At any rate, I have so far made no suggestions in the way of legislative measures; in fact, I have confined myself entirely to expressing my disapproval of certain legislative measures that were being debated. I opposed the establishment of a special-deposit

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bank; I opposed the acceptance of interest-bearing deposits by the Reichsbank, and also the formation of the Zentralgenossenschaftskasse into a general deposit bank with branches in the country. This part, therefore, of Herr Schinkel's criticism is rather wide of the mark.

Herr Roland-Lücke has also, according to the stenographic report, attributed to me things that I did not say. He says: "I will go still further. President Heiligenstadt gives an analysis of the parts played in our economic world by the producers and the nonproducers." I did nothing of the kind. I merely said, with reference to the classification of outside moneys, that a convenient principle of classification is furnished by their sources—that is, by whether they are invested by consumers or producers.

Furthermore, Herr Schinkel said in his criticism that, "to tell the truth, he had not understood me." Herr Schinkel has just confirmed this with a nod. Nevertheless, he did not hesitate to criticize that which he did not understand.

I think that Herr Roland-Lücke also did not understand what I said.

Mr. SCHINKEL. Where is the criticism?

Doctor HEILIGENSTADT. I am coming back to that. I hope Herr Roland-Lücke will not take it ill of me. But I must say that when he talks about mechanical and intellectual producers, and is by way of insinuating that I called a doctor who sets a workman's arm a drone——

Mr. ROLAND-LÜCKE. I only said that this inference could be drawn from your speech.

Doctor HEILIGENSTADT. He shows that he has not understood what I meant. Perhaps I am partly to blame

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for this misunderstanding. Perhaps I assumed, in making my speech, that the gentlemen were more thoroughly informed than they are on important elements of political economy, especially on the theory of incomes. Gentlemen, I have assumed only such information—and the representatives of theoretical political economy whom we have among us, Herr Exzellenz Wagner and Herr Geheimrat Lexis, will bear me out—I have assumed only such information as is contained in the smallest primers of political economy. I had not thought it necessary, here in this assemblage, to make a long and tiresome introductory exposition of theories.

I think my division into producers and consumers will be comprehensible to all who have ever concerned themselves with questions of political economy; they will know exactly what I mean.

I have said that the income of producers is derived directly from the production of commodities, and that the income of other classes, which I call, for short, consumers, is not derived directly from this source. I think there can be no difference of opinion among theoretical economists on this point, and I beg that the theoretical economists among us will correct me if I am mistaken, if what I have said is wrong, for I myself belong no longer in the ranks of theoretical political economy, but in the sphere of practice.

Then, Herr Schinkel, you advanced, as an argument against me, the assertion that every producer is a consumer. I did not say he was not; what would you prove by this truism? But the goods that the producer, as a human being, uses for his own subsistence—that is, con-

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sumes—I regard as part of the regular expenses of production.

But you maintained further, according to the stenographic report, that every consumer must be a producer. (Contradiction.) It is in the stenographic report that I have before me.

Mr. SCHINKEL. I have not seen the report; you have an advantage over me.

Doctor HEILIGENSTADT. It is no advantage over you; without the stenographic report I could not have acquired precise knowledge of the criticism that was made of my speech.

Both the gentlemen then adduced a number of examples to prove that my plan is unworkable. First of all, Herr Schinkel said that if he were to classify outside moneys according to my system, his mind would come to a standstill.

Mr. SCHINKEL. And that would be very unpleasant for me.

Doctor HEILIGENSTADT. I think any one of your subordinates who had successfully pursued a university course would be able to furnish you with all the necessary information.

Herr Schinkel confines himself to one example—the case of the Danish or Swedish government; he asks what is the character of the moneys which these parties load him down with. In the first place, one need not have had great experience in financial economics to know that the economics of the state as such are, as Excellenz Wagner has so often pointed out, expenditure economics, and therefore consumption economics, in which the

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receipts must be governed according to the need of expenditures. It is true that in modern times the state itself is often a producer, but with the general banking business this aspect of the state's activity has really nothing whatever to do. So far as the banking business is concerned, these moneys that are invested by the state unquestionably belong to the class of "consumption moneys."

Mr. SCHINKEL. I shall make a note of that.

Doctor HEILIGENSTADT. I should be delighted if my remarks were to have that result.

Herr Roland-Lücke next brought up the case of the private individual who is a speculator. Well, gentlemen, in accordance with the doctrines of my honored teacher Knies, I take my stand on the belief that speculation is an important thing for the economic life of a nation, and that, since it creates place and time values, it belongs to the sphere of production. I think that even in practice the professional speculator is easily recognized, even when he comes in the guise of a private individual, especially by the bank that has his account. I, at least, in the many years of my activity in the Diskontogesellschaft, hardly ever had any doubt as to whether a man was a professional speculator or not. Many cases passed through my hands at that time. I will take the instance brought forward the day before yesterday by Herr Roland-Lücke. When a private individual buys Siemens shares and sells them, perchance, because the quotation has risen, at a higher figure, and then puts his money into another investment, I regard

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this merely as an act which a private individual who understands business matters performs in the normal management of his property.

The second case chosen by Herr Roland-Lücke is that of an inventor. How, he asks, is an inventor to be classified? This, too, is not at all difficult. Either the inventor makes an invention, takes out a patent and sells it, in which case the money, the remuneration for the patent, is of precisely the same character as any other professional fee, and falls of course into the class of "consumption moneys;" or else he exploits his patent himself, in which case he becomes quite simply an entrepreneur and falls into the class of producers.

A further example brought forward by Herr Roland-Lücke as evidence of the impracticability of my proposals is that of an author. There can be no doubt that the author's proceeds belong in the class of "consumption moneys." Of course the author performs services for the community that have an economic value and therefore a price, but he takes no part in the economic production of commodities.

Then, too, Herr Roland-Lücke brings up the case of a doctor who receives a fee for restoring to a workman his ability to work. The fee he receives undoubtedly belongs to the class of "consumption moneys." The fact that the workman's power of work—that is, of production—is restored to him does not alter this in the least. Besides, for that matter, the income of the workman himself comes to him indirectly. But if the doctor were to establish a pill factory, or if he were to manu-

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facture a disinfectant water or something of that kind, then, if he had occasion to do business with a bank, he would undoubtedly be classed under "producers."

Of all the cases adduced by Herr Roland-Lücke the only one about which there might be some doubt is that of the director of a theater. But by his occupation the director of a theater is at once constituted an entrepreneur. The tenor, on the other hand, is just as certainly, in view of the destination of his income, a consumer; the income he receives serves simply and solely to satisfy his own wants as a consumer.

I am of the opinion, gentlemen, that with a little good will my classification could be carried out with the greatest ease. I can only say that I have evolved this classification as the result of experience, and that it has furnished me with an extremely good basis in practical business and in my very extensive financial operations. Besides, my remarks were only designed to persuade the gentlemen here who are in the banking business to make themselves familiar with my train of thought and see whether it does not furnish a principle of classification more convenient than that which is in use to-day, according to which the moneys of the central office are called account-current moneys and those of the branch offices deposit moneys. I think that in any case the men who are engaged in practical banking would derive the greatest advantage for the conduct of their business if they could hit upon an appropriate classification of their outside moneys.

This is what I have to say in reply to the criticism accorded to my speech.

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Gentlemen, as for the special discussion and the proposals that might be made with regard to a reform of our present banking system, I wish to express myself with care. I am convinced that a reform is not nearly so necessary as an effective further development of the arrangements of our money and credit system, a development which will enable us, in the future also, to fulfill the demands that are made in behalf both of public and of private interests. I do not think—and I think the events of 1907 bear me out—that the present arrangements will always continue to be adequate for meeting the demands that will arise with the continued growth of business. I agree with Herr Roland-Lücke that we must prepare ourselves to face this growth by effecting an adequate expansion of our money and credit system. Now, gentlemen, it is altogether possible to effect this expansion by voluntary procedures. If it can be thus actually effected, I fully agree that we should not lift the latch of legislation. But if this should not be done—though I do not for a moment accede to the doubts expressed just now by Herr von Gamp—then here, too, the State will have to step in as it has done in so many other domains.

I am convinced—and in this I am in agreement with certainly a large number of those present—that the point chiefly involved is that of a considerable increase of the cash reserves of the banks.

The cash cover at our banks is to-day certainly too low—I should say, much too low. The so-called fluidity of the banks is not, to my mind, the only factor in the case; other elements of an economic character are also involved.

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If, then, I am asked how large a cash reserve should be maintained, I refer to the words of Exzellenz Wagner, who said in one of the previous sessions that the cash reserve minimum of $33\frac{1}{3}$ per cent in the Reichsbank law was fixed upon arbitrarily. Limits of this kind must, of course, always be fixed in a more or less arbitrary way. Though I am conscious of the arbitrariness, I should say that the minimum should be not less than 10 per cent of the whole amount of demand deposits and of those subject to notice of eight days or less.

Mr. MOMMSEN. You said 1 or 2 per cent before.

Doctor HEILIGENSTADT. I am coming to that; I would not get so worked up over it, Herr Mommsen.

Well, then, in the present state of affairs I should regard a cash reserve of at least about 10 per cent as requisite, and a larger reserve as very desirable. I refer you to the statistics of the English banks, which are always being held up as examples to us. According to these statistics, although the English banks are much more favorably situated than our own, the average cash reserve is $15\frac{1}{2}$ per cent.

It is my opinion, further, that in the public interest it is the duty of the banks to support the Reichsbank in its relations with the money market and in its activities generally, and I therefore consider it important that at least 2 per cent of the cash reserve—I went into details when I spoke of this matter before—should be deposited with the Reichsbank.

Now, if the duty of keeping cash reserves is shared between the Reichsbank and the banks, two happy results will be attained. In the first place, the Reichs-

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bank will be strengthened in its relation to our entire system of money and credit; and in the second place, that system will not rest upon one single reserve, since a second large reserve will reside in the banks.

It has been said that this 10 per cent reserve is sure to have considerable influence upon the rate of interest all over the country. On which rate of interest—that on deposits or that on loans? Well, gentlemen, I do not think so. The banks all make a practice of giving, as a rule, a maximum 3 per cent interest on current-account moneys. Now, even on the untrue supposition that they have hitherto kept no reserves at all, only 10 per cent of the outside moneys which had formerly been made use of would henceforth lie idle. Thus only the interest on 10 per cent of the outside moneys would be lost—that is, they could, if they wanted to repair this loss entirely by lowering of the rate of interest on deposits, give 2.9^a per cent interest, instead of 3 per cent, on the remaining 90 per cent of the outside moneys. And I must say I should not be at all opposed to a corresponding increase of the rate of interest charged on credits. I hold that every service should have its due compensation even in the banking business, and I also maintain that the compensation that is now received in this business does not quite correspond to the services performed.

Mr. SCHINKEL. It certainly does in your case.

Doctor HÄILIGENSTADT. We receive no compensation at all in the current-account business. The reasons for this, however, are quite special, and lie in the peculiar organization of the money and credit business of the

^a Apparently this should be 2.7 per cent.—TRANSLATOR.

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Genossenschaften, at the head of which is the Zentralgenossenschaftskasse. If you would like to inform yourself further with regard to these reasons, you are at liberty to do so at any time. On the other hand, we do receive a sort of commission when we give acceptances, when we make transactions in securities, etc.—in short, wherever we work on the same basis as private banks. As I have said, I regard an adequate commission as not merely necessary, but even as economically wholesome.

I think, too, that a definite proportion between the acceptances of a bank and its capital should not be exceeded. The general question of acceptances was thoroughly gone into on a previous occasion, and I do not wish, when we are so hard pressed for time, to be guilty of repetitions. The further question of what is a suitable cover for liabilities can on the whole, I think, be left as before to the conscientious judgment of the bank management, especially in the case of the great banks. Only I am convinced that, to meet crises and times of stringency there should be a larger holding of securities that are available as collateral.

On the other hand, a point which I regard as very important is that there should be the greatest possible publicity throughout the banking system. The balance sheets as they are at present are not, to my mind, adequate. For my own part, I publish for the institution that I have the honor to represent such comprehensive and detailed balance sheets that one is enabled easily to command the whole state of affairs. The mere figures of the balance sheets are not sufficient in themselves; I wish—though I do not bring this up as a demand which

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should be immediately acceded to—that that might be done which is already being done in many cases among the Genossenschaften: That there might be published not only a final balance sheet but a statement of transactions from which the movement of the accounts in the interval might be seen. It is greatly to the interest of the whole community that it should be much more thoroughly informed about the activity of the banks than it is at present.

Nor do the bimonthly balance sheets satisfy me. I think it desirable that monthly balance sheets be published. Above all, the bimonthly balance sheets furnish no public knowledge concerning the situation at the exceptionally important dates of March–April and September–October. A public knowledge of the great figures of the demand at these dates I consider to be of extreme importance.

Here, too, men in the banking business often make the objection that the thing is not feasible—there are too many details. Now, gentlemen, that is not so; it is all a matter of efficient organization. In the institution that I have the honor to direct, a complete rough balance sheet is actually made every day, and this plan has proved to be very useful indeed, for by means of this daily balance sheet the whole ledger can be checked.

As for a bureau of supervision, and especially the remarks on the supervision of cooperative institutions made by Freiherr von Gamp, I am not yet entirely of his opinion. I do not think a state supervisory bureau is called for as yet. I am sure that the activity of a state bureau of supervision could extend at most only

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to a formal testing. A supervisory board could not do much more than that. But with the right to make a test it would assume also a responsibility, and in view of the material, and of the conditions under which the banks now work, I think this would be a heavy responsibility and burden upon the imperial government. I am inclined to think that the establishment of a state bureau of supervision should be kept in view only as the very last resource.

I take it, gentlemen, that if the proposal made by Herr Roland-Lücke is carried out, and if the banks make up their minds to follow the proposals and suggestions made by the commission which is to be formed, a great deal may be accomplished in this way alone, and I regard this method as preferable, especially for the time in which we live. Others have already pointed out that the present time is a particularly bad moment for adopting too stringent legislative measures.

Count KANITZ. If I, a layman in the banking profession, have again asked permission to speak, it was not, gentlemen, in order to exert an influence on the course of your discussions, but rather in order to give an account of the impression made upon me by the discussions that have already taken place, and to present the reasons for my vote with regard to the questions that lie before us—a vote which may be given either here or elsewhere.

At the very beginning of our deliberations I permitted myself to state that I have strong doubts of the wisdom of most of the measures here proposed and can really express my approval of only one of them, that of the obligatory publication of balance sheets. Even in this

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there are certain doubtful points. It would be a very good thing if the balance-sheets were readable and comprehensible to the public at large. But I admit that great difficulties present themselves. One of the gentlemen has said, with great truth, that it is impossible for a bank whose business is in the industrial district of Westphalia to use the same system as a bank in East Prussia. That goes without saying, just as on an estate that has a distillery or a sugar factory the system of bookkeeping is very different from that on an estate in which industrial side enterprises of this kind are not present.

I should think, however, that the wishes of the public might be met in some way or other, that different systems might, for example, be installed for the large and the small banks, so that the balance sheets would enable one to keep at least some sort of general watch on the business situation of one's bank.

Gentlemen, this is really what I regard as the chief evil—that these balance sheets, when they are published (and I consider it a great step forward that the great banks are now publishing their balance sheets) can not, as they should in order to be of any use, enable one to get a clear and comprehensive view of the situation. Take all these balance sheets that we have before us among the documents. There are not two balance sheets among them that are made out on the same plan; every individual bank has its own peculiar system. In this direction there is, I think, much room for improvement.

Now, then, gentlemen, I come to the second question—which is also very important—How are the balance sheets to be tested as to correctness; how are they to be checked?

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As for a bureau of supervision and an imperial authority, I have already expressed my disapproval of that plan, not only because I should not like to see an increase of our already overgrown bureaucracy, but also for more practical reasons. Gentlemen, it has been very truly said that too much interference with the business affairs of the individual banks would be very injurious to the banks themselves and incidentally, of course, to the persons engaged in the conduct of the banking business. Herr Roland-Lücke in particular made mention of this point when he recommended the special commission.

Gentlemen, I approve altogether of the proposal of Herr Roland-Lücke, but permit me to make one little remark on the subject. He recommends that the persons of whom this commission is composed be changed fairly often, if possible every year, so that new blood, fresh forces, may always be coming in. Certainly this is a very good idea. But, gentlemen, this commission and the people composing it must work their way into the matter, and if you will consider what an enormous number of banks and bankers there are in Germany, all of which are to be put under the supervision of this commission, you will see that the task assigned to the commission is a tremendous one; I do not know whether, in view of this, a very frequent change of persons would be desirable. If the members of the commission do not work gradually into the subject, but are constantly having to deal with utterly new material, their task will, of course, be all the more difficult.

Then, too, what is to be done if any irregularities are discovered by this commission? This is in my opinion a

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very important question. Suppose the commission in its examination finds some little irregularities.

Mr. MOMMSEN. According to Herr Roland-Lücke the commission was not to make such an examination at all.

Mr. ROLAND LÜCKE. I only wanted to have it say to the Reichsbank: "There is a point that looks suspicious; what have you done about it so far?" I do not wish it to exercise direct control.

Count KANITZ. I thought the matter was to be so understood. You took as an example the firm of Krupp, and said: "If this firm makes a transaction with us, it is to its interest that the news of the transaction should go no further; if our banks are under supervision, it may easily happen that the firm of Krupp or some other firm will prefer to transact its business with a foreign bank."

Mr. ROLAND-LÜCKE. I did not say that.

Mr. MOMMSEN. That objection was made against the bureau of supervision.

Count KANITZ. But I thought that this commission that Herr Roland-Lücke recommends was also to exercise a kind of supervision. If that is not the case, then, to be sure, my objections fall through. But I wish to emphasize this point—we must guard against all measures that might cause any governmental authority or commission to examine too closely into the affairs of a bank; otherwise cases like that which we have just imagined as an example may very well come up. People that do business with a bank may say: "We prefer to go to a foreign bank, where we shall be safe from such examination."

Now, gentlemen, I repeat, if this supervisory bureau finds any irregularities in a bank, then a question perhaps

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is addressed to the bank on the subject. But this is very dangerous, for it will be said that a warning has come from such and such a place. The officers of the bank in question will hear about it, of course, first of all; and if people say 'We do not like this and that, the bills seem to us not safe,' then it may very easily happen not only that the credit of the bank is shattered, but also that the persons whose bills are in question are injured.

I bring up all this, gentlemen, only in order to describe exactly what my position is—that we must constantly guard against too much interference with the business operations of the banks.

I wish also to point out that if we succeed in putting through the requirement of publication of balance sheets, paragraph 263 of the penal code gives a sufficient guarantee against any serious or widespread injuries to the public. That is the well-known paragraph about deception. According to that, to be sure, the making of a false balance sheet is not punishable as such, but it is punishable in that it may work injury to the property of another. But every bank will, of course, be very careful not to give out a false statement of its balance sheet, since anyone who did business with it might afterwards say: "I inferred from your balance sheet that you were safe, and I have suffered such and such losses; now, then, state's attorney, do you step in and apprehend this bank director for having disobeyed section 263."

Mr. MOMMSEN. The punishments prescribed in the commercial code are sufficient.

Count KANTZ. But that would not preclude the use of section 263 of the penal code.

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Gentlemen, as for the proposals of Freiherr von Gamp, which I have heard to-day for the first time, I entirely agree with him—and in this I can but follow Doctor Heiligenstadt—that the resources of the banks are at present too small, that an increase of the cash reserve is absolutely necessary. It is not quite clear to me, to be sure, what percentage Herr Heiligenstadt regards as the requisite minimum. In his last remarks it was 10 per cent that was to be reserved.

Doctor HEILIGENSTADT. Of which 2 per cent was to be placed with the Reichsbank.

Count KANITZ. But now the question is, should an imperial deposit bank be instituted, such as was proposed by Herr von Gamp? Herr von Gamp says this imperial deposit bank should accept securities—for example, mortgage debentures and the like—but without the coupons and *talons* that go with them. Then these resources will not be so very fluid, and in case of a transfer of paper one must always apply to the person who holds the coupons and *talons*. I do not understand, therefore, why an institution like this, which keeps only paper of that kind, should ever be called upon to help the Reichsbank, especially in cases where speedy assistance is needed.

But as for this matter of the banks making a deposit which shall bear a certain fixed relation to their obligations, some one else has already pointed out that a bank must sometimes accept a large deposit suddenly—that some foreign nation, for instance, may hand over to it several millions at a time. It will then be required to increase its reserve at once until the required percentage is again reached. And the contrary may likewise happen; a large

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Herr Kaempf felt obliged yesterday to seize the opportunity for making a little speech in favor of free trade. I have read with great interest the speech that he made a few days ago in London. But he said yesterday that above all things the duties on foodstuffs ought to be done away with; I should like to ask him whether there is not just the same reason for demanding that the duties on manufactures, the duties on iron, dress materials, shoes, and all the numerous necessities of the poor man, be also removed. [An interruption.] "Certainly," says Herr Kaempf. So it is to be radical free trade. Well, gentlemen, how anyone can get worked up in favor of free trade at a time when all the countries of the world are surrounding themselves with the highest protective walls, how anyone can want to turn our country into an arena for the industries of all other countries, while our own industries are barred out of foreign lands—with the best will in the world, this is more than I can understand. Perhaps I shall have a chance, in the Reichstag or somewhere else, to debate this point with Herr Kaempf.

In closing, I will permit myself to say that, while we are discussing, for so and so many days, measures designed to improve our banking system, and give it greater solidity, we must not forget that the best service of this kind can only be rendered by the banks themselves, with their own forces and on their own initiative. Even the suggestions made to-day by Herr Heiligenstadt will be best carried out if the banks themselves take them up, if they exert themselves to make a greater solidity prevalent. Then the public will turn to the banks with

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greater confidence, and that will be a blessing for the whole country.

Mr. KAEMPF. Gentlemen, I should not have taken the floor again if certain remarks that have been made in the course of to-day's debate did not make it necessary for me to do so.

As for Count Kanitz's idea that the Reichsbank should be empowered to redeem its notes either in gold or in silver as it chooses, I have gone into that so many times that I should bore even myself if I were to go into it again. I shall therefore do so only very briefly. To compare France with Germany in this matter is completely to misunderstand the situation. When we get to be as rich as France is, we too shall be able to afford the luxury of allowing the Reichsbank to redeem notes in silver when it pleases, for it will never do so. To-day, when our condition is that of a struggling nation, a struggling industrial country, it would be an offense against the solidity of our currency if we were even to let it leak out that this view has been entertained.

As for the question of free trade, I have already broken so many lances on this ground with my honored fellow-member of the Reichstag, Count Kanitz, that it will hardly be necessary to take up the matter here. But one thing I must say to him; for the high duties that are laid by other countries upon the products of our industries we have to thank the high duties on agricultural products which we have established in Germany. ["Very true."] In every case we shall find this is so; we shall see that because of our high duties on agricultural products every country with which we conclude a commercial

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treaty at once raises its duties on manufactures in order to punish us for the high duties on agricultural products which we have established in Germany. There can be no doubt whatever of this; to deny this would be utterly to misunderstand the situation. And, Count Kanitz, if I am a free trader, I am not one in the sense that I want to see all duties abolished to-morrow, for I know that in the economic world it is never safe to do things suddenly; but I am for free trade in the sense that I do consider it absolutely essential that we should gradually reduce all duties, so that we may be able to enter into such treaties, even with countries to which we export, as will make it possible for our export industries to do their proper part in relation to the necessities of our own country.

Count KANITZ. France has still higher duties on agricultural products.

Mr. KAEMPF. That is bad enough. In France they are pretty close to going over into free trade; you will soon see how they will do it.

Gentlemen, I pass now to the other remarks to which I must reply. In the first place, the central committee of the Reichsbank has been spoken of in a rather condescending and not very flattering way. On this point I have only to remark that the central committee of the Reichsbank does what the Reichsbank law prescribes that it shall do; it can not do more. If the bank act were to be changed in such a way that the central committee of the Reichsbank should have its function enlarged in some direction or other, I should have nothing to say against that; at the present moment, however, it

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is not possible for the central committee to act otherwise than as it has done hitherto.

From another source the suggestion has come that state offices be created for the supervision of the banks, and it has been maintained that if we had these the responsibility of the directors and of the supervisory councils of the banks would be greatly strengthened. I think that there is a slight mistake here. To-day the directors and the supervisory council of a bank are responsible to the shareholders, and this responsibility is great enough to cause an adequate supervision. If this responsibility of the directors and the supervisory councils is diminished by your setting up a central organ of the state to have supervision over the banks, then of course the feeling of responsibility on the part of the directors and the supervisory council will be undermined and nothing will take its place; for the state officials are, of course, not responsible to the shareholders, and that they should be more in a position to conduct and render effective a satisfactory supervision than are the directorate and the supervisory council, I can not admit.

One of the members of the commission has intimated that the banks are not sufficiently aware of their duties. Gentlemen, this is an assertion against which I must speak with the greatest emphasis. The duties of the management of a bank consist primarily in making sure that it is able to pay what it owes, and I maintain that it has been in no wise proved, or even asserted with the slightest semblance of justification, that the banks and their managements have not fulfilled this duty. I do not know of a single clear case, except that

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of the Leipziger Bank, from which one would infer that our great banks have not made every effort to keep their fluidity such as to enable them to fulfill their obligations at any moment. When I heard this assertion it almost seemed to me as if there were and had been a prevalent idea that our bank directors and members of their supervisory councils have nothing to do but devise how they can do business with the least possible fluidity. That is an utterly mistaken idea. Anyone who has taken part in bank management knows that what one chiefly bothers one's head about from morning to night is the question of how to go into undertakings in such a way that one can get out of them as quickly as one chooses.

Now, I admit that sometimes an affair that looks as if it could be liquidated without any difficulty turns into something of quite a different character, and then we have what is called a drug on the market. But since there has been some talk of a failure on the part of the bank managements to do their duty in this regard I should like to point out one thing. The unfluid business is always the very business that the banks go into in fulfillment of their national duties. I need only refer to the business undertaken by our banks twelve or fifteen years ago in the province of Shantung. Yes, gentlemen, that was business that the banks undertook in fulfillment of their national duties. That is business the burden of which in part they still have to carry in fulfillment of their national duties.

Count KANITZ. They would have done better not to go into that business.

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Mr. KAEMPF. I should like to have heard the outcry that would have been raised if the banks had said that. You, Count Kanitz, would have been the first to throw a stone at the banks on the ground that they had failed to discharge their national duties.

Count KANITZ. I advised every one not to send money there.

Mr. KAEMPF. But not the banks.

Gentlemen, while I am speaking of these national duties, I should like to make one more remark. Have our banks ever refused, within or even outside the so-called Prussian syndicate, to take over any German imperial loans or Prussian state loans which they were called upon to handle? And has that business ever paid them? Have they not, as the history of the handling of the loans shows—have they not often carried these loans when it was extremely inconvenient for them to do so? I can refer here to a recent case, in which the fluidity of our banks was actually in some measure affected by the fact of so large an amount of German imperial and Prussian state loans being accepted by our banks, not because they wanted to invest their money in that way, but because they had to do so. In view of the history of our banks you can not reproach them with not having fulfilled their duties toward the depositors and their duties toward the nation.

Gentlemen, I come now to some remarks that were made by President Heiligenstadt. I must confess that I did not understand his lucubrations about category A and category B, but that, of course, was my fault. I shall therefore pass over that part; I did not have time, being

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a slow thinker, to take it in so quickly. But there is one thing I wish to point out. President Heiligenstadt spoke of an easy way of distinguishing deposits from other outside moneys. I wish to say that I could not regard this distinction as easily made unless the word "deposits" is defined in its narrowest sense—

Doctor HEILIGENSTADT. I have done that in a previous speech.

Mr. KAEMPF. —if under deposits are included only the moneys of people who have no other transactions of any kind with the bank. These would be deposits, and these the banks could distinguish from other moneys. But from the outside they could not be distinguished at all; and if this is the line you draw, then I think that the whole performance will be to no purpose.

I shall not enter into the question of acceptances. Every bank manager knows that it is no pleasure to him to see large quantities of acceptances moving around the world; but he knows that he absolutely can not determine upon a fixed sum. One would have to investigate carefully the sources of the acceptances; one would have to find out whether they are acceptances in consideration of a deposit of securities; whether, as sometimes unfortunately happens, they are acceptances in consideration of a deposit of mortgages. These two classes must, I am convinced, be restricted. But where they are acceptances that come from regular business, especially international business, to fix a limit would be to do an injury to our whole economic life.

Now I come to the chief point—the one which President Heiligenstadt long ago put into the foreground—

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the question of the cash reserves of our banks, which he now thinks ought to amount to 10 per cent of the outside moneys, of which 2 per cent should go to the Reichsbank. In like manner Freiherr von Gamp expressed the opinion that 1 or 2 per cent, or some such sum—I did not understand just what it was—that 1 or 2 per cent of the outside moneys should be taken to the so-called imperial deposit institution; also that it should be taken in the form of gold, and that this gold should flow into the vaults of the Reichsbank.

Freiherr VON GAMP. Only by way of exception.

Mr. KÄMPF. This is how I understood it; I can only repeat it as I understood it.

As for a cash reserve of 10 per cent, I think that everyone who has had any connection with the conduct of a bank will admit that it is impossible to set the percentage at an exact figure. I remember very well from my own banking experience that at times when the whole situation of the bank was a decidedly delicate one there was a cash reserve of much more than 10 per cent of the outside moneys. It was impossible to invest the moneys as one would have liked to invest them; one may have had to buy state paper, and in that case one always lost money; if, because one had too much money, one did for a time buy state paper, one was obliged to sell it again when the supply of cash ran down, and of course one lost by a fall in the quotations. Thus there have been times in my experience when the whole available resources of the bank did not seem to me sufficient, even though I had a much larger supply of cash in the vaults than the sum mentioned by Doctor Heiligenstadt.

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And there have also been times when the entire available resources were abundantly adequate, though the cash holdings were for days, and even for weeks, so extremely small that we congratulated ourselves every morning if no new paper came in to reduce still further the stock of actual cash. Thus, gentlemen, there have been times when the cash reserve was so small that President Heiligenstadt would have been shocked if he could have seen it, and yet the condition of the bank was most excellent.

Moreover, things arise that one can not foresee; and if to-day you have a supply of thirty millions in the treasury, and two Governments come and take them away from you, then you have an extremely small amount left. To-morrow or the day after to-morrow the situation is again different. How are you going to mend matters by determining that there shall be a 10 per cent cash reserve? You must have sufficient confidence in the banks by this time to be sure that they will make every effort to keep as large a cash reserve as possible, and in point of fact they do this on every occasion; they do it on December 31; they do it at every quarterly period, because at the quarterly periods they have to pay out large sums, and hence the tension of which complaint has often been made in this assemblage.

In regard to the second proposal, as to 2 per cent being deposited with the Reichsbank, I may not have understood Freiherr von Gamp quite correctly in this case either; he wished something of the kind to be done; he said, according to the notes I took, that in case of crisis the Reichsbank has the gold, and when the crisis is past the

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Reichsbank can give the gold back to the banks. But the trouble is that in case of crisis the banks themselves need the gold that they are to leave at the Reichsbank. This is the rock on which the whole idea of the depositing of a fixed sum at the Reichsbank splits. When are our banks to have this money at their disposal? They must have it at their disposal if they have obligations of their own to fulfill. It is not after a crisis that they need it, but during a crisis. Thus nothing can be done about the second Juliusturm, to which reference was made.

I come now to the last point—the commission proposed by Herr Roland-Lücke. It is remarkable that almost every one of us has a different idea of this commission, or at least there are many groups among us who have different ideas of it. According to one group it is merely to advise; according to another it is to check; according to Exzellenz Wagner, it is to be a sort of supervisory board. In short there are at least three or four different views of the matter. I should like, therefore, to put forward my view also, and it is as follows: This commission can not be anything but a body of experts for the Reichsbank president to consult. As a commission for giving expert advice I am in favor of it. A commission that gives expert advice, however, may perfectly well contain individual members who make propositions on their own initiative and do not confine themselves to giving their opinion only after a definite proposition has been laid before them. If they are men who belong to the world of practical business, they will often have an idea of their own, and will submit it to the Reichsbank president for his opinion. A commission like this I should highly approve of; any

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departure from the limits here indicated—any more extensive activity on the part of this commission—I should consider extremely ill advised.

The CHAIRMAN. Gentlemen, I intend to close the meeting directly, and to ask you to assemble again punctually at 3 o'clock; I hope we may finish our discussion this afternoon.

But first, before we close our discussion of this third question, I must again express to Herr Schinckel our thanks for his kind cooperation in the matter of our statistics of flotations. I can assure him that our statistical department will take pains to carry out his suggestions, and especially that it will try to revise the last sheet containing a list of foreign admissions—though this sheet, by the way, was printed from the imperial statistics, and its mistakes are probably caused, not by negligence on the part of the statistical bureau, but by mistakes in the material given to the statistical bureau by the responsible offices. They will also make an attempt to estimate more accurately, through inquiries and investigations, the quantities of these admitted issues that have actually come upon the German market. For the present I can only give promise of the attempt, not of its success. But after the mistakes that Herr Schinckel has pointed out, are gone over and corrected the sheet itself should be replaced by a new edition, and we mean to ask that the few copies that have already been given out—chiefly to members of this commission—be handed back and exchanged for the corrected copies.

Before I give Herr Schinckel the floor to make personal comment on the last points, I must go back to something

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that I have been deferring until to-day. Herr Müller of Fulda, like Freiherr von Wangenheim, has sent in a short written opinion on the questions before us; I deferred it, however, until to-day, because his letter led me to hope that he might be present in person for the last few days. I beg that you will permit me to read his opinion; it relates partly to points we have already gone over. He writes:

“From the statements made by the experts who have been consulted and also from my own experience, I draw the following conclusions:

“1. Legislative regulation of the deposit system need not at present be considered.

“2. If, however, any such regulation should be adopted, it should be confined to this provision: That all savings institutions, Genossenschaften, companies with limited liability, commission companies, mercantile companies, and also merchants (bankers) who carry on a banking business or are in the habit of receiving deposits and savings—that all these should be obliged to publish their balance sheets in the same way as the joint stock companies.

“3. In case this is done, legal standard forms might be established for the drawing up of the balance sheets in order that they may be as easily understood as possible.

“*Reasons:*

“For 1: Previous experience shows that there have been fewer losses of deposits and savings at the great banks than at the Genossenschaften or among the so-called private bankers.

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“Experience shows that the greater the bank and the greater its capital, the greater is the security for deposits and savings.

“The recent development of the banking business, however, shows a constant tendency toward concentration through the absorption of the smaller firms and the establishment of branches. In this way the investing public has a better chance of protecting itself from losses. In view of this development legal interference would appear to be superfluous.

“For 2. If, however, we should resort to such interference, it would, first of all, be necessary to make the regular requirement with regard to publication apply also to those banks, companies, and persons that have not hitherto been obliged to give public information as to their affairs, even though they have engaged in the acceptance of deposits and savings.

“For 3. If we should resort to legal interference such as that which I have just indicated as being perhaps desirable, it would be well to establish definite standard forms for the balance sheets, so that the publication may not be a mere pretence. We must not suppose, however, that this would insure complete safety to the depositors of savings, since against intentional deception even the publication of balance sheets will be no protection.”

Mr. SCHINCKEL. I wish to remark, both on my own behalf and on behalf of Herr Roland-Lücke, that President Heiligenstadt must not infer from the fact that we have made no reply to what he has said that we have had no reply to make. And I can the more easily forego making a reply, since President Heiligenstadt has himself

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said that in his opinion no distinction can be made, with regard to the depositing of a certain percentage, between deposits and other outside moneys. We shall therefore have little use in practice for this artificial division into producers and consumers, since we are of the opinion that there is no difference between account-current creditors and deposit creditors.

Doctor HEILIGENSTADT. But there is certainly a difference in relation to the balance sheets and to the criticism and discrimination of the character of the moneys from the standpoint of the public.

The CHAIRMAN. I will ask you to reassemble punctually at 3 o'clock.

(Intermission.)

The CHAIRMAN. I will now ask Herr Schinckel to speak on questions 2 and 4.

Mr. SCHINCKEL. My honored fellow-members: When we come to answer the remaining questions, especially question II, 2, in which we are asked how the balance sheets and the intermediate balance sheets are to be published and how they are to be arranged, then we come to what is in my opinion plain sailing, and I think we shall be able to avoid all polemics. We have already in the previous discussion gone over this question so thoroughly that even those who are diametrically opposed to each other in their views of the universe, and even in their views on economic questions, can easily come to an agreement on this point.

Gentlemen, I think we are almost all agreed that legal compulsion with regard to the publication of these intermediate balance sheets should if possible be avoided, if

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only for the reason that it will prove to be desirable to make constant changes in the form of these intermediate balance sheets, and that in a fairly short time. Surely we are all agreed that the banks may be expected to publish bimonthly balance sheets and that those which do not yet do so must be forced by the Reichsbank to do so in the way which has already been often indicated. The fact is, then, that, on the whole, though not perhaps in all details, we are of one opinion with regard to the kind of system that should be adopted.

It has often been pointed out that with regard to all such balance sheets and intermediate balance sheets the quality of the figures counts for a great deal more than the quantity; but no one will deny that even from the quantity of the figures—I assume, of course, that they will be made as trustworthy as possible—there is much to be discovered. Opinions differ as to whether subdivision of items is desirable. It may be desirable, but opinions differ as to whether it is necessary. I think, however, that those of us who, like myself, believe that the system of publication hitherto followed would be suitable for the intermediate balance sheets must nevertheless accede to the view held by others, that there should be further subdivision. I think that by mutual compromise by each side making some concession, we can very well come to an agreement on this point.

Permit me, gentlemen, to return for a moment to the nature of these intermediate balance sheets and forgive me if I bring up once more the form which was in use in the earliest publications, and which has been in use in my bank for the last fifty years. I may add in this connection

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that in future we of the Norddeutsche Bank—and I hope all the other banks will do the same—will of course publish bimonthly balance sheets, since this is the wish of the public.

Gentlemen, this statement which is given out by the Norddeutsche Bank does not, of course, meet all demands that may be made of such a statement. With us it is exactly the same as with the Zentralgenossenschaftskasse. We make out a balance sheet every day. This balance sheet is made out according to the balances of the chief accounts. We are, consequently, only able to publish a statement of the balance of certain accounts—for example, the accounts of the outside correspondents not foreign. For we make a distinction between Hamburg correspondents and correspondents in other places; we can give a statement of the accounts of these last only as to their balances. We can not give every day the amount of the debits and the amount of the credits that we have; this can not be ascertained from a daily consultation of the chief accounts. This is, of course, not enough to satisfy the demands that are here made of an intermediate balance sheet, for it only enables one to see what is going on so far as regards net balances; it does not enable one to see how much the debits and credits are. Perhaps this can be done in the Zentralgenossenschaftskasse, which has a much simpler business than a credit bank; I do not know—I have not looked at their statements—whether all the accounts are given or only the balances.

A VOICE. No; only the turnover is given.

Mr. SCHINCKEL. But this much is certain, the great banks can not do this every day, for it would involve an

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amount of work that absolutely could not be performed in less than three or four weeks. Of this fact I have repeatedly become convinced. For instance, in the Diskontogesellschaft, with which I am connected, it would take as long a time as that to itemize these accounts according to the schedules that have hitherto been in use.

Opinions may differ on this point, but at the Norddeutsche Bank, at any rate, we shall continue to publish on the last of the month what I shall call the abridged statement, a publication which to my mind has much more value than the publication of an itemized balance sheet after several months. For in the latter case the thing has only an historical value, whereas there are in Hamburg a great number of people who wait for the first of every month that they may find out what is the condition of the Norddeutsche Bank—how the business has gone in the month just passed, etc. I shall therefore continue to give out my monthly statement in the abridged and, I admit, somewhat inadequate form, but this will not necessarily prevent me from introducing at some future time an itemized publication. I bring up this point merely in order to make this distinction and to show you that with every new step in itemizing the accounts the work is immeasurably increased, and that, consequently, if the published balance sheets are not to be of older and older date and of smaller and smaller worth there has got to be moderation in what is demanded of the banks in this matter.

One more point. Gentlemen, the more you itemize the statements the more difficult it will be to prepare them correctly. Where there are a great many clerks engaged in this itemizing work it is extremely difficult to keep an

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eye on them and show them how to make their itemizing correct. I can assure you that even the scheme now in use involves a lot of work. It is well known that when the scheme of the Deutsche Bank was fixed upon, the other banks were not so very quick about adopting it. For example, there is in it an item—there is no harm in my naming it—loans on goods—which was understood very differently by the different banks, and which is, in fact, subject to very different interpretations. We have, then, the phenomenon of one bank correcting the views of another bank. The Deutsche Bank is trying to ascertain by questions what this designation was understood by the other banks to signify. Now the banks will cooperate in this matter, and not one of them will be lacking in good will. But you will admit that the more the statement is itemized the greater becomes the danger that one bank will understand it in one way and another bank in another way. If there are so many different interpretations of these statements even among the banks, you can imagine how many different interpretations will be made by the public at large. This, then, is another reason for not asking too much in the way of itemized statements, for too much itemizing may impair the correctness and comprehensibility of the intermediate balance sheets.

Gentlemen, I shall not at present go into the details. I think we must begin with the schedule for intermediate balance sheets, and then we shall come in natural order to the yearly balance sheets. I think we are all agreed that in the yearly report there can be, and indeed there is already, greater itemization—itemization which can not possibly be made within the month; and my opinion is

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that if a bank does not make these itemized statements the proper authority can give it a reminder that it must knuckle down in this matter. But, on the whole, I must say that if the whole bookkeeping is not to be turned upside down the intermediate balance sheet must be made out on approximately the same plan as the yearly balance sheet. I mention this because I see written here "Model for the yearly balance sheet;" "Model for an intermediate balance sheet."

I shall keep, therefore, to the schedule for the intermediate balance sheet, which is at the same time the schedule for the yearly balance sheet. Here the first head is, "Cash, foreign money, and coupons." By coupons is meant matured coupons, which, if they are in my possession on December 31, I can redeem on December 31, or at least on January 2, which are therefore equivalent to cash on January 2. Now, Herr Roland-Lücke has proposed that there should be further itemization here, that there should be two heads, (a) "Cash and foreign money;" (b) "Reichsbank credits." I admit that this might in many cases be inconvenient, but for my part I think that the banks might very well adopt the proposed change. We have seen during this very inquiry what different opinions there are: one man considers it desirable that the private banks should have as large a credit as possible at the Reichsbank, while others think that it is absolutely necessary for them to have larger cash holdings outside the Reichsbank. So that if this separation is put into effect every bank can in future comfort itself with the knowledge that at least some of its critics are satisfied, whether it has too large a credit at the Reichsbank or too much cash. At any rate,

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I think the banks will be able to get along as regards this point.

Then comes the second head, "Bills and short-time treasury bills of the Empire and of the Federated States." Under this head are comprised those treasury bills which are drawn for short terms and which are usually handled with deduction of the discount. Herr Roland-Lücke has proposed that here also there should be two subheads, (a) "Bills that are immediately discountable, and therefore can be disposed of at any moment;" (b) "The bank's own acceptances and bills drawn by the bank itself." Every bank will of course try to have only bills of the first of these classes, but it can not prevent having others sent to it which are not discounted by the Reichsbank.

Gentlemen, no bank likes to have its own acceptances in its portfolio; but if anyone sends me bills on the Norddeutsche Bank or on the Diskontogesellschaft I regard them as the best bills one can have, and therefore I absolutely can not refuse to accept them; I have them in the portfolio and I can not very well pass them on. The idea is, then, that the bank's own acceptances, which have generally not been of its seeking, shall be entered under this head, and also a second class of bills, which, I am sorry to say, are sometimes found to exist in large quantities, but which I, in obedience to what I have called "the ten commandants of the banks," have the utmost horror of. These are bills—I need not add that I myself do not draw them—which, instead of being drawn on the bank, are drawn by the bank upon its customers, and which the bank then discounts for its customers and puts into its portfolio. In this way the bank does not burden its list

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of acceptances with the bill, but, on the other hand, it gets a bill which has at least a blemish; for the proper thing is that the customer draws upon the bank and not *vice versa*. It is therefore desired that these bills, which are justly enough regarded as being not quite of the same standing as the others, should, along with the bank's own acceptances, be entered under a separate head, so that people may know that this amount is to be deducted from the total.

Mr. ROLAND-LÜCKE. Not only bills drawn by the banks in question but bills drawn by any banking firms whatsoever.

Mr. SCHINCKEL: I think, Herr Roland-Lücke, that this might be worth considering; for my part, I do not wish to commit myself, but I will say that I should think such a procedure would greatly impair the clearness of the statement. For, suppose for a moment that a bill comes to me at the Deutsche Bank from an outside bank—a first-class bank, let us say, in Rio; then this is a bill that has arisen in a thoroughly legal way. In Rio an importer, who has to pay in Germany, buys a bank bill, and this has greater value than a merchandise bill. In Brazil the thoroughly legitimate business of the banks consists in buying merchandise bills and selling bank bills to those who want them. If a bill like this, which has come to us in a perfectly legitimate way, is thrown in under the same head with bills which we should like to exclude as being not quite legitimate, then a correct impression again becomes impossible, and anyone who wants to find out anything from our balance sheet may easily be misled. He may think that they are all first-class bank acceptances from the London

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and Brazilian Bank or from the Banco de Republica, and they may, in fact, be bills of a very different kind. Therefore, I have doubts about including under this head all bills that we regard, for one reason and another, as not being absolutely of full value. I prefer to make the humble suggestion that the bills under this subhead comprise only the bank's own acceptances and drafts drawn by the bank itself.

Mr. ROLAND-LÜCKE. Allow me to interrupt you. Your doubts are justified, but they would be removed, and demands made from other quarters would be gratified, if the title were to read "Drafts made by German banking firms;" thus all others would be excluded.

Mr. SCHINCKEL. But it may happen that there are a great many banking firms in our own country that do business in merchandise as well as regular banking business. Do you include bills from private bankers who are at the same time big merchants and receive *rembours* bills—are these bills to be regarded as inferior?

Mr. ROLAND-LÜCKE. Then they generally get discounted. [Laughter.]

Mr. SCHINCKEL. I should like to confine myself to my proposal.

The third head is "Credits with banks and bankers." No objections, certainly, will be made here.

Then comes head 4, in which *Reports* (thirty-day stock-exchange loans) and *lombards* (loans on collateral) have hitherto been comprised. It has been said that one would like to know how much is *reports* and how much *lombards*. Yes, gentlemen, but these often run into each other; it is the same as with the cash and the Reichsbank credits.

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Some people will say that that bank is fluid which has nothing but *reports* on the bourse; others will say that a bank is fluid if it does not have so much to do with the bourse.

A VOICE. *Reports!*

Mr. SCHINCKEL. In short, everyone can stand criticism; one man thinks it better to do it one way, and one another, and I think one can take account of these different opinions. But in my opinion the head should read "*Reports and lombards with firms on the bourse.*" For, gentlemen, when there is a boom, these things get mixed up; when all stocks are at a high figure, people are not satisfied to make plain *reports*, but demand some advance payment; in such cases we have not a standard *lombard* (which in the technical sense involves an advance payment of 10 per cent), but a *lombard* with a smaller advanced payment. In compliance, therefore, with the desire that has been expressed that this distinction should be taken account of in the headings, I would have the following headings read: "*Reports and lombards with firms on the bourse,*" and "*Other lombards.*" My own opinion is, that though this may not be of much use, it will do no harm to the banks, and will not involve too much work.

The next head is "Advances on merchandise and shipment of merchandise." And then comes "The bank's own securities."

Gentlemen, I warn you that the banks will have very different views about everything that relates to the itemized list of their own securities. For my part I must confess that I do not conceive of this itemization as being so very detailed and involving such an impossible amount

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of work; yet, on the other hand, I really do not see why there can not be more itemization than there is now. One may ask, How far are we to go? and, of course, some limit should be set. I shall come back to that later. In this connection it has also been maintained that a bank should not give all the interested parties such full knowledge as to its condition as will injure the bank's business. If, as Herr Roland-Lücke proposes, we are to have a subhead (a) "German imperial loans and loans of German States," then I should recommend that subhead (b) which Herr Roland-Lücke proposed on the spur of the moment, be "Other securities available as collateral at the Reichsbank or at other central banks" (I am thinking specially of the Bank of England); and that there should follow subheads (c) "Other listed securities" and (d) "Other securities." If the intermediate balance sheets are thus itemized, I really think that all fair demands will have been satisfied.

Then come "Participations in syndicates." On this point the experts have expressed their views in great detail. In my opinion there can be no question here of an itemized statement; why this is, I shall explain later.

Then come "Permanent participations with other banks and banking firms." The yearly report shows where these permanent participations are, so there is no need of an itemized statement.

Next come "Debits in current account," and here a distinction should properly be made with regard to the pledges, as also on the other side with regard to the guaranteed acceptances.

Then comes the "Bank building"—that is another delicate item—and then "Other assets."

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Under liabilities are to be included "Share capital, reserves, credits in current account, deposit moneys." Here Herr Roland-Lücke suggested a subhead against which I have personally nothing to say, but which, you must remember, will involve a good deal of work if it is to be accurately made out. I refer to the credits of banking firms. I have already remarked that there are many firms about which it is hard to say whether they are predominantly banking firms or mercantile houses. This is of course a point which enters in here, and you will see how hard it would be to make an itemized statement of this, and how different the matter looks according as one views it from one side or the other. You may depend upon it, gentlemen, that opinions will certainly differ very much as to the advisability of this subhead. Of course it can be put in, and there is some ground for wishing it to be put in, but I think one must not expect too much from it; firms that you would not regard as banking firms might sometimes be set down under this head. But in itself the itemized statement will do no harm.

Then come "Acceptances and checks, guaranteed-acceptance obligations, pension and foundation fund, and other liabilities."

With regard to the grouping of credits, let me at once show you how far Herr Roland-Lücke's proposal, which I have discussed, takes into account the proposals of the experts. For, gentlemen, whatever we may think about the opinions of the experts, all of us who have attended the sittings of the last few days must have been convinced that the experts have given their advice with the greatest

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zeal and with the greatest impartiality, and I am therefore of the opinion that we should not by any means throw their opinions to the winds and that we should not assume offhand that in the matter of these often conflicting opinions our authority counts for so much more than the authority of the experts. Of course we must come to some conclusion, but I think that so far as possible in regard to the matter we are now discussing, as in regard to other matters, we ought to listen to the opinions which have been furnished us, in many cases in great detail, by the experts.

First, we have the expert Picard. The wishes of this expert cover such a vast amount of ground that he will be the hardest one to satisfy. He wants to have the credits divided into credits at the Reichsbank and credits elsewhere; in this, as I have already said, I agree with him. He then comes to the question of bills, and these he wishes to have completely classified. He wants to have customers' bills separated from bills which the bank has drawn on its customers—we have already taken account of that point—and he wants to have mark bills separated from bills in foreign currency. Here we come to a very important point. I can not blame him for desiring this, and yet as a bank manager I must say that it would be extremely dangerous. To go back once more to the state of affairs in the Norddeutsche Bank, of which I have most knowledge, you will find there home bills and outside bills, and the outside bills are such bills as are due elsewhere than in Hamburg. But if you speak of foreign bills, I should not set that down in my statement. ["Quite right."] I consider

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that for a bank in our position—a bank with many more deposits than it wants—the best possible reserve is a good portfolio of bills on London. We always hold about a million pounds of bills on London, but it is true in Hamburg the largest business is in English money, and all the brokers, in so far as they are not dependent on Berlin, look to the Norddeutsche Bank. Now, for one thing, it is impossible for me to tell these people in my statement whether I have a very full portfolio or not—that would be showing my cards too much. But there is another point that is still more important. I can imagine a political situation in which prudence would require me to decide, though very reluctantly, to make my London portfolio very much smaller or to get rid of it altogether. If I am obliged to make it known in my statement that I have taken a measure which is likely to cause general alarm, then I can not take the responsibility for that alarm. It is one thing for me to be apprehensive and to act upon my grounds for anxiety; it is quite another thing for me to spread this anxiety abroad among the general public. ["Very true."] This looks perhaps like obstinacy; why should one not make itemized statements of foreign debits and credits and, above all, of the foreign portfolio? But there are a great many valid reasons against it. I can not speak for the other banks, but for my own part I shall oppose this sort of itemization as long as I can. I say this with all respect for the experts' opinion; I wish to explain why I can not accede to the proposal of the expert Picard, much as I should like to do so.

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He wishes further to have as a separate item the *report* stocks—that is, loans on collateral to banking firms or persons doing business on the bourse, subject to a month's notice. We have already spoken of this. But he also wants to have the *lombard* advance payments entirely separated, and that would, in my opinion, involve an enormous amount of work. I do not think it would be possible. A bank that has its own rule about this, in which it is stated under what conditions loans on collateral will be given, must be trusted to keep to this rule, and when the Norddeutsche Bank states the amount of fresh loans everyone knows that the loans have been made according to our rule. To specify further what the securities are would, I think, be impossible; moreover, if we keep in mind the interests of the customers in cases where large sums are involved, it would not be discreet or practicable.

Now we come to the stocks owned by the bank itself. Here the expert Picard makes very much the same proposal that we ourselves made, only he goes still farther and would have shares in mines and shares in Bohre separately entered, as well as shares in foreign railroads and transportation enterprises. These it is impossible to keep separate, at least in the intermediate balance sheets.

Finally he comes to unlisted securities, which, like the listed ones, are to be classified into various divisions. This is, of course, also impracticable.

Then come the syndicate participations, itemized as in the case of the bank's own securities, and with

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statement of the amount of payments still due. Intrinsically the syndicate participation would admit of being divided into these classes. But I should strongly advise against it, because the syndicate accounts are affected by elements quite different from those involved in the separate ownership of securities. A great many things are mixed up in the matter; for example, there are loans which have been given out, but which have not yet all been paid, account must be taken of sub-participations which have not yet been entered in the books on loan account, etc. In short, to itemize so minutely these syndicate participations, in which the matters involved are always of the nature of unfinished business, I consider entirely impracticable, and, indeed, impossible; and yet this is a modest request; other experts wish to go still farther. They wish to have it stated how much is still to be paid in upon the participation. Yes, gentlemen, if one only knew that oneself! When the subscription for the last imperial loans took place, and after the subscription we thought we had fulfilled our share and had nothing more to pay in, it turned out afterwards, as is well known, that even to-day large sums are left over and are to be paid in upon syndicate participation. In the balance sheet, of course, nothing should be estimated, everything should be positive; but in the itemizing of the syndicate participation everything would turn upon estimates, which, with the best of will, often turn out to be entirely mistaken. ("Very true.")

Then come the *Kommandit* participations. These can be treated as proposed.

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The same is true of permanent participations in foreign undertakings.

Next come the account-current debits, which it is proposed to subdivide into covered and uncovered debits; the former being further classified according as the cover consists of listed securities, unlisted securities, merchandise, bills, or, finally, mortgages, pledges, or other securities. Another expert actually wishes to know the class to which each mortgage belongs, as though that made any difference. A fourth mortgage may be very much better than a second mortgage; it all depends on the amount of the mortgage and the value of the thing mortgaged. If a bank has to set forth all these things, it will take three months and more to get the statement out.

Next come pledge debits, real estate used by the bank, and real estate not used by the bank. Well, all the banks do this. They specify their real estate in their balance sheets. There is no object in this, however, in the case of the intermediate balance sheet, for very likely the real estate holdings remain unaltered. These are things which generally drag along a good while, and in any case are never of such importance that their introduction into the intermediate statement would be of any interest.

Then come the liabilities. The expert Picard wishes to have the credits separated into credits due on demand, credits subject to eight days' notice, those subject to one month's notice, and those subject to a notice of several months. Gentlemen, this is absolutely impossible, first because of the amount of work and second because at normal times, even when we have made an agreement

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with some one that we shall not pay out certain sums at less than fourteen days' notice, we nevertheless do pay them sooner as a matter of course if the party wishes to make use of them. Itemizations of this kind, therefore, are often misleading, besides taking up a lot of time.

Gentlemen, there follow a number of other experts, Herr Christians, Herr Kronlein, and so on; but I fear I am keeping you too long, and I will therefore only take up the opinion of the one who has submitted his proposals with the greatest enthusiasm and who, I will admit, has a good deal of expert knowledge—I mean Herr Bernhard. I wish to say one thing to start with. On page 168, after having been subjected for some time to a fire of questions from practical men [laughter], he himself says that in comparing with the annual balance-sheet, it will be found that he had included a great many items under one heading; he did this, he says, because otherwise the expense would have been indefinitely increased. He heard from this from all sides. He goes on to say: "This would be absolutely unjustifiable and would lay upon the banks a burden which, to say the least, would be very uneconomical. Moreover, it must be remembered that what is here in question is the publication of a monthly statement, and consequently the publication of the payments and obligations of affiliated institutions might now and then lead to the disclosure of many business secrets." Finally, he says: "I, too, am decidedly opposed to its being expected of the banks to disclose these secrets. This is only one of the reasons why I have here brought a great many items under one head. Furthermore, throughout the statement I have not laid

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very much stress upon the question of securities." He wishes the statement to be given out rather for scientific purposes, and, to come back to his scheme, I think he wants to have much too much itemizing. He wants to have the bills separated into domestic and foreign bills, and to have the former separated into four weeks' bills and longer bills. Further on, where we would itemize more, he wants to throw things together again. He wishes to divide the credits into foreign account-current credits and domestic account-current credits. Now, gentlemen, how is it about these foreign credits? If you were to do this, you would fix upon every bank manager who does business with foreign countries a responsibility in the matter of itemized statements which is more than he can carry. ["Very true."]

I will explain this by an example. We, the Diskontogesellschaft, have a bank of our own in London; the Norddeutsche Bank does all its business through these London branches of the Diskontogesellschaft. Is it then a foreign or a domestic bank? Of course it is a foreign bank in the sense that it keeps its accounts in pounds sterling and not in German marks, and the consequences of this fact also tend to make it a foreign bank. From another point of view, however, it is a domestic bank, and if the Diskontogesellschaft in London should refuse to remit my credits, I should turn to Berlin and say, "You are responsible for your branches in London; kindly make payment."

The Brazilian Bank for Germany in Hamburg has a branch establishment in Brazil. Is it then a Hamburg bank or a foreign bank? Its business is in Brazil, its

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funds are in Germany, but its capital works partly in Brazil and partly in Germany. The Norddeutsche Bank has a large current account with it; in this account there are naturally great changes during the course of the year—according as coffee crops, etc., are coming in or not, it is sometimes largely indebted to us, and sometimes has large credits with us. Now, in respect to the condition of the bank, this sort of balance is a different sort of thing from a balance at some Brazilian bank which has its seat in Brazil, the activity of which does not extend beyond Brazil, which keeps its accounts in milreis and has its capital in milreis, and which I might quite possibly regard as a much less safe depository than a bank that has its capital in Germany and has never been involved with Brazilian securities. What sort of distinction is to be made between two such banks?

In short, itemized balance sheets of this kind are in the first place very hard to prepare if they are really to be made out in a trustworthy manner; and in the second place they are extremely misleading. As in the case of bills, therefore, so in the case of current accounts, I would not pin myself down as to which ones are foreign.

For the rest the wishes of Herr Bernhard, especially with regard to the intermediate balance sheets, do not differ much from our own; they relate chiefly to a more exact itemizing of the annual balance sheet. And here I come to a plan which I consider practicable, but I beg you, gentlemen, not to hold me responsible if other banks do not consider it practicable.

Some have wished that it were possible to ascertain the giro (deposit and transfer) obligations. That is another

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very ticklish business. Even if you really do find out the giro obligations of the banks, you will be in danger of drawing false conclusions from this information, though, of course, your conclusions may happen to be right. Suppose it is a case of some transaction in foreign bills, such as we in Hamburg are in the habit of making—and I may say that the Berlin banks, and often the Reichsbank, too, buy foreign bills through us in Hamburg. Of course we have to indorse the bills, and so, although these are giro obligations that I am glad to carry and that I am not ashamed of, I should have to put them down in my statement under the head of giro obligations. Again, some other man, we will suppose, is always somewhat short of money—he has to accept a great many bills from customers, and has to be constantly rediscounting—a thing that everyone is, of course, glad to avoid. In this latter case the figure of the giro obligations means a very different thing from what it means in the case of a man who has bought foreign bills for the German Reichsbank, or for the Bank of Belgium, or for any other party, and is then obliged to report his giro obligations. For my part, then—I do not, of course, wish to speak for the other banks—I should be ready to meet this wish. To be sure, it would not in my opinion be possible to do this in the intermediate statements, but if you would like to have this improvement made in the annual statement, I may say that the Norddeutsche Bank would not in the least mind doing it. It can stand the test; and in the case of other banks, especially of small banks with tiny capital and much too much business, it would enable one to draw perfectly justifiable conclusions; one could say: “Come, now, your rediscount-

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ing is out of all proportion to your capital." In short, in this matter good and evil are closely bound together. But I will admit at once that the good predominates, although a great amount of work is involved. I should, of course, confine myself in the matter of this proposal to those domestic and foreign bills which are drawn for more than ten days; for, gentlemen, if we were to include every bill that the bank sends in with its giro to be cashed, the whole statistics would again be turned upside down. The bank can not, then, set down in a separate entry the bills which, in order to cash, it must first indorse. As I have said, if only the annual balance were in question, I should second a proposal to the effect that we confer with the banks as to the plan of having separate entries for (a) giro obligations on domestic bills that are drawn for more than ten days, and (b) giro obligations on foreign bills.

Gentlemen, the annual statement is in any case a cause of great disturbance among the banks, and even if they are to get through still later in consequence of this new itemization I myself should regard it as a not unimportant improvement. But the chief thing that leads me not to oppose this suggestion is the fact that it is so very generally desired. The purpose of our being in this inquiry commission—and the reason why I myself had the honor to be made a member of it—was not only that we might hear all that is here said, but also that we might ponder carefully over all that seems to us to demand consideration; and I have put all this before you and advocated it in the hope that at least on this point, even though the wishes of each individual may not be satisfied, still the members of the

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commission may for once come pretty near to a complete agreement. Freiherr von Gamp, who regrets that he can not be present, has authorized me to say that he will be completely satisfied if an understanding can be arrived at on this basis. I think that if, as I hope, we shall be able to give a fairly unanimous dictum on this point, or even if we are able to bring our opinions into approximate agreement, we should ask the Reichsbank president to use a gentle pressure upon the banks and persuade them to issue their statements in this way. In this matter also I do not think we ought to pin ourselves down to the particular details; I think we should give the president something of a free hand. If the banks raise objections, on grounds that are perhaps unknown to us, as to some special point, it would be no misfortune if this point were to hang over and be brought up again at the proper time.

Gentlemen, a publication of these intermediate statements, which, if they are to meet our wishes, will be of great dimensions—thousands of banks will be included, for it is the small banks especially that must be compelled to hand over their statements in order that the material may be made complete—a publication of these intermediate statements in the Reichsanzeiger or elsewhere would involve an enormous expense, and besides no one would read the thing. But on the other hand there must be some supervision to see that these statements are always handed in and tested, and since the commission we have in view must, of course, have a secretary, this would in my opinion be the proper body. Besides this it should be insisted upon that the statements be

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handed in certainly within a month of the time of publication, for otherwise they will be only of historical value. They might also be posted in the banks, and, though this might not be of much use, it certainly could not do any harm. But above all it must be demanded of the banks that not only every customer but also every newspaper reporter, or any other interested person, whether a business man or not, must be shown the statement if he asks to see it; otherwise we should not accomplish our purpose, for it is desired that experts who write articles in the periodicals should be furnished with this material and should be able to work it over in their own way.

Gentlemen, the people who fare the worst in all this are the private bankers. I shall not go into this question any further, but I do not see why we should wish to compel the private bankers to make these statements. There may be some private bankers who will be offended if they are not represented, and will think that they are falling behind if they do not publish a statement. But we are not concerned with these; we are concerned with those who may be transacting deposit business at high interest in an unjustifiable manner. Here, certainly, there is an evil—in the misuse of the words “savings institution” and the like. The enticing of people to make deposits by advertising high interest rates is an evil which calls for public attention. No one can lay more weight on this than I do. In Hamburg—Herr Raab will bear me out—we suffer grossly through the fact that lottery collectors, etc., call themselves bankers; put advertisements in the papers to

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the effect that they will receive—not lend—money at high rates of interest. There is even one little bank among us that has a poster, which is lighted up in the evening, on which it is announced that savings are received there and that 5 per cent interest is paid on them, and when you look into the matter further you find that it is a bank with ridiculously small capital. Gentlemen, this is a positive crime, and I have often asked myself how it is to be stopped.

Nevertheless, I can not advocate legal measures, at least not in the sense of an imperial law or anything of that kind. Here, again, I build my hopes rather upon self-education, upon the influence of unhappy experiences; and I trust that in time the people will become thoroughly imbued with the knowledge that the higher interest they get the more they risk their capital. But, gentlemen, we must take into account that this knowledge is as yet not widespread and that especially for the little people, whose protection is the most important thing involved, the idea of a savings institution, savings deposits, and savings bank books has something very fascinating about it. In Hamburg every servant girl, every waiter, every nurse maid believes that what she has put into a “savings institution” is perfectly safe for all time, and many people of a higher economic grade have the same idea. Where or what the savings institution is, is a matter of complete indifference, so long as it is called a savings institution; and the higher the interest they receive the better pleased they are. Moreover, I will not conceal the fact that there are—or at least there have been, I think there are not so many now—Genossenschaften that have abused this term. Nor will I

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conceal the fact that we in Hamburg have been on the point of making a law according to which the words savings institution, savings deposit, and savings bank book may be used only in the case of genuine savings institutions. Unfortunately, through the accident of an election of senators taking place on the day of the division the vote on this bill was a tie. As I have said, I am not in favor of imperial legislation, but I think that in each of the federated states in which there are communal savings institutions, which we do not have in Hamburg, a change could and should be made—perhaps by way of an administrative order, or, if it can not be done otherwise, by way of legislation in the individual state. I do not say so much about the acceptance of interest-bearing moneys by small banks which are perhaps not quite safe depositories as about the misuse of the term savings institution. I do not know how it is in the rest of Germany, but in Hamburg it is extremely disquieting to see how this term is misused—and still more how the term savings bank book is applied to all such books as have the outward appearance of being savings bank books. Nevertheless, I can not, as I have said, advocate imperial legislative measures, but I am sure that by way of an administrative order or in some other such way the savings institutions and the public could be protected, and to this end, I think, we should direct our efforts.

Then, finally, we come to the question of how to proceed against those who use improper means to induce the public to make deposits. I do not know of any way of doing this. Legislation, I think, would be of very little use, and I can only say that my creed as a banker is that a repu-

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table firm never holds out the lure of high rates of interest in order to attract deposits. Such conduct has always struck me unpleasantly whenever I have run up against it. My idea of the nature of deposits is that the depositor goes of his own accord to the person who is to take the deposit and that the latter says to him "I can give you so and so much interest; if that is not enough, you can go elsewhere." If it were practicable to put a stop to the attraction of deposits through the announcement and advertising of the rate of interest—whether practiced by an insignificant banker, by a furniture dealer who announces by a sign in his window that he gives 5 per cent interest on money, or even by the biggest banker—I should at once give my support to the plan; but I do not know how an adequate legal regulation could be framed, and I am not so much in favor of a legislative measure against such conduct as of providing protection for the savings institutions. So far as this is concerned, I think it would be possible to limit the use of the terms savings institution, savings deposit, and savings bank book to institutions that are under state or communal supervision, and that these should be required to have special permission from the authorities to use the terms. This I should regard as a very wise measure.

Gentlemen, I shall not again have the floor—some one worthier than myself will make the concluding speech; before I close, therefore, I must express to our chairman my own personal thanks for having given us all such a courteous hearing, and for having met all our wishes. We have now taken part in the second meeting of the bank inquiry commission, and it has certainly been a great

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satisfaction to each one of us to stand by the Reichsbank when from certain quarters unjustifiable demands for changes with regard to the charter of the Reishsbank have been made. I hope that our honored chairman will have the satisfaction of finding us come to a unanimous decision at least with regard to some of the questions on which we have been engaged, so that, on the basis of this unanimity in the commission, he for his part can on occasion protect the credit banks, the cooperative banks, and the savings institutions against unreasonable accusations and attacks. [Applause.]

The CHAIRMAN. I wish to express my thanks to Herr Schinkel for his kind words to me. But I wish to thank him especially for the thorough way in which he has gone into the very complicated and very divergent opinions of the experts on this difficult matter of the form of the balance sheets. If his wish is fulfilled—if the commission does come to a fairly unanimous decision with regard to certain of the proposals—we shall owe it chiefly to his lucid speech and clear judgment, and I entertain the hope that the thoroughness with which he has presented the case to us may very materially shorten our discussions on this point.

Doctor LEXIS. Gentlemen, before summing up my views on the question before us I beg that you will permit me to go back to some things that were said on subjects that we discussed before. I am above all delighted that Herr Mommsen and several other gentlemen have thought it worth while to consider the idea that the banks should invest their surpluses in state paper, and even that they should be obliged by law to do so, (cries of "No!"), and I

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hope that this idea may perhaps bear fruit. Of course, it is only the legal surplus that is here in question. The difficulties advanced by Herr Mommsen with regard to the increase in the premium, and with regard to the increase in the surplus through new issues, could be got rid of by providing that only the surplus in the legal sense—that is, 10 per cent of the share capital—would have to be invested in state paper.

As to the objection made by some of the gentlemen that it would be difficult to handle the state paper of the smaller states in the same way as that of the large states, I should propose that the only state paper available for this purpose should be imperial loans. For in the end everything that is of benefit to imperial finance is of benefit also to the federated states; there is complete joint liability between the Empire and the federated states, and it would be foolish for the latter to be jealous of advantages given to the former.

As for a loss in the market price of the securities, there is of course a possibility of this; but it will very seldom happen that the holdings comprised in the surpluses of the banks will actually have to be sold. Even if the market price does fall, the paper does not need to be sold.

A VOICE. But in the balance sheet the actual figures must appear.

Doctor LEXIS. Then the surplus must be increased to that extent; that will not be so very hard. I shall not make any positive proposals, but the thing seems to me worth considering.

Now, it is admitted on all sides that as a matter of fact the cash holdings of the banks are rather scanty. Ac-

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According to the compilations before us, the great Berlin banks are recorded as having, exclusive of their credits at the Reichsbank, cash holdings amounting to only 6 per cent of their outside moneys; that would certainly be a very small percentage. We may assume, however, that even without legal compulsion the banks will make an effort to strengthen their stock of cash, and that the Reichsbank, too, will be able to stimulate this effort to a considerable degree.

But I wish to point out in this connection that the enormous difference existing, according to this compilation, between the cash holdings of the German great banks and the cash holdings of the twenty-two English banks here mentioned appears to me somewhat fallacious, since I think that the figures in question can not properly be compared with each other. According to the table the sum that the English banks have as "cash in hand and at Bank of England" is £90,300,000, whereas the corresponding entries in the case of the nine German banks amount to only £14,720,000. The former sum is, in the sense in which we use the term cash holdings, an impossibility. The total of private deposits at the Bank of England is, on the average, only £40,000,000, and even if we assume that the deposits of these twenty-two banks—the *Economist* reports on 75 joint stock banks—form three-quarters of the whole amount of private deposits at the Bank of England, still they would amount only to £30,000,000. Subtract this from the £90,000,000 and £60,000,000 is left. Does this perchance consist in cash holdings in the sense we mean? It consists, to begin with, of bank notes and gold, and coupons may also be included, though

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these are of no great importance. It is quite impossible, however, that these twenty-two banks have 60 million pounds in gold and bank notes, for the total bank-note circulation of Great Britain and Ireland, exclusive of the note reserve of the Bank of England, amounts on the average only to £28,000,000 or £29,000,000. Now, supposing that £25,000,000 out of these £29,000,000 go toward making up the aforesaid £60,000,000, there would still remain cash holdings in gold amounting to £35,000,000—in other words, about as much as there is in the Bank of England, and there would therefore be no ground for the constant complaint about the single reserve which is in the Bank of England. Hence it is inconceivable that this “cash” is to be understood in our sense; and Herr Roland-Lücke, whom I have consulted on the matter, also takes this view. It must be that all checks held by the banks are regarded as “cash,” and the checks payable by the several banks stand over against each other, and perhaps cancel each other the next day. The £90,000,000 can therefore evidently not be compared with the corresponding item relating to the nine Berlin great banks, and in so far it would be illegitimate to draw from these figures conclusions so very unfavorable to the German banks. But, gentlemen, I am nevertheless of the opinion that it would be very desirable for our German banks to increase their cash holdings; but this will doubtless be accomplished without legislative compulsion.

As for the question of the intermediate balance sheets, I should be perfectly satisfied if it should turn out that by means of a certain amount of pressure brought to bear by the Reichsbank and by the associations which are

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concerned in the matter the banks could really be induced to compile these statements and make them accessible to the public of their own free will. At the same time it would not, to my mind, be a source of any great danger or unpleasantness to the banks if a legal regulation to this effect were established and enforced, and this would have the advantage of causing all the material to be brought together from the very start, this being itself, incidentally, a great gain from the statistical point of view. The legal regulation might read something like this: The banks shall publish intermediate balance sheets at intervals of two months; further regulations are to be established by an order of the Bundesrat after a hearing of the advisory council which is to be created. It would not be necessary for all the banks, large and small, to use the same form for their statements; the special circumstances of the small banks might be taken into account. And from time to time new regulations could be issued by the Bundesrat in accordance with some felt need and after the expert opinion of the advisory council had been taken. I do not apprehend any evil results from such a procedure. It would, of course, be better if the same thing could be brought about by voluntary action, but I doubt whether it could.

At any rate the measure would apply only to those banks which are, even as it is, required to make public statements as to their condition—that is, to joint stock companies, *Kommandit* companies, and banking associations with limited liability. Private bankers are not subject to this requirement, and here at once a sharp distinction presents itself. If, then, the aforementioned

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companies were required to publish their condition six times a year, this would be keeping within the sphere of the legislation already existing, by which these companies are distinguished from private bankers. The completeness of the statistical showing would, of course, be impaired by these omissions, but I do not think we could pry so deep into the affairs of the little bankers of countless little cities. But, besides, what does the capital of these little bankers really consist in? Is it only the capital which is formally invested in the business, or is their other property also included? A piece of real estate, for example, in the possession of one of these bankers is involved in his responsibility, but it does not form part of his business capital. It would not be practicable, therefore, to make these demands in the case of the little private bankers and to have them satisfactorily complied with.

As for further utilization of the material in the balance sheets, that would lie with the gentlemen of the commission proposed by Herr Roland-Lücke and with those of the advisory council. This advisory council would also, in my opinion, have an important part to play in that it would constantly point out to the Reichsbank occasions where it would be well for the latter to step in with influence and suggestions. This commission would also have to see to the publication of summaries of the intermediate balance sheets. The small banks might perhaps be altogether exempt from separate publication; they might hand in their intermediate balance sheets, and through the medium of the commission these might then be classified into groups and published in summar-

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ized form. There should be from the start the most careful supervision—a thing which is desirable also on statistical grounds. It could then be seen how in the course of the year the separate items of the balance sheet are slowly shifted. When any reversal of the economic situation is in progress, it will perhaps make itself known months in advance in the changing totals under the various heads in the intermediate statements. It would, of course, show itself much more clearly if monthly instead of bimonthly balance sheets were published, but even in the bimonthly statements there would be indications of what was coming. And even if only a scientific end were served, still it would be worth while; one would see after the event what were the preliminary stages of the reversal. In 1907, for example, the crisis in Germany did not happen all at once in October (it was not a real crisis anyway, but only a reversal of conditions); it began as early as the 14th of March. On that day—in connection, to be sure, with a setback in America—there was a sudden slump in all securities at the Berlin bourse. The intermediate balance sheets, if these had been available, might possibly have given some preliminary indication of this change. In this general movement of the chief items of the balance sheets one might at least after the fact recognize interesting symptoms of impending economic setbacks.

For the rest the commission should not by any means, in my opinion, be an authority which can interfere in an active way; it should be essentially a body for making observations and forming judgments—a body which

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would be in a position to give a pointer to the Reichsbank whenever it comes across anything questionable.

As for the illegitimate attraction of customers by small banks and bankers, I really do not see what can be done about that. Herr Roland-Lücke proposes that the law about illegitimate competition be applied here. And this seems to me practicable, since the very parties that would be in a position to make complaints about the misuse of the terms "savings institutions," "savings deposits," and "savings bank books," are the savings banks themselves. They can say such representations are an infringement upon our rights; besides, they mislead the public; we demand that they be put a stop to. Another thing that might fit the case is a supplement to the trade regulations, to the effect that any person who has been punished because of deception, or on any similar ground, shall no longer be permitted to carry on banking business—some-what as even now a great number of professions fall under section 35 of the trade regulations. Of course I would not have the bankers simply included under this paragraph without more ado; but I should consider that its interpretation might be enlarged so that those who have been punished for deceit, etc., may not be allowed to carry on banking business for the time being, or until they have given satisfactory evidence of improvement. In this way I think the worst evils would be in some measure obviated.

Doctor STRÖLL. On point No. 2 I can sum up my opinion very briefly. I think that Herr Schinckel's treatment of the subject, and especially the programme of Herr Roland-Lücke, should greatly shorten our discussion; I agree

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in general with these ideas and proposals. I too am in favor of greater publicity, but of a publicity gradually to be brought about, not by compulsion, but by example and precept. Even keeping short of compulsion, we can easily exercise a gentle pressure in this matter. I need only remind you of the influence that the listing bureaus have upon the several banks—an influence that may be utilized for the attainment of greater publicity.

On the subject of the form of the balance sheets I do not wish to speak; I am inclined to think that it would be carrying owls to Athens to talk much more on the subject; for in what we have heard to-day, and in the proposals of Herr Roland-Lücke, as also in the hearings of the experts, the subject has been treated so thoroughly that the Government has only to sit down to table and help itself to a plan according to its taste and fancy. I admit, to be sure, that it will be a very good instance of the *embarras de richesse*.

There is only one thing that I should like to call attention to. Doctor Weber has just now expressly said that greater itemization must be adopted, and that in particular the form of statement that is to be introduced for the great banks will not do for the small and middle-sized banks.

As for frequency of publication, I think that there should be bimonthly statements in the case of the banks, but that semiannual statements would be enough for the Genossenschaften, and annual statements for the savings institutions. The advertisement can not of course appear in the Reichsanzeiger, the advertising section of which has no wide circulation; it must appear in the local press,

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so that the people concerned may actually have it before them. And the recommendation of Herr Roland-Lücke that the statements be posted in the places of business, also seems to me practical.

I come now to the last point, which does not seem to me of such secondary importance as would appear to be attached to it by several of the speakers of the last few days. I think it is important for us to see to it that the economically weaker and less well-informed people are better protected; I do not think this is a thing that we may dispose of in a cursory fashion. For my part, I should consider it quite in order, in view of the resolution of the Reichstag, for us to consider the possibility of making a little draft of a law designed to this end; I admit that the question of the legal definition, for use in concrete cases, of the word "solicitation," presents difficulties; and there will also be difficulties in the way of carrying out the law. But that should not keep us from embarking on a course which is generally recognized as necessary. Whether the existing penalties for deception and misrepresentation are sufficient to meet the cases in question, and whether the paragraph about illegitimate competition can be made to apply—these are questions that I should not like to answer definitely; but it does seem to me uncertain whether the conduct of a certain kind of insignificant banker, who stops at nothing in his efforts to secure deposits, which he then proceeds to mismanage—whether this sort of conduct can be put an end to in the way proposed. I call your attention to the discussions that took place at the last meeting of the agricultural association in Swinemünde. President Heiligenstadt has told

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you that on that occasion he brought forward many actual examples of gross exploitation practiced, especially in country communities, by some of these insignificant bankers—examples that can not be simply passed over. From what I hear it appears that in other countries there is precautionary legislation on this subject. I did not have a chance to get much information on that point. Herr Schinckel has told us to-day that in Hamburg they have at least been considering legal measures with regard to the use of the term "savings institution." Perhaps some one of the laws existing elsewhere could be introduced into Germany.

What do we actually have in mind when we speak of the law against enticing? Attracting is of course in itself not a crime; every human activity depends, in the last analysis, upon attracting or enticing. We must distinguish, then, between allowable invitation and forbidden enticing. Under illegitimate enticing I should include the following: The promise of unprofessionally high rates of interest; improper advertising; misrepresentations; fraudulent claims; the use of a misleading designation for the business concern, etc. To take up the last point, I think the words "bank" and "banker" should be sharply defined; I understand that in foreign countries there are legal regulations on this matter also. Doctor Obst in his paper tries to construct legal definitions which shall fit German conditions. Definite rules would have to be adopted as to the applicability of various designations, and misleading designations would have to be forbidden. To be sure the actual determination of such a question as whether a given deposit concern had been making use of illegitimate

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enticement would be a difficult matter. The states attorney's office is not, in my opinion, in a position to do it, since the matter calls for persons well versed in technical banking questions and in business matters; the police certainly can not do it; and I therefore think that the suggestion of Obst, that perhaps we might in this matter call for the assistance of the Reichsbank and its five hundred offices, is not without value. Herr Roland-Lücke said to-day in private talk that perhaps certain central agencies of business, as, for example, the central offices of the banks, which we already have, or the central offices of the Genossenschaft system, which we also have, might serve as vigilance societies and report directly to the Reichsbank, and that they might, when necessary, interfere through the medium of the advisory council. I consider the proposals made by Herr Roland-Lücke to be eminently practical; no doubt he will himself go more into detail in regard to them. I think that in this way one difficult problem may perhaps be solved.

Gentlemen, though I have touched upon some difficulties connected with the matter, still I think these difficulties are not at all insurmountable; I think it very likely that a special law could be made which would keep many a man from harm, and would protect business from illegitimate elements.

Gentlemen, Herr Schinckel has addressed a word of thanks to our highly honored and much loved president. I should like to say that I second with all my heart his expressions of gratitude. In my opinion, there is no basis whatever for the notion that the bank inquiry has not yet resulted in anything practical; in point of fact, it has

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had very practical and important consequences, especially the supplementary bank act of 1909. In the history of the economic development of Germany, this law will always be closely associated with the name of Havenstein. [Enthusiastic applause.]

Mr. KAEMPF. I merely wish to say a few words on the subject of the form for the balance sheets. I agree with Herr Schinckel that it would be well for the Reichsbank president to use his influence with the banks to bring about some such change in the form of the balance sheets as was suggested by Herr Schinckel. We shall not be able to form a definite conclusion on the matter. I myself attach the greatest importance to the condition that the thing be done only after an understanding with the banks is arrived at; and if I permit myself to point out one consideration on the subject, I do so not for the purpose of bringing about more detailed itemization, but because I think that this consideration may have the effect of preventing the itemization from being carried as far as has here been proposed.

I think that from the published balance sheets one should be able to ascertain very accurately what is the fluidity of the banks whose statements are published; and I think that whenever possible the duration of the credits ought to be made apparent. For example, it would be a very good thing if bills that have more than ninety days to run were kept under a separate head, and if the same thing were done with such *lombards* (loans on collateral) and *reports* (thirty-day stock-exchange loans) as have more than four weeks to run. In that case it might not be necessary to enter *reports* and *lombards* with firms

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on the bourse separately from other *reports* and *lombards*; for even *lombards* with bourse firms may be *reports* and *lombards* that do not comply with strict requirements of soundness and fluidity. Finally, in the matter of the bank's own securities, I should lay chief weight on the question of whether they are quickly realizable or not. They may be listed securities and yet not realizable. If I have in my portfolio three millions in Harpen mine shares, then I have stocks that are quickly realizable; but if I have three millions in stocks of which I can sell only three thousand marks' worth a day, then I have stocks that are not quickly realizable—and the question is by no means unimportant from the point of view of the fluidity of an undertaking. I have said this, not with a view to its being distinctly acted upon, but merely in the hope that, when the Reichsbank president shall talk the matter over with the banks, this consideration may be borne in mind.

I have one more thing to speak about, and that is the plan of having giro obligations put down in the annual balance sheet. I do not approve of this; I think it could only be misleading. Herr Schinkel has already explained that the Norddeutsche Bank may have a heavy giro obligation if it buys large quantities of bills in London for the Belgian National Bank, or for some other foreign institution and indorses them. These I should not regard as being giro obligations in the sense meant by those who wish to have the giro obligations published. I must explain further. The Belgian National Bank wants to buy a large quantity of mark bills in Germany and gives a commission to that effect to the Norddeutsche Bank

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or to some other bank. The ensuing giro obligations are not, in my opinion, giro obligations in the sense in which the phrase is used by those who demand that giro obligations be published. Nor is it only the Belgian National Bank; I know that German banks, especially mortgage banks, outside Berlin are constantly giving large orders to Berlin to buy mark bills for them to put into their portfolios. These obligations, too, are not obligations such as were meant by those who first raised the demand for publication. I think, therefore, that the publication of these giro obligations can not but be misleading, and whenever we can avoid doing anything misleading we ought to do so.

This is what I wished to say. I repeat that the whole outcome of to-day's discussion may, in my opinion, be summed up in the recommendation that the Reichsbank president conduct his negotiations with the banks on the lines here laid down.

Doctor WAGNER. I am glad to be able to say that on a number of not unimportant points a considerable, though not complete, unanimity has been attained, not only among the men of practice, but also among those of us who, like my humble self, my colleague Lexis, and others, belong rather to the domain of theory. It shows how in such discussion differences straighten themselves out; and we have constantly found that on such occasions, even though things are now and then rather lively, and rather pointed remarks are sometimes made, still there is no real ill will. The points on which there is, in my opinion, practical unanimity are the following:

For one thing, it is admitted on all sides that we carry on credit operations with too little cash reserve. If I

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have understood the practical men aright, they admitted this themselves. We theorists think there should be special legal regulations for strengthening the cash reserves, but however this may be, we are all agreed that in some way or other they must be strengthened.

I should like in this connection to raise a theoretical point that has often been touched upon in the course of our deliberations. It can not be said that in themselves cash reserves are unproductive. They do not yield interest directly, and from the standpoint of the individual owner they are not income-bearing; but they are essential to the conduct of his enterprise and are therefore theoretically productive. I could refer here to great thinkers—to the one who is perhaps the keenest political economist that we have ever had in Germany and who in certain respects stands even above Ricardo—I mean Herrmann, of Munich. Speaking of such reserves, he says that nothing could be more fallacious than to regard them as unproductive. He, like Bayer and some others, had the courage—and it was a case for courage—to say that the institution of the Prussian imperial treasury was a very proper act.

As to the question of whether the bankers and bank managements can themselves be made to see, after talking it over with each other, that they must have greater cash reserves or whether, as several speakers, with whom I agree, have maintained, a certain minimum cash reserve (or Reichsbank credit) should be prescribed by law, on this point there is still a good deal of difference of opinion; but this difference of opinion is not of a sort than can be called radical. I hold to the plan of a legal minimum, and

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I think the majority of the gentlemen who have spoken on the subject to-day are of this opinion—Herr Direktor Schmidt, Herr Raab, and others, and in particular President Heiligenstadt. But I admit that if the banks are to do the thing of their own free will then all the more applicable will that expression become which, I am told, my honored neighbor, Doctor Ströll, used, referring to the Reichsbank—“Landgraf, Landgraf, werde hart!” Certainly the Reichsbank itself must be somewhat more severe (at least this is my feeling in the matter), so that the banks may know that they can not go on indefinitely making their cash reserves smaller and smaller, and that they are impairing the strength of the Reichsbank to such an extent that the latter is itself afraid now and then that it may fall into difficulties. Thus on the whole a certain degree of unanimity has been attained as regards this point.

Another point upon which there has come to be substantial unanimity is that of the necessity of publication, and that with much greater detail on the whole than has been given in the intermediate balance sheets hitherto published by the great banks, useful as these have been. But I have also become convinced—and that by the remarkably clear and lucid speeches of Herr Schinkel, Herr Roland-Lücke, and other practical men—that we must not go too far in this direction. Too much itemization destroys the possibility of a rapid survey, nor can it be denied that it would take a great deal of work. And the point made by Herr Schinkel also seems to me very important, that it would be well for us to content ourselves with a somewhat abridged and not completely itemized

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statement, so long as it comes promptly, since this would be of more use than a thoroughly itemized statement coming several weeks later. That is the standpoint of a practical man, and I, who am a theorist, agree with him absolutely. Here, too, then, I think there is in point of fact a certain unanimity.

Furthermore, we have seen that some—I will choose a noncommittal term—some agency must be instituted which shall form judgments and shall act in some sort as a supervisory agency in relation to the stock banks and deposit banks. A body such as this is, in my opinion, indispensable. This I consider to be clearly established by the observations of Herr Roland-Lücke, which I unfortunately did not hear directly, but as to which I have since informed myself—parts of them, too, have been repeated to-day by him and by others. Herr Schinkel also seconded them, and I think I may say even from the somewhat broader standpoint of the demands of a theorist, that if instead of doing what I proposed we were to succeed in instituting a bureau of supervision conceived in this less rigorous spirit, an advisory council, a commission, or whatever you like to call it, acting as far as possible in connection with the Reichsbank, that would be, in my opinion, an enormous step forward. Whether a commission of this kind will really have sufficient authority with all the banks and bankers that are here in question, I do not say; some of them may not comply without demur; but at any rate we might wait and see how things develop, just as we did well to await the publications by the Berlin banks, which were proposed by my colleague Riesser. I therefore welcome this proposal also and think

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that on this point, too, we are really at one, and it is a very important point.

I should like also to make one or two brief remarks on the subject of balance sheets. I want to remind you that in one of the sittings of the Inquiry Commission of last year we discussed the plan—Freiherr von Gamp among others made a proposal to that effect—of making a sort of division in the cash holdings and having the amounts of gold separately entered. I think that as a general thing this would be impracticable, but in cases in which it is practicable to look closely into the matter, these amounts might be ascertained. I think something would be gained in this direction if the banks, especially the few great banks, were called upon to state in their complete reports and in their bimonthly balance sheets how much of their cash is in gold. Then we should have something to go upon. If this were done by the whole banking world, then there would be a very interesting addition to our data for determining how much of our gold coin circulates in the channels of trade; it would perhaps no longer be possible to doubt the fact that a great deal of gold is so used. At any rate, it would furnish some additional material for our statistics of gold. The other items that I should like to see improved I may as well pass over, since most of my criticisms have been conceded, especially in the proposals of Herr Schinkel. There is only one point that I should like to bring up again, though I know from what Herr Schinkel has said that he will not agree with me, and that is the question of whether at least two classes should not be distinguished in the case of deposits and credits, one comprising demand

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and short-time—eight or fourteen days—liabilities and the other liabilities of longer duration. Would this be so very hard? For the question of fluidity it is certainly of fundamental importance. By means of this little additional itemization, on the subject of which more might be said, much would, in my opinion, be gained.

As for the strictly practical proposals for a further legal regulation of the banking business, I have not given them up. Gentlemen, it seems to me desirable, and even necessary, that we should go somewhat further and come to an agreement about such minor requirements as that relating to the investment of a certain proportion of cash holdings and credits at the Reichsbank in bills acceptable by the Reichsbank; and further, that with regard to each individual point, we should ask ourselves, Has the time not come for the exercise of a certain amount of legislative pressure? In short, many of these things are to me still open questions, but I am perfectly willing to admit that they are worth talking about. We have not as yet carried on the discussion long enough to come to an agreement on this point, and it is very desirable that we should. But taking it all in all, we shall have accomplished a great deal if we come to an agreement on these other points—the necessity of larger cash reserves, the regular publication of balance sheets, and the formation of an advisory commission, concerning whose organization we are not prepared to speak in detail, but which, we are all agreed, is to be instituted not as a separate entity but in some sort of close connection with the Reichsbank, and which is to take upon itself a kind of moral, though not legal, responsibility. If our commission results in these devel-

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opments, it will have had a happy outcome. My impression is that there is a near approach to unanimity on these points, even among the gentlemen whose views on many subjects are sharply opposed to mine.

These are the chief points that I wished to lay before you.

Permit me to say just a few words more, since I am always being subjected to fresh attacks. This morning they came especially from Freiherr von Gamp and from Herr Kaempf. Herr Kaempf, for example, used this expression concerning my remarks of yesterday—*de omnibus et quibusdam aliis*. That may be. But I beg to point out that in one instance Herr Kaempf was not thoroughly informed as to what I had said, since he had not been present. He may have got reports from his friends and acquaintances, but such reports are bound to be imperfect. I shall therefore put him right on the matter. I wish to emphasize the fact that a great many of us have come to substantial unanimity on several questions. Among these, besides myself, are President Heiligenstadt, Director Ströll, Count Kanitz, Herr Singer, and many others. And this is quite natural. The gentlemen of the banks certainly have the right of way in all technical banking questions. On these questions their experience perhaps gives them a great advantage over us theorists. But I hope you will not—that even Herr Kaempf will not—take it ill of me if I say that you practical men too often stop short at purely technical matters, and do not see, or at least do not attach enough importance to, the bearings of all these matters on the general development of our whole economic life. If I

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were to go into this point any further I should have to repeat myself; Freiherr von Gamp has taken me to task this very morning, but still, if I were to reply to him, I should have to say over again what I have said two or three times already. I stand by what I have said, nor do I see any reason to change my view on account of Freiherr von Gamp's comments. I can only say that he was not present on the day before, the day on which I spoke on the subject. However that may be, we shall not be able to agree fully on that question; for our answers to it depend, not only upon our views on economics, but also upon our views on social policy—I might almost say, with Director Ströll, upon our *Weltanschauung*. Yes, gentlemen, I agree with all the practical banking men that we can not always remain a purely agricultural state; in fact it is a long time since we could be called that. But neither can we become a purely industrial state. On the whole, I side with the agrarians. You know that on the question of the inheritance tax I broke away from the agrarians; but on large general questions—especially in the belief that at least we should not look upon our development into an industrial state as our aim—here I am in sympathy with the agrarians. For that matter, on this point there is no great opposition of opinion; the issues involved are not all fundamental. Even the gentlemen who are in favor of an industrial state, even Herr Kaempf, even Herr Mommsen, do not, I imagine, nor do you wish for English conditions. Do you wish to have us import 90 per cent of our grain? I do not think anyone would wish to go as far as that. At all events, we can not have this state of affairs, not only

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on account of our agriculture, but also because we must have a large country population; we can not do without it. I have in mind the whole country population, the great landowners, the land-owning nobility, the peasants, and the small proprietors; we need them all in Germany. If the English really think they can get along without them, well, they may be right. We shall see how it turns out. In England there is widespread complaint, even in industrial circles, over the lack of a proper supply of workingmen for the manufacturing industries; even the cotton mills can no longer recruit their forces out of the rural population. Large general interests are here at stake. In this there can, I think, be no room for any great difference of opinion, except as to what measures would be useful in view of the situation, and still more as to the rate of movement. Our development into an industrial state, an export state, can no longer proceed on the old country roads, so to speak, and with the old country coach, or even with the old post chaise; but for it to proceed at once on the most modern lines, with the speed of a lightning express, or of an automobile, that would be going to extremes, and there would have to be a reaction. And I therefore maintain that the credit, stock, and deposit banks must contribute their share toward bringing about a more careful and moderate granting of credit. I shall go no further into this question; I know we shall not be able to agree.

I wish to close with a word of a personal nature—and it is not out of place for me to do so, since I share with Herr Oberbergrat Wachler the—I can not call it the good fortune, nor can I call it the honor, but the fate of being

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pretty much the oldest of us all. I should like to express for my own part—and I hope I may speak in the name of all the rest—my thanks to his excellency, President Havenstein, for his impartial, as well as kind, pleasing, and obliging conduct of these discussions. (Applause.) He has again proved what can be done in this way. It was not always an easy thing for him to listen quietly, especially to such emotional old fellows as we are. I acknowledge this all the more since I myself am indebted to him on this score. But every one else will feel the same way about it. (Applause.) It means a good deal to conduct these meetings, in which such heterogeneous elements are assembled, in such a way that no one can help saying that it would be impossible to manage the thing more impartially or more efficiently as regards the attainment of the end in view. I think, too, that if, as I say, we have really succeeded in coming to an agreement on the aforementioned three main points—if we are agreed upon attempting to bring about, through persuasion and advice, such changes as an increase in the cash reserves and a regular publication of complete and serviceable balance sheets (inasmuch as the plan of legislative action, which I really approved of, is turned down), this outcome is largely due to the extremely kind, clever, conciliatory, and able conduct of the discussion by Herr Reichsbankpresident Excellenz Havenstein. (Applause.) Allow me, President Havenstein, to convey to you my own feelings of most heartfelt gratitude. (General Applause.)

The CHAIRMAN. I hope your excellency will permit me to say a hearty word of thanks for the kind things that you have said to me, and I think I may assume, from what

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other members have said, that you have spoken in behalf of the whole commission. Permit me to add, however, that in point of fact, all through our deliberations, it is you that have given and we, representatives of the Reichsbank and of the government, that have received. Gentlemen, one for whom the office of chairman is made so easy, who has had the good fortune, as I have had both last year and this, to be chairman of a commission of which all the members are not only masters of the subject, but are also, without exception, desirous of making headway—such a one finds the office no burden, but a personal pleasure, and I may add, in view of the interesting subjects we have been discussing, an intellectual pleasure as well. For this, gentlemen, I thank you. And since you, Exzellenz, have spoken in a personal way of yourself and your age, I feel that I may express my heartfelt pleasure in having you with us to-day in such admirable freshness of body and mind—thirty-four or thirty-five years after the time when I had the privilege of studying under you for three semesters, and of receiving through you my earliest interest in political economy. I can only add that I hope this vigor may long abide with you, for the good of the Fatherland. [Applause.]

Doctor WAGNER. My most sincere thanks, gentlemen.

Doctor HEILIGENSTADT. Gentlemen, I should like to express very briefly my opinion on the subject of the balance sheets and on the subject of the Reichstag's resolution concerning advertising. I am here in the very happy situation of agreeing with Herr Schinkel. I regard the speech of Herr Schinkel as marking a distinct step in advance, especially in that he expresses the view that

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the banking system is under an ever-increasing obligation to be an organ of public service.

As for the question of the form of the balance sheets, it goes without saying that it will not be possible for all the banks, small and great, to give all items. I do think, however, that it is rather important for the items to be put together in a uniform way, both for the reasons adduced by Herr Geheimrat Lexis and also for the sake of the better utilization, for scientific purposes and for purposes of social legislation, of the data about banking conditions. I am in the habit of seeing the balance sheets of great banks and of small financial institutions, of Schultze-Delitzsch Genossenschaften and savings institutions, and also of the little country Genossenschaften. I am convinced that the different items can be put together in a uniform way. In the smaller money and credit institutions, when some item or other does not turn up, then that item is simply left out of the balance sheet. For example, as I pointed out once before, in the small country savings and loan institutions there are really no regular deposits, but only savings and current-account moneys. If uniform heads are prescribed for the balance sheets, care should be taken that this should be done in such a way as to permit all possible transactions to be set down under the same head, which are not to be distinguished from each other in point of quality, but only as a matter of quantity.

I agree with Herr Schinkel, too, that in the case of the great banks and of certain other banking institutions the publication of giro obligations had better perhaps be omitted, since it might give rise to misinterpretations.

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But, gentlemen, the publication of giro obligations is a thing of great and fundamental importance for the middle-sized and small banking concerns, especially for the *Genossenschaften*. I can but tell you—perhaps you know it, and perhaps you do not—that the management of the *Schultze-Delitzsch* union lays chief stress upon the publication of the giro obligations. I think Director Peter, who comes into close relations with the *Genossenschaft* system, will agree with me that it is extremely important for the sake of the sound maintainance of the *Kreditgenossenschaften* that the giro obligations be published. In fact, the situation there is very different. It is not *Kommissionsgiros* that are here in question, but rediscount giros. The giro obligations in these cases arise chiefly from the rediscounting of bills for money-making purposes. I still maintain that deposit moneys and savings can and should be kept separate, even in the interest of the bank's own condition. Apart from this, I agree with what has been said by Herr Schinkel and others who have spoken on the subject of the form of the balance sheets.

With regard to the intermediate balance sheets of the larger banks, I should be glad if the dates of publication were so arranged that these statements should furnish public information about the great quarterly periods of March-April and September-October. In the case of the *Schultze-Delitzsch Genossenschaften*, at least in the case of the larger ones, semiannual statements should suffice, as Herr Direktor Doctor Ströll has remarked. In the case of the little country *Genossenschaften* the annual statement would do. I referred—I think it was the day

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before yesterday—to the special circumstances existing among the little country savings and loan institutions. An annual statement should certainly be enough there. This plan would meet with no opposition among practical men, and for that matter it should not be regarded as giving the country savings and loan institutions any very special advantage.

The last point I have to take up is the resolution of the Reichstag with regard to advertisements about the acceptance of deposits and savings. Herr Director Doctor Ströll has kindly referred to a speech that I made last summer in Swinemünde on the occasion of the convention of the country Genossenschaften, in which I spoke about the effect of this sort of advertisement, and I can assure you on the basis of my own experience that things are in a very bad way. It is not only a matter of advertisements in newspapers, etc., the fact is that in certain parts of the Empire there has grown up a downright system of catching and barking. [“Very true.”] We had a chance to observe this development years ago in Westphalia. Gentlemen, I want to tell you what large sums are here involved—what large sums advertisements of this kind cause to be withdrawn from safe and reputable places. In connection with some statistics that I was having compiled for other purposes, I made investigations as to the movements of the savings moneys with the Genossenschaften, and judging from these statistics I have reason to believe that in the years 1905, 1906, and 1907, between 500 and 600 million marks of savings deposits were withdrawn from the small country savings and loan institutions as a result of advertisements and promises of high interest. [“Hear! Hear!”]

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In some provinces I investigated the matter more closely. For the most part it is peasants, but sometimes it is also rural Genossenschaften that are enticed into withdrawing their money from the Genossenschaften and putting it into the places that are advertised. Gentlemen, for years I have busied myself with this question—and indeed it was one of my official duties to do so. But I am in the same state of mind as Director Ströll—I do not at present see any other resource than the enlightenment of the people. The only advice I was able to give to the gentlemen in Swinemünde was this: Make the people see that higher rate of interest means greater risk. And then I said to the Genossenschaften you must have more *esprit de corps*; do not bother about other people's affairs until you have looked after your own. Whether anything can be accomplished by means of the law relating to illegitimate competition, I do not know. I doubt it very much. I must frankly say that so far I have been able to discover no remedy. ["Very true."]

If any remedy were to be found, I should seize upon it with delight. But for the most part these gentry slip through your fingers. When you look around, you find no one; hardly ever does one succeed in establishing a positive case. And yet, of course, it is desirable that this advertising and solicitation should be stopped. A few years ago, in the provinces of Westphalia and Hanover, there were men going about from house to house peddling little mortgage debentures and all sorts of securities—especially potash shares—and receiving deposits. I think I may say right here, however, that the enlightenment of the middle class in town and country has made and is con-

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stantly making marked progress. When I look back over the fifteen years of activity of the Preussische Zentralgenossenschaftskasse, I feel justified in saying that within this time an enormous amount has been accomplished in the way of enlightenment; wider and wider circles have been educated up to making use of properly organized money and credit institutions, fulfilling an appropriate part in the general money and credit system of the country.

Mr. MOMMSEN. Gentlemen, allow me first to go back to a few words in the speech of my honored *vis-à-vis*, Excellenz Wagner—words of a rather general nature. Much as I, like all the other members of the commission, agree with what he said in behalf of us all about our honored president, still I think that in going over those points on which we are on the whole of one opinion he made one very definite mistake. I refer to the question of the cash reserve, on which there is really no unanimity. Excellenz Wagner said that it was admitted on all sides, even by the practical men, that the cash reserves of our banks are too small and that they must be increased. The question of the cash reserve of the Reichsbank is not up for discussion this time; we discussed that last year. But on the question of the cash reserves of the banks there is no unanimity. The reason for this is—I shall speak frankly—that the cash reserve means a different thing to the theorists from what it means to the practical men. To us our cash in hand is not the real reserve, it is only what we have to keep in order to satisfy the demands for cash that may arise in the ordinary course of daily business. Our real reserve consists of course in other things. You can not prescribe a minimum for the

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simple reason, as I said a while ago, every different institution, every different time, every different place, has its own peculiar kind of cash reserve, according to the nature of the clientèle and according to the way in which the business is conducted. I think that on this one point we can not be said to have come to a unanimous decision. I should be sorry if it were later publicly assumed that we had done so. This is why I have permitted myself to make a remonstrance.

I agree thoroughly with Professor Wagner that we have really come to an understanding on certain principles—I am assuming that we have given up the idea of legislative action. Professor Wagner himself has admitted this; and Mr. Raab admitted yesterday that as a result of the countless discussions of this subject that have taken place in this assemblage, even those who were theoretically in favor of legislative action have come over more and more to the opinion that in this instance legislation might prove to be more dangerous than beneficial.

With regard to the form of the balance sheets, I can sum up my view very briefly. I may say that from my standpoint as a practical man I regard the improvements suggested by Herr Schinkel as entirely feasible. I do not think that any of the banks could have any reasonable objections to making further itemizations. On one point only I should like to make a slight reservation, and that is with regard to the bills. Herr Schinkel wishes to exclude the bank's own acceptances and bills that are drawn by the bank itself. That sounds very simple. I am afraid, however, that it would involve a great deal of labor, especially for the small and middle-sized institutions, which have many

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more of such bills than the great banks. With the great banks it would practically mean only the exclusion of their own acceptances, for, as is well known, the great banks, unlike the small and middle-sized banks, are not in the habit of drawing bills themselves. At any rate, this is a question that must be carefully gone into by the leading banks, for it was they in the first place that set the example in this matter of publication. We ourselves need not come to a more definite conclusion on the subject.

On the question of giro obligations I agree entirely with Herr Schinkel. If public opinion really makes a persistent demand for these figures they can be given. For the reasons assigned by Herr Schinkel they will have no great practical utility. But I should not, as Herr Schinkel does, positively reject the proposition. On the other hand, I am emphatically opposed to what Herr Schinkel has advocated. He wishes to have bills, *reports*, and loans on collateral itemized according to their duration, as three-month bills and one-month bills. I do not think that it is altogether feasible to do this in the statement. If we want to do something of the kind in the annual report there is no harm in it; it is of no great practical importance.

Herr Kaempf makes another impossible proposal with regard to the statement. He wishes to have it appear whether the bank's own stocks are quickly realizable or not. Well, gentlemen, how is this to be done, as a matter of bookkeeping? Just imagine the man who has to make the final arrangement and division of the security holdings. How is he to decide, even if he is the director himself, whether a given stock is quickly realizable

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or not? That sort of thing may change from day to day. There may be times when a director of the Deutsche Bank says, I have here 70,000,000 marks in consols and imperial loans; they are not quickly realizable.

A VOICE. They can be used as collateral.

Mr. MOMMSEN. No; Herr Kaempf was speaking of stocks. He expressly said, "What is quickly realizable in the sense that I can immediately sell it." This is really a thing that can not be done in the statement; that is purely a matter of judgment and not of figures.

One more point was touched upon by Herr Geheimrat Wagner. He said the banks should be obliged to state how much gold they have in their vaults. Now, very likely this would be a very nice thing from the statistical point of view, especially if the gold holdings of the individual banks were not made public. But if published balance sheets, which are now becoming so numerous, were to furnish this information, the consequences would be dangerous. The gold that a bank can at once lay its hands on is really only what it has at the Reichsbank, for only at the Reichsbank can one positively demand gold. From my customers I must take what they give me, notes and all. If, as you all demand, this thing is always published, and if, as is sure to happen, the scientific economists and the newspapers point out that this or that bank has too small a stock of gold, what will be the result? Before the time for the next statement the bank will take, let us say, a couple of hundred thousand marks of Reichsbank notes which it has been keeping in its treasury; these it will send to the Reichsbank in order to get gold in return, and then it will have the gold for

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its next statement. Evidently to publish these figures would serve no purpose. Gold in the Reichsbank is a great deal more useful than the gold that the banks have in their vaults, which is actually, and from practical necessity, a small sum in proportion to their entire cash holdings. I judge from my own experience, but the situation is probably the same everywhere. The cash holdings of the great banks are naturally chiefly in the form of bank notes, simply because thousands of notes can be handled and counted more quickly, and are more suited to business on a large scale. My advice would be, therefore, not to introduce a thing that is really to no purpose. Let us simply agree to request the Reichsbank to treat with the banks in regard to a further itemization of their statements, such as has been proposed by Herr Schinkel. Whether this request will lead to immediate results we can not decide here.

There is one little thing I should like to say with regard to point 4. I agree with all that has been said in depreciation and condemnation of the existing system of solicitation in the provinces. I think, however, that it is really quite impossible to put a stop to it by law. Herr Ströll thinks we might make a draft of a law designed to prevent it. But even those who at the time vigorously advocated that resolution of the Reichstag (which really came about in a very remarkable manner—I shall not enter into this question here)—even those people belong to-day, in consequence of our discussions, to the side of those who say that we shall not be able to accomplish anything here by legislation. The necessary distinctions can not be laid down by legislation; just as it would be impossible for us,

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by legislation, to put an end to very objectionable practices of the same kind in the banking business and on the stock exchange. The only possible way of attacking these things is through united action on the part of the banks and bankers.

As for the form for the statement, which has received the entire approval of Herr Roland-Lücke also, I take it for granted that this form is intended to be the basis for the form of the annual balance sheet. If you have followed the matter carefully, you will have seen that even the last annual balance sheets of almost all the great banks were essentially modeled on this form of statement. I think this goes without saying. I wish to add that Herr Roland-Lücke, who had to leave early, asked me to state that he is in entire agreement with the views of Herr Schinkel. He also asked me briefly to sum up once more his ideas on point 4—to speak again about what he considers to be the only possible measure against the solicitation evil. He is indeed also of the opinion that the thing can not be done in a night, but only after a long educative process. He says we should turn to the existing associations—to the central association of banks and bankers, to the central bodies of the savings institutions, and the Genossenschaften. These associations should then address to their members the request that they send in word of every case of such solicitation that comes to their knowledge, so that the central body, not the individual member, may then do something about it, perhaps after consultation with the Reichsbank or with the commission (if a commission is instituted). Herr Roland-Lücke thinks that some use could be made of the law

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relating to illegitimate competition. On this point I am more inclined to agree with Herr Heiligenstadt. I don't think much of this law anyway; I am certain that in the cases where one would suppose it to be most useful it generally fails one utterly. I should therefore have nothing to do with it; some other way must be found.

There is, however, one thing to which I should like to call your attention. The reason that it is generally so difficult to do anything with the so-called soliciting banks and banking offices is that they acknowledge that they do not belong to the profession; they do not become members of the associations, etc. Thus they expose no surface for attack. Perhaps something can be done about that. But this one thing our Commission should in my opinion make very clear: If the imperial authorities are confronted by the Reichstag with the question, which the Reichstag has already raised, of whether anything can be done in this matter by legislation, the authorities must reply with a very decided negative. It is really impossible for a law to be formulated on this subject. I should like, too, to ask Herr Ströll if he will not perhaps take occasion to modify his opinion in this direction. He has so far been the only one who still thinks that any change could be effected by law. Remember this, gentlemen, even if the law as first proposed should be a tolerably good one, still we can not tell in what shape it might issue from the Reichstag. [Interruption.] Yes, Herr Kollege Raab, we have often had that experience; whether it went your way or ours, we have often been very dissatisfied with the result.

I should like to touch very briefly upon the question of the publication of the bank statements. Herr Ströll

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thinks that the publication should take place in the local press. I hope you will not think of advising any such thing. Hitherto we have never published in the local press. You know yourselves that the great banks have published only in the *Reichsanzeiger*. We have confined ourselves to this, in spite of the fact that it is not read (any more than the advertising section of many other papers), simply in order to be able to say to the other papers—I publish only in the official organ, in which I am, as a rule, obliged by my by-laws to publish. This is certainly a point to be considered. Otherwise there is no end to the thing, if you once begin to publish in the regular press. It would cost the German banks millions and millions. An advertisement as big as one of our statements always costs, in the papers that have a large circulation, 50, 60, or 70 marks. And the thing will go on and on indefinitely, for of course if the great banks publish very extensively, the little and middle-sized banks will have to do the same. I therefore warn you at the outset not to go in for newspaper publication. There is really no object in it.

Herr Schinkel has suggested that the statement be handed in to the commission. Now, in the first place, this commission is not yet in existence; we do not know whether it will come or how it will come. I should amend this to the proposal that the Reichsbank itself, when it is ready to do so and has been empowered by the imperial chancellor to do so, should determine to what office the statements are to be handed in. The statistical department of the Reichsbank is in a position to make the necessary compilations afterwards, without any ado. That would, I think, be quite sufficient.

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This is all I wished to say on this question. As to the general question which was brought up to-day by Exzellenz Wagner, about the agricultural state and the industrial state, I shall not go into that. I would merely declare that we, Herr Kaempf and I, are neither of us in favor of Germany being turned into an exclusively industrial state. Throughout all the contests that we have had with the agrarians, it has always been very far from our minds to ruin the agriculture of Germany. We do not desire any such thing—we are not thinking of any such thing. So you may dismiss this fear from your minds, even though we shall probably differ, and continue to differ, in regard to details.

Mr. RAAB. Gentlemen, I am in favor of the most extensive possible publication of the balance sheets, but not without an understanding with the banks. I hope that the changes proposed by Herr Schinkel to-day will represent in future the minimum of what we may expect in this matter. Then we can wait and see what more can be done. The hints thrown out by the Reichsbank will have the effect of furnishing us, after a while, with sufficient material to enable us to come to a decision.

I wish to speak especially on point 4—the question of how we are to proceed against the solicitation system. The resolution of the Reichstag, addressed to the Bundesrat, unqualifiedly asks for the drafting of a law designed to prevent this practice. And I think this is what ought to be demanded in the matter. The fine-sounding hopes about education, moral influence, etc., are things that call forth no reaction whatever from these people. They must be appealed to on much more matter-of-fact grounds

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if they are to pay any attention to the hint. The Reichsbank will have no influence on these people, since it quite naturally does not work among these elements of the community. They will have to act absolutely on their own hook, for respectable banking circles will try to have nothing whatever to do with them. There is therefore no way of getting hold of these people except the law. Herr Kollege Mommsen says that up to now Herr Direktor Ströll is the only one who has been in favor of a law; well, I shall take my place very modestly behind Herr Direktor Ströll, for I hope that we may actually come to have a law. That such a law would be impossible to carry out, I can not admit. For we have heard that said every time we have wanted to bring about a decent state of things in any trade matter. Let me, for example, remind Herr Kollege Mommsen of the contentions over the proof of qualification in the building trade; there we had to make way against the same kind of obstacles as are now confronting us in the domain of banking.

Mr. MOMMSEN. And what good has it done?

- Mr. RAAB. To be sure, I am not altogether satisfied with what we have done in that matter—we have only instituted the lesser proof of qualification. I should have been better pleased if we had put through the full proof of qualification. According to the law now in force, one can not shut the stable door until after the horse is stolen. But I am perfectly sure that in ten or twenty years from now people will think differently, and legislation will also have become different. Then we shall take precautions before a calamity occurs. That state of

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things can not continue in which people who have not the slightest inkling of how to manage money or how to keep a ledger can collect large sums merely by making promises of high rates of interest. This is a much more dangerous territory than others in which we have already established some sort of order. I will remind you of the case of the theater directors; to-day they must bring some sort of proof of qualification in regard to their good reputation, and they must also prove that they have sufficient means, before they receive the permit for carrying on a theater. Can not a similar requirement be made for the banking profession, at least for that part of the banking profession which tries to attract moneys by means of advertisements and agents? I know that the decision of this commission will be unfavorable to my side; but I shall do what I can to bring about a favorable decision elsewhere. Then, if a man does not wish to obtain the permit—very well; let him refrain from attracting deposits by means of signs, advertisements, agents, printed circulars, etc. Then we will leave him in peace. I know private bankers whose business appears to me to be extremely successful in the region in which they live. But they do not entice people into making deposits, though they receive many. Well, if a man does not wish to apply for a permit, very well. But if a man like Herr Friedberg, whose beautifully enameled posters I read a short time ago in Ostfriesland—the one who, with his accomplice, an ex-barber's assistant, practiced the biggest kind of swindles—if this man had only been put under the microscope beforehand, a great deal of misfortune would very likely have been prevented. I see a

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resource, therefore, even in a mere change in the trade regulations. We have to-day a great number of activities that are obliged to have a permit. Let us include the banking business among the number, at least in so far as it tries to attract outside moneys through advertisements, agents, etc.; and let us fix upon a punishment for any one who, without having satisfied the legal requirements, uses such means to entice people to make deposits. I do not abandon the hope that we shall accomplish something in this way. Indeed, I hope we shall enter very soon upon this field, and that we shall not wait to take steps until a time when there has just been some notorious affair. Of this I am fairly certain: As soon as several disasters of this kind happen at the same time, legislation will step in. But in that case it may step in so suddenly that some mistake or other will be unavoidable. Consequently I should be glad if the step were pondered over in a comparatively quiet period. I hope, then, that, even if the commission does not, the Reichstag will find some way of causing the little inexperienced people to be better protected than they have been hitherto.

Mr. PETER. Gentlemen, for the last year, in consequence of the proceedings of this inquiry commission, the Berlin great banks, and happily also a number of provincial institutions, have been publishing intermediate balance sheets; and I wish that the practice may be adopted by all the institutions. I consider this arrangement to be both useful and practicable. Not only in order that the specialist may be enabled to make sure of the condition of the institution in question, but also in order that the general public may gradually learn how to read the balance sheets intelligently.

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In regard to the annual balance sheets, I am strongly in favor of the greatest possible itemization. As President Heiligenstadt has said, the Kreditgenossenschaften—I refer now especially to those with which I come into contact—publish a report of which the itemization corresponds almost exactly to the form submitted to us last year. This was a satisfaction to me personally, since this statement is made out after the model which the Danzig Genossenschaft convention recommended four or five years ago to the Genossenschaften of the general union.

I have already spoken about the preparation of the intermediate balance sheets. I do not think that our smaller institutions can be expected to publish in the papers, on account of the expense. I think that the middle-sized and larger institutions can make out balance sheets every month, every two months, every three months, or twice a year; if desired, they can also finally publish them. But in view of the expense, this would be too much to ask of the smaller institutions.

The proposal that the statement be posted in the place of business seems to me practical, although I do not expect much to come of it. The statement might be posted in a place where no one would read it.

As for the testing of the intermediate balance sheets, I think that the Reichsbank—or perhaps the banking commission proposed by Herr Roland-Lücke, if, as I hope, such a one is instituted—will be the proper body to undertake this.

With reference to the form of the balance sheet, I agree with what has been said so far by the representatives of the banks. In regard to the giro obligations, I can con-

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firm what President Heiligenstadt has said: it is a requirement of the unions of *Genossenschaften* that the giro obligations be published. Schultze-Delitzsch himself, the founder of the *Genossenschaften*, made this demand; I myself have often heard him advocate it at meetings of the unions. Gentlemen, I am thoroughly convinced that this is necessary from the point of view of one who wishes to form a judgment as to the balance sheet, and I agree with Herr Bernhard, who said last year that this obligation should certainly be laid upon the great banks. I think they ought to publish their giro obligations, and I think they can do so, unless other considerations stand in the way—such as, for example, the fact that the banks of other countries do not do it.

I wish to make a proposal in connection with what Director Schinckel has said on this point. The giro obligations might perhaps be divided into rediscounted bills on the one hand (I mean bills that the banks themselves have passed on to the Reichsbank or elsewhere, in order to procure money) and all other giro obligations on the other hand. I know very well that a bank that has a large business in commissions may come to have a large list of giro obligations not of its own seeking, and, of course, in that case wrong conclusions might be drawn. But it is very important that one should see what they themselves have discounted with cash payment and what they have passed on. For in the case of the great banks, as well as in the case of the smaller and middle-sized institutions, a knowledge of the giro obligations is an important element of the data necessary for the formation of a correct judgment in regard to the balance sheet.

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As for the time at which the balance sheet should be handed in, I think that even the intermediate balance sheets should be prepared early enough so that they may be handed in not more than a month after the date of the last item.

I have already said, during the general discussion upon the fourth question on the list, that I think it would be a very good thing if a law could be made which should keep improper elements out of the deposit business without injury to legitimate business. But even at that time I said that I saw no way of doing this. I admit that evils exist; I have come across them myself. Only a short time ago I noticed that a Genossenschaft which does not belong to any of our unions carried on its envelopes this announcement: "Under state inspection in conformity with the Genossenschaft law of such and such a date." Gentlemen, you know what state inspection means there. The institution did that only to entice the inexperienced. I hope that by means of the more extensive instruction of the public, which we shall feel it our duty to undertake, and also by means of the work of the Roland-Lücke banking commission, we may get rid of flagrant evils even in this domain. I do think, however, that legislative measures would be futile.

Mr. GONTARD. Gentlemen, in view of the short time we have before us, I shall say only a few words.

I wish to reply to what Herr Oberbergrat Wachler said yesterday about my observations on the subject of the listing offices, which, for purposes of the reception of balance sheets, can be replaced, if need be, by newly created offices. He certainly did not hear my speech

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of the day before yesterday. I think that in the long run we shall find it necessary to insist upon a more frequent submittal of balance sheets by all who are engaged in the banking profession.

Mr. MOMMSEN. Private bankers, too?

Mr. GONTARD. Yes; in the long run, I said. I only wanted to try to create an instrument for diagnosing the credit disease of our body politic. In this connection the chief objects to be kept in view, in my opinion, were the attainment of the greatest possible decentralization, and of expert knowledge on the part of the authorities concerned. Perhaps the proposal also has a bearing on point 4—the Reichstag resolution. I think that it is chiefly the small bankers who work injury in the manner referred to in point 4, and so we must try to get to know the small bankers and their situation before we begin to take further steps. The handing in of the balance sheets would be useful from this point of view.

As for the rest, I agree with what Herr Roland-Lücke, and still more with what Herr Schinckel, has said.

Count KANITZ. Gentlemen, the time is short, and I will say only a word. Herr Geheimrat Wagner has already expressed his satisfaction in finding that our assemblage has come to an agreement on the most important points. In order to make this agreement still more complete, I too will state that I am substantially in accord with the proposals made by Herr Schinckel and Herr Roland-Lücke, and that I hope our discussions will bear good fruit.

Mr. SINGER. Gentlemen, permit me to say a few words first on the subject of the resolution. My friends and I

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voted in the Reichstag for the resolution, and I still consider that it constitutes a suggestion to the Bundesrat that it investigate the deplorable evils in this domain and consider whether anything can be done, and if so, what. My friends and I, when we voted in the Reichstag for this resolution, did not mean that a law must be made at all hazards even if it is perfectly clear beforehand that it will be of no use. I shall not go into details as Kollege Raab did; but I wish to say that in my opinion these evils render it necessary for the proper government authorities—in this case probably the imperial department of the interior and the imperial judiciary—to ascertain at once what the conditions are and afterwards to decide whether the evils can be remedied, and if so how we are to proceed—whether through administrative or through legislative measures. One often hears the expression used in connection with the conditions depicted in the resolution: “There will always be stupid people in the world.” That is true, and many losses result from the fact that people often place their confidence in any promises that may be made to them by a man to whom they are entrusting their money, without making sure that the man’s character and reputation afford a sufficient guarantee that the moneys entrusted to him will be handled honestly and soundly. This can not be prevented from happening in isolated cases. But when such evils become so prevalent as to injure large portions of the community, and especially those portions which are not, through their callings, in a position to be able to form judgments on such matters, then I think we can no longer call it paternalism on the part of the state if it interferes; on the

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contrary, it is the duty of those who represent the whole community—in this case the duty of the state—to investigate and find out whether there is no remedy. I wish to make it quite clear, however, that the resolution of the Reichstag, so far as my party is concerned, should not be taken to mean that, whatever happens, a law must be passed in the next session; for we regarded it merely as more or less of a suggestion for the Bundesrat. This is shown, too, by the manner in which this resolution originated. It arose in connection with our advocacy of the last supplementary bank act. In this connection the evils above referred to were brought to light, and we felt it our duty to make to the Bundesrat an official suggestion in the form of a resolution.

Gentlemen, I consider these two things as the most valuable outcome of our discussions: First, the publication of the balance sheets, and, second, the proposals made by Herr Roland-Lücke. I think my honored colleague, Exzellenz Wagner, was justified in saying that we have come to an agreement on this matter. And this was in fact the very task that was set before us. The considerations that have been laid before us by men of all the different sides—of course I except myself—have been intensely interesting and have had bearings upon the whole domain of political economy. There can be no question but that a great number of very important suggestions have been made in the course of these discussions. And even though differences of a political and economic nature, which are grounded in general philosophical differences, can of course not be removed by a debate of this kind—Exzellenz Wagner has himself admitted that—

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still, and herein lies the importance of such discussions, we may say that our commission has had a happy outcome if a certain amount of unanimity has been attained as to the practical arrangements that should be made. And this is actually the case. We have agreed that the risks involved in legislative regulation in this domain are so great as to render it unadvisable as yet to enact a deposit law. This is admitted even by those who, like myself, are not in theory opposed to legislation in this domain. I think I am right, therefore, in saying that this agreement, together with the approval of the proposal of Herr Roland-Lücke, is the most important result of the commission's discussions.

I shall now take up the question of the publication of the balance sheets. I regard the form proposed by Herr Schinckel and the additional suggestions made by others only as a sort of sketch for the balance sheets to follow in a general way. I consider it to be quite out of the question that a commission such as ours should be qualified to lay down the details of such a schedule. A great many preliminary investigations will be necessary. The Reichsbank president can not be spared this great amount of trouble and work. He will himself muster the forces that he deems requisite. It may be, too, that if in the meantime the advisory commission shall have been formed this body will also have an opportunity of submitting its opinion on the subject. But, at all events, the question of what is to be stated in the balance sheets must be considered in detail. The important thing about the whole arrangement is the mere fact itself that the balance sheets ought to be published. The result of this

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publication, if it really goes into effect, is sure to be that the banks—and I repeat that I consider this much more necessary in the case of the great banks than in the case of the small banks—that the banks will be constantly aware that through the publication of their statements they are made responsible, and that they and their transactions are being subjected to public criticism. I think it will be a great thing gained if the institutions are steadily kept in mind of their duty through the mere mechanical force of publication. The second purpose of such a publication of balance sheets is that the general public may, so far as is possible, be enabled to see at a glance what is being done with their deposit moneys, in what ways these moneys are being employed, and whether the investment of them in joint-stock enterprises, etc., does not impair the security of the separate deposits and the fluidity of the banks. Consequently I think that a form should be chosen of such a kind that one would not need—you must not take it ill of me if I say this—to have attended the Wagner seminar for three whole years in order to be able to read these balance sheets intelligently. [Laughter.] Some care must be taken to make the balance sheets perfectly lucid, so that they shall at least be intelligible to people who are moderately well versed in such things. As for what is to be done later—whether there will need to be legislative compulsion—we shall wait and see. I am delighted to find that Exzellenz Wagner has finally come over to the same view.

I think, therefore, that we can be well content—even those of us who look upon our present banking and credit

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system merely as a necessity attendant upon present political and social conditions and who are in principle opposed to the existing order of society—I think that even from this standpoint we can be well content if measures are adopted that will at least prepare the way for a cure of the evils which unquestionably exist. I am not enough of an optimist, gentlemen, to think that through these means the deficiencies which are the necessary consequences of our social organization can be supplied in any considerable degree. I am very far from entertaining any such belief. And I can only repeat what I have already said: Certain evils affecting very large portions of the community are an essential concomitant of the capitalistic system; we have got to put up with them. But even from this standpoint we need not give up trying to introduce improvements, though we can not build much upon them.

Gentlemen, I shall briefly sum up my points. I think that the most important result of our deliberations is our agreement upon the two important proposals that I have referred to—the publication of balance sheets and the formation of an advisory council—both of which are measures that are sure to be beneficial, even under present conditions. I do not wish to close without seconding in the heartiest way the thanks which our honored senior Exzellenz Wagner has tendered to the president of the Reichsbank and chairman of our meetings.

Doctor SCHMIDT. Gentlemen, the protection of the general public against institutions like the Dachauer Bank is a thing that we, all of us, have at heart. From all who have made a study of the question, we have heard that

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the method of instruction is the only possible way of protecting the public against these so-called "corner bankers." I can repeat with great pleasure what Herr Singer has said about the unanimity of the commission on these three points: First, that legislative interference with the organization of the banking business is to be voted down, and that in place of a supervisory board a free commission appointed by the Reichsbank is to be substituted; second, that the Reichsbank be requested to make a thorough study of the situation with regard to the deposit system, carrying on its investigations through comparisons of the balance sheets of the banks; third, that the balance sheets are to be itemized, as was proposed to-day by Herr Roland-Lücke and Herr Schinckel. The form suggested by them is regarded on all sides as an adequate general outline.

Like Herr Schinckel, I lay great weight upon these two points: First, that the publication take place with as little delay as possible, and that for this purpose the form of the statement be not too complicated; second, that, contrary to the wishes expressed by various experts, the outside foreign bills and the credits of foreign depositors be not separately entered in the balance sheets.

It will not, I think, be necessary for the Reichsbank to be specially empowered by the imperial department of the interior or by the imperial chancellor to receive the intermediate balance sheets of the banks and put them into shape. The *Reichsanzeiger* will be the best place for the publication. I think that even without special authorization the Reichsbank is qualified to throw these balance sheets into an abstract, such as has been made in the case

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of the documents with which we have been furnished. It would have to examine the balance sheets anyway on its own account. I hope that the Reichsbankdirektorium and its president would accomplish this new difficult task with the same success with which it has accomplished its many other tasks.

In connection with this wish for the Reichsbank's success in this new matter, I wish to express once more, and very heartily, the thanks which our honored member Exzellenz Wagner has already tendered to our chairman for his amiable, kindly, and skillful guidance of our discussions.

The CHAIRMAN. Gentlemen, we are at the close of our deliberations. Permit me to make a brief business announcement. Our intention is to have the proceedings of the commission printed and published in the same way as were the proceedings of last year.

Now, gentlemen, allow me in closing to make a remark of a personal nature. A year and a half ago, when the bank inquiry was started, I expressed the wish that our discussions, in which both theory and practice have a voice, might steadily advance the purpose in hand, and that the contentions, doubts, and differences of opinion which have arisen on all these questions might, so far as is humanly possible, be got rid of, or at least that the issues might be clarified and the sharp edges of contrary opinions dulled. I gladly and thankfully acknowledge that this wish has been fully gratified. It was gratified in a high degree last year during the discussions about a closer organization of the Reichsbank and its policy—discussions which have already borne good fruit. And

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I may say that this year's discussions have been carried on with the same singleness of purpose. For this, gentlemen, I must express to you the most heartfelt gratitude, not only on my own behalf and on that of the Reichsbank, but also on behalf of the imperial chancellor and the Bundesrat, who called upon you to undertake these deliberations.

I must also thank you, gentlemen, for the zeal with which you have devoted yourselves, even in these troublous times, to the consideration of these often very difficult and complicated questions, and for the devotion with which you have given us the benefit of your counsel and of your experience—both those of you who have collected your material in the scholar's study, and those of you who have collected it in the field of practical economic activity.

Gentlemen, upon the work which you have here performed there have looked down from the walls of this hall the symbolic pictures of creative labor, of trade and commerce, of war and peace. We may well regard this circumstance as symbolizing the fact that the questions which we have here examined reach down deep into the very vitals of our economic life, and are closely bound up with its safe and healthy development in quiet as well as in critical times. And one receives from these discussions the impression that your feeling is that on the whole, in spite of the mighty, and in the last two decades almost tempestuous, forward movement, the condition of our people has remained sound. This is the best possible message that we could bring at such a time.

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You have also called attention, gentlemen, to many excesses and evils, especially to bad conditions in our credit organization and in its various great and small manipulations, to abuses which are inevitably bound up with such quick growth—abuses which are not introduced of set purpose, but which nevertheless exist, and which react in very unfortunate ways upon the fluidity of our credit organization and of the general business system of the country, and finally even upon the Reichsbank itself. These are evils which must not be permitted to develop further. But you have not—at least in regard to the great majority of the questions laid before you—looked upon these evils as already so deeply rooted as to render it necessary to set fixed limits by way of legislation, limits which are likely to put a restraint upon that freedom of movement which is, after all, indispensable to living forces. You believe, on the contrary, that these excesses and evils can still be removed, if the responsible managers and leading men of our different credit organizations and credit institutions will but clearly recognize their existence, and if with far-seeing glance, with careful thought, with earnest endeavor, they will themselves tighten the reins and secure the necessary moderation. We of the Reichsbank also consider it necessary that such excesses be rooted out, and I should consider any success in this direction as an important step in advance. But, gentlemen, we must not deceive ourselves—very earnest endeavor is needed; it is no slight task even gradually to root out and divert into other courses customs such as these. And it is interesting to see—you may see it if you look into the documents

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before you—how even in England, even in the country most thoroughly stamped with individualism, the commission of the London Chamber of Commerce, which has been engaged in the past year, and this year too, in considering similar questions—the strengthening of the gold reserve in England, etc.—has also concluded to advocate the remedy of voluntary activity and voluntary restraint. But it felt obliged to add a very serious warning. The concluding sentence of their report reads as follows: “The commission is unanimously of the opinion that the time has come for the banks themselves to come to an understanding on so important a subject, and devise measures of their own (to strengthen the stock of gold) inasmuch as it is desired that legislative measures be avoided.”

Gentlemen, I, as well as you, hope that in our country also it will not be necessary to have recourse to legislative measures—that voluntary endeavor and activity, and the clear recognition of the fact that we are confronted with certain evils and that we must develop our credit organization and our economic system in a sound and healthy way—I hope that these things will make themselves felt among us with greater and greater force. And if we do succeed in obtaining results through voluntary activity, a large part of our success will be due to your services, your devotion, and your counsel.

Gentlemen, I will now close our proceedings.

(Close of session, 6.27 p. m.)

THE PROPOSALS FOR REFORM IN THE DOMAIN OF THE BANK-DEPOSIT SYSTEM AND THE GROUNDS ON WHICH THEY REST.

Written opinion of Herr Geheimer Justizrat Prof. Dr. J. RIESSER, Berlin.
Submitted to the Bank Inquiry Commission at its session of November
25, 1909.

I. GENERAL.

The German banks have developed from the beginning in accordance with the narrow resources of the population and with the needs of German industry and German trade—in a direction, therefore, quite contrary to that taken by the English banks. In England, in consequence of its wealth and its concentration of trade and credit—both of which are factors that are lacking in Germany—there has been from the beginning a sharp separation between the deposit banks and the other banks. This is sufficient explanation of the fact that there are, unfortunately, always a large number of Germans who are in the habit of undervaluing our own performance, of setting up the English system as the only right one, and of saying that we absolutely must introduce it into Germany. The same opinion is also held, however, by scientific authorities worthy of the most careful attention; in especial, it has been held for a long time by Adolph Wagner. These opinions are of course based upon scientific conviction, which always finds it extremely hard to yield place to convictions of another kind in consideration of mere practical experience. At any rate, the German

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banks have certainly from the start placed themselves at the disposal of industry and trade. In my opinion it is lucky they have done so, and in any case they have acted in pursuance of the historical development of German conditions and German needs. Whatever we may think on this point, they have made a very essential contribution to the enormous upward movement which industry and trade have taken in Germany in the last decades. Thus they have indirectly helped to bring it about that when agriculture became no longer able to furnish nourishment enough and work enough for the greatly increased population Germany gradually changed from an agricultural state into a predominantly industrial and commercial state. This was enough to cause all those who hate this "industrialization," or "the whole tendency," to attack the banking world, which, by means of the deposit system, had withdrawn capital from agriculture and had employed it in the support of industry, especially of export industry. These very influential political circles are naturally reenforced by the extremists of the other side—by the Social Democrats, who see in the banks the most powerful and dangerous representatives of mobile capital.

Finally, it is unquestionably true that in the German banking business, as in a great many other businesses, large enterprise has unfortunately more and more driven out small enterprise. The consequence is that a great number of members or spokesmen of "the middle class," which here means the middling and small private bankers (e. g., Caesar Straus), have entered the arena in the war against the German banking system, which they say has

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gone utterly astray. In the many proposals for reform in the deposit system which have been made in the last decades one may find all these entirely different political and economic ideas, which are constantly contradicting each other in their points of departure and in their aims, and which have only this one view in common, that "something must be done" and that the capital flowing into the banks must somehow or other be applied to agriculture, or, as they generally prefer to put it, to "the national economic activity;" but as soon as it comes to practical proposals all individual tendencies and parties become clearly recognizable, even though their wishes are often vague and self-contradictory and though the individual assailants frequently disguise their real purposes and advance, without any apparent connection with each other, only to make in the end a concerted attack. But as soon as a crisis breaks out, a thing which is practically unavoidable, no matter what the banking system may be, there at once emerge a number of persons who make a business of criticism or who have turned themselves into experts overnight, who give the impression of being permeated with the conviction that under their guidance the working of the German banking system would have been flawless, and who now seize the happy occasion to bring forth their qualification permit as saviors of the State by making the most radical proposals they can think of.

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I. "THE SECURITY OF DEPOSIT CREDITORS" AS THE PRIMARY AIM OF PROPOSALS FOR REFORM.

The proposals for reform that have hitherto been made have generally been based—so far as their basis has been made known—upon the following assumptions:

A system of banking which, like the German, and unlike the English, treats the flotation and speculation business as an integral part of the money and deposit system, necessarily endangers the security of deposit creditors, since the capital which they have deposited with perfect confidence in its safety is employed by the banks for procuring the means with which to carry out their own undertakings and to make speculations in securities.^a In Germany the unhappy consequences of this system—excessive speculation, excessive flotation,^b crises^c—have already made their appearance, and have caused the deposit creditors to suffer very heavy losses.

2. THE SEPARATE PROPOSALS MADE FROM THIS STAND-POINT, ESPECIALLY THOSE OF CAESAR STRAUS, OTTO WARSCHAUER, AND COUNT VON ARNIM-MUSKAU.

The first and chief thing necessary is pronounced to be the transition to the English banking system, which obviates all these evils; which, through strict division of labor, guarantees the safety and sound management of deposits and the complete separation between the bourse and the deposit business—in other words, the transition

^a Cf. Caesar Straus, *Unser Depositengeldsystem und seine Gefahren* (Frankfort, Carl Jügel, 1892).

^b Op. cit., p. 17.

^c Op. cit., p. 26.

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to a complete separation between the deposit business and the flotation and promotion business.

This tendency may be observed especially in the proposals of the late Caesar Straus, formerly a private banker in Frankfort, and in the proposals of Otto Warschauer.

The former demands the establishment of a *single deposit bank* for the whole German Empire, to be created by private resources, but to be under state supervision. It was to have a capital of 60,000,000 marks, with 25 per cent (15,000,000 marks) paid-in capital, and it was to establish branches in all important business centers and markets for capital. In other places it was to effect transactions through the medium of the Reichsbank.^a

Warschauer, on the other hand, demands the establishment of a *state imperial deposit bank* with a *share capital* of 50,000,000 marks and a paid-in capital of 50 per cent (25,000,000 marks). Besides this, there might perhaps be established *deposit banks for the individual states*, which should bear exactly the same relation to this state imperial deposit bank as the private note-issue banks bear to the Reichsbank,^b and which, like the private note-issue banks, should pursue a tendency toward decentralization, and should therefore institute a great many branches in the States in question. He prophesies for the imperial deposit bank, of which the deposits will come to "at least 1,000,000,000 marks," a dividend of from 21 to 22 per cent, which he calls an extremely low estimate; but after all, in view of the rate of profit of the London joint-stock banks, he speaks of 12 per

^a Op. cit., pp. 38-39.

^b Cf. Otto Warschauer, *Das Depositenbankwesen in Deutschland*, in *Conrads Jahrbücher*, 3d ser., vol. 27 (1904), pp. 473 ff., 477, 481.

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cent profit as "reasonably certain." In this prophecy may lie the explanation of the fact that Warschauer wants to allow these deposit banks to engage not only in the acquisition of first-class mortgages, but also in making loans on industrial securities and bank shares (though he makes the condition that only "first-class stocks" be handled). In that case, he says, a great many depositors would abandon the credit banks, but the credit banks themselves, which of course represent only such private interests as are entitled to no protection (?) by the Imperial Government, would be quick enough to find out how to open up new and perhaps more lucrative fields of operation.^a

At the same time, Warschauer and others make many provisional proposals in regard to the existing banking institutions that receive deposits. Of these the most important are the following:

The proportion of deposits, "in so far as they are savings deposits,"^b to the share capital—that is, the maximum amount of deposits to be taken—must be fixed by law at about 200 per cent (for the mortgage banks the legal standard is already 50 per cent of this), since, the smaller the working capital, the less secure are the rights of the creditors.

Further, either^c the following requirement must be made:

In general,^d all banks that receive deposits, all banking associations with limited liability, all Kreditgenossenschaf-

^a Op. cit., pp. 480-481.

^b Op. cit., p. 482.

^c The writer appears to have lost sight of the alternative proposition.—Translator.

^d Cf. Otto Warschauer, pp. 483-484.

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ten,^a and all "professional" depositaries that receive outside moneys to the extent of more than 50 per cent of their own capital and carry on promotion or speculation business or themselves take part in industrial enterprises^b—that is to say, *all* modern banks and bankers—must observe, as they have not done hitherto, the *principle of publicity* in regard to savings deposits (which are to be itemized in the balance sheets); that is, there are to be quarterly statements (according to the proposal of Count von Arnim-Muskau in the bourse-law commission of March 10, 1896) or monthly statements, the contents of which are to be established by legal standard requirements, and which are also to state the percentage of the savings deposits in relation to the share capital. These rough balance sheets are to state:

(a) The total amount of undertakings and promotions on the bank's own or on outside account.

(b) The total amount of payment liabilities formed on the day of the closing of the balance sheet by participations, undertakings, and promotions of all kinds.

(c) Holdings in shares of all kinds, entered separately from all other securities.

^a With unlimited liability. According to Warschauer, the *Kreditgenossenschaften* are to be forbidden to accept deposits at all. (Op. cit., p. 484.)

^b See the proposal of Count von Arnim in the bourse-law commission of March 10, 1896, the text of which is given by Adolph Weber. (Op. cit., pp. 259-260.) Count von Arnim wishes definite regulations to be established for those banks and merchants that are engaged *exclusively* in the deposit business. By these regulations they are to be forbidden to deal in *reports*, speculations, promotions, and flotations (except for flotations that are absolutely safe), or even to have any share in such transactions or in any flotations that are not expressly sanctioned. They are also to be required to publish monthly rough balance sheets, of which the form (the proposal goes into some detail about it) is to be laid down by law.

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(d) The total amount of moneys placed in *reports* (30-day stock-exchange loans) and loans on collateral.

(e) The total amount of liabilities covered by the use of the bank's own securities or participations and of outside securities or participations as collateral or *reports*.

It has been further demanded by various people *either* that—after the example of the obligation laid upon the American note-issue banks (national banks)—the savings depositors of the credit banks be given preference over other creditors,^a or that a certain percentage of the deposits be invested in a manner which is to be established by law.

3. PROPOSALS FOR REFORM MADE FROM OTHER STANDPOINTS.

Again, while expressly stating that he does not mean to make any implication as to the necessity of further legislative measures, Doctor Heiligenstadt, president of the Preussische Zentralgenossenschaftskasse, has lately demanded, appealing to the example of America, that we at least make a beginning in the way of legislative measures; that we require everyone who professionally lends or administers moneys to keep a cash reserve of 1 or 2 per cent of the total of outside moneys, and to deposit this at the Reichsbank.^b

This proposal, which was taken up and advocated by two experts even before the time of the bank inquiry commission, is not based upon a deficient security of deposits at the German credit banks. It is based rather upon the assumption that, on the one hand (and this is

^a Cf. i. a. Otto Warschauer, *op. cit.*, p. 486 (draft of the law, sec. 3).

^b C. Heiligenstadt, *Der Deutsche Geldmarkt* (in *Schmollers Jahrbuch*, vol. 31, no. 4), p. 98.

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supposed to be chiefly the fault of the banks), in the country taken as a whole there is an unsound relation subsisting between the investment capital and the working capital that has to be kept fluid and that, on the other hand, in the balance sheets of the German banks there is an unsound relation between the fluid resources and the liabilities that represent working capital.

At the same time, and perhaps above all, the measures here proposed—and also, indeed, as Heiligenstadt expressly declares,^a the other measures advocated by him—would serve to strengthen the working resources of the Reichsbank and to make it “the steward of the national reserve,” to the better safety of the ever-increasing outside moneys, and especially of the deposits.^b

In the same sense, probably, is to be understood the resolution adopted by the Convention of Economic Reformers (February 13 and 14, 1906),^c in which the imperial chancellor is called upon, “in view of the importance which the giro and deposit business has assumed since 1875 (the year of the foundation of the Reichsbank), to establish a legal regulation in regard to the cover for the deposits of the Reichsbank (!) and of all other banks.”

Hitherto, having had its attention called only to the supposed precarious situation of the deposits, the Reichstag has confined itself to agreeing to a proposal for a commission in the form of the following resolution (June 17, 1896):

“In consideration of the fact that the remunerative employment of outside moneys on the part of the banks

^a Op. cit., p. 98, under X.

^b Op. cit., p. 99.

^c Printed in the journal *Handel und Gewerbe* for March 24, 1906 (XII, no. 24, p. 470).

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and merchants makes it imperatively requisite that measures be taken to ensure the security of the people who make such deposits, the imperial chancellor is requested to institute an inquiry into the question of how such safety measures can be devised, and, having taken into account the considerations presented in the draft of the bill and in the official statement concerning it, to submit a bill as soon as possible."

4. THE ASSUMPTIONS UNDERLYING THE FIRST CLASS OF REFORM PROPOSALS.

Before we can critically examine these individual proposals for reform, we must first follow the course suggested by the above-mentioned proposals and by the resolution of the Reichsbank, which is based entirely upon them. We must, that is, discuss the preliminary question of whether in point of fact, in view of the existing situation and of past experience, it is necessary or even at all urgent that we make reforms or institute "safety measures" in the domain of the bank-deposit system for the protection of the public.

The first point I shall take up is:

(a) The alleged advantages of the English banking system.

In the first place, it might be maintained, and has indeed been maintained, that the English banking system—that is, the system of a division of labor between the pure deposit banks and the banks engaging in promotions and flotations—necessarily affords greater security to the depositors than does the German system. For, say the advocates of this view, it has been fully proved by experience in all countries that the promotion and flotation

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business can not be carried on without great risks, such as are not involved, or at least not to the same extent, in the regular conduct of current banking business.

But it has been strikingly shown, especially by Adolph Weber and Edgar Jaffé, that precisely in the English banks, which are pure deposit banks—I shall not here make any special reference to the recent experiences with the American note-issue banks—despite all the theoretical advantages, there have been in actual practice the greatest evils and abuses.

It is perfectly true that the English joint stock banks have, as theory requires, taken no *direct* part in the promotion and flotation business or in speculation on the stock exchange. But this involves two very objectionable consequences. In the first place, these banks take no interest whatever in newly promoted companies and in securities issued by such companies, whereas it is a particular advantage of the German system that our banks in the interest of their credit as flotation concerns, if for no other reason, permanently watch over the development of the companies they have promoted. In the second place, the English banks have encouraged speculation on the stock exchange and the promotion and flotation business to a very dangerous extent, since they have put their superfluous moneys at the disposal of the bill and stock brokers upon hypothecation of stocks of all kinds—always with great profit to jobbers and dealers.^a This kind of thing was carried so far that in the journal of the institute of bankers for October, 1899 (p. 409), it was said: “Nearly the whole of the professional specula-

^a Cf. Edgar Jaffé, in the proceedings of the third general convention of German bankers, p. 99.

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tion on the stock exchange is carried on with bank money." Among the securities used as collateral there were in the last decade a very large number of gold-mine shares and American railroad shares, and in critical times these are not realizable or are realizable only with great losses, so that precisely in critical times the joint stock banks have to apply for help to the Bank of England.^a Thus, in critical times the joint stock banks also resort to the "single-reserve system"—a system which has long been recognized by the English as inadequate and dangerous, especially as the Bank of England itself loans out again the moneys deposited with it.^b

But it is these large holdings, which are finally placed at the disposal of the stock exchange, that appear in the balance sheets of the joint stock banks as "Money at call and at short notice."^c They would appear among us under the head of *reports* and loans on collateral, although Caesar Straus, strange to say, identifies them with what are called in our bank balance sheets "*Kupons und Sorten*"—classing them therefore as quite unimpeachable.^d

And it is these sums lent out by the deposit banks, which look so harmless in the published balance sheets, it is these in the main that have given rise to the conditions described by Edgar Jaffé^e in these severe words:

"Nowhere are such wild promotions launched as on the London Stock Exchange, nowhere else has the public lost such enormous sums."

^a Thus the Bank of England really helps only the stock brokers, not the joint stock banks themselves.

^b Cf. Edgar Jaffé, *Das Englische Bankwesen*, p. 204, note 1.

^c Cf. Edgar Jaffé, in the proceedings of the third general convention of German bankers, p. 99.

^d Cf. Caesar Straus, *op. cit.*, p. 31.

^e *Op. cit.*, p. 99.

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It is also to be noted that in the great crises which England, like all other countries, has gone through there have been a shocking number of failures among deposit banks. I have elsewhere ^a adduced what seems to me adequate material on this subject. ^b

^a Second edition of the book *Zur Entwicklungsgeschichte der Deutschen Grossbanken*, pp. 12-14, note 1.

Thus, for example, in the crisis of 1857 the first failure was that of the Borough Bank in Liverpool, which had liabilities to the amount of £1,200,000. The next was the Western Bank of Scotland, which had that very year paid 9 per cent dividends, and which had 101 branches. This bank had to demand £1,603,000 from four insolvent firms, although the whole of its owned capital amounted only to £1,500,000. In its published balance sheets it had entered under the head of "good assets" £260,000 which the managers themselves had described in memoranda that were discovered later as not realizable. The Derwent Iron Company owed £750,000 and had given as "security" (except for one real estate mortgage) its own debentures to the extent of £250,000, these debentures being nothing in the world but promissory notes of the directors that formed the company. Of course all this did not appear from the published rough balance sheets. In 1858 there was the failure, among others, of the Northumberland and Durham District Bank in Newcastle, which had £1,256,000 of deposits. This bank had paid, in the very last semiannual meeting of the shareholders, dividends of 7 per cent—a piece of conduct for which the directors made the excuse that since so many shareholders lived on their dividends they could not bring themselves "to face them without paying any dividend."

In 1864 there were no less than 27 failures of joint-stock banks, and a great many others followed in 1866, as, for example, the Joint Stock Discount Company, the Barneds Bank in Liverpool (with £3,500,000 of liabilities), the Bank of London, the Consolidated Bank, the Agrar & Matternans Bank, the English Joint Stock Bank, the Imperial Mercantile Credit Company, the European Bank, etc.

In the crisis of 1878 the first bankruptcy was that of the City of Glasgow Bank, which had lent £4,000,000 to four firms and had published false balance sheets in 1877.

A number of other banks followed.

^b Cf. O. Glauert, *Depositenbildung in England und in Deutschland (Conrads Jahrb.*, 3 F. Bd., VII, p. 808): "Between 1813 and 1816, 240 country banks suspended payments; during the six weeks after the end of 1825, 70 suspended payment." Cf. also Edgar Jaffé, *op. cit.*, pp. 196-197.

According to Karl Mamroth (*The Scottish Banks, Conrads Jahrbuch*, 3 F. Bd. XXIV, vol. 1, p. 43, note 139), there were 11 failures of note-issue banks in Scotland between 1804 and 1842.

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One finds, further, that in another respect also the lauded advantages of the English joint-stock banks are only apparent.

The paid-in capital of the English deposit banks is very small in itself, as well as in relation to the liabilities. It amounted in 1904, for 87 deposit banks, to about £65,250,000 sterling, or 1,305,000,000 marks, an average of only about 15,000,000 marks to a bank, while the surplus appears to be very high in relation to the paid-in capital (but not in relation to the liabilities); it is 50 or 66 $\frac{2}{3}$ per cent or even 100 per cent of the share capital; and this alone is the reason why, even when the gross profits are low, such high dividends have been paid (reckoned only, of course, on the paid-in capital of the joint-stock banks).^a These are the dividends referred to by Warschauer, who wishes to fit out his imperial deposit bank with a much larger paid-in capital.

Finally, Jaffé shows ^b that "with the exception of a very small number of the best banks, which exhibit a cash reserve of from 5 to 10 per cent, the English deposit banks have no holdings whatever that can be looked upon as a reserve in the sense used above." Jaffé thinks that the items under the head "money at call" (*reports* and other loans to bill brokers and on the stock exchange) can not be looked upon as "a reserve in the sense used above," since some part of the moneys lent out on the stock exchange always becomes unfluid at the time of a panic.

Even out of those items which constitute the only thing that can be called a reserve—that is, even out of the items

^a Cf. Edgar Jaffé, *Das Englische Bankwesen*, pp. 204–205 and 202 ff.

^b *Op. cit.*, pp. 204–205.

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under the head of "cash" (cash holdings plus credit at the Bank of England)—some portion he says can not be regarded as reserve, since it is indispensable for the bank's daily business. But even this, as Jaffé takes care to point out, gives a too favorable picture of the state of affairs, since a great many of the English deposit banks—and some of the largest ones are among the worst offenders in this respect—withdraw large sums from the stock market at the end of every month, and especially at the end of every half year, in order that in their published statements the item "cash in hand" may be as large as possible.^a This statement must be modified, however, by the admission that, under pressure of public opinion, and in pursuance of the example set by the leading institutions, almost all English deposit banks keep a reserve of this kind to the extent of 10 or 15 per cent of the liabilities. From all this one may judge how much support can be found in the actual conditions for the enthusiastic appeal to the example of England.

I now pass to the question of how far those reformers who take as their starting point the supposed deficient security of the deposit creditors are justified in basing their reforms upon the assumption that in our country, in contrast with England, the share capital and the surplus are much too small in proportion to the liabilities; that the fluid resources are much too small in proportion to the demand and short-notice obligations; further, that in Germany the deposits are employed in syndicate transactions and speculations in stocks; and finally that the

^a This "Frisieren" of the balance sheets is called in England "window dressing." Cf. Edgar Jaffé, *op. cit.*, p. 205.

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connection of the deposit business with the promotion and flotation business has led to great evils.

I begin with the first charge, which is one that is often made.

(b) *The allegation that the capital and surplus of the German Credit Banks is too small in proportion to the liabilities.*

For the 169 German credit banks with a capital of over 1,000,000 marks—nearly all of which have the amount of their deposits (aggregating $2\frac{3}{4}$ billion marks) entered specifically in their balance sheets—we have the following figures for December 31, 1908:

	Marks.
Capital	2, 646, 000, 000
Surplus	607, 000, 000
Total resources	<u>3, 253, 000, 000</u>
Total credits (inclusive of acceptances)	4, 510, 000, 000
Deposits	<u>2, 746, 000, 000</u>
Total liabilities	7, 256, 000, 000

In other words, the own resources of these 169 banks amounted to very nearly half of their total liabilities, including acceptances and deposits. In England, on the other hand, the paid-in capital amounted to only about 10 per cent of the outside moneys.^a

The 2,746,000,000 marks of deposits were therefore *more than fully covered by capital and surplus.*^b

^a Cf. Edgar Jaffé, in the proceedings of the third general convention of German banks, p. 96; Adolph Weber, *op. cit.*, p. 231. For all the 82 English deposit banks the surplus alone amounted, in round numbers, to £31,000,000—68 per cent of the paid-in capital, but only about 4½ per cent of the liabilities.

^b The 13,912 Genossenschaften that act in connection with the Preussische Zentralgenossenschaftskasse, and the balance sheets of which are available, had at the end of 1905 resources of their own to the amount of

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The following are the statistics for the eight great banks:

[Amounts expressed in thousands of marks.]

Name of bank.	Capital.	Capital and surplus.	Outside moneys.	Outside moneys as percentage of—	
				Capital.	Capital and surplus.
Deutsche Bank.....	200,000	301,831	1,274,648	637	422
Dresdner Bank.....	180,000	231,500	599,643	333	259
Discontogesellschaft.....	170,000	227,593	463,551	273	204
Bank für Handel und Industrie.....	154,000	184,358	395,122	257	214
Schaaffhausenscher Bankverein.....	145,000	179,157	297,440	205	166
Berliner Handels-Gesellschaft.....	110,000	144,500	209,103	190	145
Kommerz-und Discontobank.....	85,000	97,702	210,179	247	215
Nationalbank für Deutschland.....	80,000	92,820	183,458	229	198

It goes without saying that the own resources of these German credit banks have increased in a very much smaller ratio than their liabilities, since in the matter of the increase of capital hard times must also be considered, and at such times, especially when only small dividends have been paid before, it is not possible to issue shares, nor is it desirable to work with a large capital which may not yield a corresponding amount of interest. For all the credit banks taken together, the surplus alone (and this I regard as greatly to the credit of our joint stock companies legislation, while Eduard Wagon^a regards it as greatly to the credit of the German banking system) has risen steadily from 12.9 per cent of the share

54,625,382 marks, and outside moneys to the amount of 758,514,000 marks; the outside moneys, therefore, were to their own resources in the ratio 93.7; that is, they amounted to more than thirteen times as much. At 1,002 Genossenschaften with limited liability, the outside moneys were at this same time to the own resources in the ratio 88.5.

^a Cf. Ed. Wagon, *Die finanzielle Entwicklung der deutschen Aktiengesellschaften* (Jena, Gustav Fischer, 1903), p. 146.

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capital in 1885 to 22.9 in 1908, the total surplus being 607 million marks; and the surplus for the Berlin banks rose from 17 per cent of the share capital in 1885 to 29 $\frac{1}{6}$ per cent in 1908. This surplus now yields dividends of more than 1 $\frac{1}{4}$ per cent for all the banks taken together, and for the Berlin banks it yields 1.73 per cent, as against 1.87 per cent in the year 1906.

But it must be pointed out that while share capital and surplus form a "guarantee resource," and while a satisfactory figure for these improves the general financial condition and diminishes the danger of bankruptcy, still they are essentially (inclusive of that part of the debits which is not required for the satisfaction of creditors) a *guarantee for the share-holders*.

(c.) The fluidity of the German Credit Banks; the Key to fluidity.

The guaranty, or at least the chief guarantee, *for the creditors*, especially the deposit creditors, lies in the things in which the resources of the banks are invested, since the creditors must not only be at ease about the bank's ability to pay at all, but must also feel assured that they can count upon payment on demand in the case of all moneys due them on demand, and payment at the time agreed upon in the case of sums due them at stipulated times.

In other words, for the security of the creditors, especially of the deposit creditors, the decisive thing is *the amount of the fluid assets of the bank, and the way in which these are invested.*^a

^a Cf. Edgar Jaffé, p. 198.

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The fluid resources for the fulfillment of demand and short-time obligations must be so large and of such a character that the bank will be able to pay out on the spot as much as may presumably be demanded in immediate payment in the event of a crisis. The question of how large a percentage might be demanded in a crisis can only be answered according to the indicated probabilities,^a which vary according to circumstances, which can be arrived at only on the basis of practical experience, and for which, therefore, no general law can be laid down.

In the same way, only the experience of a long period can decide what resources are in general to be regarded as fluid resources, although it is often easy enough to say which are not fluid.

It necessarily follows that there can be no fixed and universally applicable system of estimating fluidity, good for all times, places, and institutions; every system is subject to attack at one point or other. Moreover, the manner of making out the balance sheets has unfortunately been different hitherto for the different banks. Besides, one can not tell in the case of the various items how many unfluid investments there may be included, even though most of the investments are to be regarded as fluid—bills, *reports*, loans on collateral, etc. Then again, in an item that would not perhaps in itself be counted among fluid resources there might nevertheless in concrete instances be some stocks—for example, consols and similar securities—which are in normal times immediately realizable.

^a Cf. Adolph Wagner, *Beiträge zur Lehre von den Banken*, Leipsic, 1857, pp. 166-170 and p. 61.

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Finally, in the case of liabilities, especially in the case of deposits, one must distinguish, in estimating the fluidity, between the demand obligations and the other obligations, since only the former have a claim to be covered by immediately realizable assets, while the others require to be covered only at the times at which they fall due.^a

These things having been noted, I shall now point out that the methods of estimating fluidity which have hitherto been most generally followed start out on the assumption that under the head of liabilities are to be counted credits, including acceptances, deposits, claims on undivided net profits (undivided at the end of the business year); and that under the head of fluid resources are to be counted cash, *reports* and loans on collateral (unfortunately, these are generally entered as a single item in the balance sheets), bills, and securities, but *not debits*.

There is no doubt whatever that this method, which is employed especially by the newspapers—the *Frankfurter Zeitung*, for example—but also to a great extent by technical journals such as the *Deutscher Ökonomist*, is essentially mechanical. For no distinction is made between demand credits and deposits and other credits and deposits, and in the case of acceptances no account is taken of the fact that as a rule, even in critical times, the customers whose obligations these cover, or at least the majority of them, will send in to the bank the amount

^a We must not fail to note in this connection that at times of crisis it is only in case of necessity, and even then generally not without danger, that a bank can refuse to pay out at once moneys which, according to the existing arrangements, are due not on demand, but on short notice. (Cf. *Deutscher Ökonomist*, November 11, 1905, XXIII, No. 1194, p. 566.)

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needed for the redemption of its acceptances before the time of maturity. Another point in which the method is mechanical is that it counts among fluid assets *all* securities, a much too optimistic principle in the great majority of cases. On the other hand, it does not include the debits at all, although even in critical times a great many of the bank's debtors always pay their demandable debts immediately upon demand.

All these errors are, however, not so very serious, since they make not only (as in the case of the inclusion of all securities) for the exaggeration of the fluidity, but also (as in the case of the noninclusion of the debits among the fluid resources, and in the case of the inclusion of *all* acceptances among the liabilities) for the undervaluation of the fluidity.^a Thus the two kinds of mistakes in some measure balance against each other. And besides, since the same method is used, one can make comparisons between present-day balance sheets and those of former years.

The fact that the errors largely cancel each other becomes evident when one makes some change in the

^a Lansburgh (op. cit., pp. 36-38) calls attention to other cases. He says that the capital and cash figures, as well as the other items in the balance sheets, are considerably affected by the relations of the banks with each other, so that often the same sums are necessarily counted twice or even three times. Thus, it often happens that the immediately available resources of a bank are in fact much smaller than appears from the balance sheet. For example, as Lansburgh points out by way of illustration on page 36, a provincial bank may pass its cash on to the central bank. This amount that is passed on will figure in the balance sheet of the first bank as bank credit, and in the balance sheet of the second bank as cash holdings; and in case, as often happens, this bank counts its giro credit at the Reichsbank as cash, it may figure a third time as cash holdings of the central bank at the Reichsbank. A corrective to this lies in the fact that in the balance sheet of the central bank the provincial bank appears also among the creditors, in virtue of this same sum.

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schedule with the object of avoiding one or another kind of error. For example, if we leave out acceptances from the list of liabilities, or include only one-third of them, and at the same time reckon one-half or one-third of the debits as belonging to the fluid assets, and on the other hand only one-third or one-tenth of the securities as belonging in this class—why, the final result after all this alteration will be just about the same as before.

According to the customary method, the degree of fluidity—that is, the ratio of the immediately realizable assets to the *total* liabilities (both demand obligations and others) ^a—has been as follows:

(a) For all the German credit banks taken together:

1893.....	85
1894.....	81
1895.....	72
1896.....	73
1897.....	75
1898.....	72
1899.....	73
1900.....	70
1901.....	70
1902.....	72
1903.....	67
1904.....	66
1905.....	62
1906.....	61
1907.....	60
1908.....	62

^a As long ago as September 5, 1907, in my report before the third general convention of German bankers at Hamburg (*Proceedings*, p. 22, separate pamphlet published by Leonhard Simion Nachf., Berlin, 1907, p. 32), I expressly maintained that a *permanent* deterioration of the fluidity of the banks' condition would constitute one of the most serious drawbacks to the concentration of banks.

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(b) For the Berlin banks:

1893.....	88
1894.....	83
1895.....	73
1896.....	75
1897.....	79
1898.....	76
1899.....	78
1900.....	73
1901.....	70
1902.....	76
1903.....	71
1904.....	70
1905.....	65
1906.....	63
1907.....	63
1908.....	64

The ratio grew steadily worse and worse, therefore (with slight interruptions in 1896, 1897, and 1902), all through the years from 1893 to 1907, and this fact is grist to the mill of the combination formed by the various opponents of our German banking system. But in close connection with this fact stand other developments that must not be overlooked: first, the strong tendency toward concentration in banking and in industry which came into existence during this same period; second, the demands made by industry upon the banks, which rose beyond all expectation; and, finally, the growth of speculation, which is a natural consequence of these other two developments. The existence of these factors might be proved in detail for the several years of this table by the increase of debits and of long-time credits. The first circumstance accounts, for example, for the increased quantity of permanent participations caused by the so-

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called communities of interest; the last two circumstances largely explain the growth of debits and acceptances. All this leads one to expect, however, that these figures will decrease with the subsidence of the movement toward concentration, or with the better entrenchment of the branches, agencies, etc., of the banks, which have been founded in such large numbers during this period, but which have been obliged to make heavy demands upon the main institutions until such time as they should be able to stand on their own feet. Then, too, the figures in question may be expected to decrease, like the rate of bank discount and the general rate of interest, with the subsidence of the industrial boom. Since the banks are the keepers of the national purse, their balance sheets must give a sort of portrait of the national industrial condition; for there is no real basis in fact for the assertions made both by those who support the banks and by those who attack them to the effect that the banks are "the directors of the enterprise of the nation"—that is, of the nation's economic activities. All the same, it can be proved that even in the worst year of all those given in the above table (1907), the percentage of the cover (and this is the measure of fluidity) was 60 per cent for *all* the credit banks taken together,^a and 63 per cent for all the Berlin banks taken together. That is to say, the total liabilities of the German credit banks were covered ^b by fluid resources in a ratio of a very little less than two thirds.^c

^a Of course for any individual credit bank the degree of fluidity may be more or less—sometimes very much less—favorable than it is in this total.

^b *Conrads Jahrb.*, 3d ser., vol. 34, no. 5, Nov., 1907, p. 588. Cf. also vol. 20, pp. 86-97.

^c Of the fluidity of the Austrian joint stock banks, the ministerial secretary, Dr. Eugen Lopuszanski, says (*Einige Streiflichter auf das österreichische*

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In an article in the *Nation* for May 7, 1898, Heinemann had estimated the degree of fluidity for eleven Berlin great banks as 61 per cent for 1897, whereas he estimated it for 1906 ^a as only a little higher than 50 per cent, but without any consideration of the securities.^b In like manner A. Koppel in *Plutus* for May 26, 1906, estimates that in the five largest Berlin banks the fluidity declined from 75 per cent at the end of 1890 to 50 per cent at the end of 1905. He also, however, does not count any securities among the assets, and does include the guaranteed acceptances among the liabilities.

Bankwesen, Dorn's *Volkswirtschaftliche Wochenschrift* L., no. 1305, Dec. 31, 1908, p. 442):

"The fluidity (in so far as it is represented by the ratio of the so-called fluid investments in cash holdings, discounts, loans on collaterals, and reports, to the total amount of credits, deposits, and acceptances) amounted roughly to 65 per cent at the end of 1883 and 45 per cent at the end of 1907."

A comparison between the two years shows that there has been a great decline in fluidity among the Austrian joint stock banks.

And yet even the present percentage of 45 per cent is to be regarded as relatively not unfavorable.

I repeat that in respect of the fluidity of the constituent parts of the cover also the greatest differences may exist among the different banks, without this being discernible from any balance sheets or rough balance sheets whatever.

^a*Conrads Jahrb.*, 3d ser., vol. 34, no. 5, Nov., 1907, p. 588. Cf. also vol. 20, pp. 86-97.

^b Cf. his article in *Conrads Jahrb.* (3d ser., vol. 20, p. 90), in which he estimates that at eleven Berlin banks, on December 31, 1899, there was a cover of only 57 per cent in immediately available assets. In making this estimate he did not count either the loans on collateral (which amounted, at the end of 1899, in those banks to some 463,000,000 marks) or the securities (which amounted in 1898 at those same banks to some 714,500,000 marks). In fact, he counted only cash, foreign money, bank credits, bills and reports. But this is not in accordance with the facts, since the same uncertainty that may be said to exist in regard to the immediate availability of loans on collateral (among which were included at that time the bourse reports), may be said to exist also in connection with what Heinemann regards as immediately available reports, and indeed even in connection with the bills, which are also not always immediately available.

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The *Frankfurter Zeitung*, on the other hand, in an article that appeared on April 1, 1907, uses the same (the customary) system in estimating the degree of fluidity for 45 banks—all the banks that have a share capital of more than 10,000,000 marks (jointly, nominally 2,198,800,000 marks), including 9 Berlin great banks and 36 provincial banks—and it finds (without, however, taking account of the net profit) that for these 45 banks the degree of fluidity is 67.8 per cent, and that for the 9 Berlin great banks it is 66.8 per cent—again, then, a cover of about two-thirds.

Finally, the *Deutscher Ökonomist* for November 23, 1907 (p. 561), also uses the customary schedule (leaving out, however, acceptances from the list of liabilities and securities from the list of assets), and estimates the degree of fluidity on December 31, 1906, for 143 banks with a capital of 1,000,000 marks or more, as roughly two-thirds (deposits and credits, 6,304,000,000 marks; cash, bills, and loans on collateral, 4,043,000,000 marks). One would arrive at approximately the same result in regard to these 143 banks, if one were to put down among the liabilities only one-third of the total of acceptances and in addition to the deposits and net profits only one-half of the amount of other credits—if, that is, one were to take account of the difference between demand obligations and other obligations by including only the former under liabilities; and if at the same time one were to include two-thirds of the total amount of securities among fluid assets, as well as cash, bills, loans on collateral, and *reports* (without, however, including any debits).

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One would have in that case 7,394,000,000 marks on the one hand and 4,406,000,000 on the other.

These last results agree also fairly well with the estimate given by Waldemar Mueller at the bankers' convention in Hamburg. He gave 62.76 per cent as the fluidity for 45 banks with a capital of 10,000,000 marks or more, although in estimating fluid assets he allowed for one-half, instead of one-third, of the total amount of securities, and excluded the net profits altogether, while on the other hand he included *all* the credits among the liabilities. He actually arrived at a fluidity of 81.92 per cent, if he left out the acceptances entirely in estimating the liabilities—an omission, however, which I do not consider permissible.

It can hardly be denied that this fluidity, which, according to any but purely arbitrary estimates, has been found to be about two-thirds even in the worst year we have so far had—it can not be denied that this fluidity is entirely satisfactory, although, to be sure, the situation in England is in this respect a good deal better still (naturally enough, however, in view of the reasons I have already set forth). But the fluidity of the German credit banks would make a very much better showing still if the *immediately available assets* were contrasted, as they should be, only with the *immediately demandable liabilities*. For the present, at least, however, this is not feasible, since many of the bank balance sheets have not hitherto given any information on these points.

The *character* of the fluid resources may also be described as, generally speaking, proper.

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On December 31, 1908, the *cash alone*, at all the banks taken together, amounted to 537,500,000 marks^a—that is, to almost 8 per cent of the total of credits and deposits (7,256,000,000 marks). The acceptances are here not included among the credits. On the other hand, we saw above that even the best English joint-stock banks exhibit a cash reserve of only from 5 to 10 per cent, and that most of them have no cash holdings at all in the sense affixed to the term by Edgar Jaffé. Besides all this cash, the German banks have such quantities of bills—and the bill portfolio of the German banks is on the average a good one^b—that on this same day (December 31, 1908) the total amount in bills at all the banks came to 2,745,800,000 marks. At this time, therefore, cash and bills alone came to 3,279,900,000 marks, as against 2,745,800,000 marks of deposits.

The assertion has been made—and of course it has been eagerly seized upon by foreign newspapers—that some outside moneys, and even some deposits, are “invested in syndicate undertakings or in speculation.” This assertion is at once refuted by the fact that at the end of 1908 the sum total of securities, mortgages, and syndicate participations at the aforementioned 143 (in 1908, 169) credit banks with as much as 1,000,000 marks of capital was only 1,198,052,000 marks—only a little more than one-third of the capital and surplus of these banks, which amounted to 3,253,673,000 marks.^c Another two-thirds

^a Cf. Robert Franz, *Die deutschen Banken im Jahre 1908*, p. 549.

^b Of course there are individual cases of banks that have large quantities of somewhat questionable bills.

^c Cf. Robert Franz, *Die deutschen Banken im Jahre 1908* (special reprint from the *Deutscher Ökonomist*, Berlin, 1908), p. 25.

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of these banks' *own resources* would therefore have to be invested in that way before there could be any question of any outside moneys, not to speak of deposits, being invested in stocks (speculations) or syndicate participations.

I must have proved to you that neither the amount nor the character of the fluid assets, nor, again, the degree of fluidity, furnishes any ground for wishing to "reform" the German banks in respect of the security of deposits. Finally, the assertion that the connection of the deposit business with the promotion and flotation business has already had very evil results has its only support in the fact that in a number of failures, not only among credit banks but also among Kreditgenossenschaften and private bankers, even deposit creditors have suffered losses. But so far as private banks are concerned, these things happened chiefly as the result of criminal conduct on the part of the management—conduct that has nothing to do with the promotion and flotation business as such, which has occurred to a much greater extent in the English banks—pure deposit banks—and which, finally, can never be entirely prevented by any legislative regulations whatsoever.

The estimate made of these losses by Otto Warschauer ^a has been brought up to date for 1907 in the statement read before the Hamburg bankers' convention by Dr. Arthur Salomonsohn, the head of the Discontogesellschaft.^b Of its correctness and completeness there can not be the slightest question. This statement concerns itself with **nine** credit banks of very small share capital and also

^a *Op. cit.*, pp. 468-470.

^b *Proceedings*, p. 118.

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two institutions which, either at the time of their going into bankruptcy or before were Genossenschaften (Hannoverscher Hypothekenverein and Spar- und Vorschussbank in Dresden). The losses incurred by the deposit creditors through these bankrupt institutions during the fourteen years from 1894 to 1907 are estimated at 24,000,000 marks in all.

Now of course there are many difficulties in one's way if one tries to determine what percentage of the total deposits of the German credit banks this total loss represents. For it would not be correct to compare the total loss with the sum of the amounts of deposit balances reported on December 31 of each of these fourteen years, since into each year's balance the balance of the year before really enters. On the other hand, if one were accordingly to count only the deposit balance for December 31, 1906, 2,700,000,000 marks, one would be taking much too small a figure for the deposits. For it is the total sum paid in *the whole course of each year* that really matters, and this is necessarily larger than the other, since large withdrawals are made, especially in the last months of the year.

If we consider only this balance of 2,700,000,000 marks we get, then, a total for deposits that is much lower than the total amount actually paid in.

On the other hand, the estimate made by Salomonsohn of the losses—24,000,000 marks—is probably much too high, since according to his explanation the claims of the deposit creditors are made out on the basis of the balance sheet next preceding the bankruptcy, whereas in many cases a run on the bank has come just before the bankruptcy proceedings, and thus some of the deposits have been withdrawn.

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In this estimate, then, the deposits—and besides, only a very small part of the deposits consists of savings anyway—the deposits are put at too low, the losses at too high, a figure. But even if we take these figures as they stand, and figure how many times this total loss of 24,000,000 marks is contained in the balance of 2,700,000,000 marks—even so it appears that in the fourteen years from 1894 to 1907 we have had an average loss of only about nine-tenths of one per cent a year. In other words, during these fourteen years the average loss on a hundred marks of bank deposits has been not quite ninety pfennigs a year.^a

And within these fourteen years there were two severe crises, that of 1901 and that of 1906, from which the German banking system and the German banks certainly emerged with flying colors, in spite of all difficulties and dangers. To be sure, in 1907 and 1908 some rather important new cases came up, in which banking concerns that received deposits failed and deposit creditors suffered loss. And according to what I have ascertained, this happened during these two years in the case of 29 private banking firms, 11 registered Genossenschaften with limited liability, 1 trade bank, 1 savings and credit bank, 2 loan and credit societies, 1 people's bank (not registered as a Genossenschaft with limited liability), but only 2 credit banks, the Solinger Bank, in Solingen, and the Bonner Bank für Handel und Gewerbe, in Bonn.^b

^a Dr. Riesser's arithmetic seems very queer; apparently he has forgotten to divide by fourteen. Moreover, it seems extremely strange that he should regard an average loss of nearly one per cent a year a small matter.—**TRANSLATOR.**

^b The résumé published in the *Tag* of April 7, 1908, under the title of "The Principal Failures of Banks and Bankers in 1906-1907," is altogether

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After the statements that we have heard, one is not warranted in speaking either of the investment of deposits in syndicate operations and speculative transactions or of "heavy losses" sustained by German depositors and in demanding in consequence the introduction of special deposit banks or the enactment of special regulations for the security of depositors, particularly as bankruptcies have been frequent enough in England, where the system of pure banks of deposit obtains. We need not be surprised, however, if the constant repetition of such assertions, which are injuring German credit abroad, finds an echo in foreign countries, which are only waiting to hear such reports, and if such a journal as the English "Economist" recently dished up for the benefit of its readers the announcement that the German banks "had been investing their deposits in mortgages."^a

unreliable. The title itself is misleading, inasmuch as the table contains only a single credit bank, the Marienburger Privatbank, a joint-stock company (of the kind in which part of the stockholders have unlimited liability), with losses for deposit creditors—as already stated in the above-mentioned table of Dr. Salomonsohn—amounting to 6,600,000 marks, while the firm of Haller, Söhle & Co., in spite of the addition of "Hamburg Bank" was no bank, but merely a private banking concern. On the other hand, this table, whose essential aim purports to be the giving of figures in regard to losses sustained by depositors, makes irrelevant mention of pure brokerage firms as well as of a whole string of banking concerns which either had no deposits or whose deposit creditors had sustained no losses. One firm had gone into liquidation merely because it had been absorbed by a bank, on which occasion not a single creditor was even in danger of losing anything. Another house in the list, whose creditors are stated to have lost 672,000 marks, could not be identified even with the assistance of the chambers of commerce.

^a Compare the *Deutscher Ökonomist* of January 18, 1908, vol. xxvi, No. 1308.

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II. SPECIAL POINTS.

I. THE CREATION OF A SINGLE PRIVATE DEPOSIT BANK FOR THE GERMAN EMPIRE OR OF A GOVERNMENT DEPOSIT BANK FOR THE GERMAN EMPIRE AND GOVERNMENT DEPOSIT BANKS FOR THE INDIVIDUAL STATES.

The facts submitted to us, coupled with the previous experiences in Germany, as well as in England, do not seem to warrant a transition to the English banking system through the creation of a single private deposit bank for the German Empire (Caesar Straus) or through the creation of a government deposit bank for the German Empire, with a number of deposit banks for the individual States (Otto Warschauer), if what we desire to achieve is *greater security* for the depositors. These schemes are in part impracticable and in part dangerous.

The scheme of a single private deposit bank advocated by Straus is not feasible, if for no other reason, because neither the German "great banks" nor the other banks and bankers will unite to establish such a single imperial deposit bank, inasmuch as they consider, contrary to Warschauer's calculation, that such an institution would not pay at present and for a long time to come.

The scheme is impracticable also because the Reichsbank, for obvious reasons, will not undertake to transact business for this deposit bank at places where the deposit bank has no branch, while the Reichsbank has one. If I am rightly informed, the Reichsbank, when it was consulted, emphatically rejected the proposal.

The scheme proposed by Warschauer of a government institution that should be purely an imperial deposit bank

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(perhaps in conjunction with government deposit banks for the individual States) would probably for the time being fare no better for various reasons.^a

In the first place those connected with the Government can not get rid of the conviction that it will not work to try to substitute without any previous preparation a credit system that has arisen in foreign countries in accordance with their peculiar conditions for our own indigenous system that has likewise originated in accordance with our special conditions. The fact will, moreover, have to be recognized that our banks have had a great share in the splendid economic development of the past decades, and we should certainly hesitate to cripple the arm whose unimpaired strength is sorely needed in the severe struggles which we shall undoubtedly have to sustain with foreign countries in the coming decades. We should thereby be inflicting upon our industry, which will have to rely upon the banks even more than heretofore, the worst sort of injury.

We should furthermore be unwilling to diminish the ability of the banks to pay taxes, which is considered of great moment and is extremely necessary, and should above all be loath to throw special obstacles in the way of the Reichsbank—which had to go through a pretty severe fight with the competing banks of issue—by interfering with its discount business through the establishment of government deposit banks. The existence of this danger is evinced by the conditions prevailing in

^a At the outset of the bank inquiry of 1908 the imperial chancellor made an express declaration through the under-secretary of state, Wermuth, that it was not proposed to separate pure deposit banks from mixed banks.

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England.^a The situation there shows that the discount business of the Bank of England has been retrograding for a long time and that the institution is compelled, mainly by the competition of the large deposit banks, to discount its bills at the rate which happens to rule in the money market, which, exceptional cases not considered, is far below the official bank rate. We find, moreover, that in the matter of loans the Bank of England has been obliged to let the great deposit banks take hold of the reins. These are in a position to place enormous sums at the disposal of the money market in the way of loans, with which they can successfully counteract the increases in the rate of discount that the Bank of England may consider desirable.

In this way it has come to pass that of all its various functions, none of which could be dropped without injury to the public, the Bank of England is in a position to perform only a single one vigorously and successfully, the regulation of the currency.

This shows the fallacy of the view^b that "there is no reason for apprehension on the ground that the interests of the Reichsbank and those of the deposit bank would clash," and that, as a matter of fact, "their interests would be identical, so that the two institutions"—the deposit bank regarded as subordinated to the Reichsbank—"would labor for the maintenance and strengthening of a regulated monetary circulation." The creation of government banks of deposit, moreover, would not have the effect of fundamentally changing the existing German

^a Compare Edgar Jaffé, *Das Englische Bankwesen*, pp. 170-178.

^b Caesar Straus, *op. cit.*, pp. 38-39; Otto Warschauer, *op. cit.*, p. 474.

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banking system—not to speak of improving it—but would only render it less efficient.

At the outset the German credit banks would not take any steps to protect themselves, inasmuch as they would probably feel sure that the new competition would not, at the beginning, at least, be the source of any real danger with respect to their deposit business.

Should the credit banks, however, feel that their business was actually endangered after the creation of government deposit banks, or in case the *Seehandlung* and other state institutions were to take vigorous measures to expand their deposit business, they would naturally be forced, in order to protect themselves, to engage in a competitive struggle with all the means at their disposal. They would, as far as this was possible, convert the existing deposit departments into special deposit banks or else establish new deposit banks, and in either case they would assume the management of these new deposit banks and the ownership of the stock and retain them in their hands.^a

^a This disposes of the allegation of the former bank official, Lansburgh (op. cit., p. 55), even if it be true, to the effect that the sole underlying motive that causes the German bank managers to be opposed to deposit banks is the circumstance that there is not enough profit in them. The charge thus brought against all German bankers that they pursue a self-seeking policy and show a lack of the sense of duty is not made more excusable by the fact that Lansburgh (ib.) proceeds from the false premises—false with reference to the absolutely and relatively small proportions that the wealth of the German people has thus far attained—that “deposit banks pay better than the so-called *Effektenbanken*.” The managers of the German credit banks have never held this view. As soon as they change their opinion, and when they consider such action necessary by reason of legislative measures or the growth of government institutions or deposit banks, they will themselves proceed to establish deposit banks.

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In that event we should have the imperial deposit bank, the deposit banks of the individual States, and a whole array of private competing deposit banks, all of which—both the public and the private institutions—would be obliged to provide the German Empire with an endless number of branches, and would together sooner or later (perhaps in connection with the banks of issue still existing in some of the States) throw great and possibly insurmountable obstacles in the way of the conduct of the discount business by the Reichsbank,^a which contrary to the view expressed by Ad. Weber (op. cit., p. 262), is by no means something that it will be time to guard against later on. The picture here presented of the conditions that would ensue in case the Warschauer proposal were adopted, if we are to judge by the experience of England, is by no means overdrawn. It ought to be enough to make us reject the scheme, which, in addition to its inherent unsoundness, is based upon what I consider a mistaken notion that our banking system is inferior to the English and should give way to it, the fact being that it is the English who have for a long time been insisting vigorously on a reform of their banking system and that they have been envying us our banking system up to the time when the agitation that was started here

^a Compare O. Glauert (op. cit., p. 815) and Richard Koch, president of the Reichsbank, in *Bank-Archiv*, Vol. IV, No. 5, March, 1905. If, as Koch says, the task of the Reichsbank is "rendered more difficult nowadays by the influence upon the open market of the concentration of the credit banks," it may be said that the same would be true in a greater measure of the imperial deposit bank, the deposit banks in the individual States, or of the private deposit banks, if such institutions were to be created. In their case we might perhaps not have to speak merely of the increased difficulties thrown in the way of the Reichsbank, but perhaps of a frequent thwarting of the policy of the Reichsbank. Compare Edgar Jaffé, *Das Englische Bankwesen*, pp. 170-178.

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obscured their hitherto clear vision. As late as July, 1906, an article in "The Bankers' Magazine," entitled "The future of international banking," contained the following:

"In Germany we find a banking policy, which, though in minor points borrowed from other countries, differs essentially from all others in giving full expression to the national genius. It is as scientific and thoroughly coordinated as English banking policy is unscientific and haphazard. The German banking system does not stand aloof from industry and commerce as ours does. The three are all closely associated. They have a common understanding and a strong sentiment of solidarity."

That is the way people speak abroad.^a With us the fact that a hen has laid a golden egg is enough to call forth a universal demand that she shall be killed.

^a This is what *La chronique industrielle, maritime, et coloniale*, of January 6, 1905, said in an article entitled *La haute Banque allemande*: "Grace à l'appui et au concours que la haute finance lui a prêté, l'industrie allemande a pris en peu de temps un développement gigantesque. Il n'est point douteux que, sans cette alliance, sans cette union des forces industrielles et des forces financières, l'Empire n'eût pas réalisé les merveilles dont nous avons été les témoins."

Compare also the utterances reproduced on page 257 of Ad. Weber's work, among which are one of Anatole Leroy-Beaulieu and one of an English writer on finance, who says of the German banks: "They are virtually the pioneers of the home and foreign trade of the German Empire." (See Frederick J. Fuller and H. D. Rowan, "Foreign Competition in its Relation to Banking" in the *Journal of the Institute of Bankers*, Vol. XXI, Pt. II, p. 55.) Even André Sayous, who often criticizes severely the policy of the German banks and who, in his work, *Les Banques de Dépôt, les Banques de Crédit, et les Sociétés financières* (p. 292-293), goes so far as to assert that "a panic, one that need not even be a particularly serious panic, would compel nearly all the German banks to suspend payment," winds up the third chapter of his book with the words: "Quoi qu'il en soit, tandis que les banques françaises ont accentué la stagnation économique de notre pays, les banques allemandes ont pris une part considérable au brillant essor industriel et commercial de l'Allemagne."

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On the strength of the expressions of opinion submitted to us and in view of the attitude of the imperial chancellor, who, in accordance with the declaration made at the beginning of the discussions of the Bank Inquiry Commission, means to oppose any attempt to change by legislative means the hitherto existing mixed banking system, I deem it unnecessary to reproduce the arguments—set forth in pages 155-160 of the second edition of my work—which I have used to demonstrate that the profits of the proposed state deposit banks, which Warschauer believes would yield a dividend of 21 or 22 per cent (!), or, at any rate, of at least 12 per cent, would, according to all indications, be a very moderate one.^a

^a I pointed out there and elsewhere that, as far as human foresight can anticipate, it is a false assumption that the deposits in the imperial deposit bank, unless the credit balances in the post-check offices were to be assigned to it, would reach the sum of at least a billion marks, the amount on which Warschauer bases his calculation of the profits of the institution. But even if this assumption be granted, we should have to deduct the business expenses from the gross profits which, at the beginning at least, could hardly exceed 1 per cent, so that the net profits, inasmuch as the running expenses at present (see Robert Franz, *Die Deutschen Banken im Jahre 1907*, p. 78) in the case of the German credit banks absorb 31 per cent (33 per cent in the case of the Berlin banks) of the gross profits, can hardly amount to more than from one-fourth to one-half per cent of the aggregate interest-bearing deposits, and the dividends, depending upon the amount of the capital stock, will amount to about 5 or 6 per cent, and that only after some time. I pointed out, moreover, that the analogy of the English deposit banks, whose dividends are at the bottom of Warschauer's calculations, does not apply. For in England the amount of the paid-in capital, on which the dividends are paid, in contrast with the surplus funds, is for the most part absolutely and relatively very small (87 deposit banks had in 1904 an average of only 15,000,000 marks) while the volume of business and the aggregate of deposits (6,750,000,000 marks) are very large. In addition, the rate of interest allowed in London on deposits not subject to notice of withdrawal, or subject to two weeks' notice, is 1½ per cent below the bank discount rate, and interest is paid only if the deposit has been at least one month at the disposal of the bank. Besides, the amount of the deposit is not to fall below £10. Warschauer suggests, evidently with reference to increasing the profits, that the proposed institution shall be authorized to make advances on "first-class" industrial securi-

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2. THE GRANTING OF A PREFERENCE TO DEPOSIT CREDITORS.

That the demand for the granting of a preference to deposit creditors is not justified by experience has been already set forth. But even if it could be urged on better grounds it could hardly claim our approval. It would by no means be an easy matter to decide to accord a preference to deposit creditors with respect to the other creditors of the bank, who have likewise entrusted to it their cash money in connection with accounts current or otherwise. It would be a death stroke to the granting of credit to the banks.

The thing is all the less feasible because the concept of deposits is not established either theoretically or practically and admits still less of being determined legally in the face of the many and constantly changing conditions involved with reference to the account-current balances, 30-day stock exchange transactions, etc.^a

ties and bank stock to 30 per cent of the market quotations. In regard to this there is in my opinion the objection that the price of dividend-bearing securities is subject to considerable fluctuations, and that at a time of crisis it is very difficult or even impossible to dispose of them, unless at a great sacrifice, while just at such times it is hard to get the borrower to increase his collateral and the repayment of the loan can not be reckoned on. What would in reality be accomplished is the very thing that we find fault with in the case of the English deposit banks—the encouragement of stock-exchange speculation carried on with the money of the deposit banks.

In regard finally to Warschauer's idea that the pure banks of deposit should be required to "invest in first mortgages," I am of opinion that in view of the necessity of their being prepared to pay back the deposits that are withdrawable without notice or at short notice and the difficulty they might encounter in the way of realizing even on first mortgages, such investments would not be desirable, and certainly not on a large scale.

^a It would not be fair to adduce in favor of the proposition here discussed the fact that according to Roman law, in the case of the insolvency of a banker (*argentarius*), the creditors who had noninterest-bearing deposits possessed a preferential right, described by Papinian as having been introduced out of regard for the public good (*utilitate publica receptum*). Modern business can not be compared with that of the *argentarius*.

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3. THE LEGISLATIVE REGULATION OF THE RATIO OF "SAVINGS DEPOSITS" TO THE CAPITAL STOCK.

The last objection applies naturally to the proposal of Warschauer^a that the ratio of deposits, "in so far as they are savings deposits," to the capital stock shall be fixed by law according to the system introduced in the case of the mortgage banks.

This proposition would be untenable even if the words "in so far as they are savings deposits" were left out, inasmuch as the considerations that would make the establishment of a fixed ratio appear desirable in the case of mortgage banks issuing debentures and doing business within closely prescribed lines would not apply to the credit banks with their thousandfold varying and changing conditions, which make it impossible for them to subject themselves to normative regulations. The proposition of Warschauer proceeds from the assumption that the capital stock—he makes the mistake of not including the surplus—ought to bear a certain ratio to the deposits, while, as we have already set forth, it is not the capital stock (with the surplus) that ought to furnish the security for the creditors, including the deposit creditors, but the liquid resources of the bank.^b In Germany a large capital

^a The *Deutscher Ökonomist* (July, 1904) expressed itself against this proposal as follows: "It has been sought to establish a proportion between the deposits and the capital stock. There is nothing in this. In the first place, the surplus is just as much a part of the liable property of a bank as the capital stock, and, secondly, the money belonging to the bank ought to be a cover for all its liabilities and not merely for the deposits. There would be no sense in establishing a fixed proportion between a bank's property and the deposits unless the deposits were the sole liabilities. This is the condition that obtains in the case of the savings institutions. The matter is altogether different in the case of banks."

^b See the *Deutscher Ökonomist* of July 13, 1904.

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stock is considered necessary mainly for the reason that the business is a mixed one. English opinion, too, which in all these questions is regarded as carrying the greatest weight, is all in the same direction.

4. LEGISLATIVE REGULATIONS RELATIVE TO THE INVESTMENT OF DEPOSITS.

Propositions were further submitted by some of the experts to the Bank Inquiry Commission of 1908 to the effect that such investment of deposits which the experience of most of the "great banks" had shown to be the safest should be made obligatory by a legislative provision, inasmuch as it is not right—a way of expressing it that often crops up in print, sometimes in a different connection—that the "administration of the wealth of the German people" should be intrusted to ten or twelve persons without any legislative safeguards.

It is therefore urged that a legal regulation be enacted merely making it obligatory to invest a certain percentage

^a This, however frequently repeated, is at least a great exaggeration, intended, or at least calculated, to make impressionable people shudder, for the wealth of the nation does not consist merely of deposits, acceptances, and account-current balances, which at the close of 1907 amounted in all the banks having a capital of over 1,000,000 marks to 7,250,000,000 marks (the largest of these banks being managed by ten or twelve persons in the same way as the great industrial and agricultural concerns that are run by the Government and by private people). The fact is that our national wealth, the estimates in regard to which range between 216,000,000,000 and 360,000,000,000 marks, is composed of a large array of big amounts, as, for example, the 17,000,000,000 marks (approximate figure) representing the savings deposits held by the savings institutions and the cooperative credit associations and the stupendous amount invested in mortgages and mortgage debentures, a figure in the neighborhood of 40,000,000,000 marks. That I fully appreciate nevertheless the power and responsibility of the managers of our great banks would be apparent from the perusal of my work "Zur Entwicklung der deutschen Grossbanken."

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of the deposits in German government bonds, which would have the further advantage of raising the price of such securities, while a more radical proposition is to the effect that the law shall prescribe that 35 per cent—that is to say, about one-third of the deposits in savings institutions, cooperative credit associations, and credit banks shall be invested as follows: Twenty per cent in bills such as conform to the regulations of the Reichsbank, having at most three months to run and bearing three signatures; 15 per cent either in bills, credit balances at giro banks, and loans having at most three months to run and secured by stocks or bonds listed at a German exchange (shares of the company itself or of affiliated banks and such securities as have been placed upon the market by the bank itself within the preceding three years being excluded) or else in imperial bonds or obligations of the German States, or, finally, in first mortgages.

The objection to this is that, even if these norms are adhered to, the deposit creditors, who are not supposed to have any special lien on these securities, in the event of any serious occurrence, as in the case of bankruptcy or a crisis, might not fare any better than they would have done before. They would feel the loss they had sustained all the more keenly that they had been led to regard the provision in question as a guarantee against loss.

What is more important, however, is that such normative regulations under the complexity of conditions involved in the business of the German credit banks—in contrast with the well-defined and prescribed lines within which the mortgage banks and insurance companies operate—can not be imposed without injury to

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the banks in their individual character and to the credit business in general. It is inconceivable with reference to this state of things that a regulation would be effective prescribing in general terms for all times, places, and conditions a fixed manner of investment of a bank's resources, apart from the more than doubtful question as to whether the proposed compulsory investment would in reality guarantee fluidity under all circumstances.

5. THE DEPOSIT OF A CERTAIN PERCENTAGE OF THE OUTSIDE MONEYS WITH THE REICHSBANK.

Very different and more weighty are the considerations at the bottom of Heiligenstadt's proposition^a to the effect that the credit banks shall be obliged to deposit in cash funds with the Reichsbank 1 or 2 per cent of the average amount (calculated for the year) of the money due to all their creditors. The fraction was raised to 5 per cent by the experts summoned before the Bank Inquiry Commission who undertook to push the scheme.

Proceeding from the assertion that of the working capital that trade and industry placed in the hands of the banks in the years 1886-1895 on an average (taking the different years) only about 50 per cent—in the years 1895-1905 no more, in fact, than 37 per cent—had been utilized as cash or in connection with loans and discounts (p. 83), Heiligenstadt infers from this alleged fact that the remainder (in the second period, therefore, 63 per cent) of the money belonging to the creditors and depositors had been applied to long-term investments and that consequently an excessive part of the working capi-

^a*Schmollers Jahrbuch*, Vol. XXXI, *Der deutsche Geldmarkt*.

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tal of the nation had been transformed by means of long-term credits or other investment in undertakings into fixed capital.

The author of the proposition claims that it is justified on the ground that an enlargement of the capital of the Reichsbank, the regulator of the monetary circulation and of the credit system, is the best means of preserving a suitable part of the working capital of German trade and industry permanently in the form of fluid working resources and of making the disposition of part of the capital at least no longer dependent on the arbitrary judgment of private persons (p. 85).

It is proposed in the first place to increase the working resources of the Reichsbank and at the same time prevent the banks from tying up too large a share of their resources in investments in such a way as to jeopardize the cover for their liabilities.

The cash which the banks are to deposit with the Reichsbank was designated by the advocates of the scheme as a "national working reserve" and, furthermore, as a "minimum reserve." It is intended to be a reserve that shall enable the Reichsbank to issue notes up to three times its amount, the cover for which notes can not be withdrawn. In this way the nation would derive a permanent addition to its fluid working resources.

A closer consideration of the ideas involved in this scheme will show that neither the premises nor the aims sought, nor the inferences drawn are tenable, feasible, or warranted.

As regards the premises, the assertion that the German credit banks are in the habit of "tying up too large a

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share of their resources in investments" in such a way as to jeopardize the cover for their liabilities is not in accord with the facts, as may be gathered from what we have stated above. What we found to be the case was that the aggregate liabilities of the German credit banks might be covered almost up to two-thirds of their volume by liquid resources, while bank notes redeemable on demand are legally required to be covered only up to one-third.

The altogether too unfavorable estimate of the degree of fluidity on page 83 of Heiligenstadt's treatise is due to the circumstance that cash on hand, bills, and even loans on collateral are, in what appears to me an unwarrantable manner, only partially reckoned as fluid resources, no account being had, therefore, of 30-day stock exchange loans and securities.^a

As regards the object that this scheme is to accomplish, it is by no means clear to us how the Reichsbank, in

^a In explaining the omission—a perfectly justifiable proceeding—of the amounts due from debtors from the aggregate of immediately available resources, the author of the scheme before us introduces the queer proposition that "the banks, as a pretty regular thing and in increasing measure as the money market assumes an unfavorable aspect [!], are in the habit of granting credit to mercantile and industrial concerns for the purpose of extending and developing their plants in the shape of account-current credits, in the expectation and with the intention of afterwards floating these credits through the issue of stocks and bonds." To impute to the banks such a business policy is not fair. What may have happened occasionally is that credits which originally were in the shape of loans for working purposes were in course of time, if the debtor was unable to meet his obligations, converted into long-term credits, that is to say, investment credits, very much against the wishes of the bank managers, or else that credits which in reality were to be utilized as long-term credits were applied for in the guise of working credits, or finally that long-term credits (investment credits) were granted to industrial corporations at times when business was good or appeared to be good, in order to enable them to complete unfinished plants or extend existing plants, with reference to rendering their business profitable even in troublous times, in the hope and expecta-

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case it is enabled to enlarge its credit by the 2 or 5 per cent that the banks are to bring to it, will be able to effect this increase in a more fluid form than that in which these resources are themselves at the time they are deposited by the banks, considering that the banks would have to draw upon their most available resources—their cash, bills, loans on collateral, etc. The Reichsbank would reinvest these cash resources in approximately the same form, that is to say, in the way of discounts and loans, in connection with which it would issue its notes.

It is very likely, however, that the Reichsbank would not secure an accession to its cash resources, inasmuch as the banks would probably simply have their account current at the Reichsbank debited with a sum equal to the percentage of their outside moneys which the regulation in question would require them to deposit with the

tion that the debtor would be in a position at a very early date of throwing off this credit by the issue of bonds or stocks. Lansburgh is even of opinion—in this he goes too far—that the credits granted to industrial corporations are distinguished from all others by the fact “that they can be thrown off at almost any time one chooses” (*Die Verwaltung des Volksvermögens durch die Banken*).

But that any bank or any bank manager of sound sense should make it a practice to grant credits at a time of disturbed business and even “in increasing measure as the money market assumes an unfavorable aspect,” in order to float them again when business improves by means of stocks and bonds, has never yet come to my knowledge in spite of pretty long experience in banking, and I am sure that such a bank or bank manager could not continue in business very long.

I may as well point to the circumstance that the contrary charge has often been brought against the credit banks that they have injured industry through their policy of granting short-term credits based on personal security—credits in general ill suited to industry and very dear besides—the fact being that in the case of improvements, reconstruction, and new construction the only proper kind of credits are long-term credits, irrevocable for a number of years or else carrying a stipulation in regard to repayment in installments.

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Reichsbank, their credit balance at the Reichsbank being, as a rule, far in excess of the minimum balance required. This is in a line with what it is supposed they would do if they were to participate in an enlargement of the capital of the Reichsbank. If it be argued that even in this case the Reichsbank, on the strength of the amount transferred to it from the credit balances of the banks, would be enabled to issue additional notes up to three times that amount, then there is this to be said: There can be no idea of such a thing as a permanent deposit, that is to say, of a minimum reserve, for the reason that an amount equal to that which it is supposed can not be withdrawn directly from the Reichsbank can be withdrawn indirectly in the way of an increased demand for credit to be afforded through discounts and loans or by means of deduction from the credit balance in case it exceeds the required minimum.

At a time of crisis, however—and it is for such a time, above all, that the proposition of Heiligenstadt is supposed to make provision, there being no occasion for such remedial measures with reference to good times—a considerable part of their deposits will be withdrawn from the banks, that is to say, the aggregate of their outside moneys will be reduced, so that the banks will be in a position to call on the Reichsbank for part at least of the 2 or 5 per cent deposited by them.

But even if this were not the case, the Reichsbank in a crisis could not do otherwise than to hand out this “national working reserve” in whole or in part if thereby a run or bankruptcy might be averted, while at a time when the money market is easy this reserve will lie like lead in its stomach.

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The question has to be considered, too—a question by no means immaterial—as to whether this 2 or 5 per cent held by the Reichsbank is to bear interest or not.

If interest is to be allowed, then the whole scheme is rendered objectionable on the ground of the weighty considerations that oppose themselves to the taking of interest-bearing deposits on the part of a central bank of issue, and which have induced the greatest central banks of issue over and over again, every time the proposition was brought up for a rehearing, to abstain from the taking of such deposits. An important factor herein is the circumstance that if the central bank of issue is not willing to bear the loss that would be entailed by the payment of interest—and there is no reason why it should quietly assume the burden—it would, as a matter of necessity, seek to recoup itself by means of credit transactions in the way of discounts and loans, and it might occasionally be tempted to do this at the very time when it is called upon to counteract the excessive demand for credit in the country at large with all the means at its command, particularly the putting up of the rate of discount.

If interest is not to be allowed on the 2 or 5 per cent, it would mean a considerable loss for the banks that are obliged to deposit it, a loss which they will, of course, not quietly consent to undergo and for which they will endeavor to recoup themselves in one way or another and especially by reducing the rate of interest allowed their depositors, which would not be a very desirable thing. And what is still more objectionable in normal times, the resources at their disposal with which to satisfy the needs of credit would be diminished and,

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the supply not being equal to the demand, the rate of interest would tend to advance. But what is worst of all, they would be likely to reduce their cash reserve, required in order to insure their fluidity and not yielding them any interest, by the amount of their share of the "national working reserve" at the Reichsbank.

We should, therefore, have the fine result that the fluidity of the banks would be diminished and the general economic situation of the people rendered worse in precisely the same degree that the proposition of Heiligenstadt aims to improve the one and the other.

This proposition, as a matter of fact, if differing in form, is of the essence of the proposals which the committee of the Reichstag in 1884, in the discussion of the amendments to the law relative to the joint-stock companies, rejected with good reason^a and which provided that the surplus should be set aside in cash or else invested in absolutely safe securities. These proposals were afterward revived in the year 1901, in an article in the *Gegenwart* by the imperial bank councillor, Doctor Vosberg.

There are very weighty objections to proposals of this nature, and, therefore, to the scheme now proposed, in particular as far as the joint-stock banks are concerned.^b

If the banks were to be obliged to provide a cash cover for their surplus, or to deposit cash resources with the Reichsbank, it would amount to taking so much from their fully engaged working capital—no one imagines that

^a The report of the committee (page 26) said "that it would hurt the industrial concerns in particular if they were to be compelled to take money out of their business in order to set it aside as a surplus and invest it independently, their necessities, perhaps, obliging them at the same time to borrow capital at a higher rate of interest."

^b See the *Deutscher Ökonomist* of December 28, 1901.

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it will be merely superfluous capital that is withdrawn—and they would consequently have to replace the amount by drawing on their other assets, as, for example, their bills or their securities.

They would, therefore, be obliged either to restrict the range of their business, by withholding credits previously granted or else to decline fresh credits, which might lead to a crisis, especially in industry. Or, perhaps, they would find it necessary to try to replace the working resources thus withdrawn by means of the issue of fresh stock, which if successful would have the result of increasing the tendency toward concentration and, in addition, of withdrawing cash resources from business up to the amount represented by the stock issues. If the stock could not be floated, the mischief would still remain what it was, an injury to trade and industry, which the scheme we are considering was meant to protect. But, as a matter of fact, the issue of new stock will in most cases be impossible since, on account of the setting aside of cash resources, there will be a shrinkage of the volume of business from the outset and, along with it, diminished dividends, or else a fear of such diminution of profits on the part of the public, so that a decline in the stock quotations would ensue.

But if the banks, in spite of this shrinkage of business, should try everything in order to earn a fair dividend, which must be the aim of the management of every joint-stock company, they would be likely to find themselves drifting into risky undertakings and would, in particular, be inclined to engage in promotion schemes and the flotation of securities more than ever. And thus, perhaps, their condition with respect to fluidity, about which, after the

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deposit of the safety reserve, they will be apt not to trouble themselves as much as before, and likewise the quality of their investments, will, in the event of a run, prove to be not as good as before. If, however, the deposit were to consist, not of cash, but of securities, then, in case there was a run, inasmuch as most of the banks would in that event be obliged to sell the securities they had deposited, it would be well-nigh impossible to dispose of such securities except at a great sacrifice. As the securities deposited would probably be of the safest kind possible, the prices of this very class would be especially depressed at a time of crisis.

The proposition of Heiligenstadt would consequently have the effect of withdrawing productive capital (working capital) in a twofold manner from the national economy, in the first place through the deposit of cash reserves with the Reichsbank and, secondly, through the fresh issues of stock.

I am assuming in this discussion that the one or two per cent of the aggregate amount of the outside moneys—some of the advocates of the scheme in question go as high as five per cent, and there is no telling, indeed, how high the percentage may yet be raised—are to be deposited with the Reichsbank without being invested with the quality of a security for the creditors, that is to say, without the implication of the right to keep them separate from the other assets in the event of the bankruptcy of the credit banks. If this be the case, the Reichsbank can and must, as we have already seen, hand out this cash reserve in the event of a run, with the result perhaps that other creditors than the deposit creditors, if they happen

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to come first will be served first, so that just the deposit creditors will go away empty-handed.

But if it should be otherwise—that is to say, if this cash reserve is to be a security for the aggregate of the money due to creditors, something to be kept apart from the other assets in the event of bankruptcy—then the Reichsbank, in accordance with ordinary rules, would not be permitted to hand it out in case of a run, so that the bankruptcy which the cash reserve is meant to avert would thereby become inevitable.

A necessary inference from the preceding statements is that this proposition in its practical bearings would have a tendency adverse to the strenuous endeavors that have recently been made with such creditable zeal to promote the use of checks and the method of payment by means of giro transfers in order to make it possible to dispense with cash in monetary intercourse and apply it to the purposes of credit.

It is well also to point out that the deposit of cash even up to 5 per cent of the aggregate amount due to the creditors of the German credit banks, which would make a sum of between 200,000,000 and 250,000,000 marks, could not possibly have the effect of considerably altering the “ratio of working capital to fixed capital” in the whole field of German economy. It should be noted, moreover, that while the proposition of Heiligenstadt aims above all toward the strengthening of the working resources of the Reichsbank, the “project of a bill relative to a change in the bank law” (No. 1178 of the Reichstag Documents), which has in the meanwhile been shelved, admitted that the Reichsbank’s own resources have thus far been adequate

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for the purposes for which they were intended and that there is therefore no need of increasing them. The only thing that was provided for consequently was a gradual increase of the working resources by means of successive additions to the surplus. Finally, it should not be forgotten that the Reichsbank, as a matter of fact, is expected to get considerable and constantly increasing accessions to its working capital through the arrangement that has been entered into for the management by the bank of the funds which the post-office shall accumulate in its postal-order and post-check business.

When we reflect that at first 1 or 2 per cent was considered (by Heiligenstadt) the proper quota, that afterward the experts summoned before the Bank Inquiry Commission thought that 5 per cent would be about right, and that already one of the very same experts^a has come forward with the suggestion that the quota shall be raised to 10 per cent, we can realize how utterly crooked and dangerous this whole scheme is. For why stop short at 10 per cent? There will be somebody, in the Reichstag or outside of the Reichstag, who with holy zeal and absolutely irrefragible logic will declare this 10 per cent to be wholly inadequate because it is evidently much safer to have 50 per cent at the Reichsbank than 10 per cent, so that the banks at last will fare like the ass who could have got along almost without any food had he not died just before he reached that point.

My attitude with respect to the propositions that have been discussed and the reform proposals in the domain of banking in general is based upon my fundamental oppo-

^aGeorg Bernhard in *Plutus* of April 24, 1909.

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sition to all schemes that, without any appreciable benefit to the public, merely tend to injure the banks, which are an important and necessary factor in our whole economy, and likewise to all schemes that bring more disadvantage than benefit to the public or which are vague in their aims and objects or hard to appraise with reference to their results. On the other hand, I should not be opposed, at least *a priori*, to schemes whose execution would entail certain sacrifices on the banks in so far as I thought they promised to be of considerable advantage to the public, and thereby perhaps of indirect advantage to the banks.

6. PUBLICATION OF ROUGH BALANCE SHEETS ACCORDING TO A LEGALLY PRESCRIBED FORM.

This claim is made for the proposals with respect to the publication of balance sheets, and in particular for that of Count Arnim-Muskau, who, if not exactly according to the literal meaning of his words, nevertheless according to the tenor of his proposition, viewed with reference to the nature of the banking business in Germany, would have us impose a legal obligation on all banks and mercantile concerns which, as part of their regular business, take deposits whose average amount (reckoned annually) exceeds one-half (?) the amount of their liable capital, to draw up rough statements of their condition at the first day of each quarter of the calendar year, whose form is suggested and is to be legally prescribed, and to publish such statements at the latest, on the first day of the following month in the newspapers designated for official announcements.

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I do not believe that these rough balance sheets can accomplish the object aimed at, the enlightenment of the public and, in particular, the deposit creditors in regard to the condition of the bank to which they have intrusted or intend to intrust their deposits, whatever be the exact scheme prescribed. If the scheme is to be a very detailed one, the statement will, as a rule, be read as little as the long prospectuses. If, on the other hand, inasmuch as naturally only aggregate amounts can be given in the individual items—the proposition before us proceeds on this assumption—the scheme is not to be a detailed one, the statement will, it is true, be read, but it would only very rarely fulfil the object for which it is intended, the enlightenment of the reader, who will be left in the lurch in regard to the points most essential with respect to the soundness of the bank.

This will be especially the case if a distinction is made in the rough balance sheets between secured and unsecured debts. The important thing, of course, is the kind of security afforded in each individual instance, whether it is, for example, a mortgage on occupied rural or urban land, or a mortgage on a factory or one on a building lot, or whether it is a first or a second mortgage, or whether it is in the shape of stocks and bonds, in which case everything depends on their quality, or in the form of a surety, in which case it is important to know how much the person in question possesses. Just as little will the rough balance sheets enable one to ascertain the composition of the individual accounts, to find out, for example, what items enter into the securities account or in that of syndicate transactions, and above all to tell whether the securities,

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bills, 30-day stock exchange loans, loans on collateral, and other advances are good or bad, and after all the main thing is the quality of the assets and not their quantity. It is possible too that in a technically legitimate way acceptances have taken the place of book credits, and *vice versa*, and so of other substitutions. The more it is proposed to enter into details, which can not be done with due regard for the absolute necessity of guarding business secrets, the more the concerns in question will be careful to see to it that their statements shall not be read. It was just the same with the prospectuses, whose introduction was vociferously demanded in behalf of the enlightenment of the public. They are never read, especially when they are lengthy, unless it be long afterwards, when the securities issued have declined greatly in price, so as perhaps to make a claim for indemnity possible.

Moreover, aggregate amounts in the matter of credits granted cover the most dangerous proceedings, which have so often driven banks in England, as well as in Germany—I am thinking of the Leipziger Bank—into bankruptcy,^a such, for example, as when a bank has granted excessive credits to one and the same person, firm, company, or institution or to one of its own branches. The regulation which prohibits the banks of issue in the United States from granting to any one party credit in excess of a certain proportion—one-tenth—of its share capital, does not, for

^a Compare Felix Hecht, *Die Katastrophe der Leipziger Bank* (in *Störungen im deutschen Wirtschaftsleben während der Jahre 1900 ff.*, published by the Verein für Sozialpolitik, Vol. VI, *Geldmarkt, Kreditbanken*, pp. 373 et seq.): "At the close of 1900 the Leipziger Bank had a stock of bills amounting to 37,798,571 marks, as shown by its statement, but what could not be gathered from this statement was the fact that out of this amount about 12,000,000 marks had been pledged at the Lotteriedarlehnkasse."

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one thing, take any account of the situation and condition of the individual bank, and is thus too mechanical; and besides, as experience has shown, it is very easy to get around this regulation.

Experience has also shown that the most disgraceful bankruptcies—for example, some of those that have occurred in England, especially in critical times—have been those of deposit banks *that had published their statements*; and in many cases the bankruptcy has followed immediately after the publication, without any outside person having had the least suspicion of the impending ruin, even though the publication complied formally with the legal requirements.

As for the details demanded in the Arnim article, there are so many of them that I can not discuss them all here. Only I wish to make an objection against the demand (often made in other quarters also) that all payment obligations on participations, etc., be stated. Even by the syndicate managers themselves the size of these payment obligations often can not be predicted with any degree of certainty. Thus it is with the carrying out of operations covering long periods arising out of the starting or taking over of factories or railroads or other investments; with the rehabilitation of enterprises that are in difficulties; or with international businesses, where the seat and conduct of the business are in a foreign country. Or, again, there are transactions in the case of which it is impossible to obtain even a remote idea at the time of the publication of the rough balance sheets, of how large an amount may have to be put in (perhaps *à fonds perdu*); or of the time

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at which, and the extent to which, additional payments may have to be made; or of the amount of possible additional obligations, which so often become necessary, even after the winding up of the syndicate business proper. And there are other kinds of transactions which present similar difficulties. It is the same way with syndicate payments as it is with housekeeping: The expenses that come up most frequently and are most sure to disturb all one's calculations are always those that could not have been foreseen when the calculations were made.^a

Finally, another reason why the rough balance sheets may be misleading is that it is often only in the course of or at the end of the business year or even after its close (just before the preparation of the annual balance sheet) that one can state what allowances for depreciation, etc., have to be made—a very notable deficiency in the information necessary for one who is getting an idea of the condition of the bank. Furthermore, in a rough balance sheet credits and debits are set down without regard to the question of whether some items should not be made to cancel each other because the same party is both debtor and creditor.^b

^a To the demand for the statement of "the total of the moneys invested in *reports* and loans on collateral," the following brief reply may be made: Such a statement would not be of the slightest use; least of all would it have the effect it is apparently designed to have. It would not show to what extent the bank in question has gone in for speculation, since operations of a very different kind—loans on the security of merchandise, for example—may be tucked away among *reports* and loans on collateral. Moreover, the nature, the amount, and, above all, the *quality* of the effects pledged as security to the bank can not be ascertained from such a statement as is demanded, although these are the essential elements in the case, nor would the case be much altered if the total value (anything else would be impossible) of the pledged effects themselves were also published.

^b Cf. Dr. Salomonsohn, proceedings of the third general convention of German bankers, p. 116.

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Now, although I do not think that the periodical publication of rough balance sheets can accomplish much in the way of enlightening the public as to the real condition of the banks, I am nevertheless very well aware that much benefit will accrue from the *public criticism* which will result from these publications—a criticism which will have a much broader and firmer foundation in comparisons between different rough balance sheets published simultaneously than it could have if it were to rely on a single balance sheet.

I regard these publications as being also a very good means by which the banks may train themselves through mutual criticism, and may thus gradually come to have the same, or nearly the same, principles of business conduct in regard to certain departments of the banking business, especially in regard to the kind of credit that should be granted and the extent to which it should be granted. This unity of principle can then be built up into a firm and solid tradition, of which there has hitherto been very little sign.

I also think that it would be an excellent thing, both on theoretical and on practical grounds, if these periodical rough balance sheets should cause the banks all to adopt the same system in publishing these balance sheets, and finally also in publishing the annual balance sheets. It would then be possible to compare the balance sheets of all the different credit banks with each other, a thing which is now subject to great difficulties.

Finally, it must not be forgotten that every new expedient by which we are enabled to read, without being misled by appearances, the present and the near future of

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the economic world, must necessarily narrow down the wide margin of error which is naturally apt to exist in such cases. And periodically recurring publications of rough balance sheets of the credit banks^a would count as such an expedient, just as certainly as the publication of the condition of the Reichsbank or of the fluctuations in the Reichsbank's rate of discount and in the private rate of discount; just as certainly as the publications in regard to the demand for labor at the free public employment bureaus; just as certainly as the publications in regard to the bill stamp, from which one may ascertain the bill circulation, or those in regard to the receipts of the railroads, from which the condition of industry may best be judged. Each one of these expedients furnishes some part of the requisite data.

But in spite of the undeniable and important advantages that the periodical publication of balance sheets would bring with it, I am nevertheless strongly opposed to the plan of resorting to legal compulsion in the matter. I shall now state my reasons for this opposition.

In the first place, I think it would be a very unwise and dangerous thing for the legislature to make this regulation, which even the English have never undertaken to make, and thus—for the consequence would be inevitable—to fill large sections of the community with the idea

^a Cf. also the pertinent observation of Eugen Lopuszanski in the article *Einige Streiflichter auf das österreichische Bankwesen* (in Dorn's *Volkswirtschaftliche Wochenschrift*, Vienna, Dec., 1908, vol. 60, no. 1305, p. 433): "Furthermore, in consequence of its organic constitution and its function, the banking system, although apparently only a limited department of the nation's economic activity, is fitted to exhibit, through its own conduct and its own condition, the changing forces and movements in the nation's economic life—to present, as it were, a cross section of the economic organism."

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that by means of these publications they are going to obtain full and clear information about the condition, and therefore about the safety, of the bank to which they have intrusted, or are about to intrust, their deposits. This idea would be a mistaken one, no matter what scheme were chosen, and to give rise to mistakes of this kind is not creditable to a legislature. What came to pass at the Leipziger Bank and at the Marienburger Privatbank would have come to pass just the same under the same management even if these banks had published rough balance sheets—as they actually did publish the most impressive annual balance sheets, and “annual reports” in addition.

In the second place, legislative compulsion in regard to such publication is quite out of the question without a legally imposed scheme for the statement, in regard to which, indeed, there have already been an enormous number of proposals, both from qualified and from unqualified critics.

But a legally prescribed scheme for balance-sheet publications would have to remain unchanged for a number of years, and is therefore an utter absurdity, since the business activity of the banks is constantly changing, and the scheme must consequently be susceptible of constant variation in accordance with practical needs. A scheme such as might be made out by the banks themselves to-day would necessarily have a very different aspect from one that they would have made out ten years ago, or one that they may make out ten years hence.

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If there is any domain in which the impotence of legislation is apparent from the start, this is that domain. The business of the banks of issue, of the insurance companies, and of the mortgage banks is of a sort that naturally develops along formal and mechanical lines; it is therefore more susceptible of that regulation which the habit of centuries has taught us Germans to look upon as the *ultimum refugium* in any difficulty. The business of the credit banks is obviously very different in this respect.

In the third place, practical experience clearly shows how little the talent for legislation, especially in things economic, has been developed among us Germans. Questions such as this of the publication of balance sheets, or that about the depositing of cash with the Reichsbank for the better safety of deposits, naturally seem to the layman very clear, highly essential, and simple in point of execution—*les solutions simples séduisent toujours les esprits naïfs*—whereas in reality they are extremely difficult and complicated. It is therefore to be feared that the advocates of these plans, proceeding as they do from very different starting points and working toward very different ends, will accomplish their desires in ways that will bring a train of evil consequences of all kinds. Such things have happened before now. Above all there is imminent danger lest the proposal of Count von Arnim be followed, according to which not only the credit banks, savings banks, and Kreditgenossenschaften, but also the private bankers, are to be obliged to publish their balance sheets. I am convinced that this ought to be

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pronounced out of the question. For the private banker is intrusted with deposits not so much in consideration of the bulk of his resources as in consideration of his supposed personal trustworthiness. A compulsory publication of the state of his resources would injure the private banker even in his competition with other private bankers, and the greatest care should be taken to prevent legislation from again promoting or hastening, as it did with the bourse law, the decline of the class of small and middling bankers.

For all these reasons I was very glad indeed to hear that the Berlin great banks have decided to publish rough balance sheets of their own accord, starting with 1909 and publishing at the end of February, of April, of June, of August, and of October (in December the annual balance sheet intervenes). They have decided to make out their statements according to a scheme that they have talked over and fixed upon—a scheme which is essentially modeled on that of the Deutsche Bank. This scheme of the Deutsche Bank has been adopted by many joint stock banks, and is sure to be more and more widely used as time goes on. But when the question was first being discussed I said that whatever form was decided upon the critics would take exception to it. One can hardly imagine any form that would not be pronounced inadmissible by some critic or other, whether it were a form proposed by the banks or one proposed by other critics.

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7. PUNISHMENT OF BANKS AND BANKERS THAT ATTRACT THE INVESTMENT OF DEPOSITS OR SAVINGS THROUGH PUBLIC OR WRITTEN SOLICITATION OR THROUGH AGENTS.

On the occasion of the adoption in 1909 of the amendments to the bank law the Reichstag requested the imperial chancellor to submit a draft of a law designed to cope with the dangers which beset the public through banks and bankers that attract the investment of deposits or savings by means of public or written solicitation or through agents.

According to the proceedings of the commission, the proposal is directed only against "corner" or "drumming" bankers, and such like, who have no claim to the title of "banker" and who, by promises of high interest and other inducements, entice people into giving up their savings without being able, often even without intending, to refund the deposits.^a

Danger to the public really exists only in these cases. And some of these may be dismissed at once, for the written solicitation of deposits from definite individuals by persons in the banking business who, even at the time of their solicitation, do not intend to refund or who are at that time (and presumably also later) not in a position to refund—this kind of solicitation should be looked upon as an attempt to cheat. And as for persons who, from the character of their business, are not entitled to the name of "bankers," the Central Association of German Banks and Bankers, which was instituted for the protection of the interests of the banking profession, has power

^a Cf. the article *Spargelder* in the *Neue Politische Correspondenz*, May 21, 1909.

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to take steps under the law concerning improper competition to prevent the public use of the appellation of "banker" in cases where it is not warranted. Indeed, I can testify that the association has taken such steps in many instances.^a But the text of this very poorly drawn Reichstag resolution contains no request whatever to the imperial chancellor that he should submit a draft of a bill against these nonbankers or against the many unfluid savings banks; he is merely asked to devise some measure against banks and bankers. Moreover, no distinction is made in this resolution between deposits and savings—two very different things—and, finally, intervention is declared to be desirable to prevent solicitation, not only by public means but by written communication, of the investment of deposits or savings (meaning, no doubt, the investment of moneys in the form of deposits or savings).

But a written solicitation, which is, of course, one kind of "attraction," may on occasion be the duty of the bank or the banker, when through carelessness or ignorance the customer whose affairs they have in charge lets his money lie without bringing him in any interest.

And since, besides all this, the word "attract" [*anreizen*], which is used in the resolution, is an extremely elastic word, one that has received all sorts of different interpretations both in theory and in practice, I do not think that any practical results can be made to ensue from the plan suggested in the Reichstag resolution.

And it is certainly dangerous to enact penal regulations that either reach far beyond the desired and economically

^a A case of this kind is mentioned in the *Neue Politische Correspondenz* for May 21, 1909.

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desirable object or else have no practical application whatever.

8. THE BUREAU OF SUPERVISION.

Another plan which has been advocated lately by several different critics, especially by Obst, but which should also meet with condemnation, is the institution of a governmental bureau of supervision.

No such thing has ever yet afforded any protection whatsoever against fraudulent manipulations. On the contrary, it is most apt to lull the public into a fancied security which can not possibly have any real basis. For even with the greatest amount of expert knowledge an authority like this would not be in a position to form a trustworthy judgment of the *quality* of a bank's assets, to say nothing of the fact that no bank can be expected to allow any of its competitors whom the bureau might employ in the capacity of experts to look into its business affairs.^a

This is the last of the proposals for reform that have thus far been made. All of these proposals have conformed to the tendency of our age and of our country in that they have been directed toward some interference or other on the part of the state or the legislature. This in spite of the fact that in the very country which in other respects is declared to be a pattern for us in matters of banking—in England itself, that is—legislative interference with the deposit banks has always been decisively rejected.

^a Cf. Aelteste der Berliner Kaufmannschaft in the *Beliner Börsenzeitung*, no. 264, June 9, 1909; Alfred Loewenberg in the *Tag*, no. 189, August 25, 1909; and especially Koch in the *Zeitschrift für Handelswissenschaft und Handelspraxis*, vol. 2, p. 38 ff., who justly observes that the proposal to increase the official apparatus sounds very strange at a time when all the rest of the world is endeavoring to decrease it.

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Although I do not in the least subscribe to the outworn Manchester theory, still on *these* important, far-reaching, and difficult questions I adhere to the opinion expressed some fifty years ago by one of the most eminent authorities on this very subject, an opinion which is unfortunately just as valid to-day as it was then:

“The vicious system of tutelage has never yet stood the test of experience. It leads to one thing after another, and when it is once adopted there is soon nothing left in which the state does not feel bound to interfere in the interest of its members, nor any desired end for which the members do not look hopefully and expectantly to the state, confining their own activity to the making of complaints.”

He who wrote these words in 1857 was no less a man than Adolph Wagner.^a I frankly admit that to me this early creed of his has greater convincingness than his later views and suggestions on the same subject, which are unfortunately of a very different stamp.

Against a criminal or negligent handling of deposits no state measures can avail, above all no legislative regulations and no supervisory bureau. This plan of a supervisory bureau was suggested by Wagner years ago,^b when the impression left by the crisis of 1901 had not begun to subside—at a time, therefore, not in the least favorable to the formation of judicial and matured proposals. But in

^a In his book *Beiträge zur Lehre von den Banken*, Leipsic, 1857, p. 150.

^b Adolph Wagner, *Bankbrüche und Bankkontrollen*, in the *Deutsche Monatschrift für das gesammte Leben der Gegenwart* (ed. Lohmeyer), vol. 1, no. 1 (Oct., 1901), pp. 74–85, and no. 2 (Nov., 1901), pp. 248–258, especially p. 255. For the other side, cf. especially the *Deutscher Ökonomist* for October 19, 1901, and February 1, 1902, and R. Rosendorff, *Bankbrüche und Bankkontrollen* in Hirth's *Annalen des Deutschen Reichs*, 1902, no. 3, pp. 182–197.

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my opinion the German banking system has by no means deserved any such public vote of censure (for it is a vote of censure, no matter how you twist and turn it). The thing upon which the whole case turns is the honesty, trustworthiness, and ability of the bank managements. In the United States ^a the official report of the Comptroller of the Currency (who can also order examinations to be made of the national banks by special examiners) plainly says, speaking of the year 1895 (p. 57 ff.), that as a rule the examinations have only brought to light the abuses, mistakes, and crimes *after* a bankruptcy has already taken place, and that no supervision by outsiders can possibly take the place of honesty and ability on the part of the bank management.^b

^a Paul Marcuse, op. cit., p. 136.

^b According to a report of the Comptroller of the Currency dated September 23, 1908, more than half of the presidents of all the national banks expressed themselves as satisfied with the supervision exercised up to that time by the national bank examiners. This fact is advanced as an argument by Obst, but it is susceptible of quite a different interpretation from that of an acknowledgment that the system has demonstrated its efficiency.

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