REPORT

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OF

THE MONETARY COMMISSION

TO

THE EXECUTIVE COMMITTEE

OF

THE INDIANAPOLIS MONETARY CONVENTION.

1897.

THE

MONETARY COMMISSION

OF THE

INDIANAPOLIS CONVENTION.

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Chairman.

GEORGE E. LEIGHTON, MISSOURI,
Vice-Chairman.

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C. STUART PATTERSON, PENNSYLVANIA.

ROBERT S. TAYLOR, INDIANA.

To the Executive Committee of the
Indianapolis Monetary Convention.

The Commission appointed by you under the resolutions adopted by the Indianapolis Monetary Convention on 15th January, 1897, with a request "to make a thorough investigation of the monetary affairs and needs of the country in all relations and aspects, and to make proper suggestions as to the evils found to exist and the remedies therefor," respectfully reports that the members thereof met at Washington on the 22d day of September, 1897, and organized by the election of George F. Edmunds, as Chairman, and George E. Leighton, as Vice-Chairman.

The resolutions adopted by the Indianapolis Monetary Convention declare "that it has become absolutely necessary that a consistent, straightforward and deliberately-planned monetary system shall be inaugurated, the fundamental basis of which should be: first, that the present gold standard should be maintained; second, that steps should be taken to insure the ultimate retirement of all classes of United States notes by a gradual and steady process, and so as to avoid injurious contraction of the currency or disturbance of the business interests of the country, and that until such retirements provision should be made for a separation of the revenue and note-issue departments of the Treasury; third, that a banking system be provided which should furnish credit facilities to every portion of the country and a safe and elastic circulation, and especially with a view of securing such a distribution of the loanable capital of the country as will tend to equalize the rates of interest in all parts thereof."

We have accepted those principles as the basis of our action, not only because they are the instructions of the body of citizens by whom we have been appointed, but also because they meet the approval of our judgment.

We have also sought and received the counsel of many of our fellow citizens in all parts of the country. Their communications, while differing in some respects, have, upon the more important points, presented a concurrence of opinion which has been an invaluable aid in the formation of our conclusions.

We submit, for the reasons hereinafter stated, a plan of currency reform, in the hope that it will, if enacted into law, accomplish, so far as possible, these results:

1. To remove, at once and forever, all doubt as to what the standard of value in the United States is, and is to be.

2. To establish the credit of the United States at the highest point among the nations of the world.

3. To eliminate from our currency system those features which reason and experience show to be elements of weakness and danger.

4. To provide a paper currency convertible into gold and equal to it in value at all times and places, in which, with a volume adequate to the general and usual needs of business, there shall be combined a quality of growth and elasticity, through which it will adjust itself automatically and promptly to all variations of demand, whether sudden or gradual; and which shall distribute itself throughout the country as the wants of different sections may require.

5. To so utilize the existing silver dollars as to maintain their parity with gold without imposing undue burdens on the Treasury.

6. To avoid any injurious contraction of the currency.

7. To avoid the issue of interest-bearing bonds, except in case of unlooked-for emergency; but to confer the power to issue bonds when necessary for the preservation of the credit of the government.

8. To accomplish these ends by a plan which would lead from our present confused and uncertain situation by gradual and progressive steps, without shock or violent change, to a monetary system which will be thoroughly safe and good, and capable of growth to any extent that the country may require.

We cannot, within the limits of this preliminary report, go at length into the reasons which have led us to all the conclusions here expressed. A statement of those which relate to the more important points must suffice. Later a fuller and final report will be presented.

THE FACTS AS TO THE CURRENCY.

The people of the United States have ten different forms of currency: gold coins, silver dollars, subsidiary silver coins, minor coins, gold certificates, silver certificates, United States notes, currency certificates, Treasury notes of 1890, and national bank notes. The respective qualities of each, the amounts outstanding, the amounts in the Treasury, the amounts in circulation, and the respective denominations of the paper currency, were on 1st November, 1897, as follows:

1. Gold Coins of the denominations of $20, $10, $5, and $2.50, weighing 25.8 grains to the dollar and .900 fine. They are a "legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance provided by law for the single piece, and, when reduced in weight below such standard and tolerance, a legal tender at valuation in proportion to their actual weight"; receivable for all public dues, and exchangeable for gold certificates. Gold bullion is admitted to free coinage. The Treasury estimates that the stock of gold in the country is $729,661,110, of which $153,573,148 in addition to $36,814,109 held against outstanding gold certificates are held by the Treasury, and $195,895,107 are held by the national banks.

2. Standard Silver Dollars, each containing 412.5 grains of standard silver .900 fine, coined for government account, a "legal tender at their nominal value for all debts and dues, public and private, except where otherwise expressly stipulated in the contract"; receivable for all governmental dues, and exchangeable for silver certificates.

From 1793 to 1873, the Mint coined silver dollars to the amount of $8,031,238. From 1874 to 1878, none were coined. The act of 28th February, 1878, required not less than two

millions nor more than four millions dollars worth of bullion to be purchased monthly and coined into standard silver dollars.

The act of 7th August, 1882, directs the Secretary of the Treasury "to transport, free of charge, silver coins when requested to do so, provided that an equal amount in coin or currency shall have been deposited in the Treasury by the applicant."

The act passed on 19th February, 1887, which became a law, without President Hayes' approval, on 3d March, 1887, directed that "trade dollars" received at the Treasury should be coined into standard dollars. The act of 14th July, 1890, required four million five hundred thousand ounces of fine silver bullion to be purchased monthly and Treasury notes to be issued in payment therefor. The act of 1st November, 1893, repealed the purchasing clause of the act of 14th July, 1890.

Under the act of 28th February, 1878, the government purchased 291,272,018 ounces of silver at a cost of $308,279,260. Under the act of 14th July, 1890, the government purchased 168,674,682 ounces at an average price per fine ounce of $0.9244, costing $155,931,002. The government coined to the 1st of November, 1897, $452,713,792, of which $392,715,014 are in the Treasury, and $60,196,778 are in circulation. The free transportation of the silver dollar has cost $1,064,106. The government now holds 115,361,079.54 ounces of silver bullion, which cost $104,853,851.55, and which, at the price of silver on 3d November, 1897, are worth $65,900,016.67. As against the 392,517,014 silver dollars now in the Treasury there are outstanding silver certificates to the amount of $372,838,919, leaving $19,678,095 in the Treasury uncovered by certificates.

As the silver bullion now in the Treasury and purchased under the act of 1890 cost $103,957,026.25, and there are outstanding Treasury notes of 1890 to the amount of $109,313,280, silver dollars to the amount of $5,356,254 must be held as against these Treasury notes of 1890, and this amount deducted from the amount of silver dollars uncovered by silver certificates [$19,678,095] leaves as the amount of silver dollars uncovered by either silver certificates or Treasury notes of 1890, and subject to disposal by the Treasury, $14,321,841. The act of 14th July, 1890, declared it to be "the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law." The act of 1st November, 1893, declared it "to be the policy of the United States to continue the use of both gold and silver as standard money and to coin both gold and silver into money of equal intrinsic and exchangeable value, such equality to be secured through international agreement, or by such safeguards of legislation as will insure the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts."

3. SUBSIDIARY SILVER, coined for government account in denominations of 50, 25, and 10 cents, .900 fine, containing 385.8 grains to the dollar; "a legal tender in all sums not exceeding $10 in full payment of all dues, public and private"; receivable for governmental dues to $10; and exchangeable for lawful money at the office of the Treasurer or any Assistant Treasurer of the United States in sums of $20 or any multiple thereof. The general stock of subsidiary silver amounts to $75,414,007, of which $11,981,078 are in the Treasury, and $63,432,929 are in circulation.

4. MINOR COINS, coined on government account in denominations of 5 cents and 1 cent; a "legal tender at their nominal value for any amount not exceeding 25 cents in any one payment"; receivable to the amount of 25 cents for all governmental dues; and redeemable in lawful money at the office of the Treasurer and the several Assistant Treasurers and depositories of the United States when presented in sums of not less than $20.

5. GOLD CERTIFICATES, issued under the acts of March 3, 1863, and June 12, 1882, for gold coin deposited in the Treasury, in denominations of $10,000, $5,000, $1,000, $500, $100, $50, and $20; not a legal tender; "receivable for customs, taxes and all public dues," and redeemable in gold at the Treasury or any sub-treasury.

Certificates to the amount of $38,348,169 are outstanding, of

which $1,534,060 are in the Treasury, and $36,814,109 are in circulation.

6. SILVER CERTIFICATES, issued against standard silver dollars deposited, in denominations of $1,000, $500, $100, $50, $20, $5, $2 and $1; not a legal tender; receivable for customs, taxes, and all public dues; exchangeable for standard silver dollars or smaller coin; and redeemable in standard silver dollars. There are outstanding silver certificates to the amount of $384,170,504, of which $11,331,585 are in the Treasury and $372,838,919 are in circulation.

7. TREASURY NOTES, issued under the act of July 14, 1890, in payment for silver bullion; a "legal tender for all debts public and private, except where otherwise expressly stipulated in the contract"; receivable for customs, taxes, and all public dues and "redeemable on demand in coin" at the office of the Treasurer or any Assistant Treasurer of the United States. There have been issued $155,931,002, of which $46,617,722 have been redeemed in silver and cancelled; $7,553,325 are in the Treasury, and $101,759,955 are in circulation.

8. UNITED STATES NOTES, issued under the acts of February 25, 1862, July 2, 1862, and March 3, 1863, in denominations of $1, $2, $5, $10, $20, $50, $100, $500, $1,000, $5,000, and $10,000; a "legal tender in payment of all debts, public and private, within the United States, except for duties on imports and interest on the public debt"; redeemed when presented since 1st January, 1879, in gold coin at the sub-treasuries in New York and San Francisco, and reissued. The highest amount of these notes outstanding at any time was on January 3, 1864, when it reached $449,338,902. By the Public Credit act of March 18, 1869, "The United States solemnly pledges its faith to make provision at the earliest practicable period for the redemption of the United States notes in coin." The resumption act of January 14, 1875, authorized the use of surplus revenues and the issue of bonds for their redemption. The act of May 31, 1878, prohibited their further cancellation or retirement, and directed the reissue of such as might be received or redeemed by the Treasury. The amount outstanding has therefore since

remained at $346,681,016, of which $87,684,018 are in the Treasury, $48,625,000 are held against outstanding currency certificates, and $258,996,998 are in circulation.

The aggregate amount outstanding of United States notes, Treasury notes of 1890, and silver dollars is $908,708,088, of which $61,274,184 are now in the Treasury, but liable to reissue, and $847,433,904 are in circulation.

As against this large amount of that which is a credit currency, aside from the value of the silver bullion and dollars in the Treasury, the Treasury now holds $153,573,147 in gold coin and bullion, after deducting the amount of the gold certificates.

9. CURRENCY CERTIFICATES, issued under the act of June 8, 1872, in denominations of $10,000, upon deposit of United States notes, payable to order, and not a legal tender, nor receivable in exchange for anything other than legal-tender notes. $48,625,000 are outstanding, of which $340,000 are in the Treasury, and $48,285,000 are in circulation.

10. NATIONAL BANK NOTES, issued by the national banks of the United States in accordance with the act of June 3, 1864, to the extent of 90 per cent. of the par of government bonds deposited by such banks with the Treasury; not a legal tender; receivable at par "in all parts of the United States in payment of taxes, excises, public lands and all other dues to the United States except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations within the United States, except interest on the public debt and in redemption of the national currency"; receivable also by every national banking association for any debt or liability to it, and redeemable at the Treasury.

The national bank notes outstanding are $230,132,275, of which $4,998,012 are in the Treasury, and $225,134,263 are in circulation.

The national banks were organized under the act of 25th February, 1863, and its supplements. They were authorized to issue a circulation based upon bonds, in order that there might thereby be created a demand for the bonds of the United States.

On 2nd July, 1866, there were 1634 banks; on 26th Decem-

ber, 1873, 1976; on 2nd October, 1890, 3540; on 9th December, 1892, 3773, and on 5th October, 1897, 3610. The maximum capital was $689,698,017 on 9th December, 1892. The maximum circulation was on 26th December, 1873, $341,320,256, and the minimum circulation on 2nd October, 1890, $122,928,084. Up to 1892, the tendency was towards increase of capital. Since then the tendency has been in the direction of a decreasing capitalization. From 1873 to 1890, there was a marked decrease in circulation, with occasional fluctuations; but since 1890 there has been some increase of circulation, with no prospect of any material increase under the existing system.

On 5th October, 1897, there were 3610 banks, with an outstanding note issue of $230,132,275 [of which $4,998,012 were held in the Treasury], with a capital stock of $631,488,095, with an aggregate capital, surplus and undivided profits of $966,240,095, with deposits of $1,869,491,310, and with investments in discounted paper [rediscounts deducted] of $2,043,803,-392, in United States bonds of $277,235,920, in other stocks and securities of $208,831,563, and in lawful money of $388,882,631, of which $195,895,107 are in gold coin. The five per cent. redemption fund held by the Treasury now amounts to $10,021,-689. From the organization of the system, in 1863, to 30th June, 1897, the national banks have paid in taxes to the United States $150,207,339.44; and the United States has also made a profit of $2,826,466 from that amount paid by the banks to redeem circulation which has not been presented.

THE DEFECTS OF THE SYSTEM.

The defects of the existing system are:

First. The vast amount of government credit currency without a certain and adequate provision for its redemption, and the consequent diminution of public confidence in the continued maintenance of the gold standard.

Second. The continuance in circulation of government promises to pay, which, when made a legal tender, constitute a forced loan, which are secured only by such resources as the exercise of the taxing power can render available, and which are payable only at the will of the debtor.

Third. The failure to provide the means for a gradual and sufficient increase of the volume of the currency to meet the needs of an increasing population and an enlarging commerce.

Fourth. The want of a natural outflow and inflow of the currency when and as, and only when and as, the agricultural, manufacturing and commercial interests of the country require, at a given time, either a greater or a less quantity of currency in circulation.

Fifth. The failure to secure such a distribution of the loanable capital of the country as will tend to equalize the rates of interest in all its parts.

Sixth. The confusion of the fiscal functions of the Treasury as the receiver of the public revenue and the disburser thereof under congressional appropriations with its issue and redemption functions in exchanging and redeeming the currency.

Seventh. The circulation of different forms of government currency having different qualities as to legal tender and receivability for government dues.

Eighth. The circulation of silver dollars of full legal-tender quality whose nominal value as coins so largely exceeds their value as bullion, that they offer tempting inducements to successful counterfeiting.

Ninth. The circulation of a national bank currency based upon government bonds, presupposing a continuing issue of those bonds, diminishing the loanable funds of the banks, and, by reason of their bond basis, incapable of increasing in volume with a temporary demand for more currency, and of decreasing with the cessation of that demand.

THE STANDARD.

The most serious evil affecting our present monetary system is the threatened degradation of its standard. The story is familiar, but it will be useful to recall it briefly in this connec-

tion. The close of the civil war found the people of the United States in the possession of a depreciated legal-tender paper currency, with its inevitable accompaniment of inflated prices. To return from such a condition to one of sound money and normal prices is always a painful process, and when the government began that process, under Secretary McCulloch, in 1866, there was an outcry against it, and it was suspended. From a remonstrance against the payment of the demand obligations of the Treasury at *that* time the movement grew to an opposition to the payment of them at *any* time, and finally to a demand for the issue of more of them, and that, not in the form of promises to pay, but of fiat paper dollars. The number of persons who were carried away by these delusions was very great. The political struggle which ensued was prolonged and intense, and the victory which the defenders of sound money achieved in the passage of the resumption law of 1875 was a close one.

That victory ought to have settled all disturbing questions in relation to the monetary policy of the United States, and would have done so, so far as can now be seen, if it had not been for the fall in the value of silver, which began while the contest was going on. From 1792 to 1873 the legal standard of value in the United States was the double one of gold and silver at prescribed ratios. By the Coinage act of 1873 the silver dollar, which was then worth more than the gold dollar, and which no one could foresee would ever be worth less, and of which very few were in existence, was dropped from the coinage, leaving gold as the only full legal-tender coined money.

Soon after the passage of this law, the value of silver began to decline. The friends of cheap money saw their opportunity and lost no time in improving it. The clamor for the restoration of the sixteen-to-one silver dollar to free coinage began. This was a far more plausible, and therefore more dangerous, movement than the fiat paper money scheme. Silver had a real value. At the beginning of the agitation that value was not greatly less than sixteen of silver to one of gold in weight. It was claimed that its admission to free coinage would increase its value to the full measure of that ratio. Patriotic sentiment was invoked in its favor. It was said to be the money of the fathers and the Constitution. To this was added the appeal to class prejudice. Gold was said to be the money of the rich; silver of the poor. Gold was said to be increasing in value, and so depressing all prices, and increasing the burden of all debts to the unjust advantage of all creditors. The advocates of free silver professed to be the champions of the farmer, the mechanic and the laborer against the aggressions of the capitalist, the banker and the corporation. Such appeals come to men in debt, out of employment and downcast in spirits with great seductive force. Evidence enough of that fact is on record in the election returns of 1896.

The pertinence of this retrospect is the proof which it affords of the fact that so large a portion of the people of the United States have no conception of the nature or importance of a money standard. In such a country as ours the legal monetary standard is whatever a majority, or a plurality, it may be, of the voters say it shall be. It is therefore of the utmost importance that the standard shall not only be distinctly declared in the law but clearly fixed in the minds of the people as the first and indispensable element of a sound monetary system. All history is evidence that the people who suffer most from a degradation of the standard are not the rich and powerful, but the poor and helpless. Compared with this danger all existing evils of mere kind or quantity of our present money are relatively only inconveniénces. The first need of the situation is to fortify the standard.

There are some considerations as to the standard which ought to commend themselves to the judgment of the country. There must be some standard of value. The standard must have a market value as a commodity independently of any governmental fiat and of all legal-tender laws; it must be durable; it must be homogeneous; it must have a maximum of value proportioned to its bulk; it must have, as a commodity, as stable a market value as possible, and in order to secure the stability of that market value, the relation between its supply and demand must be as constant as possible. Gold alone fulfills these conditions. The civilized world has, therefore, determined

that the standard shall be gold. No government, however powerful, can in fact reverse that determination, or, without injury to the interests of all its people, attempt to establish any other standard of value.

There is a clear distinction between the functions of money as a standard of value and as a medium of exchange. While that money which is the standard of value will always serve also as a medium of exchange, yet other forms of currency of inferior market value can in no sense be a satisfactory standard, and can be a suitable medium of exchange only when their convertibility at par into the standard money is assured. Any possible currency is, therefore, of one of two kinds. The first kind is that which has been adopted as the standard of value. The second kind is that which is, without reference to its market value as a commodity, receivable at par, because convertible at par into the standard money. To-day gold is the only currency of the first kind. United States notes, national bank notes, silver dollars, subsidiary silver and minor coins, are currency of the second kind. The face value of the silver dollars, the subsidiary silver and the minor coins more or less largely exceeds their bullion value, and they differ from the note issues only in the fact that the material of which they are made has some market value as bullion. Under modern conditions of business, purchases, sales, loans, the discharge of debts, and even payments of wages are effected in great part by drafts, checks, or transfers of credits. While the work which the money, which is the standard, actually performs in the exchanges of the country is relatively small, yet every one of those exchanges is based on that standard. If all the money of the country is convertible at par into gold, there may then be whatever, and as much, of the representative forms of currency as the convenience of the people may require.

On the other hand, if the standard of value be lowered, there necessarily follows a loss of public confidence, a lessened use of credit and of credit forms of currency, and a consequent diminution of the effectiveness of the currency.

The gold standard, therefore, does not mean gold monometalism, and it necessarily results, not in contraction, but in the greatest possible expansion of the currency within the bounds of safety.

As gold derives no value from any legal-tender law, nor any value from coinage at the mint beyond "the ascertainment that its weight and purity are what the law requires," and the certifying by the government's stamp that it possesses those qualities, it is, and it ought to continue to be, admitted to free coinage. On the other hand, silver, nickel, and copper should be coined only upon government account, into coins of limited legal-tender quality; should be issued from the mint only in exchange for gold at par; and should be re-exchangeable at the Treasury in convenient multiples for gold coin at par. Under this system there could be no arbitrary contraction or expansion of the coin currency, nor any tampering with the standard of value, and the people would then carry to their credit in the ledger of the Treasury Department the profits upon the coinage of silver, nickel and copper.

Many of our fellow citizens have hoped in all sincerity that the problem of the standard would be solved by international bimetallism. An earnest effort has been made to realize that hope, but it must now be abandoned. The only alternatives, therefore, are the continued maintenance of the existing gold standard, or the adoption of the silver standard. If the latter alternative be taken, the obligations of the United States, of the states, of all municipalities, of all private corporations, and of all individuals, the receipts of income from every source, the proceeds of policies of insurance, the deposits in banks and saving funds, and the wages of labor, will then be payable in a debased and depreciated currency; and individual and corporate bankruptcy, and, worst of all, national dishonor, will follow. If the former alternative be taken, and the necessary means be adopted to secure the stability of the gold standard, the credit of the country will be established; the national debt can be refunded at lower interest rates; the surplus capital of the world will come here to find profitable investment; and our country will enjoy the prosperity that follows a currency system based upon a stable standard of value.

The means necessary to establish and preserve popular confidence in the continued maintenance of the gold standard are:

1. An explicit legislative definition of the gold standard, and a pledge that it will be maintained.

2. A requirement that all obligations, public and private, unless otherwise stipulated in the contract, shall be payable in conformity with that standard.

3. The adoption of a plan for the gradual retirement of the outstanding note issues of the government.

As the gold deposited for certificates cannot be used by the government, and as the issue of gold certificates is of no advantage to the government or to the people, there does not seem to be any reason for their continued issue.

THE SILVER CURRENCY.

The silver certificates, being the expressed representatives, dollar for dollar, of silver dollars deposited, ought to continue to be exchangeable only for silver dollars.

The face value of the subsidiary silver coins more largely exceeds their bullion value than is wise even in the case of token coins. They might be called in and recoined; but the expense and inconvenience of that operation are such as to render its postponement advisable.

As the owners of a large stock of silver bullion, silver dollars, and subsidiary silver, the people of the United States are directly interested in the continued use of silver as currency, provided that the silver can continue to be maintained at par with gold.

The silver dollar is by reason of its size and weight an inconvenient coin to carry about the person, or to use in change. Most people, therefore, do not desire to use silver dollars as currency, if they can have, as representatives of the coin dollars, notes in denominations of $1, $2 and $5. Even with the inducement of free transportation from the Treasury, it has never been possible to force into circulation at any one time an amount of silver dollars exceeding $67,000,000, and there are now outstanding only $60,196,778, of which at least $10,000,000 are held by the national and state banks. On the other hand, there are in circulation $354,355,031 of notes of the denominations of $1, $2 and $5, of which $154,965,473 are silver certificates and $199,389,558 are United States notes, Treasury notes of 1890, and national bank notes. Of the total amount of silver certificates outstanding, $154,965,473 are, as before stated, in denominations of $1, $2 and $5, and $229,205,031 are in larger denominations. If, therefore, the United States notes, Treasury notes of 1890, and national bank notes of the denominations of $1, $2 and $5 be retired, their places can be taken by a further issue of silver certificates to the amount of $199,389,558 in denominations of $1, $2 and $5, and an equivalent amount of silver certificates of larger denominations be retired, leaving of the $229,205,031 now outstanding in larger denominations $29,815,473 to be redeemed in silver dollars when presented for redemption. If, also, the silver dollars now in circulation and amounting to $60,196,778 should be deposited in the Treasury, the balance of $29,815,473 of silver certificates in denominations exceeding $5 could be replaced by an issue of silver certificates in denominations of $1, $2 and $5, and there might, without any expansion of the present outstanding circulation, be a further issue of silver certificates in denominations of $1, $2 and $5, amounting to $30,381,305, based upon the silver dollars so deposited. The place of the retired United States notes, Treasury notes of 1890 and national bank notes of small denominations would be taken by an issue of notes of large denominations of the same kinds, so long as the United States notes and Treasury notes of 1890 are unredeemed.

The effect of this plan will be that the currency of the country of all denominations below $10 will be silver coin, and silver certificates based upon silver dollars held in the Treasury, supplemented by gold coins of the denominations of $2.50 and $5.

The government has received the full face value for all the silver dollars which have been put in circulation either in kind or by means of representative certificates. The silver coins differ from the note issues only in the fact that the material of which they are made has some market value as bullion. They are, nevertheless, as justly obligations of the government and as

properly exchangeable at par for gold as the United States notes. A gold reserve must, therefore, be provided for such exchange; but as the retirement of the United States notes, Treasury notes of 1890, and national bank notes of denominations less than $10 will leave the silver dollar, the silver certificates in denominations of $1, $2 and $5, the subsidiary silver, the minor coins, and the gold coins of the denominations of $2.50 and $5 as the only currency for small transactions, it is probable that the trade of the country will keep the silver and its representatives in circulation, and prevent the coming in of any considerable quantity of that currency. It is also to be observed that when popular confidence shall have been restored as to the maintenance of the gold standard and the security of our currency system, there will be no general desire to exchange silver dollars or silver certificates for gold, for the silver currency will then be, beyond question, as good as gold.

The Treasury has an asset in its silver bullion not held against outstanding certificates, which may be utilized by selling it from time to time, as the German government has done with its surplus silver. Of course, such sales should be carefully made in such quantities as not to unduly depress the market for silver bullion. It is, therefore, suggested that authority be given to the Secretary of the Treasury to make such sales in his discretion.

It may be well to consider whether the sum of $452,713,792 of silver dollar pieces, with seignorage of over 50 per cent., which remain as the evidence of a serious danger to the existing standard, is not too large to be permanently retained in our currency; and if this should prove to be the case, whether a sufficient number of these silver dollars should not be ultimately although not immediately, withdrawn and sold as bullion.

It is an essential part of a sound system of finance, that the government should raise by taxation a revenue adequate to its necessary expenditures. But as the revenues are sometimes deficient, it is advisable that power be given to the Treasury to sell short-term bonds to supply such deficiency. Under existing legislation only long-term bonds can be sold; and if the government comes into possession of a surplus, such bonds cannot be retired save by purchasing them at a premium. On the other hand, short-term bonds can, under a securely-established currency system, be negotiated at low interest rates; can be, if necessary, extended at maturity, and can be retired by purchase in advance of maturity without a heavy loss in payment of premium. For similar reasons it is suggested that long-term bonds should contain a reserved option to the government of retirement.

It is to the interest of the government and of the people that all the people should have an equal opportunity of investing their savings in the obligations of the government when issued. As the mass of the people have not the necessary facilities for the safe custody of bonds, it is suggested that a system be adopted of inscription on the books of the Treasury, instead of bonds, similar to that which has long prevailed in the case of the English consols and the French rentes. Under this system it will be possible to place government loans by a real popular subscription.

THE DEMAND OBLIGATIONS OF THE GOVERNMENT.

It is a part of the plan submitted that the demand obligations of the government shall be put in course of retirement by a process which shall be gradual in its operation as respects the current money and business of the country, but which will lead ultimately to the substitution of other forms of money in their place. The demand obligations, properly so called, consist of the United States notes or "greenbacks," amounting to $346,681,016, and the Treasury notes of 1890, amounting to $109,313,280. While the former are not in terms payable in gold, and the latter are by law payable in gold, or silver, at the discretion of the Secretary of the Treasury, it is obviously necessary, in order to keep good the pledge of the government to maintain the parity of the two metals as coined, to pay all its notes in gold when gold is demanded by the holder. So that,

in a practical sense, the note obligations of the government payable in gold on demand must be reckoned at the sum of the greenbacks and the coin notes, that is, $455,994,296.

The measures recommended in relation to these obligations may be briefly summarized as follows:

1. The separation of the note issuing and redeeming operations of the Treasury from its ordinary fiscal operations by the creation of a Division of Issue and Redemption, and the transfer to it of the gold reserve and other resources held against obligations; the government notes to be paid in gold coin on demand through that division.

2. The reserve to be maintained from revenue when adequate, and by sale of bonds when necessary; the proceeds of such sales to be used for that specific purpose, and no other.

3. Notes paid to be canceled as paid, up to the amount of $50,000,000; the cancelation thereafter for five years not to exceed the increase of bank notes. After five years the notes paid to be retired at a rate not exceeding 20 per cent. per annum of the amount then outstanding; at the end of ten years the legal-tender quality of the notes then outstanding to cease.

4. No note, once paid, to be reissued otherwise than in exchange for gold, except that, in case of an excessive accumulation of redeemed and uncanceled notes in the Division of Issue and Redemption, the Secretary of the Treasury may use them in the purchase of United States bonds for the benefit of the Division of Issue and Redemption; such bonds to be held in that division and sold for the benefit of the redemption fund when directed by the Secretary of the Treasury.

At the present time the government has no fund for the payment of its demand obligations except the general balance in the Treasury applicable alike to the payment of all dues. Our revenues are more or less uncertain in amount; our expenditures are large and growing, and liable to vary with changes in the spirit of the times and the disposition of Congress and the people. It is, therefore, uncertain whether we shall have at any particular time an adequate fund for the redemption of the demand obligations without recourse to borrowing. Borrowing is an ineffectual resource, because, under the law as it stands, the notes which have been paid must be returned to circulation, and, so, may be used over and over to draw out the borrowed gold. The uncertainty of this situation is increased by the fact that the issue of bonds rests with the executive department, and whether it will be resorted to or not will depend upon the personal views and discretion of the officials at the head of that department. More serious still is the fact that it is in the power of the executive department, as the law now stands, to decide absolutely whether the government notes shall be paid in gold or in silver. An end ought to be put to this anomalous and hazardous situation by making specific and adequate provision for the payment of the demand obligations, and directing in the law that such payment shall be in gold at the demand of the holder.

It is regarded as certain that if this were done there would be comparatively little presentation of notes at the Treasury for redemption, in the absence of serious public alarm, and that the best possible security against the recurrence of such alarm would be attained. The provision authorizing the purchase of bonds during the period mentioned is recommended, with the belief that it would enable the Secretary of the Treasury to prevent any injurious contraction. The bonds purchased with the notes returned to circulation would furnish the means with which to redeem them when presented again.

A proposal to retire the government notes may be received at first with disfavor by some persons, but it must be supposed that, upon due reflection, preferences which are to a large extent merely sentimental will yield to arguments resting on solid grounds of safety and advantage to the government and the people. All good citizens must desire that the credit of the government shall rest on a basis so secure that no wind that can blow will ever shake it; that the standard by which all obligations and values are measured shall be the most perfect expression of truth and honesty and unchangeableness which is possible of attainment; and that all the money in circulation shall be up to that standard in its value, and shall, in respect to its form and quantity and distribution, serve every

requisite of commercial and personal use as equally and completely as is in the nature of things possible. If it is necessary in order to accomplish these results to relieve the government from the function of supplying money in the form of its own notes, it is only necessary to make that fact clear to the people to secure their approval of the measure. Not to believe this would be to despair of the capacity of the people for wise and successful government.

A government paper currency educates the people who use it in false notions concerning money. Such a currency, circulating year after year without redemption, appears to those who do not look at it critically to derive its value from the "government stamp." It ceases to be regarded as a promise to pay money, and is thought to possess the virtue of money in and of itself. It is so easy to create it that in any emergency the call for more is perfectly natural. There can be no doubt that the aberration of judgment on the money question by so many of our people in recent years has been largely due to the miseducating influences of the greenback currency. The young and middle-aged men of to-day have grown up in a vitiated financial atmosphere.

Such a currency also lacks the important quality of automatic adaptability to the varying demands of business. A paper dollar is a useful form of currency so long as there is legitimate use for it. When there is no legitimate use for it, it becomes a superfluous and injurious thing—a temptation to speculation, extravagance and unwise business ventures. A paper currency created by legislation is fixed in volume by the law of its creation, and can neither contract nor expand in response to those varying conditions which are bound to occur in the affairs of men.

More important than this is the fact that such a currency puts upon the government the burden of maintaining the credit of all the financial institutions of the country. The government notes are as good as gold only so long as the government redeems them in gold. If it should fail in that, all bank notes, bank deposits, insurance losses, and debts and dues of every kind not specifically payable in gold would be payable in the depreciated paper or in silver. Every passing incident, therefore, which raises an apprehension, however slight, of a possibility, however remote, that the government may be unable or unwilling to maintain gold payment of its obligations sends a nervous tremor through the whole business system of the country. A sovereign government cannot be compelled to pay its debts; it pays them only when it wills so to do; and there is in the public mind more or less doubt as to the continuance of the will of our government to pay its demand obligations in money satisfactory to the holders thereof. In these days of large invested capital and small profits such a condition is a serious drag on business enterprise.

The existence of a large outstanding debt payable on demand is also a source of weakness to the government in its international relations. Modern warfare is so expensive that it is almost as much a matter of money as of men. A nation suddenly confronted by the alternative of war or dishonor would be greatly handicapped by a large demand debt which it must provide for at once. Great additional force is given to this consideration by the fact that it would be scarcely possible for this nation to engage in war in its present situation—counting as part of the situation the imperfect development of clear conceptions on the subject of money in the minds of the people—without a suspension of specie payments and a resort to further issues of government notes. There is no occasion to criticise those patriotic men who believed that the issue of greenbacks was necessary to save the Union. But the world has advanced in financial knowledge and skill since then. There is no doubt that if our government were relieved of its existing demand obligations, and our currency system put in working order upon a gold basis, it would be entirely possible for us to go through a war without suspension of specie payment, or any derangement of our monetary system. If war should come, the value to the country of the ability to thus avoid the indirect losses following from depreciated currency, inflated prices and financial demoralization would be so great that the burden of paying off now our demand obligations would be as nothing in comparison.

While the silver dollars are not, by the terms of the law, ex-

changeable for gold coin, their current value is sustained by the promise of the government to maintain their parity with gold. So that we have a total volume of paper and silver in circulation amounting to $908,728,087, all resting for its value on the credit of the government, except in so far as the bullion in the silver dollars has value. That credit is maintainable only as a whole. The paper of the United States could not be dishonored and its silver upheld. It is necessary, therefore, that the government shall keep a large fund in gold, and continue to do so so long as the credit currency is outstanding. Such a fund in the hands of the government is defenceless against attack. In countries where the government has no demand debt outstanding, and the gold reserve is held by banks, the nation's stock of gold is capable of some degree of protection through the rate of interest charged for loans. But our government has no such resource. Its great gold reserve is an open mine free to all who bring its notes. The exigencies of war or commerce are liable to create sudden and great demands for gold. And as the entire monetary system of the country hangs upon that one reserve, the situation is one of uncertainty and hazard against which no insurance is possible, and which is bound to continue while the government demand obligations are extant in large volume. It would go far to relieve the perennial strain of this situation and strengthen our financial position at home and among nations to transfer this burden to the banks and other moneyed institutions.

As against these serious disadvantages there is no advantage which can possibly be claimed for paper money in the form of government notes over any other form of paper money equally good—that is, equally current in all parts of the country and equally certain of redemption in specie on demand—except the saving of interest on so much of the public debt as is represented by the notes. Our national bank notes have served the uses of the people as well as greenbacks. In all ordinary business transactions no one cares which he receives or pays out. The supposed economy of the greenbacks is more apparent than real; indeed, when we consider all the facts they are an extremely costly form of money. To keep them good requires the maintenance of a large gold reserve in the Treasury, which offsets the saving of interest to the extent of one fourth or more. When conditions arise which threaten to deplete that reserve and compel a resort to extraordinary measures to protect it, no limitation of cost can be observed, and it is impossible to know what sacrifice may become necessary.

In order to create the gold reserve required for the resumption of specie payments in 1879, United States bonds to the amount of $95,500,000 were sold, and most of which are still outstanding in a refunded form. During the years 1894, 1895 and 1896 bonds to the amount of $262,315,400 were sold. Throughout those years there was a constant drain of gold to redeem United States notes. By the law of 1878 it was provided that United States notes "shall not be retired, canceled or destroyed, but they shall be reissued and paid out again and kept in circulation." There being a deficit in the ordinary revenue, these notes continued to go out again and again in payment of ordinary expenses. Whether the deficit would have required the sale of bonds if there had been no want of public confidence in the payment of the notes, and they had not continued to be presented for redemption, is a point upon which there may be a difference of opinion. Not to enter upon that question closely, it is clear that with interest to pay on three hundred and fifty-seven million dollars of indebtedness incurred chiefly, if not wholly, in consequence of the existence of the government notes, and one hundred millions of reserve lying idle in the Treasury, the saving in interest by the United States notes is as mall gain compared with the unending burden of providing for their redemption.

In considering the cost of these operations, it is necessary to take into account, also, the expense of engraving, printing, bookkeeping, and other incidents. From all of which it appears that instead of saving money to the people, the United States notes have been and are now costing them a large sum annually. This cost is liable to be increased by the further issue of bonds

for the protection of these notes in emergencies,—not now present, nor immediately threatening, but always possible.

Between 1st January, 1879, and 1st November, 1897, the Treasury paid United States notes in gold to the amount of $507,470,149, being $160,789,133 in excess of $346,681,016, the entire amount outstanding at the resumption of specie payments; which paid and repaid and yet undiminished amount still remains outstanding to be paid again, and, unless some change be made in the existing law, again and again.

Between 14th July, 1890, and 1st November, 1897, Treasury notes of 1890, issued for the purchase of silver bullion, have been redeemed in gold coin and reissued to the amount of $90,680,879.

Moreover, we are carrying a burden put upon us by the doubt and uncertainty which the presence of this large demand debt of the government in the form of current money produces, which no man can estimate. Any one of a number of circumstances might cause a suspension of gold payment of its notes by the government. A war, a failure of revenue, a commercial revulsion, an election, a weak President,—any one of these unfavorable conditions, exciting alarm and then panic, might cause the Treasury to be depleted of its gold and its notes to be dishonored. The injury which all business suffers from this condition of the currency is none the less real because it is not distinctly perceived. The evil may go long unnoticed, like friction in machinery or malaria in the air; but it has its effect nevertheless. When it comes to an acute manifestation of the evil, such as we have experienced within the last five years, the loss occasioned is beyond computation. Many concurring causes contributed to the business depression which the people of the United States have suffered within that period; but it cannot be doubted that the fact that the entire paper currency of the country consisted of or rested upon notes of the government, and that there was an uncertainty as to the redemption of those notes, was the chief cause of that great disaster. All the government notes outstanding, and all the interest they have saved since they were issued, would pay only a small fraction of the loss which the American people have suffered within that time.

THE BANKING SYSTEM.

Under the present system a bank may issue circulation not exceeding 90 per cent. of its paid-up capital, and also not exceeding 90 per cent. of the par value of the bonds deposited. Each bank is required to deposit with the Treasury a redemption fund of 5 per cent. of its outstanding circulation; and the notes are secured by a first lien on all the assets of the bank, including the liability of the shareholders. While in some cases shareholders of and depositors in national banks have lost by unskillful or unfaithful management, yet the bank circulation has been so well secured that no holder of a national-bank note has ever had occasion to inquire what bank issued the note, or has ever lost any part of the amount of the note. But the relative increase in the number of the banks and decrease in the amount of the issue of the circulation shows that the system should be so amended that, while the notes issued thereunder shall be as adequately secured as under the present system, there will yet be an increased issue of bank notes, and an outflow and inflow of those notes as the business of the country may require.

A note circulation, issued under the present system, unquestionably satisfies the condition of security, but is open to grave objections.

1. It presupposes a continuing issue of government bonds, when it ought to be the national policy to steadily reduce and ultimately extinguish the debt of the United States.

2. The investment in bonds diminishes the funds of the bank available for loans to its customers.

3. Such a currency does not increase in volume with a temporary demand for more currency, nor decrease with the cessation of the demand.

All the conditions can be met by—

1. A national system with improved regulations as to examination, supervision, etc.

2. The issues to be based upon those readily convertible assets which represent the exchangeable wealth of the country in its natural products and manufactured goods.

3. A limitation of the amount of the issues to the unimpaired capital of the issuing bank.

4. A further security in a common guaranty fund.

5. The continuance of the present redemption fund and method of redemption, with the extension of the places of redemption under the approval of the Secretary of the Treasury.

6. A further security in the liability of the shareholders to the full amount of the par of their shares.

The chief difference of the proposed from the existing system of bank notes is that it gradually does away with the requirement that there shall be a deposit of bonds with the government as a condition for the issuance thereof. As now, the notes are to be a first lien upon all the resources of the banks, including the stockholders' liabilities. This change is necessary because of the scarcity of United States bonds; and the attempt to substitute other bonds would lead to many evils. The change is wise because it permits the issuance of notes in the way and at the time when, and for the purpose for which, they would be issued under natural conditions, if no law prevented. Such a system would more perfectly than any other give the country a circulating medium; it would readily and quickly adjust itself from season to season to meet the wants of the business of the country requiring bank notes for its convenient transaction. Under the present system, the problem presented to a bank, when its customers call for currency, is not the amount of its own assets, but its ability and desire to make an investment in something quite apart from its usual business as a bank, in order that it may be in a position to provide a man who wishes to move property or employ labor with the tools most convenient at the time for his purpose. Notes secured as herein provided cannot fail to be safe, because, being based upon all the resources of all the banks issuing them, they are based upon the whole business of the country, and that business is the thing which gives life and value to all securities, government, municipal, railway, and individual obligations. Should all the resources of the banks ever so shrink in value as not to be ample security for the amount of notes that could be issued under this plan, then all other securities, even government bonds, would become valueless. The banks are bound together for the security of these notes to accomplish the same purpose that the deposit of bonds is intended to accomplish, namely, to guard against loss through the misfortune or bad management of single banks, and thus save the holder of a bank note the need of ascertaining the standing of any bank. The objection that is sometimes made that the larger banks in the great cities would not issue notes because of an apprehended liability for other banks, is shown by statistics to be groundless. 1893 was the year of largest bank failures; but had all the banks of the country then issued notes up to 80 per cent. of their capital, the amount of their assessment to make good the ascertained deficiencies of that year up to the time of the Comptroller's report of 1896 would have been only a fraction of 1 per cent. Had 80 per cent. of the capital of all national banks been issued in notes, upon the proposed plan, since the beginning of the national banking system in 1863, the assessment upon the banks annually would have been an amount so insignificant that it need not be taken into account. Taking the country banks as a whole, it is found that on 5th October last they had $401,000,000 of the $631,000,000 of national bank capital. Should they issue notes up to 80 per cent. of that capital, they would have $321,000,000 of notes, and there would be $1,956,000,000 of resources against these notes, not counting stockholders' liability.

If these resources of the country banks are insufficient security for this amount of notes, they will be insufficient only because there would then be such a condition of business paralysis that government, municipal, and railway bonds would be valueless, and also few, if any, banks in the reserve cities would remain solvent. The occurrence of this disaster is so improbable that its consideration may be dismissed.

In some quarters fear is expressed that there would be undue expansion under this plan. There is no danger of this. The system of redemption, not only at the banks but at the Treasury in Washington and at the sub-treasuries, would strongly guard

against that. The expansion over that which could be effected were no notes issued at all will be found, upon investigation, to be small. Dangerous expansion does not take the form of the issue of bank notes, but of the extension of credits. Very few borrowers take their loans in the form of bank notes. The bank note is only one form in which he to whom credit is given will use that credit; he can use it equally well for most purposes if the loan is placed to the credit of his account by the bank making the loan to him, or by some other bank or by a private person.

The plan increases stockholders' liability, so that each stockholder is absolutely liable to assessment up to the par of his stock, and not ratably and equally with every other stockholder as now.

The existing tax of 1 per cent. per annum on circulation is repealed. In its place taxation of capital, surplus, and undivided profits is provided. The issue of circulating notes is only one form in which a bank expresses its demand liability. The other form, deposits, is, under the development of modern banking operations, of vastly greater importance, and the one which, in cities and highly organized commercial communities, is most used. In October, 1897, the country banks issued more than 72 per cent. of all notes issued. The reserve banks, except those of the central reserve cities, New York, Chicago and St. Louis, issued more than 18 per cent., New York less than 8 per cent., and Chicago and St. Louis together about 1½ per cent. Surplus and undivided profits and capital show the profits and property of banks, and these are certainly more legitimate objects of taxation than the mere instruments which banks may be called upon by their customers to issue to serve chiefly the convenience of those customers. This tax makes as equitable an apportionment of the expenses of the system as can be devised.

The plan provides that these notes shall be received by banks and by government in payment of debts and dues under the same conditions as now. This provision is made, not because it materially adds to the security of the notes, but that they may be more convenient to the people and in aid of their speedy redemption.

This method of passing from the present to the new system is proposed in order that the change may be gradual and that the country may become accustomed to it in this way, and also to guard against the possibility of undue sale of United States bonds. Doubtless, portions of the country lack adequate banking facilities; and to meet this a diminution of the minimum capital required for banks in places of small population, and authority for the establishment of branch banks, are advised.

PLAN OF CURRENCY REFORM.

I. Metallic Currency and Demand Obligations.

1. The existing gold standard shall be maintained; and to this end the standard unit of value shall continue, as now, to consist of 25.8 grains of gold, nine tenths fine, or 23.22 grains of pure gold, as now represented by the one tenth part of the eagle. All obligations for the payment of money shall be performed in conformity to the standard aforesaid; but this provision shall not be deemed to affect the present legal-tender quality of the silver coinage of the United States or of their paper currency having the quality of legal tender. All obligations of the United States for the payment of money now existing, or hereafter entered into, shall, unless otherwise expressly provided, be deemed, and held, to be payable in gold coin of the United States, as defined in the standard aforesaid.

2. There shall continue to be free coinage of gold into coins of the denominations, weight, fineness, and legal-tender quality, prescribed by existing laws.

3. No silver dollars shall be hereafter coined.

4. Silver coins of denominations less than $1 shall be coined upon government account, of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

5. Minor coins shall continue to be coined upon government

account, of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

6. Subsidiary and minor coins shall be issued and exchanged as prescribed by existing laws, except as hereinafter otherwise provided.

7. There shall be created a separate division in the Treasury Department, to be known as the Division of Issue and Redemption, under the charge of an Assistant Treasurer of the United States, who shall be appointed by the President by and with the advice and consent of the Senate.

8. To this division shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes or certificates, and to the exchange of coins; and this division shall have the custody of the guaranty and redemption funds of the national banks, and shall conduct all the operations of redeeming national bank notes, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all United States notes held against outstanding currency certificates, all silver dollars held against outstanding silver certificates, and all silver dollars and silver bullion held against outstanding Treasury notes of 1890, and all subsidiary and minor coins needed for the issue and exchange of such coins, and the funds deposited with the Treasury for the liquidation of national bank notes. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the fiscal departments of the Treasury; and the accounts relating to the national banks shall be kept separate and apart from all other accounts.

9. A reserve shall be established in this division by the transfer to it by the Treasurer of the United States from the general funds of the Treasury of an amount of gold in coin, and bullion, equal to 25 per cent. of the aggregate amount of both the United States notes and Treasury notes issued under the act of July 14, 1890, outstanding, and a further sum in gold equal to 5 per cent. of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used solely for the redemption of such notes and in exchange

for such notes, and for silver and subsidiary and minor coins.

10. It shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the Division of Issue and Redemption at such sum as shall secure the certain and immediate redemption of all notes and silver dollars presented, and the preservation of public confidence; and for this purpose he shall from time to time, as needed, transfer from the general fund of the Treasury to the Division of Issue and Redemption any surplus revenue not otherwise appropriated; and in addition thereto he shall be authorized to issue and sell, whenever it is in his judgment necessary for that purpose, bonds of the United States bearing interest not exceeding 3 per cent., running twenty years, but redeemable in gold coin, at the option of the United States, after one year; and the proceeds of all such sales shall be paid into the Division of Issue and Redemption for the purposes aforesaid.

11. To provide for any temporary deficiency which may at any time exist in the fiscal department of the Treasury of the United States, the Secretary of the Treasury shall be authorized, at his discretion, to issue certificates of indebtedness of the United States, payable in from one to five years after their date, to the bearer, of the denominations of $50 or multiples thereof, with interest at a rate not to exceed three per centum per annum, and to sell and dispose of the same for lawful money at the Treasury Department, and at the sub-treasuries and designated depositories of the United States, and at such post-offices as he may select. And such certificates shall have the like privileges and exemptions provided in the act to authorize the refunding of the national debt, approved July 14, 1870.

12. Whenever money is to be borrowed on the credit of the United States, the Secretary of the Treasury shall be authorized, instead of issuing the usual forms of engraved bonds, upon receiving lawful money of the United States in sums of not less than fifty dollars ($50) in any single payment, to cause a record of all such payments to be made in books to be kept for that purpose in Washington, and thereafter, from time to time, to pay

to those so registered on such books interest not exceeding 3 per cent. per annum in gold coin on the amount with which they shall severally stand credited on such books in the same manner and at the same dates as if they were the holders and owners of registered bonds of the United States; and he shall also pay to those so registered the principal sum originally deposited, in gold coin, at the date of maturity of such inscribed loans. Suitable arrangements shall be made at each and every money-order post-office in the United States for receiving such payments into the Treasury on like terms, as well as for the transfer, on proper identification, of any inscription on the books in Washington, or of any part thereof not less than fifty dollars ($50). No interest shall accrue or be paid on inscriptions which shall have been reduced below fifty dollars ($50). No charge of any kind shall be made by any department or officer of the government for any service in connection with the receipt or transmission of the lawful money, nor in the transfer of inscriptions on the books at Washington.

13. The Division of Issue and Redemption shall on demand at Washington, and at such sub-treasuries of the United States as the Secretary of the Treasury may from time to time designate—

(*a*) Pay out gold coin for gold certificates.

(*b*) Pay out gold coin in redemption of United States notes or Treasury notes of 1890.

(*c*) Pay out silver dollars for silver certificates of any denomination.

(*d*) Issue silver certificates of denominations of $1, $2 and $5, in exchange for silver dollars and for silver certificates in denominations above $5.

(*e*) Pay out gold coin in exchange for silver dollars.

(*f*) Pay out silver dollars in exchange for gold coin, United States notes or Treasury notes.

(*g*) Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin.

(*h*) Pay out and redeem subsidiary and minor coins as provided by existing laws.

(*i*) Pay out United States notes in exchange for currency certificates.

14. United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin unless there shall be an accumulation of such notes in the Division of Issue and Redemption which cannot then be cancelled under the provisions of the act, in which case the Secretary of the Treasury shall have authority, if in his judgment that course is necessary for the public welfare, to invest the same or any portion thereof in bonds of the United States for the benefit of the redemption fund, such bonds to be held in the Division of Issue and Redemption, subject to sale at the discretion of the Secretary of the Treasury for the benefit of the Division of Issue and Redemption, and not for any other purpose.

15. The Secretary of the Treasury shall be authorized to sell from time to time, in his discretion, any silver bullion in the Division of Issue and Redemption; and the proceeds in gold of such sales shall be placed to the account of the gold reserve in the Division of Issue and Redemption.

16. The gold certificates and the currency certificates shall, whenever presented and paid or received in the Treasury, be retired and not reissued.

17. No United States note or Treasury note of 1890 of a denomination less than $10 shall hereafter be issued; and silver certificates shall hereafter be issued or paid out only in denominations of $1, $2 and $5 against silver dollars held by or deposited in the Treasury.

18. The Assistant Treasurer in charge of the Division of Issue and Redemption shall, on demand, pay in gold coin all United States notes and Treasury notes presented for payment, and as paid cancel the same up to the amount of $50,000,000. After that amount shall have been paid and cancelled, he shall then from time to time cancel such further amounts of notes so paid as shall equal, but not exceed, the increase of national bank notes issued subsequent to the taking effect of the proposed act.

19. If at the end of five years next after the taking effect of the proposed act any United States notes or Treasury notes

shall be outstanding, a sum not exceeding one fifth of such outstanding amount shall be retired and cancelled each year thereafter; and at the end of ten years after the passage of the proposed act the United States notes and Treasury notes then outstanding shall cease to be legal tender for all debts public and private, except for dues to the United States.

20. The Secretary of the Treasury may, in his discretion, transfer from surplus revenue in the general Treasury to the Division of Issue and Redemption any United States notes or Treasury notes which on such transfer could then lawfully be cancelled under the provisions of the proposed act if they had been redeemed on presentation; and when so transferred the same shall be cancelled. The Secretary of the Treasury, in his discretion, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the Division of Issue and Redemption could then lawfully be cancelled under the provisions of the act, may exchange such notes with the Division of Issue and Redemption for gold coin, and such notes shall thereupon be cancelled.

21. All vested rights of property or contract, and all penalties incurred before the taking effect of the proposed act or any part of it, shall not be affected by the passage thereof; and all provisions of law inconsistent with any of the provisions of the proposed act should be repealed.

II. Banking System.

22. The total issues of any national bank shall not exceed the amount of its paid-up and unimpaired capital, exclusive of so much thereof as is invested in real estate. All such notes shall be of uniform design and quality, and shall be made a first lien upon all the assets of the issuing bank, including the personal liability of its stockholders. No such notes shall be of less denomination than $10.

23. Up to an amount equal to 25 per cent. of the capital stock of the bank (the whole of its capital being unimpaired), the notes

issued by it shall not exceed the value of United States bonds, to be fixed as hereinafter provided, deposited with the Treasurer of the United States. The additional notes authorized may be issued without further deposit of bonds.

Beginning five years after the passage of the proposed act, the amount of bonds required to be deposited before issuing notes in excess thereof shall be reduced each year by one fifth of the 25 per cent. of capital herein provided for; and thereafter any bank may at any time withdraw any bonds deposited in excess of the requirements hereof.

24. Every national bank shall pay a tax at the rate of 2 per cent. per annum, payable monthly, upon the amount of its notes outstanding in excess of 60 per cent. and not in excess of 80 per cent. of its capital, and a tax at the rate of 6 per cent. per annum, payable monthly, upon the amount of its notes outstanding in excess of 80 per cent. of its capital.

25. Any bank may deposit any lawful money with the Treasurer of the United States for the retirement of any of its notes; and every such deposit shall be treated as a reduction of its outstanding notes to that extent; and the tax above provided for shall cease as of the first of the following month on an equal amount of its notes.

26. The Secretary of the Treasury shall annually fix the value of each series of bonds of the United States bearing a rate of interest exceeding 3 per cent. as equalized upon the rate of interest of 3 per cent. per annum, and such valuation as fixed by the Secretary on this basis shall be the valuation at which the bonds will be receivable upon deposit. Bonds payable at the option of the government shall be receivable at 95 per cent. of their then market value as determined by the Secretary of the Treasury. If any bonds shall be issued hereafter payable at a date named and bearing interest at 3 per cent., or less, they shall be receivable at par.

27. The Comptroller of the Currency shall from time to time, as called for, issue to any bank the capital of which is full paid and unimpaired any of the notes herein elsewhere provided for, on the payment to the Treasurer of the United States, in gold

coin, of 5 per cent. of the amount of notes thus called for, which payments shall go into the common guaranty fund, for the prompt payment of the notes of any defaulted national bank. Upon the failure of any bank to redeem its notes, they shall be paid from the said guaranty fund, and forthwith proceedings shall be taken to collect from the assets of the bank and from the stockholders thereof, if necessary, a sum sufficient to repay to said guaranty fund the amount thereof that shall have been used to redeem said notes; and also such further sum as shall be adequate to the redemption of all the unpaid notes of said bank outstanding.

28. Persons who, having been stockholders of the bank, have transferred their shares, or any of them, to others, or registered the transfer thereof within sixty days before the commencement of the suspension of payment by the bank, shall be liable to all calls on the shares held or subscribed for by them, as if they held such shares at the time of suspension of payment, saving their recourse against those by whom such shares were then actually held. So long as any obligation of the bank shall remain unsatisfied, the liability of each stockholder shall extend to, but not exceed in the whole, an amount equal to the par of his stock.

29. If the said guaranty fund of 5 per cent. of all the notes outstanding shall become impaired, by reason of payments made to redeem said notes as herein provided, the Comptroller of the Currency shall make an assessment upon all the banks in proportion to their notes then outstanding sufficient to make said fund equal to 5 per cent. of said outstanding notes.

Any bank may deposit any lawful money with the Treasurer of the United States for the retirement of any of its notes; or return its own notes for cancellation; whereupon the Comptroller shall direct the repayment to such bank of whatever sum may be the unimpaired portion of said bank's contribution to the guaranty fund on account of said notes.

Any portion of the guaranty fund may be invested in United States bonds in the discretion of the Secretary of the Treasury.

The taxes on circulation, provided for in Paragraph 24, as well as the interest accruing from investment of any part of the guaranty fund, shall be held in the Division of Issue and Redemption in gold coin or in United States bonds in the discretion of the Secretary of the Treasury, and shall be a fund supplementary and in addition to the guaranty fund, to be used only in case said guaranty fund shall ever become insufficient to redeem any bank notes issued hereunder, and it shall not be taken into account in estimating the amount of assessments necessary to replenish said guaranty fund or in repayments to banks of their contributions to the guaranty fund.

30. The present system of national bank note redemption should be continued, with a constantly maintained redemption fund of 5 per cent. in gold coin, and with power conferred on the Comptroller of the Currency, with the approval of the Secretary of the Treasury, to establish additional redemption agencies at any or all of the sub-treasuries of the United States, as he may determine.

31. So much of the provisions of existing law as require each national bank to receive at par, in payment of debts to it, the notes of other national banks, and making such notes receivable at par in payment of all dues to the United States except duties on imports, shall be extended to cover notes issued under the proposed plan.

32. National banks shall hold reserves in lawful money against their deposits of not less than 25 per cent. and 15 per cent. for the respective classes as now provided by law, at least one fourth of which reserve shall be in coin, and held in the vaults of the bank. Neither the 5 per cent. redemption fund, nor the 5 per cent. guaranty fund, shall be counted as part of the reserve required. No bank shall count or report any of its own notes as a part of its cash or cash assets on hand.

33. Permit the organization of national banks with a capital stock of $25,000, in places of four thousand population or less.

34. Provision should be made whereby branch banks may be established with the consent of the Comptroller of the Currency and approval of the Secretary of the Treasury.

35. For the purpose of meeting the expenses of the Treasury in connection with the national bank system, a tax of one eighth of 1 per cent. per annum upon its franchise, as measured by the

amount of its capital, surplus and undivided profits, shall be imposed upon each bank.

36. So amend existing laws as to provide—

(*a*) For more frequent and thorough examinations of banks.

(*b*) For fixed salaries for bank examiners.

(*c*) To provide for rotation of examiners.

(*d*) For public reports, regular or special, at the call of the Comptroller of the Currency.

(*e*) To make it penal for any bank to loan money, or grant any gratuity, to an examiner of that bank, and penal for such examiner to receive it.

37. Any national banking association heretofore organized may at any time within one year from the passage of the proposed act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights, and be subject to all the liabilities, of national banking associations organized hereunder: provided, that such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not less than two thirds of the capital stock of the association.

38. Any national banking association now organized which shall not, within one year after the passage of the proposed act, become a national banking association under the provisions hereinbefore stated, and which shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided, for the redemption and guarantee of its circulating notes, or which shall fail to comply with any other provision of the proposed act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

39. Any bank or banking association incorporated by special law of any state, or organized under the general laws of any state, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the proposed act, may, by the consent in writing of the shareholders owning not less than two thirds of the capital

stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the Comptroller of the Currency has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers and employes, shall have the same powers and privileges, and shall be subject to the same duties, liabilities and regulations, in all respects, as shall have been prescribed for associations originally organized as national banking associations under the proposed act.

This plan is based in its main features upon principles, which are conceived to be fundamental and unchangeable, and which never have been, and never can be, departed from without disaster. Its methods and details are of course capable of considerable variation consistently with these principles. The methods suggested have been reached after very careful inquiry and study, and it is thought that they will prove to be practical, and adequate to the realization of a safe and steady system of finance

and currency, in which all the people of our country, of whatever calling or political opinion, are equally and most deeply interested.

All of which is respectfully submitted.

WASHINGTON,
December 17, 1897.

GEORGE F. EDMUNDS,
Chairman.
GEORGE E. LEIGHTON,
Vice-Chairman.
T. G. BUSH.
W. B. DEAN.
CHARLES S. FAIRCHILD.
STUYVESANT FISH.
J. W. FRIES.
C. STUART PATTERSON.
ROBERT S. TAYLOR.

I sign except as to provisions relating to metallic currency and certificates issued thereon.

LOUIS A. GARNETT.

The undersigned, while heartily agreeing in general to the above plan, dissents from the principle involved in Section 14, by which the Secretary of the Treasury is empowered to reissue United States notes in purchase of bonds. Believing that the increase of the circulation should not be left to the decision of government officials; that no official should be exposed to the pressure which would thereby be created; that the issue of gold in redemption of the notes would prevent contraction; and that it is inconsistent with the principles on which an elastic bank currency has been recommended, because notes should not be issued by the government in an emergency when bank issues have been above provided for exactly such an occasion.

J. LAURENCE LAUGHLIN.