A CENTRAL BANK

BY

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TO

WILLIAM H. HURST

PRESIDENT OF THE STOCK QUOTATION TELEGRAPH COMPANY

TREASURER OF THE NEW YORK NEWS BUREAU ASSOCIATION

LOYAL FRIEND AND CITIZEN

THIS BOOK IS DEDICATED

AS A TOKEN OF

ESTEEM, REGARD AND RESPECT

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The writer consulted, in addition, many official documents and leading financial publications, both American and foreign; magazine and newspaper articles by various writers; well considered editorials from leading newspapers and financial publications; and addresses and interviews by prominent financiers—American and foreign—extending over several years, entirely too numerous to mention specifically.

PREFACE

In this little book the writer hopes to place before the reader a concise embodiment of relevant fact and information of educational value in the pending central bank controversy.

To eliminate the non-essentials and set down the concrete and practical has been his aim. To him these are: The defects in our existing currency system; the functions of a central bank; the "plans" which have been proposed; the opposing arguments on the central bank issue; a sketch of the leading foreign central banking systems and, likewise, of the first and second bank of the United States; the question of currency redemption; and some gleaning of the state of banking and of public opinion on the proposed central institution.

In other words, he has endeavored to help the reader to answer the queries: What is a central bank? Is it a good thing for this country? How may it be organized? What do the people think of it? If his effort serve to enlighten the reader in any degree, his task will not have been in vain and he will be amply repaid for having assumed an undertaking for which he had no guide, and which has been completed in moments free from pressing editorial duties.

To Mr. Walter H. Barrett, managing editor of *The Wall Street Summary,* whose confidence in the writer through many years mainly inspired him to this task, his indebtedness for many helpful suggestions is gratefully acknowledged. And to Mr. Henry Meyers and Mr. F. Horace Giguere, of the Hamilton Press, for courtesies extended while the book was in press, the writer records his appreciation and thanks.

ROBERT EMMETT IRETON.

40 *Stone Street, New York,*

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A Central Bank

OUR CURRENCY PROBLEM.

That we have a currency problem on our hands every one knows, but how we are to solve it no one knows. We have a currency system unlike that of any other civilized country, and although we have known for forty years that it was inadequate and dangerous, we have not succeeded in improving it. Its latest arraignment fell from the lips of the President, in his address in Boston on the night of September 14, 1909, when he said:

> "It is certain that our banking and monetary system is a patched-up affair which satisfies nobody, and least of all those who are clear-headed and have a knowledge of what a financial system should be."

To give us a serviceable financial system is, accordingly, the problem of the hour, and before attempting to discuss a remedy a brief review of the present system may be helpful.

We have currency of many kinds: Gold certificates, representing an equivalent of gold coin, or bullion, in the Treasury; silver certificates, representing an equivalent amount of coined silver in the Treasury; Treasury notes of 1890, issued for the purchase of silver bullion and secured by that metal in the Treasury; United States (legal tender) notes; national bank notes, and gold and silver coin. Every sound, scientific currency system is established on a gold standard basis. By the act of March 14, 1900, the first section of which reads:

"That the dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity."—

the United States adopted the gold standard, which, interpreted in its real sense, means that the Government pledged itself to redeem all of its obligations in gold. Section two of this statute provides:

"That United States notes and Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, when presented to the Treasury for redemption shall be redeemed in gold coin of the standard fixed in the first section of this Act, and in order to secure the prompt and certain redemption of such notes as herein provided it shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of **one hundred and fifty million dollars in gold coin and bullion**, which fund shall be used for such redemption purposes only."

OUR CURRENCY PROBLEM

Eliminating from present consideration our gold coin and gold certificates, which are exchangeable at par in all countries, since gold is the standard of value, our currency from its motley variety would be a source of immeasurable discontent and anxiety were it not for the faith of the public in the Government's promise to redeem in gold its silver certificates, its United States notes, and its Treasury notes. We have, approximately, $346,000,000 outstanding in United States notes and cannot reduce their volume. Whenever they are presented to the Treasury for redemption in gold they are not cancelled but must be reissued immediately to return again and again for gold. This gold-extracting process has been designated "the endless chain." The Treasury has paid out more gold for these notes than their total amount, yet they still circulate to deplete its reserves. Four bond issues, amounting to $265,000,000 have been necessary to preserve the redemption fund and maintain the credit of these notes; and through the redemption of legal tenders, the gold in the Treasury fell to $41,340,181, in February, 1895. At that time the New York Sub-Treasury could not have redeemed them a day longer, and financiers and business men expected a suspension of specie payments. The Government's international bond-syndicate operation, however, averted the threatened suspension. That danger, nevertheless, is a continuing one; and for that reason, and because our silver currency is fifty per cent. fiat, and as such unfitted for the reserves of a gold-standard nation, we will never have the "serviceable financial system," of which the President spoke, until we succeed in retiring our legal tender and silver certificates, and in establishing an adequate gold reserve.

Of the enumeration aforementioned, national-bank notes remain for discussion. While this circulation is safe it is not responsive to the demands of trade. This follows from its relation to the national debt. When the finances and credit of the nation were at a low ebb during the Civil War, Secretary Chase conceived the grand idea of a national-bank currency secured by deposits of Government bonds with the Secretary of the Treasury. That is to say, the national banks were to be empowered to issue circulating notes provided they purchased bonds of the Government and deposited them in the Treasury as collateral against the notes. That principle is in force to-day; hence, it may be seen at a glance, our national-bank currency represents a fixed investment in bonds, which has no relation whatever to the needs of business. If bonds are cheap the banks buy them and take out circulation, not because it is needed, but because the investment pays. This leads to a currency expansion. If bonds are high and a profit may be made in selling them, a national bank will sell its bonds, which, in turn, leads to a currency contraction. In neither case does the commercial demand of the country obtain recognition. Bond speculation is the basis of the national-bank circulation.

The demands of trade vary with the seasons, being heaviest usually in Autumn, when harvesting and moving the crops are under way. As our crops are the basic wealth of the nation it is of the utmost importance that they be properly financed. Accordingly, every Autumn from the bank vaults of the country about $200,000,000, in lawful, or reserve, money, finds its way to the agricultural districts to pay current demands, where checks are seldom, if ever, used. The sections of the country supplying this great sum have their credits curtailed by the consequent weakening of their reserves, from which this money is taken; and as a result high interest rates follow this contraction. When the marketing of the agricultural products is over the money returns to the reserve centres once more, and with this sudden expansion interest rates drop and speculation speedily follows, sometimes to unreasonable and dangerous lengths.

Since it is well established that one dollar in a bank reserve is ample protection for an indebtedness of four dollars to depositors, the withdrawal of the $200,000,000 annually for the crop requirements leads to the contraction of $800,000,000, or more, in loans and deposits. The crop demand is for currency—not credit; and to supply it the banks have to withdraw the currency from their reserves, and call their loans. Thus, the lending power of the banks is curtailed by close to a billion dollars, which causes a stringency in money, leads to abnormal fluctuations in interest rates, prevents borrowers from obtaining necessary accommodations, and severely handicaps business. The national-bank note is not money; it is merely the bank's promissory note, intended to serve as a medium of exchange, and cannot be counted as money in a national bank's reserves. It can circulate as money, of course, and does so, in fact. But in the annual contingency under discussion, owing to the necessity of purchasing bonds prior to its issuance, an increase in its volume is out of the question; for that is dependent upon the price of the bonds, as aforementioned, and not upon commercial necessity. Never once in the history of national-bank currency did the volume of these notes show a tendency to increase in Autumn; nor to decrease in periods of currency redundancy.

No other nation maintains a system which results in such drafts on its banking reserves and reductions in its banking credit. The yearly autumnal stringency is a mild form of panic; in 1907, we reaped the fruits of the system in full, when currency payments were suspended. This panic-breeding process is simple. When a national bank's reserves are impaired it must not increase its loans, says the law, but must restore them within thirty days. To restore its reserves the bank must decrease its loans. The money to pay these loans is obtained at a high interest rate by the debtors *from other banks*, which decreases their reserves and forces them, in turn, to increase their demands on borrowers. Should anything arise, at such a juncture, to excite the public, a full-blown panic is the usual consequence, and the trouble only ends when business is utterly prostrated and when borrowers are exhausted.

"Sound and correct, instead of artificial and political, legislation in our finances is imperative," said Mr. Joseph T. Talbert, former president of the Chicago Clearing House Association, and vice-president of the National City Bank, New

York, in welcoming the delegates to the American Bankers' convention, in Chicago, on September 14, 1909. "It is discreditable not to say disgraceful, that we have not a currency system that will meet every legitimate need of business. There are no valid reasons why we have not such a system. After recent experience failure to perfect the currency and place it upon a basis as sound as that of any other country in the world would be a national shame."

A real, serviceable currency system is one which increases during periods of greatest activity and contracts during periods of inactivity. By this property is meant its elasticity. It owes its origin and value to the wealth of a country in process of exchange. It is then the instrument of business, and is developed and governed by it. When surrounded by the proper requirement for redemption in gold, bank notes originating in response to the demands of business are self-regulating, because they return to the source of issuance when the quantity in circulation becomes excessive. Such a currency is *natural* bank currency not *national* bank currency. To illustrate: X, a customer of a bank, desiring to purchase certain commodities, gives his note to the bank for $10,000, and receives that amount in the bank's own notes—which are, in effect, its promissory notes—instead of the usual credit on the bank's books for the proceeds of the note. He makes his purchases giving in payment to the parties with whom he trades the notes issued by the bank. Soon he sells his commodities and with the proceeds takes up his note at the bank. In the meantime, the bank's own notes, put in circulation by X, come home to the bank for redemption, and are paid out of the money given it by X. The bank then cancels the notes and the transaction is completed. The bank earned its discount and X his profit, without the purchase of Government bonds; and as the number of the bank's transactions increase or diminish so will the volume of its notes, responding accurately to the fluctuations in business.

In the case outlined, the bank note is absolutely safe, and is an instrument by which the credit of the bank may be made available to a borrower for purposes of trade. Our national-bank currency, on the other hand, is not based on the credit of the bank but on capital actually invested in bonds, equal to the note itself, as a condition precedent to its issuance. Hence, its rigidity and unresponsiveness to commercial demands. Another defect in our system, until quite recently, was the withdrawal from the channels of trade and the hoarding of public moneys—the proceeds of taxation—in the vaults of the public Treasury. The average amount during forty years so kept under lock and key by the Treasury has been placed at more than $50,000,000. Had this sum been distributed among the national banks of the country instead, their credit accommodations to the people would have been enlarged about $200,000,000. This hoarding of public funds in the Treasury was an economic waste and a colossal blunder, and the retention of the Sub-Treasury system is still less defensible.

Former Secretary of the Treasury Lyman J. Gage tells of a conversation he once had with a Minister of Finance of one of the most advanced and most securely established South American republics. As a side-light on our system of finance it is of value. In Mr. Gage's own words, the story runs:

"You have," I asked him, "some sort of banking system in your country?"

"Oh, yes. We have a system operating under federal authority, governed by federal law, and subject to inspection and control by federal agents. We have eight large banks, each with several branches, so that all sections of our country are supplied with banking facilities."

"Why do you allow banks with branches?

Why not make them entirely independent of each other, the same as we do?"

"Well, we believe that a fagot of many twigs is safer and stronger than the separated twigs could be. It has worked well. We have had no bank failure for many years."

"Do they issue notes to circulate as money?"

"Yes, limited in amount by their relation to capital, and by the percentage of specie which they are required to carry against note issues."

"Why do you not make the banks secure their notes, as we do, by the pledge of your government bonds? By requiring them to do this, you would enlarge the market for your securities, and thus lower the rate of interest on your government debt. At the same time you would make the bank note absolutely secure to the holder."

"Yes," he replied, "but this apparent advantage might prove to be fallacious in the end. In the first place, we consider the bank currency entirely safe to the holder as it now is. In the next place to require what you suggest would involve a tie-up of so much of the bank capital, all of which we think ought to be available to the uses of industry and trade."

"Again," he added, "we think general industries and business affairs should be involved to the smallest degree possible with government finances. If we should become engaged in a protracted and exhausting war, the price of our bonds might fall. The value of the securities upon which the safety of the bank note was supposed to rest thus declining, distrust and panic might set in at the most inopportune time—an inopportune time because it is precisely in time of war that the government must make the severest financial exactions from its people. It is therefore doubly important that general business should be protected from, rather than exposed to, the perturbations in government finances when the latter are under stress and strain. It is just then that we need the greatest strength and the most steadiness in the personal affairs of our people, for it is from them that we must draw resources and supplies."

"One more question," I urged. "You have, I know, revenues somewhat in excess of expenditures, and necessarily carry a working balance on hand. Where do you keep this cash, in your own strong boxes, as we do?"

"No," he answered, "we are a small country, not rich, like you. If we locked up this money, amounting sometimes to thirty millions of dollars, it would be an economic crime. We deposit our idle funds among the eight banks, and they serve as an important aid to industrial activities, while they are always subject to our call when needed."

The system so outlined by the South American diplomat shows a clear perception of the economic relationship which should prevail between government finances and the commercial and industrial affairs of a country. In the United States that relationship is too intimate, too injuriously close. Commerce is too dependent upon Treasury operations in this country, and to that fact can be ascribed largely periodic interferences with its progress, pending the settlement of some important fiscal measure or policy.

A CENTRAL BANK'S FUNCTIONS.

It is far easier to describe the workings and advantages of a central bank than to define it. Comprehensively embodied, however, we may say that it is a great note-issuing institution in which is vested, to an extraordinary degree, the financial responsibility of a nation, in that: its methods enable it to supply at all times an elastic currency, varying automatically with the needs of the country; to maintain an adequate gold supply through its regulation of foreign exchange, and to conserve and protect the country's metallic reserves; to control the money market by its regulation of the discount rate; and to serve as a sanctuary for the banks in periods of threatened danger. All, or most, of these functions the great central banks of Europe perform, and by their means financial disturbances, currency famines, and business reversals, which seem to visit us with a regular periodicity, are practically unknown to the people of Europe.

Our public Treasury is the only institution in this country at all similar in scope to a central bank, but with its great resources, which, on November 1, 1909, were as follows: gold, $795,205,489, against which certificates of deposit were in circulation; silver, $481,794,889, against which silver certificates were in circulation; treasury notes, $4,021,535, secured by bullion in the Treasury; United States notes (legal tender), $342,179,962; and $685,996,112, represented by bonds of the Government deposited with the Treasurer to secure national-bank circulation, it cannot do for this country what the European central banks do for theirs.

The great—perhaps the distinguishing—characteristic of the central bank is its power to rediscount commercial paper for other banks. Upon this function the process of currency expansion and contraction in European countries is strictly based. All that a bank in need of currency in Europe has to do is to take its receivables to the central institution and rediscount them. Mr. A. Barton Hepburn, president of the Chase National Bank of New York, and former Controller of the Currency, in a recent magazine article presents a concrete illustration of the working of the French law in this respect. He says:

"When in Paris recently, I called at the Crédit Lyonnais, one of the very large and strong banks of continental Europe. In conversation with one of its representatives, he handed me a statement of the bank's resources and liabilities. After examining the same somewhat critically, and having in mind its large aggregate resources —over two billion francs—I remarked, 'You owe a very large amount of money.'

"'Yes; but we could pay it very easily, if called upon to do so,' he replied.

"'Certainly; but what period of time would you require to pay your liabilities? How soon could you do so?'

"'It would require no longer time than is necessary to perform the physical labor of making payment.'

"'Well, let us see; your liabilities to the general public—what you owe to others than your stockholders—amount approximately to $400,000,000. Now tell me, please, just how you would obtain currency with which to pay the same, if presently called upon to do so.'

"'We should first make use of our cash on hand and balances with correspondent banks subject to check. We should utilize our foreign exchange, which has a ready market; after this application, the unpaid balance would be much less than our commercial paper on hand. We should take a sufficient amount of this paper to the Bank of France, discount the same, and receive currency with which to pay the balance.'

"'But suppose the Bank of France declined to discount?'

" 'It cannot decline to discount.'

" 'Is there any law which compels the bank to discount paper offered?' I asked.

" 'There is no statute law, but the law of the bank's being compels it to discount good paper when required to do so. That is what the bank was created for; it is an unwritten law, recognized alike by the bank and public,' he replied."

From this it is clearly inferable that the establishment of a central bank in this country would have averted the failure of several banking institutions, and greatly mitigated the rigors of our panic, two years ago. Had the national banks been enabled to rediscount, through a central bank, their millions of first-class commercial paper, which remained in their vaults as so much dead weight, obtaining immediately so much currency for slow assets, the currency famine, the bank runs, and the hoarding epidemic of that period would not have followed; or, if they did follow, at least, to nothing like their actual extent. Had the Knickerbocker Trust Company, of New York City, been able to hypothecate its good securities with a central bank, it could have obtained all the relief necessary and need not have closed its doors. From a run, following the failure of the Leipziger Bank in Germany, some years ago, one of the largest banks in the Fatherland was saved by the rediscounting facilities of the Imperial Bank of Germany.

Contrast the situation when our 7,000 isolated national banks hear the rumblings of an approaching upheaval. With no responsible leader to take command, no powerful hand at the helm, each of our banks acts on the principle of the "devil take the hindmost." Intent only on its own affairs, it never gives a thought to its relation to the system as a whole—demonstrating most convincingly, but artlessly, that *we have no banking system.* Reserves are hurriedly amassed, accommodations are refused, loans are called when they should be extended, and hoarding, confusion, and business paralysis follow. Money is piled up in reserves while trade languishes, and clearing-house certificates take the place of currency, domestic exchange is dislocated, and insolvencies follow through ignorant refusals of credit. Under a central bank, with an irreproachable credit, all the currency required may be obtained under the rediscounting power aforementioned, and such extremities as those of this country two years ago averted.

In this country we have no concentrated authority to govern, or direct, in the face of coming danger, because our system is utterly one of isolation. In Europe, under each central bank, the system is a coherent whole. Europe recognizes the obvious fact that a country, in order to transact its business, must have a sufficient quantity of the tools of exchange, and the Governments wisely leave the issuing function to the central banks, which practically limit the quantity of their note issues solely by the needs of business. This compels them to maintain adequate gold reserves to preserve the credit of their notes; and when notes, thus issued, are redeemable in gold they cannot become excessive. On the question of reserves, sound banking judgment governs in Europe; statutory enactments control in this country. As an illustration of the validity of the European system, and of the confidence of the world in it, when the Bank of France had stopped gold payments after 1870, in order to husband its gold, the average depreciation of its notes was only 1½ per cent., and the highest was only 2½ per cent. Nothing could establish more satisfactorily the credit of this great central bank, and the public confidence in the wisdom of its methods of administration.

Credit is the basis of business everywhere, and banks are the instruments by which this credit is created. Europe charges her central banks to create the enormous volume of credit required by modern enterprise and business activity, through the conversion of commercial credit into currency. They are the better enabled to do this because of their centralization of the country's gold reserves. The Bank of England, for example, is the custodian of all the reserves of the banks of that country. The British banker pursues the even tenor of his way, conducting his business on the law of averages, meeting the daily demands for cash with the daily deposits of cash, and maintaining on hand only a sufficient amount of till money to meet any variation in demand. His balance, or reserve, is in the vaults of the Bank of England and to that reservoir he goes for cash in times of need. That he never does so in vain is potentially established by the procedure of the bank in the panic of 1847, when with its gold reserve at less than £2,000,000, the Charter was suspended, and the bank was authorized to increase its accommodation to the public by exceeding, to an indefinite extent, the limit fixed for the issue of notes not secured by gold. The effect of this action was immediate and complete, and the mere fact that the bank was empowered to exceed the limit proved sufficient to allay all doubts and end the panic. Notes which had been hoarded and gold which had been put away in safe deposit vaults returned to the bank and soon its reserve was restored to a safe basis.

In 1857, owing to reckless over-trading in England and the effects of the panic in this country, in which 150 of our banks suspended payment, the bank's gold reserve fell below £600,000, while its debt on bankers' balances was £5,500,000. In this crisis the Charter was again suspended and notes were issued to the extent of £2,000,000 beyond the normal limit, without any gold to secure them. The discount rate was raised to 10 per cent. "This took place on November 12," says Mr. F. Straker, in his work *The Money Market,* "and at once had the effect of quieting the public mind." A third suspension of the Charter followed in 1866. The Civil War in America, heavy speculation in England, the disorganization of the British cotton industries owing to the war, and the failure of Overend, Gurney and Company for upwards of £10,000,000 on May 10, 1866, precipitated a crisis the next day—"Black Friday"—that had been gathering force for months. General failure seemed imminent, when on that very afternoon the Charter was again suspended and "calm began to take the place of mania." The bank extended accommodations on that day to an amount exceeding £4,000,000, and the discount rate was raised to 10 per cent.

The part played by the Bank of England in averting a panic in 1890, on the suspension of Baring Brothers and Company, in which the Bank of France assisted, is even a more striking illustration of the power of the central bank to save the money market. Learning on November 8, 1890, that the Barings were about to suspend, with liabilities of £21,000,000, Mr. William Lidderdale, Governor of the Bank of England, took decisive steps to save the business community. Although offered the benefit of the suspension of the Charter by the Chancellor of the Exchequer, Mr. Lidderdale decided not to adopt that remedy, lest its effect might lead to undue alarm, and announced within a few days that the Bank of England would provide for all the liabilities of the Barings, the bank being indemnified against loss by a group of guarantors comprising the greatest institutions in Great Britain. Joint-stock banks in London and Scotland and leading provincial banks had bound themselves in the sum of £15,000,000, for three years, "to make good to the Bank of England" any loss that might appear after the liquidation of the affairs of the Barings had been completed as far as practicable. Mr. Lidderdale borrowed

£3,000,000 in gold from the Bank of France, on the security of British Exchequer bonds, and with sums borrowed elsewhere £5,000,000 was available for note issues if required. The Governor did not even raise the interest rate, but maintained it at 6 per cent., the rate prevailing before the Barings' suspension. Liquidation followed in an orderly manner, and a panic was averted. So well did the bank administer the affairs of the failed firm, liabilities totaling £30,313,000 were reduced on March 16, 1893, to £4,558,813, with assets on hand estimated at £4,908,935, indicating an apparent surplus of £350,122. The cost of the French loan, in addition to interest, was £100,000.

The Bank of England is the oldest of the central banks, but not the most scientific or automatic in its movements. The Bank of France and Imperial Bank of Germany are so organized that no suspension of the law of their being is necessary under such circumstances as those recounted. But, nevertheless, the Bank of England's organization as a great reserve centre is indicated by its services on the occasions referred to, and its capability in restoring confidence, persuasively shows what responsible leadership means to a banking system in a crisis. Just as soon as financial trouble begins to brew, the absorbing thought in the business mind is, "Will there be enough money to go around?" When it is known that money can always be had at *a price*, the probability of a crisis developing into a panic vanishes. With a central institution empowered to grant this reassurance the fear that "there is not enough to go around" passes from the public mind.

Concentration of the banking reserves of a country is essential to efficiency, economy, and adequate business accommodation. Carrying the reserves of a country, a central bank can meet every demand for currency, whether from the banks or the public; while if the aggregate reserves so held are scattered among 7,000 isolated units they practically guarantee safety to no one when that is needed. Indeed, in the recent panic we saw some of them refusing accommodations while boasting of their repleted reserves. Reserves amassed and administered by a central authority are more economically managed than when entrusted to several thousand institutions in small amounts. By the latter method too much working capital is held up to the detriment of business. By the former it can be made to support the commercial needs of a whole nation, and to respond to a call for currency in any section at any time. The test of a banking system comes in foul weather, and ours completely broke down when subjected to a strain two years ago. Organized as it is, the result could not have been otherwise, for there is no concentration or cohesion to strengthen it; no directing or controlling influence to guide it. The central bank meets a crisis with a very different code. It believes, in such an event, that loans and accommodations should be made, as largely as the public asks, on all good security, at a very high rate of interest, and puts its belief into execution by establishing such a rate. This checks unreasonable timidity by fining it heavily and prevents borrowing from unnecessary precaution. A central bank diffuses the idea that although money may be dear, still money can be had. And this brings back the hoarded notes and gold for deposit, ending periods of temporary distress, and restoring confidence and reserves.

So long as a bank can supply currency to depositors and creditors in case of a run, it is practically in no danger; because banking experience teaches that after a certain stage is reached the depositors and debtors merge. This acts as a brake; for, when the depositors and debtors of a bank are one and the same, the probability of a depositor withdrawing his funds, because of loss, while the bank holds his paper for a larger sum is altogether removed. But, apart altogether from this theory, suspension is next to impossible in the case of the European joint-stock banks, for the central bank, through its rediscounting powers, stands ready to furnish currency to meet all demands against them. We have no institution to assume that responsibility in this country, but a great central bank, in consonance with the plans suggested by the most prominent bankers in this country—which are discussed in a subsequent chapter—could be established without any serious derangement to existing institutions.

A most serious defect in our currency system is that it possesses no power to steady, equalize, or cheapen interest rates. And, as a consequence, call money rates are subject to violent fluctuations—rising, at times, to 125 per cent.—to the great disturbance of the money market and of business. On October 31, 1907, at the height of our panic, the Bank of England's rate was only 7 per cent., and it has never risen above 10 per cent. During the year 1907, the mean discount rate of the Bank of France was only 3.45 per cent., and from 1892 to 1898, inclusive, it was never above 2.50 per cent., falling to 2.20 per cent. in 1895 and in 1898, and to a flat 2 per cent. in 1896. By its note-issuing power the central bank regulates the volume of its notes in accordance with the commercial demand, thus assuring an ample supply of currency and preventing rising interest rates. Through the same means it conserves the gold stock, and should that be in danger of impairment through speculation, overtrading, or foreign exchange operations it raises its discount rate and gold exportations cease.

The rate is always advanced with caution and prudence—never arbitrarily. Should the market not respond to the central bank's corrective, the bank will enter the market and become a borrower itself, to reduce the supply of loanable funds and thereby enhance the value of money. Of this whole operation the procedure of the Bank of England during two weeks in last October is the clearest illustration. On October 7 the bank's discount rate was 3 per cent. One week later it was advanced a point, and 4 per cent. became the ruling rate. At that rate the bank had to enter the market as a borrower to reduce the available supply of money in the hands of the market, because the bankers and brokers disregarded its intimation that they should cease lending out of the country. The bank failed to command the situation even then, and on October 21 raised its discount rate to 5 per cent. The bank's action led to much international comment, for its rate had not been advanced so high in twenty-two months; but its position as the regulator of the money market, and its influence over the world's one free gold market, justified it in doing what it did. Granting that it may not have quoted the actual rate for money at that time, it quoted a rate that it believed should be charged to protect the nation's gold stock; and, in doing so, it performed its function as a central bank charged with the protection of British credit.

FOREIGN CENTRAL BANKING SYSTEMS.

I. BANK OF ENGLAND.

The Bank of England antedates all of the central banks in Europe. It received its first Charter on April 25, 1694, for a period of ten years. Its capital was £1,200,000, voluntarily subscribed by the public, and this sum was lent to the Government at 8 per cent. interest, in addition to an allowance of £4,000 annually for management and expenses, making in all £100,000 yearly. The bank was authorized to issue notes to the extent of its capital. Its early years were marked by great trouble and many vicissitudes, but it survived; and in 1737 an opinion of its services to the kingdom appearing in the *London Magazine* said: "There certainly never was a body of men that contributed more to the public safety than the Bank of England. They have, upon every emergency, always cheerfully and readily supplied the necessities of the nation . . . and have relieved the nation out of the greatest difficulties, if not absolutely saved it from ruin."

Toward the end of the eighteenth century the country was embarrassed by war and in financial difficulty. The bank had always honored its notes up to this time, but in 1796 its gold reserve was drained steadily owing to fear of a Napoleonic invasion. In 1797 the directors felt that a specie suspension was inevitable; and, on appealing to the Government, that institution made public an order, dated February 27, 1797, in which the following appeared: "The directors mean to continue their annual discounts for the accommodation of the commercial interest, paying the amount in *bank-notes,* and the dividend warrants will be paid in the same way." This suspension of specie payments, although drastic, received the approval of the people, who readily declared their willingness to support the public credit by accepting bank-notes. On May 21, 1821, the bank resumed payments in specie. The year 1824, however, brought other trials for the bank. It was a period of great speculation, and led to a panic at the close of 1825, when many London and county bankers were forced to suspend. The Bank of England's reserves were reduced to nominal figures, and it sought permission again to "restrict" its payments. This the Government resisted, and the bank, thereupon, bethought it of a large quantity of £1 notes in its vaults, the issuance of which had quick and beneficial results. These notes took the place of the notes of the private bankers and the demand for bullion ceased.

In 1826 the bank first established branches, and surrendered its monopoly of joint-stock banking, except within a radius of sixty-five miles of London. In 1833 it yielded its joint-stock banking monopoly entirely, in consideration for the renewal of its Charter, and, in addition, for the note-issuing monopoly it was given within the sixty-five mile limit aforementioned. The directors of the bank then laid down, as a guiding principle for the future, that one-third of their liabilities should be kept in cash and bullion, and the remaining two-thirds in securities. Circumstances, however, decreed otherwise, and the standard so laid down was not respected during 1836 and 1837. In 1839 the cash held by the bank was about one-third of the amount of its securities, and, its investments increased so rapidly, by September of that year its securities stood at £29,000,000 and its cash at only £2,936,000. A Parliamentary inquiry followed, but not until 1844, when its Charter expired, was any reform attempted. On July 19 of that year the present Charter, introduced in Parliament by Sir Robert Peel, was granted and continues unaltered to the present day.

Thereunder the issue and banking departments of the bank were separated on and after August 31, 1844; and securities to the value of

£14,000,000 (including the debt due the bank from the Government) were transferred to the issue department, together with so much coin and bullion that the total so transferred equaled the total amount of notes then outstanding. Thereafter the issue department was prohibited from issuing notes in excess of a total of £14,000,000 except in exchange for gold coin or bullion. The issue department's holdings of silver were restricted to one-fourth part of its gold holdings (it holds no silver now), and notes were to be issued on demand in exchange for gold at the rate of £3 17s. 9d. per standard ounce. The issue department was authorized to increase its note issues against securities to the extent of two-thirds of the issue of any private banker which might be relinquished, all profits thereon accruing to the Government. Up to the present time the note issues of the bank under this provision have increased £4,450,000, making the total of its authorized issues against security to-day £18,450,000. A weekly statement, in a prescribed form, of the position of the issue and banking departments was also provided for; and if issues of private bankers lapsed from any cause, the same could not be resuscitated; nor could the right of issue by private bankers be acquired after 1844. Such is a condensation of the chief provisions of the Act of 1844, the present Charter of the Bank of England.

Mr. F. Straker furnishes us in his book, *The Money Market,* with the following account—the first weekly statement under the new Charter—of the liabilities and assets of the Bank of England for the week ending September 7, 1844:

Issue Department.

Dr.	
Notes issued	£28,351,295
	£28,351,295
Cr.	
Government debt	£11,015,100
Other securities	2,984,900
Gold coin and bullion	12,657,208
Silver bullion	1,694,087
	£28,351,295

Banking Department.

Dr.	
Proprietors' capital	£14,553,000
Rest	3,564,729
Public deposits	3,630,809
Other deposits	8,644,348
Seven-day and other bills	1,030,354
	£31,423,240
Cr.	
Government securities	£14,554,834
Other securities	7,835,616
Notes	8,175,025
Gold and silver coin	857,765
	£31,423,240

The Charter, in the opinion of English banking authorities, has worked well in the main, its only drawback being its want of elasticity in time of need. The bank cannot increase its issue of notes against securities beyond the prescribed limit. When it was necessary for it to do so, however, the Charter was suspended, as described in the preceding chapter, and doubtless, were a similar situation to arise, the Government would consent to its suspension a fourth time and Parliament would confirm such action. Nevertheless, there are many in England who contend that the suspension of the Charter should be automatic to a certain extent, without the assent and intervention of the authorities. By waiting, say these, until the Government might deem it expedient to give the bank the necessary powers, a panic might be precipitated. The bank moved into new quarters in Threadneedle Street on June 5, 1734. These now cover three acres, and the bank is known as "The Old Lady of Threadneedle Street." Under its direction London has become the centre of the world's exchanges and the one and only free gold market in the world.

A governor, a deputy governor and twenty-four directors constitute the administrative board of the Bank of England. The governor, deputy governor and eight directors retire every year. Seniority among the directors in point of service usually rules in selecting a governor and deputy governor. Lenders of money on commercial paper are not eligible for the directorate. The governor usually serves two years, and a director is seldom made governor out of his turn. His waiting period is, approximately, twenty years. Meetings of the directors are held every Thursday to discuss the "weekly report." While the bank is the custodian of the Government's moneys and performs many financial operations for it, it is singularly free from governmental restriction or interference. Owing to its being the Government's banker its relations with it are practically the same as those with its other patrons. Its taxes are moderate and its profits are not shared with the Government. While the obligation resting upon it to preserve the country's gold reserve has lessened its profits, it paid a dividend of 11 per cent. in 1891; 10½ per cent. in 1879, 1882 and 1890; 10 per cent. from 1897 to 1903, and since then about 9 per cent. on an average.

II. BANK OF FRANCE.

Next to the Bank of England, the Bank of France is the oldest of the European central banks. The great Bonaparte had much to do with its establishment, which dates from January 18, 1800, when a decree instituting it with a capital of 30,000,000 francs in shares of 1,000 francs each appeared. Napoleon, Murat, Duroc and others equally prominent at that date were among the original subscribers to the stock of the bank, and by 1802 all the shares were purchased. The bank began its business career on February 20, 1800, as a bank of issue and discount, in competition with other institutions enjoying similar privileges. It was a private institution and free from governmental interference. By a law passed on April 14, 1803, it was given the exclusive right to issue notes in Paris and its capital was increased to 45,000,000 francs. The next three years were somewhat embarrassing for the bank. Military necessity, incident to the campaign against Prussia and the allies, taxed the bank's resources, reduced its coin reserve and led to such a currency inflation that the bills fell below par. Immediately after the victory at Austerlitz, Napoleon ordered a change in the bank's administration. The law of April 22, 1806, was passed to embody his views. Thereunder the capital was increased to 90,000,000 francs; the direction of the bank was confided to a governor and two sub-governors named by the State; and its charter was extended to September 24, 1843. By a decree, dated May 18, 1808, the bank was given exclusive privilege of note issues in towns wherein it opened branches.

The fortunes of the bank followed those of the Emperor, and when his reversal came the bank's existence was seriously menaced. It weathered the storm, however, but with greatly curtailed privileges. Some of its branches were abandoned, and a new type of institution, termed a departmental bank, sprang up in nine principal cities of France. These had no connection with the Bank of France, issued their own notes, and were largely responsible for the industrial development of France up to 1847. In 1840 the Bank of France entered the lists against these banks by establishing branches in the leading cities and availing itself of its note-issuing monopoly, which action led to a prolonged contest, resulting in the passage of a law on June 30, 1840, extending the privileges of the Bank of France until December 31, 1867, and limiting the further establishment of departmental banks. An amendatory act the year following, gave the branches of the Bank of France exclusive note-issuing privileges in the cities of their establishment. The crisis of 1847 and the Empire's downfall in 1848 led to great business and financial embarrassment, and, finally, to the suspension of specie payments. The outcome of the work of reorganization was the fusion of all departmental banks with the Bank of France, and the conferment upon the latter of exclusive note-issuing powers. Its capital was increased by the aggregate amount of that of the nine departmental banks. On June 9, 1857, its capital was again increased, its charter was extended for forty years, its existing privileges were confirmed, and it was exempted from the operation of the usury laws in order that it might control foreign exchanges by means of its discount rate. It is from this period that its real service to the nation began.

Perhaps its greatest contribution to the nation was the part it played during and after the cessation of hostilities in 1870. At the close of the Franco-Prussian war it had advanced to the Government a sum equivalent to $280,000,000. On August 12, 1870, specie payments were ordered suspended by the Government to conserve the gold reserve, and the aggregate note issues were limited to 1,800,000,000 francs. On August 14 this was raised to 2,400,000,000 francs; extended to 2,800,000,000 francs on December 29, 1871, and on July 15, 1872, to 3,200,000,000 francs. Although the time set for specie resumption was whenever the Government would reduce its indebtedness to the bank to 300,000,000 francs, which did not come to pass until the end of 1877, the Bank of France began making silver payments in 1873, and gold payments in 1874.

Under the Treaty of Frankfort of May 10, 1871, France was obligated to pay to Germany $1,000,000,000, in four payments, the first to be made thirty days after order had been restored in Paris, and the final on March 2, 1874. A notable condition, galling to French pride, was that German troops were to occupy French soil until the stipulated amount was paid. This hastened the payments considerably and almost a year before the time agreed upon the German military forces had left France. The Bank of France advanced the payments required for 1871, amounting to $300,000,000, and two government loans, offered during 1871 and 1872, were oversubscribed many times. Gold and silver hoarded for many years came at the call of patriotism, and that event marks the beginning of security investment among the French people. The specie, so drawn from its hiding places, enabled the Bank of France almost to double its coin reserve.

The French Government purchased bills of exchange upon every quarter, and as many of these were upon England the gold reserves of the Bank of England were levied upon heavily, so that the bank was compelled to maintain high discount rates during 1872 and 1873. In assisting the French Government in placing its loans and in securing obligations which Germany would accept and transferring them to that country's credit, the Bank of France rendered the nation conspicuous service.

The Bank of France adopted an exceedingly effective policy in 1877, when it found itself in possession of a gold reserve of $232,000,000, and a silver reserve of $165,000,000. It decided to redeem its obligations in either gold or silver, at its own discretion, and to charge a premium for gold. This policy it has maintained rigidly, and hence it is enabled to protect its tremendous gold stock, amounting to more than $700,000,000; because when gold is needed for exportation it cannot be obtained from the bank, but must be taken from the channels of circulation. This method is the bank's substitute for the Bank of England's device in advancing its discount rate; but while effective for the bank's own particular purpose it exercises no restraint or control upon the money market as is the case under the Bank of

England's policy. Indeed, its traditional policy of serving commerce has induced it at times to purchase gold at a loss for its reserve, rather than burden trade by an advance in its discount rate; and in its charter granted in 1897, there is a provision whereby three-fourths of all profits derived from a discount rate of more than five per cent. are to be covered into the public Treasury. This is to discourage rate advances to retain gold. Accordingly, it discounts paper in silver which is not acceptable in foreign exchange transactions. The circulation of the Bank of France is practically unlimited. In 1884, the Government proposed to make it such, but instead a maximum was ordained of 3,500,000,000 francs. In 1893, this limit was placed at 4,000,000,000 francs; and in 1906, at 5,800,000,000 francs. With its enormous gold reserve it can support a much larger note circulation, and as the Government knows this to be the case, it always raises the limit in accordance with the public demand for notes. Its circulation, therefore, is practically unlimited. In other words, the French Government being assured of the *safety* and *quality* of the bank's currency, in accordance with a sound economic principle, is willing to let its *quantity* rest on commercial demand.

The French law makes no provision for collateral security for the note issues of the Bank of France, or for its reserves. Its charter reads: "The notes shall be covered either by coin held by the bank, or by notes secured by collateral, or by notes signed by three responsible persons." That was the policy of the bank upon its inception more than one hundred years ago, and today, as a result, we find it the most powerful institution in the world and the most responsive to popular necessity. The great banks rediscount their loans at the Bank of France to the extent of millions of francs, which gives the currency of that country a liquidity and responsiveness to changing conditions, that ours has never known. Nor are its transactions confined to the great banks alone. The Bank of France has upwards of 500 branches, and at the central institution or at any one of these every business day in the year it will discount any good bill that is not less than eight dollars. Its discount transactions under twenty dollars daily total several thousand, to the resulting benefit of the small trader. Its rates are always conservative, and are uniform at all branches. From 1905 to 1907, its discount rate was three per cent. and three and one-half per cent. for advances against securities. During the decade from 1890 to 1900, the Bank of England altered its discount rate sixty-six times;

the Bank of France, nine times. The strength of its metallic reserves enables it to maintain this uniformity, and in 1907 it assisted the Bank of England to replenish its gold reserve, which had been reduced by American demands following our panic.

Its power of note issue on rediscounting transactions is practically unrestrained, and this makes the institution the national sanctuary in time of need. In conjunction with its enormous wealth of gold and stable discount rates, the bank of France is the foundation of the strongest and most enlightened financial system in the world. Its capital is 182,500,000 francs, owned by private citizens numbering, approximately, 30,000; and it is governed by the officials aforementioned, appointed by the President of France and removable by the Minister of Finance, and by a board of fifteen regents elected by the shareholders. It receives and disburses Government moneys, assists in managing the public debt, and in issuing Government loans, but it is not the agent of the Government. It furnishes a statement to the Government semi-annually, and a weekly statement of its affairs is published every Friday. Revenues derived from the Bank of France by the Government arise from taxation, and not from any profit-sharing agreement.

III. IMPERIAL BANK OF GERMANY.

Germany's victory over France in 1870 and the proclamation of William I. of Prussia as Emperor at Versailles in 1871, converted the twenty-six independent German states into an empire. In harmony with the new order the banking systems of these states had to be reorganized, and to establish a great central bank for the German Empire, the Imperial Bank of Germany, also called the Reichsbank, came into existence in 1875, successor to the Royal Bank of Prussia, with enlarged powers. The Bank of England seems to have been the model for the Reichsbank, although the inelasticity of the former's currency has been avoided. In order to facilitate domestic exchanges among the several states and with foreign countries the whole banking system required substantial reformation, and this seemed the more urgent since in 1873, owing to the gold received by Germany in payment of the war indemnity from France, the Imperial gold standard had been adopted, the gold mark becoming the unit of value. Under the law establishing the gold standard an effort was made to reduce the note circulation of the state banks by ordering that if the value of their notes was not declared in Imperial marks on or before January 1, 1876, they would be withdrawn from circulation.

The Royal Bank of Prussia ceased its operations on December 31, 1875, and transferred its rights and privileges to the Imperial Bank of Germany. The latter's capital was 120,000,000 marks, divided into 40,000 shares. These were all taken by the public, about one-half being accepted by the Royal Bank of Prussia's shareholders for the surrender of their holdings in that institution. The capital is now 180,000,000 marks, the excess being divided into 60,000 shares of 1,000 marks each. Its control was vested in a council of curators comprising the Chancellor of the Empire and four others, one named by the Emperor and three by the Federal Council of Germany. The Chancellor is the real head of the institution, the source of all authority as to the bank's management. In addition, the Government names a council who serve for life and who are the administrative directors of the bank. One of these is president and another vice-president. Officers of the bank may not own any of its stock. The shareholders elect a council of fifteen from their own ranks, and these look after the weekly reports of the bank, inspect the accounts of depositors, determine the amount of funds for loans, the discount rate, and other administrative details.

At the outset the Government's efforts to restrain the note-issuing privileges of the banks, in order to confer upon the Reichsbank a monopoly, were drastic and occasioned much feeling among the banks. The restrictions, however, proved too much for them and in 1908, only four banks: Bank of Bavaria, Bank of Saxony, Bank of Baden, and Bank of Wurtemberg remained to dispute the note-issuing field with the Imperial Bank of Germany, which absorbed the issues of all the banks yielding up their note-issuing privileges, by increasing its note issues by the aggregate amount surrendered. While the note circulation of the Reichsbank is not so unrestricted as that of the Bank of France, it is sufficient to prevent a currency stringency, and to furnish necessary accommodation. The bank may issue notes against its general credit to the amount of 472,829,000 marks, free from taxation. It may increase this amount at any time, and is then obliged to pay to the Government a five per cent. tax. Against its note issues the bank is obliged to maintain a coin reserve of one-third of the aggregate outstanding, and commercial paper in the possession of the bank signed by three, or at least by two, persons known to the bank to be solvent, and having at most three months to run, suffices for the remaining two-thirds. Its five per cent. tax on emergency circulation is the characteristic of the German central banking system. When money is urgently needed and the bank's limit has been reached, it issues its additional currency subject to the tax, and so long as the prevailing discount rates remain above five per cent. the notes stay in circulation; the moment the rate falls the notes are retired. It is an elastic device which enables the Reichsbank to issue currency in accordance with commercial demand; for by its operation commercial paper is practically resolved into currency. The automatic retirement of the notes furnishes the element of contraction—the essence of currency elasticity.

Notes in excess of the authorized circulation were first issued by the Reichsbank in December, 1881. Subsequent issues subject to the tax were circulated in 1882, 1886, 1889 (three times), 1890, 1893, 1895, and thereafter, to and including 1907, annually. The reaction of our panic in Germany taxed the Imperial Bank heavily in 1907. Internal demands for capital owing to heavy speculation and commercial expansion were pressing, and when the financial storm broke in this country the burdens of the Reichsbank were largely increased. It raised its discount rate on November 8, 1907, to seven and one-half per cent. and maintained it at that figure until January 15,

1908. Thence until March 8, it stood at seven per cent. and for several months subsequent at five per cent., although the Bank of England's seven per cent. rate was dropped to two and one-half per cent. Such were the steps taken by the bank to preserve its gold reserve, and owing to the effect of its high rates on business, criticisms of the bank and the Government were many and frequent, the matter finally reaching the Reichstag, which even talked of modifying the gold standard.

As in the case of the Bank of France, the Imperial Bank of Germany does much discounting for the large joint-stock banks, "which have come to play an important part not only in commercial banking," says Mr. Charles A. Conant, in his excellent work, *History of Modern Banks of Issue*, "but in flotations of securities and corporation financing." In 1906, on an average, domestic bills rediscounted by the bank matured in twenty days. The bank's branches number 500, approximately, and while its notes are redeemable in coin in Berlin on demand, the branches are not obliged to redeem them unless their funds on hand warrant it. One signal service of the branch system is that which enables a person—not necessarily a depositor—in a town in which the Reichsbank operates a branch, desiring to pay money to a creditor in another town, to pay the amount into the local branch, and on the following day it will be credited to the current account of the person for whom it is intended. No charge is made for such transfers, which greatly facilitate business in different sections and economize the use of specie. The bank protects its reserve and strengthens its control over the money market by a method peculiarly its own. According to Dr. Koch, former Governor of the bank, it purchases foreign bills of exchange, particularly on England, when they are low, and permits them to accumulate until exchange rates are higher, and when there is a probability of gold exportations it sells them. It also follows the Bank of England's policy of "borrowing from the market," by offering Treasury bills for rediscount, which reduces the surplus funds and steadies the open market discount rate.

The bank is empowered to purchase and sell gold; to rediscount bills which mature in ninety days, at most; to make loans against collateral for the same period; the collateral being either gold, silver, domestic securities (up to seventy-five per cent. of their market value), debentures of the Empire, or guaranteed by it, railroad stocks and bonds, and bonds of certain credit institutions. Foreign government securities and railroad bonds guaranteed by foreign governments up to fifty per cent. of market valuation are accepted as collateral; and the bank may make advances against merchandise, stored in Germany, to the extent of two-thirds of its value. In addition it manages the public debt, receives and disburses government moneys, and issues bank credit notes. Its shareholders receive dividends of three and one-half per cent. Then, twenty per cent. of the surplus profits goes into the reserve fund until it totals $14,280,000. Of the remainder the Government receives three-fourths and the shareholders one-fourth. Premiums earned on stock issues of the bank go to the reserve, which is also a guarantee fund for the shareholders' dividend, aforementioned. The Reichsbank, while privately owned, is entirely under the domination of the Government.

IV. CANADA'S BANKING SYSTEM.

While Canada has no State bank like England, France or Germany, her branch-banking system is another modification of the central bank's workings. In the Dominion, in effect, there are thirty-five central banks with almost nineteen hundred branches. The Bank of Montreal begun as a private organization in 1817, and chartered in 1822, was the first bank organized in Lower Canada. The Quebec Bank and Bank of Canada, both in Montreal, obtained charters later in that year. Under these instruments the shareholders were only liable to the extent of their stock subscriptions, but the directors were liable to the shareholders and depositors in case the bank's liabilities, exclusive of deposits, should exceed treble the amount of the paid capital. Note issues were unlimited, and loans were unprohibited as to amount or character. Branches were immediately established by all three, and each competitor received and exchanged the other's notes, making balance payments in specie once a week.

The Bank of Canada was liquidated in 1831, and the City Bank of Montreal was chartered. In Upper Canada the first bank, organized on April 21, 1821, was the Bank of Upper Canada, in which the Government had £100,000, which was increased to £200,000 in 1832. Other early banks were the Commercial Bank, Gore Bank of Hamilton, Bank of New Brunswick, Bank of Nova Scotia, and Halifax Banking Company. After the union of Upper and Lower Canada in 1841, a resolution for the establishment of a great provincial bank of issue, inspired by Lord Sydenham, Governor General, was defeated in the Provincial Parliament.

On the formation of the Dominion of Canada in 1867 an attempt was made to establish a secured circulation, that is, a government currency, which proved abortive. In 1870, some reformative enactments were passed, and again in 1871. But in 1880, following the depression of the late seventies, more important banking laws were adopted, and from that period the banking system of Canada as we know it to-day practically dates.

To organize a bank in Canada a capital of $500,000 must be actually subscribed, and $250,000 must be paid before business can begin. Each bank is authorized to issue notes to an amount equal to its paid capital, but owing to the keen competition among Canadian banks, and the prompt redemption facilities, the circulation is generally less than the authorized amount. Banks must arrange to insure the par value of their notes in every section of Canada, and to establish redemption agencies at the chief cities of each of the seven provinces and at such other places as the treasury board may determine. In the larger cities the notes are exchanged at the clearing-houses; in other places, at the nearest branches, and balances are paid either in Dominion notes or by drafts on commercial centres. Discounts on Canadian bank notes anywhere in the Dominion are therefore unknown. This is equally true of notes of failed banks. By a law passed in 1890, bank notes are a prior lien on all the assets of failed banks, including a double liability of shareholders. In addition, a redemption guaranty fund, contributed by all the banks on a basis of five per cent. of their average circulation is maintained to redeem them, and they bear interest at the rate of five per cent. from date of the issuing bank's failure until public announcement is made that they may be presented for redemption.

By means of its branches, a bank in Montreal, Toronto, or Halifax receiving deposits, may lend them the following day in Winnipeg, through the issuance of its own notes. The branches redeem these notes by drafts on the parent bank. This freedom of note issue tends to equalize and steady the interest rate. Said Mr. Horace White, former editor of the New York *Evening Post*, in a debate on the subject of Branch Banking, some years ago, before a joint convention of Missouri, Kansas, Oklahoma, and Indian Territory Bankers' Associations: "Under the branch system in Canada the parent bank is like a reservoir having pipes of different sizes running to different consumers, each of whom can draw as much money from the general supply as he can advantageously use and give security for." The banks do not divide their capital into as many parts as there are branches. They lend their notes at the branches and redeem them at the parent bank. This dispenses with local redemption and saves time, capital, and labor. Should a bank, receiving deposits in Toronto, be obliged to send its notes by express to Winnipeg, time and interest would be lost. If it was compelled to take out bonds before issuing its notes and deposit them in the Treasury, its profit probably would be wiped out.

The reserves are maintained principally in the financial centres or redemption cities, and the branch banks act as circulating agencies for the notes of the parent bank, supplying the entire borrowing requirements in their localities at the rates prevailing at the parent seat. The surplus funds are constantly moving in response to demand, and local borrowers do not have to leave home for accomodation. This enures to the protection of the banks as well as to the convenience of the borrower, for it checks over-expansion on the part of borrowers. Our difficulty in crop-moving season is unknown in Canada. When the demand for money for harvesting the crops is voiced in the Dominion it leads to no constriction, because the banks can issue their notes in the amounts and at the times and places where they are needed. All seasons are alike to Canada so far as an adequate supply of currency is concerned; it is always responsive to the demand. To conclude, Canada has an adequate, scientific banking system, an elastic currency, with adequate redemption facilities, the average period of a note's circulation being only thirty days. Its currency is a credit, or asset, currency and its system is akin to a central bank.

EARLY FEDERAL BANKS OF ISSUE.

I.

From the days of the Revolution the history of American finance has been one unsuccessful struggle for a serviceable currency system. And the fact remains that we were nearer our goal in that respect one hundred years ago than at any subsequent period. Indeed, the war for independence did more for us in shaping a sound financial policy, than did the war to preserve the nation's life almost ninety years later. What may be said to be the genesis of American banks of issue sprang from the sufferings of the patriot army at Valley Forge, when Washington made known to Congress the distress and suffering of his half-naked, shoeless, and starving troops. At a meeting of citizens in Philadelphia, summoned to assist the soldiery, in which Thomas Paine, Robert Morris, and Blair McClenachan figured prominently, a "security subscription" was opened to supply the army with rations, and the Bank of Pennsylvania was established. This was in 1780, and in July of that year the bank was opened and continued in operation until 1784. The amount determined upon as necessary for the relief of the patriot forces was three hundred thousand pounds of Pennsylvania currency, real money, and ten per cent. of the subscription was paid in immediately by ninety-two persons. Bonds were executed by the subscribers to form the bank's capital, and notes bearing 6 per cent. were issued. The credit of the subscribers was used to borrow money, and all sums received or borrowed from Congress were applied to the bank's operating expenses, and in the purchase and transportation of rations and rum for the Continental army. Through the assistance given by the Bank of Pennsylvania the army received 3,000,000 rations and 300 hogsheads of rum. The subscribers to the capital of the bank were secured by bills of exchange drawn on the envoys in Europe, but which were not intended to be negotiated. The successful operation of this bank impressed upon Robert Morris, then Superintendent of Finance for the colonies, the wisdom of having a real Government bank, and with this end in view, on May 26, 1781, Congress approved his plan for the Bank of North America. The foreign bills held by the Bank of Pennsylvania were taken over by the Bank of North America and the claims of the former against the Federation were paid in cash. The interest-bearing notes of the Bank of Pennsylvania, so patriotically conceived, practically made that institution the first American bank of issue.

On the last day of the year 1781, the charter of the Bank of North America was granted, and a week later it opened for business in the city of Philadelphia. Alexander Hamilton actively co-operated with Morris in establishing the bank, and recommended a capital of $3,000,000. Morris, however, contented himself with placing the capital at $400,000, with authority to increase that sum. The par value of the shares was $400 each, and subscribers for five shares were obliged to pay one-half of the amount at once, and the balance within three months. Twelve directors, from whom a president was chosen, were elected, and the latter, with two inspectors, was to control the bank's affairs. Thomas Willing was elected president. Its notes were receivable for duties and taxes in all the States, and in settlement of interstate transactions were accepted as specie. Its charter was perpetual and the bank was given the right to hold property to the amount of 10,000,000 Spanish milled dollars. After its charter had been granted, those opposed to it continued to question the constitutionality of that proceeding; so to allay all doubt a charter was obtained from the State of Pennsylvania, April 1, 1782, and under this the Bank of North

America transacted business until it became a national bank in 1863. The Government subscribed for 663 shares, for which Robert Morris, Superintendent of Finance, paid $254,000, out of $470,000 in silver which had been brought from France. The Government became a large borrower of the bank, receiving $1,249,975, of which it paid $996,581 in cash and surrendered its stock in payment of the remainder. So well did it regulate the financial policy of that time, and so skilful was its management, other paper issues were driven out of circulation; its notes were equivalent in value to specie; and, from its extensive circulation, it was able to pay a half-yearly dividend of 4½ per cent. in 1782, the first year of its existence, despite the heavy organization expenses incurred. Three years after its establishment its notes circulated everywhere at par, and its capital was increased to $2,000,000. In 1789, Alexander Hamilton became Secretary of the Treasury, and shortly afterward advocated the establishment of a Federal bank. Although fully cognizant of the constructive services of the Bank of North America he contended that as its charter from the Colonial Congress had not been confirmed, or renewed, by the Federal Congress, and, moreover, that as the bank was doing business under the Pennsylvania charter, it was a State and not a Federal bank. Accordingly, he recommended the incorporation of the Bank of the United States.

After a protracted debate as to the authority of Congress to institute a bank, Hamilton's bill was passed by Congress on February 25, 1791. Up to the last Thomas Jefferson and Edmund Randolph advised President Washington not to sign the bill, but the counsel of Hamilton was more persuasive and the first President approved the bill creating the first Bank of the United States. Its capital was $10,000,000, divided into 25,000 shares of $400 each. One-fourth of all the private and corporate subscriptions was to be paid in gold and silver, and three-fourths in United States stock bearing 6 per cent. interest. The number of directors was twenty-five, to be elected annually by and from the stockholders, and all were to be citizens of the United States. One of the directors was to be chosen president. Not more than three-fourths of the directors were eligible for re-election, but the president could always be re-elected. Stockholders were given votes in proportion to their holdings, thirty being the highest number of votes to any one "person, co-partnership or body politic." "Stockholders actually resident within the United States," read the charter, "and none other, may vote in elections by proxy." This was intended to prevent all attempts at foreign control.

Any number of stockholders, not less than sixty, who possessed in the aggregate two hundred shares, could call a meeting of the stockholders for purposes relative to the institution, by giving ten weeks' notice in two newspapers, of the purposes of such meeting. Note issues were limited only by the general provision restricting "the total amount of the debts, whether by bond, bill, note or other contract," to ten millions of dollars, over and above the bank's deposits; and the bills or notes of the bank, made payable on demand in gold and silver coin, were receivable for dues to the Government. Branches might be established for deposit and discount wherever the directors saw fit, and the charter of the bank was to run for twenty years. In the charter provision was made for a subscription of one-fifth of the stock of the bank by the Government, the bank making, in return, a loan to the Government equal to the amount subscribed, which was to be repaid in ten annual instalments of $200,000 each, bearing interest at 6 per cent. (When the Bank of England was founded in 1694, the whole of the sum subscribed as its capital, £1,200,000, was lent to the British Government, and was turned into the exchequer.)

Of its capital, \$4,700,000 was reserved for the central institution at Philadelphia, and the remainder was divided among eight branches at New York, Baltimore, Boston, Washington, Newport, Charleston, Savannah, and New Orleans. Within two hours after subscriptions to the capital had been opened, the full amount was oversubscribed 4,000 shares. In its commercial dealings the bank was singularly successful. It advanced moneys to the Government frequently and in large amount. In 1792, the Government owed the bank \$2,556,595, and at the end of 1795, \$6,200,000. This indebtedness eventually cost the Government its stock in the bank. Failing to realize enough on a sale of Government 5 per cent. stock, in 1797 it sold the bulk of its bank holdings at \$500 a share—a premium of \$100 a share, and the proceeds were applied to the Government's indebtedness to the bank. Shortly after this transaction several hundred additional shares of the Government's bank stock were sold, and in 1802 the remainder was transferred at an advance of 45 per cent. The Government thereupon ceased to be a stockholder. According to Secretary Gallatin's report the Government's profit on the sale of its bank stock was \$671,860, in addition to its annual dividends at 8⅜ per cent. On its original investment during eleven years the Government made a profit of, approximately, 57 per cent.

The bank was a strict regulator of State bank note issues, and during its existence disbursed more than $100,000,000 of the Government's money without one dollar's loss. The Government, according to Secretary Gallatin, derived an advantage from this bank in that (1) the public moneys were safely kept; (2) public moneys were properly transmitted; (3) revenue was promptly collected, and (4) the Government's loans were financed. In 1809 he recommended increasing its capital to $30,000,000, permitting the States to subscribe $15,000,000. Congress was not prepared to go this far, but the House of Representatives on April 21, 1810, approved an application for a renewal of the bank's charter. Nothing further was done, however, and on January 24, 1811, the bill for renewal was postponed indefinitely, by a majority of one vote, in the House, and defeated by the Vice-President's vote in the Senate. The fact that almost two thousand shares of the bank's stock were held abroad created an intense opposition to its being re-chartered. Despite the fact that under the charter foreign stockholders could neither become directors nor vote by proxy, members of Congress made speeches on the danger of such an accumulation of foreign capital, and likened it to an engine for the destruction of civil liberty. One even claimed that George III. was a principal stockholder; and Henry Clay declared his belief that in case of a war with England the English Premier would control the bank. The refusal of Secretary Gallatin to make certain political appointments won for him the hostility of certain powerful interests in the Senate, who consequently opposed the bank because he favored it.

On January 24, 1811, Secretary Gallatin's report showed the bank's resources at $24,183,046, the principal items being: $14,578,294 in loans and discounts; $2,750,000 in Government 6 per cent. stock; and $5,009,567 in specie. Its liabilities were: Capital, $10,000,000; circulating notes, $5,037,125; individual deposits, $5,900,423, and Government deposits, $1,929,999. It paid an average annual dividend of 8 per cent. up to March, 1809. Thus passed the first Federal central bank of issue in this country, a victim to the pestilential influence of party spirit that predisposed men's minds to estimate the propriety of a measure, or of an institution, according to the proponent, or director, rather than according to its real fitness, quality, or usefulness.

In the history of American finance the one man pre-eminently head and shoulders above all others is Alexander Hamilton, whose untimely death at Aaron Burr's hands in 1804, robbed the nation of a statesman and financier of remarkable vision and power. The friend of the Bank of the United States, in 1795, in his essays in defence of the Jay treaty with Great Britain, he drove from the field, by force of his irresistible logic and masterly powers of argument, those who, at that date, were advancing the same artificial reasons, which Mr. Clay and others revamped and used to prevent the renewal of the charter, aforementioned, sixteen years later. While Hamilton lived to expose and shatter the contentions of the bank's enemies they made little headway, and more than anything else did his essays contribute to check, and turn the other way, what seemed to be an irresistible popular feeling at that time. When it is recalled that the bank's charter was refused by a single vote in the House of Representatives, as well as in the Senate, the following excerpt from one of his essays, signed "Camillus," written in 1795, should serve to convince the reader of the utter unreasonableness of the arguments which led to the bank's downfall, and of the nation's irreparable loss in Hamilton's death:

"It is further said, that under the protection of this stipulation the king of Great Britain, who has already *speculated in our funds* (the assertors would be puzzled to bring proof of the fact), may engross the whole capital of the Bank of the United States, and thereby secure the uncontrolled direction of it; that he may hold the stock in the name of the ambassador, or of some citizen of the United States, perhaps a Senator, who, if of the virtuous twenty, [Those who advised to a ratification of the treaty] might be proud of the honor; that thus our citizens, in time of peace, might experience the mortification of being beholden to British directors for the accommodations they might want; that, in time of war, our operations might be cramped at the pleasure of his Majesty, and according as he should see fit or not to accommodate our government with loans; and that both in peace and war we may be reduced to the abject condition of having the whole capital of our national bank administered by his Britannic Majesty.

"Shall I treat this rhapsody with seriousness or ridicule?

"The capital of the Bank of the United States is ten millions of dollars, little short, at the present market price, of three millions of pounds sterling; but, from the natural operation of such a demand, in raising the price, it is not probable that much less than four millions sterling would suffice to complete the monopoly. I have never understood, that the private purse of his Britannic Majesty, if it be true, as asserted, that he has already witnessed a relish for speculation in our funds (a fact, however, from which it was natural to infer a more pacific disposition toward us), was so very ample as conveniently to spare an item of such size for a speculation across the Atlantic. But, perhaps, the national purse will be brought to his aid. As this supposes a parliamentary grant, new taxes, and new loans, it does not seem to be a very manageable thing, without disclosure of the object; and, if disclosed, so very unexampled an attempt of a foreign government would present a case completely out of the reach of all ordinary rules, justifying, by the manifest danger to us, even war and the confiscation of all that had been purchased. For let it be remembered, that the article does not protect the public property of a foreign government, prince, or state, independent of the observation just made, that such a case would be without the reach of ordinary rules. It may be added, that an attempt of this kind, from the force of the pecuniary capital of Great Britain, would, as a precedent, threaten and alarm all nations. Would consequences like these be incurred?

"But let it be supposed that the inclination shall exist, and that all difficulties about funds have been surmounted—still, to effect the plan, there must be, in all the stockholders, a willingness to sell to the British king or his agents, as well as the will and means, on his part, to purchase. Here, too, some impediments might be experienced; there are persons who might choose to keep their property in the shape of bank stock, and live upon the income of it, whom price would not readily tempt to part with it. Besides, there is an additional obstacle to complete success,—the United States are themselves the proprietors of two millions of the bank stock.

"Of two things, one, either the monopoly of his Britannic Majesty would be known (and it would be a pretty arduous task to keep it a secret, especially if the stock was to stand, as suggested, in the name of his ambassador), or it would be unknown and concealed under unsuspected names. In the former supposition, the observations already made recur. There would be no protection to it from the article; and the extraordinary nature of the case would warrant anything. Would his Majesty or the Parliament choose to trust so large a property in so perilous a situation?

"If, to avoid this, the plan should be to keep the operation unknown, the most effectual method would be to place the stock in the names of our own citizens. This, it seems, would be attended with no difficulty, since even our Senators would be ambitious of the honor; and if they should have qualms and fears, others more compliant could, no doubt, be found amongst the numerous sectaries or adherents of Great Britain in our country; probably some of the patriots would not be inexorable, if properly solicited. Or, in the last resort, persons might be sent from Great Britain to acquire naturalization for the express purpose.

"In this supposition, too, the article would be at the least innocent. For its provisions are entirely foreign to the case of stock standing in the names of our own citizens. It neither enlarges nor abridges the power of the Government in this respect.

"Further, how will the article work the miracle of placing the bank under the management of British directors? It gives no new rights, no new qualifications.

"The constitution of the bank (section the 5th, 7th of the act of incorporation) has provided, with solicitude, these important guards against foreign or other sinister influence: 1. That none but a citizen of the United States shall be eligible as a director. 2. That none but a stockholder, actually resident within the United States, shall vote in the elections by proxy. 3. That one-fourth of the directors, who are to be elected annually, must every year go out of the direction. 4. That a director may, at any time, be removed and replaced by the stockholders at a general meeting. 5. That a single share shall give one vote for directors, while any number of shares, in the same person, copartnership, or body politic, will not give more than thirty votes.

"Hence it is impossible that the bank can be in the management of British directors—a British subject being incapable of being a director. It is also next to impossible that an undue British influence could operate in the choice of directors, out of the number of our own citizens. The British king, or British subjects out of the United States, could not even have a vote by attorney, in the choice. Schemes of secret monopoly could not be executed, because they would be betrayed, unless the secret was confined to a small number. A small number, no one of whom could have more than thirty votes, would be easily overruled by the more numerous proprietors of single or a small number of shares, with the addition of the votes of the United States.

"But here again it is to be remembered that as to combination with our own citizens, in which they were to be ostensible for any pernicious foreign project, the article under consideration is perfectly nugatory. It can do neither good nor harm, since it merely relates, as to the exemption from confiscation and seizure on our part, to the known property of British subjects.

"It follows, therefore, that the dangers portrayed to us from the speculative enterprises of his Britannic Majesty are the vagaries of an overheated imagination, or the contrivances of a spirit of deception; and that so far as they could be supposed to have the least color, it turns upon circumstances upon which the treaty can have no influence whatever. In taking pains to expose their futility I have been principally led by the desire of making my fellow-citizens sensible, in this instance, as in others, of the extravagancies of the opposers of the treaty."

EARLY FEDERAL BANKS OF ISSUE

II.

Jefferson had been opposed to the Bank of the United States from its very inception, and during his administration the atmosphere was different from what it had been under the Federalists. In a letter to Gallatin, dated July 12, 1803, Jefferson wrote: "I am decidedly in favor of making all the banks republican by sharing deposits among them in proportion to the dispositions they show." Retribution was at hand, however, for the enemies of the Bank of the United States. The war of 1812 followed and the exigencies of that engagement conclusively demonstrated the utter inadequacy of the State banks to respond to the nation's demands. In 1814 south of New England every State bank had suspended specie payments and as almost one hundred of them had been selected as Government depositories, the operations of the Treasury were almost paralyzed. Transfers of funds from one section to another were rendered impossible because the note issues of banks in one section did not pass current in other sections. Had the Bank of the United States been in existence then, the threatened national ruin would have been averted. With that institution removed, there remained practically no check upon the redemption of State bank note issues, and the country was flooded with bank notes, and with unchartered currency in note denominations from six cents upward!

In this dilemma many proposals were made to improve the currency. Jefferson thought a $20,000,000 issue of Government promissory notes, and an appeal to the States to discontinue chartering banks, would prove efficacious. Secretary Dallas opposed "the desperate expedient of a tender law," and recommended a new bank with a capital of $50,000,000, empowered to lend $30,000,000 to the Treasury, and leaving to the discretion of the President of the United States the suspension of specie payments. Daniel Webster arraigned the latter feature so powerfully, it was withdrawn, but the President vetoed the bill. In December, 1815, President Madison advised Congress to create a national bank to restore specie payments, and Dallas was again the engineer. The bill creating the second Bank of the United States was approved on April 10, 1816. Its capital was $35,000,000, divided into 350,000 shares of $100 a share. The Government took one-fifth of the capital stock, giving a stock note therefor, which, incidentally, remained unpaid in full until 1831. The remaining four-fifths were taken by "individuals, companies, or corporations," in allotments not to exceed in any one case 3,000 shares. Public subscriptions were payable as follows: One-fourth in gold or silver coin, and three-fourths in instalments in coin, or in the funded debt of the United States. The charter was to expire on March 3, 1836 (twenty years), and the directors were twenty-five in number, five of whom were appointed by the President annually, and twenty elected by the qualified stockholders on the first Monday in January of each year. A sliding scale of votes in proportion to the number of shares of stock held, with a maximum vote of thirty, was provided for in the charter, and only stockholders actually resident in the United States could vote by proxy. One-fourth of the directors had to retire each year, and one of the President's appointees; and only citizens of the United States, resident therein, were eligible for directors. The bank was authorized to establish branches and to issue notes, not exceeding its $35,000,000 capital, which were made "receivable in all payments to the United States." No other bank was to be chartered by Congress, without the District of Columbia, during the twenty years aforementioned, and for all these privileges the Government, in lieu of the usual loan, was to receive a bonus of $500,000 annually for three years, the first payment to be made at the end of the second year. A most important and vital provision in the charter read:

SEC. 16. And be it further enacted, that the deposits of the money of the United States, in places in which the said bank and branches thereof may be established, shall be made in said bank or branches thereof, unless the Secretary of the Treasury shall at any time otherwise order and direct; in which case the Secretary of the Treasury shall immediately lay before Congress, if in session, and if not, immediately after the commencement of the next session, the reasons of such order or direction."

This was the lever with which President Jackson overturned the Bank of the United States in his long struggle to destroy it.

This institution had a stormy career from its very outset. Its note-issuing privilege in no sense restricted the State bank issues, which, as has been stated previously, were notoriously inflated; and in its endeavors to curb this evil and restore specie payments, it incurred the wrath of the State banks, and of private exchange dealers as well, who were shorn of their profits, by the bank's domestic exchange policy. In endeavoring to reduce the circulation of the State banks, some commercial distress and much resentment followed. The States determined to try what effect taxation would have as a deterrent, and, accordingly, North Carolina, Kentucky, Tennessee, Ohio and Maryland laid taxes on the circulation, or on the branches, of the bank.

Maryland's was the most drastic attempt. It passed a law requiring the bank to purchase stamped paper for the printing of its circulating notes, or to pay an annual tax of $15,000 for its Baltimore branch. The law was ignored and the cashier of the bank, William McCulloch, was sued by the State of Maryland. The case was decided by the Supreme Court of the United States, in favor of the Bank of the United States, and is now one of the leading constitutional decisions from the pen of the great constitutional authority, Chief Justice Marshall. The case is known as McCulloch *v.* Maryland, and holds that (1) the power to create a national bank, to assist in carrying on the fiscal operations of the Government, is within the implied powers of the Constitution; and (2) the Constitution of the United States places beyond the pale of State authority all the powers conferred on the Federal Government, and all the powers necessarily implied to carry those powers into execution.

Within a year from its opening—January 7, 1817—the bank was in distress. Its Baltimore branch was used as a speculating machine, stockholders giving their notes for the second and third instalments of their subscriptions—instead of making payment in coin or in funded debt of the Government—and borrowing on the pledge of the stock and their personal notes. This trading in the shares before they were paid for led to much speculation and to a rise in the price of the shares. Loans were made at the increased values by the bank, which, of course, were forced and unstable and disappeared into thin air when the speculators had achieved their point, and as a result, the bank lost $1,671,221. Nor could the bank's policy for the restoration of specie payments be commended. The bank had imported more than $7,000,000 in specie from Europe during 1817 and 1818, but on April 21, 1819, had less than $50,000 in specie, of its own, in its Philadelphia vaults. A Congressional inquiry revealed this fact, and there was a demand for a repeal of the bank's charter. A new president, Langdon Cheves, however, helped to tide the bank over its difficulties at this time. He borrowed $2,500,000 in specie from the Barings, curtailed the issue of notes by the bank's branches in the South and West, and adopted regulations in relation to the transfer and disbursement of the Government's funds, which were serviceable to the bank. Henceforth, until the Jackson outbreak, the bank was eminently successful.

"The second Bank of the United States," says Mr. Charles A. Conant, an eminent authority on finance, in his *History of Modern Banks of*

Issue, "undoubtedly contributed for more than a decade to facilitate the transfer of funds from one part of the country to another and to maintain a uniform circulation equal to coin. The rates of domestic exchange, which were necessarily high because of the imperfect means of communication, were materially reduced by the bank. Its policy greatly benefited commerce, but invited bitter complaints from the private dealers in exchange, who had been enabled to make excessive profits while the currency was below par because of its different values in different States and the constant fluctuations in these values. The bank, in the language of the report of Senator Smith of Maryland in 1832, furnished 'a currency as safe as silver, more convenient, and more valuable than silver, which through the whole Western and Southern and interior parts of the Union, is eagerly sought in exchange for silver; which, in those sections, often bears a premium paid in silver; which is, throughout the Union, equal to silver, in payment to the Government, and payments to individuals in business.' Mr. McDuffie, who submitted the minority report in the House at the same time, declared that 'The whole business of dealing in domestic bills of exchange, so essential to the internal commerce of the country, has been almost entirely brought about within the last eight years. In June, 1819, the bank did not own a single dollar of domestic bills; and in December, 1824, it owned only to the amount of $2,378,980; whereas it now owns to the amount of $23,052,972.' "

In 1823 Nicholas Biddle became president of the bank, and the bank began to prosper exceedingly. It helped to develop the nation's industries and to finance the Government's wants. The national debt between 1823 and 1835 was paid, and the stock of the bank rose until it commanded a premium of 20 per cent. Its notes circulated at par everywhere in the United States; and, according to Mr. John J. Knox, in his *History of Banking*, the notes of the Bank of the United States at London, Paris, Rome, Calcutta, Cairo, St. Petersburg, and other prominent cities, were within a fraction more, or a fraction less of their home value, according to the rate of exchange. At the most remote commercial centres they could be sold for a premium.

In a message to Congress in 1829, President Jackson first revealed his hostility to the bank, by stating that it was clear to all that the bank had failed in the great end of establishing a uniform and sound currency. This, from the President, created consternation in the public mind, for the bank at that time was regarded as one of the pillars of the nation. His real reason for the stricture was political and not financial. It appeared that Jeremiah Mason, manager of the Portsmouth, New Hampshire, branch, had aroused the ire of a local politician, one Levi Woodbury, over his constructive efforts to correct the previous bad management of that branch and to contract its discounts. Woodbury wrote to the Secretary of the Treasury complaining of Mason's direction of the bank, and that official sent the communication to Nicholas Biddle, president of the bank. The latter replied, denying mismanagement or political favor in the conduct of the Portsmouth branch, and stating, unnecessarily, that the directors of the Bank of the United States acknowledged no responsibility to the Secretary of the Treasury in regard to the political opinions of the bank's officers, and that, under its charter, it was not subject to Executive control. One Isaac Hill had complained to President Jackson of the partiality shown by Mason to the President's political opponents in New Hampshire, and set forth that no measure short of Mason's removal would reconcile the people of New Hampshire to the bank.

As a result, committees from the House and

Senate investigated the bank and exonerated it from the charge of bad management. But that was not to save it. Henry Clay, Jackson's bitterest opponent, determined to make the rechartering of the bank an issue in the approaching political campaign. Consequently Biddle and the bank were forced—reluctantly, doubtless—to take sides, and when the bill for a renewal of the bank's charter passed Congress, Jackson promptly vetoed it, and was sustained at the polls, receiving 219 electoral votes to Clay's 49, and 18 scattering. During 1832 and 1833 the bank made two serious mistakes. It ignored the directions of the Secretary of the Treasury in relation to the payment of a $5,000,000 debt due the Barings by the Government, assuming the obligation itself privately, in order to use the Government deposits in the discount market for its own benefit. When this was made known it did not improve the relations between the President and the bank, and when, for alleged damages arising out of a fiscal transaction with France for the Government, it deducted a certain amount from the Government's dividends, and lost its case when sued by the Government, Jackson made up his mind to deal the bank a death-blow. That was: to withdraw the public deposits in its custody. He, also, feared that the bank might be enabled, through the use of the public deposits, to buy up votes in Congress to secure a two-thirds majority and pass a re-charter bill over his veto.

Thenceforth the influence of the bank declined, and although it obtained a charter from the State of Pennsylvania, and paid the Government $7,000,000 for its stock, it suspended in 1837, and went into liquidation in 1841. Jackson ordered his Secretary of the Treasury to deposit the public moneys in "friendly" State banks under certain conditions, and in the general suspension in 1837, the Government lost about $2,500,000 through the payment of its deposits in depreciated bank-notes. The panic of 1837 induced President Van Buren to recommend to Congress that the public funds be kept exclusively by public officers and that only specie be accepted for debts due the Government. This plan became a law in 1840, was repealed in 1841, and re-enacted in 1846, giving us our present independent treasury system. Two later attempts were made to establish a central bank, but without success. Two bills, intended to charter a Fiscal Bank of the United States, passed both branches of Congress in 1841 to encounter the veto of President Tyler.

PLANS FOR A CENTRAL BANK.

New York Chamber of Commerce Plan: On October 4, 1906, a special committee of the New York Chamber of Commerce, appointed in March, 1906, to inquire into the condition of the currency and to suggest desirable changes, submitted an elaborate and exhaustive report of its proceedings to the Chamber. Therein was set forth that suggestions were sought by circular letter from members of the Clearing House Committees of the principal cities, consultations were held with leading bankers in the United States, and the experience of the heads of the chief European banks of issue was sought by letter and by personal visits of one of the members of the committee. The committee consisted of the following gentlemen: John Claflin, chairman; Frank A. Vanderlip, Isidor Straus, Dumont Clarke and Charles A. Conant. As a result of its seven months' investigation the committee reported in favor of the establishment of a central bank, in the following language:

"In our opinion, the best method of providing an elastic credit currency, the volume of which could never be excessive, would be the creation of a central bank of issue under the control of the Government. This central bank should have branches in the leading cities, and should have dealings only with banks. Although its capital stock might be privately owned or distributed among the banking institutions of the country, it should be under the direct control of a board of governors appointed, at least in part, by the President of the United States, for it should perform some of the functions now imposed upon the United States Treasury, and should at the same time be managed not exclusively for private gain but for the public good as well. This bank should have a large capital, not less than $50,000,000. It should carry a large reserve of gold and should act as custodian of the metallic reserves of the Government and as its agent in redeeming all forms of credit money. It should also be receiving and disbursing agent for the Government, doing at its branches the work now done at the sub-treasuries. It should hold the five per cent. redemption fund now deposited in the Treasury by the national banks for the current redemption of their bond-secured notes, and should redeem national bank notes both at its central office and at all of its branches."

This is, indeed, a most concise and constructive outline of what a central bank should conform to, leaving the question of its ownership to public determination, but insisting that the *public* good be served as highly as *private gain.* Thereunder we would be assured an elastic currency, responsive to the varying needs of business, and of comparative, if not absolute, uniformity in interest rates; for the resources of the bank would enable it to meet extraordinary or sudden demands for both capital and currency. Moreover, it would relieve the Treasury of the duties of issue and redemption, and by virtue of its relations with the money market could protect itself against a prolonged drain upon its reserves, which the Treasury is unable to do. While by eliminating the sub-treasury system it would keep the public moneys at the disposal of the country's business.

Reynolds Plan: Mr. George M. Reynolds, president of the Continental National Bank, Chicago, in his address to the American Bankers' Association, of which he was then president, in Chicago, on September 14, 1909, presented to that representative body of the nation's bankers what must be regarded as a singularly clear, comprehensive and salient plan for the establishment of a central bank. Condensed, his plan reads:

A central bank in fact as well as in name, with powers and functions restricted to the needs of business, so that it would be the servant and not the master of business. Its capital should be large enough to command respect and confidence—not less than $100,000,000, and might be subscribed for by the national banks, or sold to the public under a guarantee of a small dividend by the Government, with the latter sharing in the surplus profits. It should be the fiscal agent of the Government and its depository for public moneys; but it should not be given the power to support the public credit, as that should be done by the Government itself and by the people in an individual capacity. To give the Government supervision over it and to make the bank, at the same time, the instrument to maintain the public credit would be incongruous and indefensible. It should also receive as deposits the funds of national banks in the three central reserve cities, acting as reserve depository for banks in these cities. Branches should be conducted where sub-treasuries are now maintained and at other necessary points. This would do away with all sub-treasuries. Its discounts should be restricted to short-time credits—ninety days—created in the actual conduct of business, representing real transactions between two or more solvent concerns, and bearing a solvent endorsement, in addition. It should be a bank of discount for national banks and for the public, but not a bank to receive deposits from the public. It should issue its own notes and hold as security therefor, a percentage of coin reserve and the commercial paper, aforementioned. The government of the bank should be similar to that of the Imperial Bank of Germany—the Federal supervising representatives being appointed jointly by the President, Secretary of the Treasury and Controller of the Currency, and confirmed by the Senate. A majority of this board should hold over for eight consecutive years, to provide against executive or administration influence through two Presidential terms. The stockholders should select another board to confer with the Federal board, but to prevent political or syndicate control, the Federal board should have full power to appoint the directors and president of the bank for long terms, or for life, subject to removal for incapacity or malfeasance. No paper representing speculative transactions should be admissible in discount matters. Upon the retirement of the national bank circulation of the present, the central bank should have the exclusive right of note issue.

Mr. Reynolds believes that public participation in the ownership of the bank would popularize it, and make it a People's rather than a Banker's bank. In the more thoughtful expressions upon this subject this idea is uppermost. To establish such a bank, it is recognized, it must be instituted to serve popular necessity and not syndicated wealth. Another belief is that the bank should interfere as little as possible with the privileges of existing banks, and in Mr. Reynolds' suggestion as to its becoming the depository for banks in central reserve cities lies a recommendation helpful to this end. While the loss of public deposits to national banks through their transference to a central bank might occasion some inconvenience, the greater security afforded them, through the existence of a central bank, more than offsets it. The short-time credit mentioned in this plan is undoubtedly the very best security for a note issue. High-grade commercial paper, in the opinion of all enlightened bankers to-day, is the best asset in a bank; for in the ordinary course of business it is promptly paid, and the completion of each transaction retires automatically the bank's currency. Government bonds or real-estate mortgages will not do this. The provision of Mr. Reynolds for the central bank's currency to replace the national bank circulation gradually, and as that declines with the extinction of the public debt, is in accordance with the writer's views on this subject, expressed more than a year ago. It is the one certain way to overcome this difficulty without embarrassing national banks or imperiling their interests. Mr. Reynolds' provision against syndicate control, or political influence, is original and unique. His prohibition against the employment of the bank as an agency to support the Government's credit, through bond-market transactions, goes right to the root of the defective system of to-day, and shows, conclusively and reassuringly, his purpose, at least, to amend that economic error. As to the creation of two boards to administer the bank's affairs, inasmuch as that institution which is least governed is best governed, one board, it seems, surrounded with the safeguards he recommends, should suffice.

Ridgely Plan: Mr. William B. Ridgely, president of the National Bank of Commerce, Kansas City, Missouri, when Controller of the Currency, in his annual report made public on December 16, 1907, strongly recommended the establishment of a central bank. This action on the part of an officer of the Treasury occasioned considerable comment; but with the experiences of the panic of that year fresh in his memory, Mr. Ridgely determined that propriety would be best served by "talking right out in meeting," and that he thereupon did. His courage and his zeal are equally commendable, and if a central bank is to be established, we must regard Mr. Ridgely as one whose efforts contributed largely to that end. In substance, he recommended:

> A central bank under Government control to prevent monopoly by private interests, or political dictation. The control should be divided between directors elected by the shareholders and directors chosen by the Government, two-thirds by the former and one-third by the latter. Its business should be confined to Government transactions, to the receipt of public revenues and the disbursement of Federal payments, to the issuance of credit notes, receipt of reserve deposits from other banks, and to rediscounting paper on approved security for other banks. It should not conduct a general

or commercial business. It should have the right to deal in Government bonds, and, probably, State and municipal bonds, *but not in stocks.* And in foreign exchange transactions it should have authority to accumulate foreign gold credits to enable it to import gold and bullion when needed for its reserves. It should have a main office in Washington and branches in reserve cities, sub-treasury cities, and wherever necessary. Its credit notes should be secured in part by a large gold reserve, the remainder to be covered by Government bonds, or by the notes discounted for other banks. Its stock might be apportioned among the banks, the public and the Government, with a limit to the amount held by any individual; but the better plan would be to have the national banks subscribe for the stock in proportion to their capital. The bank should be conducted for the general welfare, not with a view of making profits; and after paying a small dividend—a moderate surplus being first accumulated—the remainder of its profits should be divided on some equitable basis between the shareholders and the Government. The bank should not alter in any way the present bond-secured circulation; and the Government's directors should have the right to veto transactions deemed inimical to the Government or public interests.

The reader will note Mr. Ridgely's emphasis upon the fact that a central bank is to be conducted for the general welfare and not for profit, and, as well, his provision against monopoly or political interference. He would protect the existing banks also, by confining the central bank to dealings with the Government and with banks only; but his recommendation that the bank be located in Washington is not generally concurred in. New York is favored by some, and Chicago by others—the former because of its importance as the centre of American finance; the latter because of its increasing financial influence, and its proximity to the harvest fields and to that section of the country which is yet in the infancy of its development, the demands from which must be enlarged with the years. (The writer favors Chicago as the logical location of a central bank, and has written editorially in support of the metropolis of the Middle West.) The organization of a central bank upon such a basis of limited profits and widely distributed ownership, would certainly remove the objection that it was a private banking organization engaged in a general banking business, as was said of the former Bank of the United States.

Gage Plan: Mr. Lyman J. Gage, former Secretary of the Treasury, was an early believer in the serviceableness of a central bank, and, almost a decade ago, had outlined a plan for the establishment of such an institution. No holder of the Treasury portfolio was ever more aware of the defects in our currency system, or expressed himself more emphatically, pointedly, and withal felicitously thereon than Mr. Gage. From an address of Mr. A. Barton Hepburn, delivered in March, 1902, the writer abstracts the following outline of Mr. Gage's plan:

"The scheme of Secretary Gage, as elucidated by subsequent utterances, is substantially as follows: He suggested a federated bank, and used the Federal Government in its relations to the State and local governments to illustrate his banking idea. He would take, for instance, the four thousand-odd national banks of the country, with their capital exceeding one billion dollars, and let each bank subscribe to the stock of the central or federated bank in proportion to its capital, say 5 per cent. That would create a central bank with a capital of $50,000,000. Let this bank be controlled by a board of directors elected by the stockholding banks, each $1,000 being entitled to one vote—the central bank to keep accounts and do business with the stockholding banks only; that is, to be a bank of banks. It might perhaps be allowed to loan its funds on demand upon collateral in order to increase its profits when there was no demand for funds on the part of any of its constituent banks; but it should not receive the accounts of corporations or individuals. It should be essentially a bank of banks—a depository of the public moneys of the Government, thus doing away with the sub-treasury system and keeping the funds of the Government in commercial channels, instead of locking the same up as now; this central bank to have supervision over its constituent members or stockholders, with the power to make examinations as now exercised by the office of the Controller of the Currency—to have the right to issue bank-note circulation against its general assets or its credit, and in times of necessity to be allowed to issue, with a capital of $50,000,000, $200,000,000 of circulating notes — the Government not to be represented in the directory or official management of the institution—such a bank to have branches at important points, as, for instance, where the sub-treasuries or mints exist at the present time."

In the provision for the control of the bank the Gage plan differs materially from those more recently proposed. "No Government control!" says Mr. Gage. Also, in the suggestions that it might make individual loans on demand; that it be empowered to examine the affairs of its constituents and have general supervision over them; and that the limit of its emergency currency be placed at $200,000,000, it differs markedly from later recommendations The Government regulation is welcomed by almost every other proponent on this question, while they are silent as to the central bank's right to supervise its constituent banks, and, also, generally as to limiting its circulation. In this latter case, they seem willing to leave the quantity to commercial demand.

Roberts Plan: Mr. George E. Roberts, president of the Commercial National Bank, Chicago, and former Director of the Mint, is, perhaps, the one banker in this country who has been heard most frequently in oral support of a central bank. To the press and public of America his name, in connection with the advocacy of such an institution, is well known; and the following condensation of Mr. Roberts' views on the organization of a central bank, was furnished by him at the special request of the writer. It embodies his latest expression upon this subject:

"In providing the capital for a central banking institution, the main object to be secured is that of so distributing the stock and voting power that all sections of the country will be represented in the control, and receive due consideration at the hands of the management. It seems to me that the best plan would be to place the stock with the national banks on the basis of their capital. This would give us a federated system with the central bank at the head and all the local banks interested in it. On the other hand I see no objection to selling the stock in small lots to private investors under a government guaranty of, say, a four per cent. dividend, provided the voting rights were limited to a few shares. In the former case the board of directors might be elected by territorial districts; in the latter case by the leading clearing houses of the country. No better method of securing a board could be devised than that of having twenty-five of the principal clearing houses each select a member. It would give sufficient distribution of the memberships to afford representation to every part of the country, it would assure bankers of well known character and experience, and the selections would include members of all political parties. Such a board would keep the institution out of politics and beyond the control of any locality or interest. To suppose that twenty-five men thus chosen would conspire to make the institution serve private interests, or could be hoodwinked into doing so, is an assumption too unworthy and unreasonable to be entertained. If that kind of a body of men cannot be relied upon to be faithful to a public trust, representative government must be acknowledged to be a failure.

"In my opinion the Government should be represented in the management by a separate board of five members, of which the Secretary of the Treasury, the Treasurer of the United States and the Controller of the Currency should be three and the other two be men of banking experience named by the President of the United States. This board should have a general supervision over the affairs of the bank similar to that exercised by the Controller over national banking, but no initiative. The principal officers should be elected by the board of directors, subject to approval by the government board. The latter board should choose an auditor for each office of the institution, with whatever help is required to enable him to keep a complete check upon all transactions for its direct information. The profits—above moderate dividends on the shares—should be divided with the Treasury.

"I think the institution should be started with the least possible disturbance of existing banking conditions. It is desirable to avoid a heavy burden of expenses until its earning powers are demonstrated, and a multiplication of offices is not required in order to realize the chief benefits of the system. It is not likely that in actual practice the smaller banks of the country will care to deal with the central bank. The latter will pay no interest on deposits and having no commercial business its relations with the local banks will never be as intimate as those between the latter and their regular reserve city correspondents. The central bank can never know each of the 20,000 banks in the country as well as they are known to the several hundred banks of the reserve cities, or ever do business with them under as liberal rules. The assistance of the central bank would naturally reach the local banks through their reserve city correspondents.

"The system thus organized would have the advantages of the branch bank system while preserving the flexibility and responsiveness of our present system of independent local banks.

"I would not change any of the provisions of the present system as to reserves, except that the national banks of the Central reserve cities might be allowed to keep as much of their reserves as they pleased in the central bank. I would not disturb the present bond-secured circulation.

"In order to provide the central institution with lending power, I would make its notes good for every purpose for which gold certificates are now used, and have its notes put into circulation in exchange and substitution for those certificates. This could be readily accomplished through the relations of the central bank to the other banks of the country. As the central bank acquires possession of the outstanding gold certificates it could present them at the Treasury for redemption, and in this way the hoard of gold now held in the Treasury could be transferred to the vaults of the central bank and the outstanding gold certificates retired and cancelled. When this process was completed the central bank would have over $800,000,000 of gold in its vaults, with an equal amount of notes outstanding, and as the issuance of Treasury certificates would cease, our future additions to our gold stock would naturally go into the vaults of the central bank in exchange for its notes. Here then would be the basis for a great reserve fund of credit. Our central bank would have a greater gold reserve than the Bank of France, and its ability to issue approximately a thousand millions of additional notes, and still have a reserve of 50 per cent., would amply protect this country against stringency and panic."

This plan differs from the others herein included in some particulars. In the first place, his suggestion to permit clearing-houses to elect the directors of the bank is a departure, and one not without merit. His recommendation for general supervision of the bank's affairs and for the appointment of an auditor is constructive; while his substitution of the bank's notes for our present gold certificates embodies a solution that seems not only practicable but eminently persuasive. On the reserve question he is not in accord with other recommendations, but he joins in the common purpose of all to make the central bank a bank for banks only, equally serviceable to all sections of the country, and conducted along lines of least disturbance to existing banking conditions and privileges.

Harris Plan: Another proponent of a plan for a central bank is Mr. Norman W. Harris, president of the banking house of N. W. Harris and Company, New York and Chicago. Two years ago, it may be recalled, Mr. Harris addressed an open letter on this subject to Speaker

Cannon, which attracted much public attention. In substance, he recommends:

A large central bank organized upon such lines as will enure to the advantage of the people as a whole, and aid materially in the general development of the country, rather than in the promotion of the interests of a few large banks or capitalists. Its capital should be an amount between $100,000,000 and $250,000,000, distributed among national and State banks and individuals. The States to receive allotments in proportion to population, and the banks on a certain percentage of their capital and surplus. No individual's holding should exceed $50,000. Profits above 4½ per cent. should be divided with the Government. The directors of the bank should be graded into classes—one class to be nominated by the President and confirmed by the Senate; and their terms of office should run from 5 to 10 years. The capital should consist of specie in part, the remainder being invested in Federal obligations, municipal bonds and first-mortgage railroad bonds—generally known as "savings bank" bonds. Loans upon such municipal and "savings bank" bonds should not exceed 85 per cent. of market value. The bank should also rediscount for State and national banks bills receivable secured by agricultural products, maturing in ninety days, at most, up to 80 per cent. of the market value of the collateral. Banks' borrowings and discounts should be limited to a percentage of their unimpaired capital and surplus, and the bank should act as fiscal agent and depository for the Government and for States and municipalities whose bonds it might be entitled to purchase. Neither deposits should be received from, nor loans made to private persons or corporations, excepting the Federal, State and municipal governments and the banks, aforementioned. The bank's reserve should be, in part, gold, and its currency should be issued against its assets aforementioned, subject to a graded Government tax. Speculative transactions should be avoided, and branches should be established in leading cities. Commercial paper should not be used as a basis for circulation; that should be based on bonds.

This is the only plan offered by bankers on this question wihch refuses to recognize the soundness of commercial paper as security for currency issues. Its capital is larger, too, than in most of the plans herein discussed, and in its capital apportionment and allotment the plan is at variance with the majority of suggestions thereon. It is also the only plan which provides for advances against agricultural products. In other essentials it conforms to the general recommendations.

Frame Plan: Mr. Andrew Jay Frame, president of the Waukesha National Bank, Waukesha, Wisconsin, favors the establishment of a national reserve bank. He is one of the earliest and most persistent workers for currency reform, and has been heard in several cities on that issue. Briefly, he favors:

A national reserve bank with a capital of $100,000,000, contributed by national and State banks on a capitalization basis, and, probably, by individuals, as well; no single holding to exceed $250,000. The Government should be denied stockholding privileges. Twenty-five directors, the Secretary of the Treasury being one, serving four years each—six to retire annually—to elect the president and active officers of the bank. Only a bank director or officer of, at least, 10 years' experience to be eligible to the directorate or for office in the bank. One director to be nominated by the stockholders at each State Bankers' Convention, and a complete list of the nominees to be mailed to all the stockholders thirty days in advance of the annual meeting. The surplus funds of the Treasury, in excess of normal daily requirements, should be deposited in the bank, and one-half of the reserves of banks in central reserve cities. Deposits might be accepted from banks, too; but interest should not be paid on deposits of any sort. Currency should be issued untaxed to the extent of $100,000,000. The capital might be invested in Federal, State or municipal bonds, and "also part of its untaxed currency issues," using "its deposits in generous reserves and the balance loaned on quickly convertible paper." After providing for a surplus of 20 per cent. a dividend of 4 per cent. should be paid, and from the excess the stockholders should receive enough to make their dividend 6 per cent., when the remainder of the profits should be paid to the Government in lieu of taxation. The profits received by the Government to be paid in gold and to be converted into gold certificates for the redemption of United States notes. The Government two per cent. bonds to be limited to an aggregate issue of $600,000,000, the excess outstanding to be purchased by the bank at their market value, using an equal amount of its untaxed currency for the purpose. Government bonds, hereafter, not to be used for circulation purposes. No branch banks to be established by this institution.

The plan resembles the Harris recommendation in some respects, but differs from nearly all other plans in its prohibition against branches, and its neutrality as to the elimination of the subtreasury system. The plan for the nomination of directors is not coherent; for how could the individual stockholders have a voice at State Bankers' Conventions? This feature is cumbersome and introduces an element not connected with the bank at all. Mr. Frame's suggestion as to the retirement of United States notes is certainly novel.

Vreeland Plan: Mr. Edward B. Vreeland, chairman of the Committee on Banking and Currency, House of Representatives, and member of the National Monetary Commission, believes a central bank would round out and complete our present banking system. He in no sense expresses the opinion of the National Monetary Commission, but, in view of his connection with that body and of his position in Congress, his outline possesses interest. Briefly, it is:

A distinctively American institution with a capital of $100,000,000 in gold, owned by State and national banks, up to 5 per cent. of their capital and surplus. The business of this bank should be confined to dealings with banks and with the Government, and to foreign exchange transactions. Dividends should be limited to 4 or 5½ per cent.; all earnings in excess to be divided with the Government. By some gradual process it should assume sole note-issuing functions, having redeemed the greenbacks and treasury notes. The bank should be managed by directors elected by the stockholders, with Treasury officials members *ex officio*. As to whether its president, or governor, should be appointed by the Government for a term of years, or elected by the directors, the plan is undecided; and, likewise, as to the restraining influence of the Government. The bank should be an element of strength to the existing banks, not a rival or competitor.

Hansbrough Bill: During the winter of 1907-8 several bills for currency reform were presented to Congress, following the panic. Among these were two for a central bank: one, in the Senate, by Senator H. C. Hansbrough, of North

Dakota; the other, in the House of Representatives, by Representative Charles V. Fornes, of New York. The Hansbrough bill provided for the creation of:

A central bank, chartered for fifty years, with capital equal to 10 per cent. of aggregate capital of national banks, and to be taken by those banks pro rata: shares to be non-negotiable except in case of liquidation of a bank, when they should be purchased by the United States at par and used for new banks; shares to be counted as part of lawful money reserves of banks; and one-half of reserves of banks permitted to be held in other banks to be held in the central bank. The country to be divided into sixteen districts; head office at Chicago, with such branches as the Treasury may approve. Direction to be in a "council" of 21 members, of whom four, the chief Treasury officers *ex officio*, the others from the several districts, elected by shareholders for six-year terms; the council to choose a governor and deputies. Notes to the amount of $300,000,000 to be issuable on bills receivable and bonds owned by the bank; and in emergency further issues without limit, to the amount of gold deposited in the Treasury, subject to a one-eighth per cent. annual tax. Loans to be made to any one, upon bonds to 40 per cent. of their market value, and upon warehoused grain and cotton to 60 per cent. of their market value; to rediscount for any bank upon satisfactory security (not real estate, mortgages or bank shares); no loans, however, to have more than 120 days to run. The bank to hold a 40 per cent. lawful money reserve against deposits, to deal in bonds, exchange and specie; to pay dividends out of profits to 4 per cent., then place 2 per cent. in surplus; any further divisible profits to be shared equally with the Government; and to be subject to Government inspection.

Fornes Bill:

Provided for a Government central bank with a fifty-year charter and a capital of $100,000,000. The Government was to take three-fifths and national banks the remainder on a capital and surplus basis. The bank was to be located in New York and to operate nine branches. Directors were to be twenty-five in number, elected by shareholders, and were to hold office for six years. Secretary of Treasury, Controller of the Currency and Treasurer of the United States were to be members *ex officio*. An executive committee, including the federal officers, of seven was to be appointed. The bank was to issue $100,000,000 in notes redeemable through capital and loan them to commercial banks, subject to ⅛ per cent. tax and 4 per cent. interest for a term not to exceed one year upon security acceptable to New York and Massachusetts savings banks. Further issues up to $400,000,000 could be issued if authorized by a four-fifths vote of the directors, upon the same basis, but never in excess of 50 per cent. of the capital of the borrowing bank, subject to the tax aforementioned, and interest rising from 6 per cent. The bank might rediscount paper, properly secured, and running not more than 90 days for banks and pay dividends of 4 per cent. Excess profits to go to the Government.

Inasmuch as the Hansbrough and Fornes bills failed of passage in Congress, the writer deems it unnecessary to discuss them. They have been included merely for the reader's benefit, to furnish an opportunity for a comparison of the trend of Congressional opinion with the expressed thought of prominent bankers on the central bank question.

Wright Plan: Perhaps the most unique plan of all known plans for a central bank is that submitted by Mr. Charles A. Wright, president of the Superior National Bank of Hancock, Michigan. While all other proposals look to an enabling act of Congress as a *sine qua non*. Mr. Wright points out that his plan can be accepted by the banks of the country under existing laws without additional legislation. His suggestion is:

> To establish a central bank for all the banks of the country, by having these institutions contribute one per cent. of their banking power (capital, surplus, undivided profits, and deposits) toward its capital; and two per cent. of their deposits as reserve in the central bank. So fortified, the bank would have resources of $400,000,000 upward. The stock could be held in trust by the officers or directors for the banks contributing until legislation enabled them to own it directly. A bank organized thus voluntarily by the banks themselves, would assure them mutual advantage and protection, and minimize the dangers of present isolation. Through the employment of its great resources it could relieve distress in any section; could rediscount for its member banks, or make advances to them on good security; and it could be made a great clearing-house to maintain the parity of domestic exchange by facilitating the exchange of bank collections. When given authority to issue notes, it should issue credit currency to the amount of its capital ($100,000,000 at the least), and, in addition, act as the fiscal agent and depository of the Government. It should be located in New York — the heart of American finance — and should not open branches; nor should it be subject to Governmental control, in order to avoid political entanglements. Its directors should be experienced financiers chosen by the banks, and it should act as the Government's redemption agent.

This is an independent and original recommendation, and by no means lacks endorsement among bankers. Mr. Wright has corresponded with every bank—State and National—in the system, expounding his particular theory. Almost four hundred banks assured him of their willingness to join in promoting a voluntary central agency, and two hundred declared their willingness to do so, after Congressional authority had been obtained. It will be noted that his views as to rediscount, note issues, Government fiscal agency, and competition with other banks are "orthodox"; but that he differs from other proponents on the questions of Government control, branches, and management.

Treat Plan: Mr. Charles H. Treat, Treasurer of the United States, favors the incorporation of a National Clearing House Bank, upon the following basis:

> The bank should be a bank for banks only, with a capital of not less than $200,000,000, and not more than $500,000,000. National and State banks and private bankers might subscribe therefor, but not the public. The main purpose of the bank should be rediscounting for other banks. Not more than 20 per cent. of any single bank's capital should be invested in the national clearing house bank's stock. Its directors should represent the groups of banks in different sections, and should meet twice a year. From them a resident council, to direct the affairs of the bank, should be chosen. The Government should have no participation, except that of general supervision; but the Secretary of the Treasury, United States Treasurer, Controller of the Currency, and other Treasury officials should act in an advisory capacity. The bank should be a Government depository, and act as reserve agent for national banks in the three central reserve cities and for all member banks. It could deal in foreign exchange. Its advances on discounts should not exceed 85 per cent. of the face value of the security at a rate not exceeding 4 per cent.; and it should issue, in times of emergency, national bank currency issued to it by the Secretary

of the Treasury upon approved commercial notes and securities — indorsed by the discounting bank, and guaranteed by the national clearing house bank, to an amount not exceeding 75 per cent. face value, at a rate of not more than 3 per cent. per annum with a limit of credit of six months—to an extent not exceeding 60 per cent. of its paid-up capital. It should not establish branches.

This plan is coherent but limited. It recognizes the validity of commercial paper as a basis for currency issues, but strangely continues the present circulation unchanged; for it only provides for the national clearing house bank's issuance of notes in cases of extremity. It defers to the best thought on this question, that the existing order be not changed radically, and consequently disavows branches and dealings with individuals. The rediscounting feature is given pre-eminence wisely, and provision is made for earning a fair dividend on its stock by keeping on deposit 15 per cent. of the face amount of each of its discounts. It would doubtless afford unusual opportunities for investment by foreign or domestic bankers in this country's commercial paper, and in times of idle capital in Europe might be utilized largely.

Warburg Plan: Mr. Paul M. Warburg, of the banking firm of Kuhn, Loeb and Company, New York, believing that the country eventually must develop some kind of a central banking system, to furnish an elastic currency based on modern commercial bills payable in gold, recommends the establishment of a "central issue department" with authority to emit additional notes against certificates of guaranty and against certain foreign bills of exchange. Briefly, his plan reads:

There shall be established in the city of Washington a central bank of issue with a capital of $100,000,000, with succession for a period of 50 years, unless sooner dissolved. Stock therein to be subscribed and paid for and thereafter owned for a period of 10 years by the Government. The bank to be governed by a general council of 41, of whom 12 to be elected by the stockholders, 3 by the Senate, and 3 by the House of Representatives. The Secretary of the Treasury, the Treasurer of the United States, the Controller of the Currency, and the chairman of each of 20 National Bank District Associations (to be created) to be members *ex officio* of the council. The members of the council to serve for one year, and to elect a Governor to have general charge of the bank. The active officers and employes of the bank to be prohibited from participating in syndicates, underwritings, stock investments in any bank or trust company, under penalty of fine and imprisonment. General council to appoint executive committee, consisting of Federal officers named and eight of the council, to perform delegated duties. The bank to issue demand notes secured by gold bullion, gold coin, legal tender notes of the United States, or by certificates of guaranty of the Bank District Associations, or foreign bills to be provided for in the institution of the bank. The bank to hold at all times gold or legal tender notes in an amount not less than one-third of the aggregate of its outstanding notes, the latter to be guaranteed by the Government. The bank to have power to deal in gold and silver bullion; to contract for loans of gold at home and abroad, and to maintain banking accounts abroad for such purposes, or for foreign exchange transactions; to make deposits of cash in banks in the United States, when secured by the guaranty certificates aforementioned, and to make loans on such certificates. Loans or deposits not to exceed 90 days in either case, at rates fixed from time to time, by the general council. To deal in, to purchase and to sell, short and long bills payable in England, France or Germany, not exceeding 90 days, and signed by 3 responsible persons, one a bank or banker in good standing. To receive Government deposits without security, and to act as its agent when called upon. Similarly, to receive deposits from member-banks of the District Associations, to be counted by the depositors as part of their lawful money reserve. Not to deal in real estate or securities, except Government issues, or in contingencies covered by Section 5137 of the Revised Statutes of the United States relating to national banks. Notes to be received in payment of all obligations at par, except for interest on the public debt and for redemption of the national currency. Twenty per cent. of the net profits to be placed to reserve until that amounts to 20 per cent. of the capital. Dividends up to 4 per cent. out of the balance to be paid in the discretion of the directors. If a surplus remain, one-fourth to go to stockholders and three-fourths to the Government. The headquarters of the Bank District Associations aforementioned to be designated by the Controller of the Currency upon the passage of a law establishing a bank as within outlined. Such associations to be open to both State and national banks, and to be governed by a board of managers of 8 members in each district, who shall elect a ninth member as chairman, who thereupon shall become a Deputy Controller of the Currency. Bank supervision of each district to be entrusted to this board, and guaranty certificates for use as collateral for deposits or loans from the central bank to be issued by it to the banks, upon the deposit of adequate security. The banks to pay to the District Associations a certain amount which shall constitute a Guaranty Fund against loss. Banks on joining a District Association to pay the sum of $1,000 and annual contributions agreed upon, and Sub-District Associations to be formed when desirable by a majority vote of the banks in any District Association. The Controller of the Currency to meet the Deputy Controllers every six months to hear reports on the districts, and to preside at such meetings.

Mr. Warburg would have the Government retain its stock after the ten-year period unless Congress by special act permitted it to sell the same. His division of profits is suggested to meet the criticism that a group of capitalists might buy control of the bank for their own purposes, if Congress deemed it advisable to sell the stock. The restrictions placed upon the bank's transactions would render it impossible for that institution to engage in questionable lines, and the limitation of the income from the stock would offer no inducement to buy the bank's stock for speculative purposes, but rather would lead to its purchase as a Government investment. Political domination and speculative control are alike eliminated under this plan, says Mr. Warburg; but it must be admitted that there is a wealth of detail to be perfected, a multiplicity of offices to be filled, and a considerable amount of organization to be completed before the plan could ever become operative. Even then, it introduces a "guaranty certificate" that is rather empirical and has no precedent in central banking systems.

Morawetz Plan: Mr. Victor Morawetz, of New York, author of *The Banking and Currency Problem in the United States*, opposes the central bank as an undesirable reform instrument for our currency system, but believes that a central agency having power to control the volume of uncovered bank-note currency in the United States, would serve that purpose. This he suggests might be created as follows:

The national banks to be authorized by Congress to form an association for the sole purpose of issuing notes upon their joint credit. It should have no capital and receive no deposits. It should, in effect, be a large clearing-house association, and become operative when banks having a fixed aggregate capital of $250,000,000 joined. It should have a managing board consisting of from 15 to 21 experienced bankers or business men familiar with general conditions and with financial operations, to control its affairs. The Controller of the Currency should be a member *ex officio*. The board should hold office for three years, classified so that one-third would be elected annually. Its action affecting the volume of outstanding notes, or the percentage of the redemption fund for payment of the notes should become effective only when approved by the Secretary of the Treasury. Each bank should have one vote for each $25,000 of its capital stock for each manager to be elected and should have power to cumulate its votes. The bank's principal office should be in Washington, with branches for issue and redemption purposes in each city in which there is a sub-treasury, and within two years from the date of the association's establishment, branches should be opened in every city of the United States with a population of 100,000 persons. Meetings should be held monthly in Washington, where an executive committee of 3 should reside permanently and meet daily. Each bank in the association to be permitted to take out and issue notes up to an amount, which, including its present bond-secured notes, would not exceed its capital stock. And the managing board, with the approval of the Secretary of the Treasury should have power to increase, ratably as to all banks, the authorized amount of their note issues, and to reduce such increase, likewise. Only banks with paid-up and unimpaired capital to take out notes, all such notes to be prepared under the Controller's direction, and the association to be subject to his supervision in all its actions. As a redemption fund for the payment of its notes each bank should keep on deposit with the association a sum of lawful money equal to 20 per cent. of notes taken out, or such greater per cent. thereof as from time to time may be prescribed; the redemption fund so created to be administered by the managers under the Controller of the Currency. This fund to be kept up by the banks upon call, in case of deficiency. The security for these notes would be: (*a*) a redemption fund consisting of gold or other lawful money amounting to a substantial percentage of the notes; (*b*) the individual obligation of each bank to redeem its notes and keep up its redemption fund; (*c*) a safety fund to be created by a tax to be paid by each bank on the amount of notes outstanding in excess of the lawful money in its note-redemption fund; (*d*) a deposit of United States bonds by banks desiring to deposit bonds as security for such excess; (*e*) the ultimate ratable liability of all the issuing banks. To retire the present bond-secured currency, no future bond issues of the Government should be received as security for bond-secured notes; no bank, in the proposed association, should be permitted to issue bond-secured notes to an amount exceeding 50 per cent. of its capital stock; and if, at the time of becoming a member, any bank should have outstanding bond-secured notes to more than 50 per cent. of its capital, it should not be permitted to issue notes until the redemption of some of its outstanding circulation reduced its volume below 50 per cent. of the capital stock.

No plan which the writer has examined bears any analogy to that of Mr. Morawetz, and, similarly, no plan promises to provide currency, abundant and elastic for sudden demands, issued by a central authority, so singularly free from the criticism of "centralization," or its related contention, that political or money power would eventually control the institution. Without capital or profits there is no room for either charge. The plan is eminently scientific in its provision for regulating the amount of outstanding currency by means of the redemption fund which the banks would have to maintain on deposit with the association for the payment of their notes. That would always be kept sufficiently high to furnish a basis for the issuance of notes to meet unexpected demands. The method suggested for the retirement of the bond-secured currency is attractive in that, while it would prevent an increase in the volume of national-bank circulation, it would enable the banks to use their bonds as collateral for the uncovered part of their notes received from the association, and to avoid payment of the tax aforementioned. Of all clearing-house plans it is the most coherent.

CENTRAL BANK CONTROVERSY.

I. THE AFFIRMATIVE.

The proponents and opponents of an American central bank are alike energetic and fertile in advancing arguments in support of their respective opinions on that question. The summary herewith probably embodies the gist of the claims made in support of the establishment of such an institution in this country:

It is the historical solution, evolved in every civilized country except our own.

It would supply the country with an elastic currency responsive to the varying needs of business.

It would give confidence to depositors—the essential most conducive to sound and prosperous banking.

It would supply a responsible head to our present banking system, which is essential for the large number of small banks therein.

It would tend to steady the rate of interest at all seasons, preventing those violent fluctuations which have been so embarrassing to business and finance.

It would give relief in periods of industrial and financial stress because its large resources would enable it to meet extraordinary and sudden demands for capital and currency.

It would remedy existing defects through its tendency to furnish an elastic currency responsive to the country's needs, which should avert panics and periods of currency stringency.

It would assist in moving the crops without disturbing the business world or the money market; and by controlling the interest rate it could check inordinate speculation.

It would be a reserve fund of credit. Through a central reserve which could be brought to bear at the danger point, the central bank would give relief by substituting an unquestioned credit for a local credit, which for the time was doubted.

It would eliminate the Sub-Treasury system and would prevent inflation and contraction liable to follow Federal disbursements and collections, for it would always keep the nation's money at the disposal of trade and commerce.

It would protect the country's gold stock, which is now at the mercy of foreign markets, through its intimate relations with the money market; and could prevent a prolonged drain on its gold reserve which the Treasury is unable to do.

It would unite the banking institutions of the country under one responsible agency conducted solely in their interests. Thus established it would eliminate the weakness resulting from the present isolation, and convert our banking system into a co-ordinated whole.

It would be enabled to issue properly protected credit notes and through its rediscounting privileges, could extend assistance in any direction, and in any amount, to banks upon pledge of their receivables. A currency so secured would constitute a perfect currency.

It would be a practical illustration of our motto, *E Pluribus Unum:* one great institution, owned and directed by several thousand lesser ones, always ready to man the breach and, by virtue of its leadership and resources, to repulse a threatened assault upon their credit.

It would be a safeguard against panic and a positive cure for distrust and uncertainty, owing to the strength of its reserves and the public confidence in its management and ability to cope with any situation, however complicated or dangerous.

It would receive and disburse moneys of the Government, and would act as its fiscal agent in redeeming paper money. It would prevent the hoarding of public money in the Treasury by acting as its custodian, and it would terminate the periodic appeals of the money market to the Treasury for relief.

It would recognize the excellence of short-time commercial paper as collateral for note issues, and would lead, in time, to the elimination of our inflexible, bond-secured circulation. Therein is the only step toward true currency reform; and whether we take it now or a hundred years from now, we must take it eventually.

It would probably lessen the profits of banks holding large reserve deposits, but in the security and stability of business of all kinds, resulting from the operations of a central bank, and in the greater reliability and mobility of reserves administered by it, the banks would have a protection that would be more than a set-off to any diminution in profits.

It would not only regulate the interest rate for loans, but it would tend to estimate the *real* worth of money, and would raise or lower its interest on deposits accordingly. Under the present system payments of interest on deposits never vary, no matter what the worth of money may be. This should be adjusted and a central bank would be helpful to such an end.

It would be in accord with the best economic thought and practice of other countries. Actual experience has shown that a central bank is the only system which can meet the varying wants of commerce and provide for those sudden exigencies which will arise from time to time, and which place an unnatural and abnormal strain on the finances of a country.

It would permit a reduction in the heavy reserves now maintained, releasing *pro tanto* uninvested capital and placing it at the disposal of commercial or industrial demand. By concentrating the banking reserves of the nation it would assure a more economical administration of them, and utilize them more efficiently for business purposes.

It would make for greater safety and scrutiny to have the note-issuing function centralized—eventually—in one great bank, immediately under the eye of the Government and the whole financial world, than if scattered among a multitude of small banks with no adequate redemption system possible. The expansion of credit and the issuance of currency can best be done by a central responsible power.

It could always maintain its lending power by adjusting its interest rates to existing conditions—when borrowing seemed to be too brisk, by raising the rate to check undue expansion. Moreover, not being a bank of deposit, its treatment of its customers would be uniform; for it would not be obligated to them as is often the case with banks under the present banking system.

It would be prepared to do regularly, but in such a manner as would not interfere with domestic exchange, what the clearing-houses do in time of emergency: to issue credit currency. Credit notes of the central bank, however, while not superior to the certificates of the clearing-houses in regard to security, would be readily negotiable and certain of retirement automatically when not longer needed.

Demonstrated in other countries to be the one safe and scientific method to provide an elastic currency in response to commercial necessity, to regulate interest rates, and to protect the gold stock, a central bank in this country is not only imperative, but indispensably necessary to develop its resources, market its products, dispose of its commodities and manufactures, increase its foreign trade, protect its gold reserves, regulate its foreign and domestic exchange, and make it what its wealth and possibilities portend—the banking power of the world.

It would bear a relation to the other banks similar to that of the Federal Government to the States. Its sphere and that of the several banks would be distinct, but the central bank would be the controlling influence, the responsible leader in times of emergency. Organized to safeguard them, it would then afford them sanctuary and satisfy their wants for currency. This function of authority and leadership would convey to the minds of the people a sense of ease and security hitherto wanting in periods of stress, and would make the central bank a bulwark of public confidence.

It would prevent much of the country's currency from flowing into Wall Street, as at present. Wall Street does not require a central bank: it obtains all the money necessary without one. But the people want a central bank to divert some of the money drawn to that speculative centre by means of "interest payments on daily balances." Investment, through a central bank, in commercial paper would lessen the volume of money used for speculation and, perhaps, lead to reform therein; while the bank would afford unusual opportunities for investment in the commercial paper of this country to both domestic and foreign bankers.

It would be a substantial protection to the country against foreign influences. Foreign upheavals at present invariably lead to sales of foreign holdings of American securities on the New York stock market and result in gold exportations. Frequently, this leads to a reduction of loans in an amount, approximately, four times the total of the gold exported. Our credit fabric is accordingly deranged and business accommodations are restricted. With a central bank in command of the field, owing to its enormous reserve power, the volume of money in use would be sufficient to meet all demands, without any impairment of credit or embarrassment to business.

Organized as a bank for banks only and prohibited from dealing with the public it could not become a competitor of existing banks. The argument that it would affect the latter as did the second Bank of the United States obviously arises from a misconception. That institution was an overshadowing competitor of the State banks, and with its larger resources and special privileges from the Government was bound to incur their hostility and resentment. It was privately owned and was conducted for profit primarily, whereas the prevailing thought on a central bank for this country to-day recommends the ownership of its stock by the banks themselves, or by the banks and the Government jointly. Moreover, it is not intended to be operated for profit, but as an effective agency to promote the general welfare of the banks and of the country. Such an institution could be no more antagonistic to our existing banks than is the Federal Government to the governments of the several States.

Finally, taking everything into consideration, it is found that a central bank answers the demands of our country more completely than any other plan proposed. It is comprehensive and final, while other plans are incomplete and temporary. It is in harmony with the development of the times toward higher organization, and it has the advantage of being a working success elsewhere.

II. NEGATIVE.

The opponents of a central bank present their arguments more in the nature of a plea by way of confession and avoidance than by a direct traverse. The merits of a central bank are not denied but its feasability for this country is openly questioned. The most familiar arguments on the negative side of the issue are:

It would give the East control of our banking and financial institutions.

Popular prejudice forbids any attempt to establish such an institution.

Its paternalistic tendencies would be opposed to the spirit of established custom and habit.

It could not be divorced from speculation and, in time, would be dominated by Wall Street.

It would be such a "big thing" the malefactors of great wealth could hide behind it.

It is a Cannon-Aldrich measure and as such is open to attack, viewing past history.

The experience of the second Bank of the United States forbids the institution of a third.

Its political entanglements—which it could not avoid—might threaten the nation's solvency.

It is wiser to perfect the present system than to replace it with something entirely new.

A central bank would tend too much to centralization and would be repugnant to our republican institutions.

From a traditional point of view it would be politically impossible and, in general, altogether undesirable.

It would tend to become a monopoly and then we should have a "financial" trust. We have enough of the industrial variety, at present.

It would become a political prize, and in the end would destroy both itself and the party which created it.

It would tend to depreciate the value (price) of United States bonds, and thereby would affect the credit of our Government.

It could not serve local wants as does the country bank, for it would not have the information, knowledge or interest of the latter.

It would be a physical impossibility for a central bank to serve a country so large as, or interests so varied as those in, the United States. How, then, could it serve *all* the people?

In time it would be controlled by a few for their own ends, which would be improper ends, and the "interests" not the people would then be served.

It would always be opposed by the political opponent of the party which might charter it, and would never secure a renewal of its charter from the first-mentioned party.

It would revolutionize our banking system and compete with existing banks, depriving them of the business they had built up and depreciating their investment value.

Our independent banking system can be fashioned or amended to give us an elastic currency system in harmony with existing institutions and customs.

It would withdraw funds from banks in newly-settled localities where they were required, and thus would arrest industry and prohibit development.

Opposition to a central bank because of the earlier failures of that institution is not prejudice but judgment based on experience; and the wise invariably profit by experience.

It would reduce the profits of banks holding large reserve deposits by the withdrawal of the latter, and would lessen their power to accommodate their customers.

In injuring the country banks [which is freely claimed] it would destroy banking initiative and individuality, check local enterprise, and arrest the strongest forces in the upbuilding of the nation.

A central bank would be so dependent upon the Government it would in time become its servant. Independence of the banking power is essential, and can be preserved only by the present system of free banks.

The resentment of borrowers of good standing and intent at supervision and inquiry by men a thousand miles distant, who were unacquainted with local conditions, helped to wreck the second Bank of the United States. A central bank would rekindle the same feeling.

A central bank is possible in Europe because governmental changes under a monarchy are few and only occasional. In this country they are possible every four years, and this could not assure the bank the character of permanence known in Europe.

It should be opposed until a comprehensive, clean-cut embodiment of its vital features can be passed upon by the trained minds of the country. So far its presentation has dealt only in generalities that smacked strongly of a particular end for special interests.

It would be a source of temptation to other banks to take chances in allowing their reserves to fall below the legal requirements, because of the supposed bulwark the central bank would prove in time of distress, and that would lead to trouble.

In case of a great war the Government would be less likely to cause the suspension of specie and the unlimited issue of fiat money, under a general law authorizing note issues by a multitude of banks, than if this were the sole privilege of a central bank.

It would become the master, not the servant of business, and with its great resources could dominate the various markets, becoming the greatest speculative machine ever conceived. Prices of stocks and commodities could be controlled by those dominating the bank, until it would become a menace to the people, the money market and the business and financial worlds.

In regard to the inelasticity of our currency that matter is greatly exaggerated. Banks care for their regular customers and always assist in moving the crops. The money above what is required for these wants they lend to the stock brokers on call at the highest rate attainable. It is from the latter the demand for a central bank comes, based on an unstable premise—the inelasticity of our currency.

If the Government did not attempt to suspend specie payments, under such circumstances, it would endeavor to absorb all the loanable funds in a central bank to the country's detriment.

Several thousand banks would show more independence than one central bank because they would protect their resources for their customers. A central bank would be at the mercy of the Government.

Free competition among independent banks is the greatest guarantee against abuse. A monopolistic central bank would cover a multitude of sins. Pitt, in England, and Napoleon, in France, used the gold reserve for the redemption of bank notes in the Bank of England and Bank of France, respectively, for war purposes; and in France the transaction was "covered up" as a "commercial discount."

It might become a great financial headquarters directed by the corporate and organized wealth of the country, and be used as an instrument to accumulate still greater fortunes. A circulation adapted to speculation and stock-market manipulations would not be the money the people would want, but it likely would be the sort of currency a great central bank, manned by high financiers, would supply.

Its proposed branches would be especially obnoxious to existing interior banks, and would injure them seriously. These banks have grown up with their communities and have developed them. To establish in different sections branches of a central bank with large resources, would be an invasion of the vested rights of existing banks which, because of limited resources, could not hope to compete with them.

The difficulty of procuring competent and disinterested men to manage the bank would be practically insurmountable. Hence, the bank could become the pawn of men of great political influence or of men of great wealth, and could be used to advance their schemes to the detriment of the people. Its enormous resources, under these circumstances, could be used to corrupt the electorate, the bench, the legislature and the executive.

It would wield for a time the effective powers of our several thousand independent banks, and during that period would be practically irresistible. But the very continuance of that power, by weakening or destroying the value of the units, would bring down the totality of strength even to the point of extinction. Procuring efficiency not through evolution and development but through unequal centralization has been proven by all known experience to be fallacious.

Our whole Government is in its essence a protest against centralization. Therefore, no theoretical plans could protect any quasi-political institution of real financial power from legislative or demagogic attack. Consequently, a central bank having on deposit a large proportion of the banking reserves of the country might involve, through the possibility of the attack aforementioned, the entire banking strength of the country; for an assault on the credit of the central bank would be a menace to the banks depositing with it.

Granting that a competent, honest, efficient board of managers could be found for the bank at the outset, there would be danger in concentrating the power proposed to be given in any body of men; for there can be no assurance that the same class of directors will always be discoverable. And if the rights of the public should be abused by the directors through their impropriety or unlawful behavior, it must be remembered, the power so abused goes with the office and not with the individual, and would still remain to be violated or abused again. Since such power once conferred is rarely recovered to the people, is it not better to "let well enough alone" and try another attempt to mend the existing system?

Even though the control of the bank remained in the hands of the wisest, the most honorable, and the most disinterested men, it would not be possible to satisfy the people throughout the country that the vast resources and power of the bank were used for the best interests of all the people and without partiality or favor to any section, class or set. Sectional dissensions would arise quickly. The South would demand loans to help the planters accumulate and carry their crops of cotton and tobacco in order to force higher prices. The West would want assistance to raise the price of corn and wheat. The large money centers would want the bank to help bankers and brokers in their speculative undertakings. In case of a stringency, followed by a general outcry for help, if the central bank failed to give entire satisfaction, selfishness or collusion with Wall Street would be immediately charged against it.

TWO CURRENCY POLLS AMONG BANKERS.

In December, 1907, the writer personally conducted a currency poll of the presidents and cashiers of leading banks throughout the country, for his paper, *The Wall Street Summary*. New York City was not included in the canvass. A ballot was prepared containing an outline of the best known and most widely advocated currency reform recommendations at that date. These were the plans of the American Bankers' Association, New York Chamber of Commerce (Central Bank and Asset Currency suggestions), former Secretary of the Treasury Leslie M. Shaw, United States Treasurer Charles H. Treat, and Representative Charles N. Fowler, then chairman of the Committee on Banking and Currency, House of Representatives. Epitomized, these plans on the ballot read:

The American Bankers' Plan: Providing for an "emergency" credit currency by permitting any national bank, actually engaged for one year, and with a surplus of 20% of its capital, to issue additional notes without security equal to 40% of its bond-secured circulation, subject to a tax of 2½% per annum on the average amount outstanding; and a further amount, equal to 12½% of its capital, subject to a tax of 5%, etc.

The Central Bank of Issue Plan: Recommended by the New York Chamber of Commerce, providing for the organization of a central bank of issue, with a capital of not less than $50,000,000, to carry a large reserve of gold, and act as custodian of the Government's metallic reserves, as its agent in redeeming all kinds of money, as its receiving and distributing agent, doing at its branches the work now done at the Sub-Treasuries, and to deal exclusively with banks. The plan provides for stock ownership of this bank in part by other banks and in part by the Government, but vests its management exclusively in the Government.

The New York Chamber of Commerce Asset Currency Plan: Providing for the issuance of additional notes equal to 35% of its capital by any national bank, whose bond-secured circulation equals 50% of its capital stock, subject to a graduated tax of from 2% to 6%, according to the amount of additional notes taken out.

The "Treat" Plan: Providing for a bond-secured emergency note system, in contradistinction to a credit currency system. Under this plan national banks would be empowered to issue 50% of their circulating notes on security other than Government bonds, and the same would be retired in four, six and eight months from September 1, of each year. (This is an adaptation of Secretary Chase's idea embodied in the following report to Congress: "Such currency could be issued as a loan to bankers, on deposit of coin, a pledge of securities, or in some other way.")

The "Fowler" Plan: Providing for a credit currency system through permitting national banks to convert bank-book credits, or deposits subject to check, into bank-note credits, or credit currency.

The "Shaw" Plan: Providing for "emergency" circulation by national banks up to 50% of their capital without a deposit to secure its redemption, but subject to a tax of 5%.

In the plans so outlined the voters had variety in plenty. The American Bankers', Fowler, and Chamber of Commerce recommendations sought to preserve our present bond-secured bank notes and to extend circulation through the medium of bank credit currency, in order to provide the needed elasticity. Collateral security was not required for note issues thereunder, but taxation was relied on to force their retirement when not longer needed; and in case of the failure of a bank, provision was made for the redemption of its notes by the United States Treasury, which, in turn, would recoup itself from the redemption fund created by the tax imposed on such circulation, and, also, from the assets of the failed bank. The Shaw proposal favored the issuance of unsecured emergency circulation heavily taxed; and the Treat plan (an adaptation of an idea of former Secretary of the Treasury Chase) opposed credit or emergency currency and recommended a bond-secured emergency note system. This plan was ultra-conservative. Diametrically opposite to all was the Central Bank idea. That proposed the establishment of a central institution, with a capital of $50,000,000, owned in part by the banks of the country and by the Government. By its issuance of properly protected bank-credit notes, elasticity would be assured, and through its rediscounting facilities the interest rates would remain reasonably level.

The results of the poll were most surprising and unexpected. Replies were received from more than 400 voters in thirty-three States. The Central Bank of Issue plan led the poll, receiving

33 per cent. of all the votes cast, and the plan of the American Bankers' Association was second, having been favored by 29 per cent. of those balloting. The Shaw, Treat, Chamber of Commerce, and Fowler plans followed in the order named; but, combined, their votes did not equal the total for either of the dominant recommendations. It is worthy of mention that fourteen voters rejected all plans and sixteen submitted original solutions for currency reformation.

The voters were representative men, and the vote as a whole may be assumed to be a fair reflex of banking opinion on currency reform. It was, unquestionably, the only vote ever taken on all the current plans outlined, and probably the heaviest ever recorded in favor of a currency measure, outside of Congress. It has been asseverated, by some who participated in the Atlantic City convention of the American Bankers' Association, that the resolutions on currency reform were put to a vote when there were not more than 100 delegates present and voting. The *Summary's* poll quadrupled that result; and, it can be claimed, moreover, that never in a convention was the same opportunity for deliberation and individual expression of opinion given a banker as in the privacy of his office, when considering the newspaper ballot, aforesaid. From the results of this poll two facts were clearly established: Sentiment in favor of a central bank was increasing marvelously; and banking opinion on the currency question was distressingly divergent. The fact that fourteen bankers should reject all six plans, and that sixteen others should submit new plans, shows the confusion and uncertainty, not to say empiricism, prevalent in the ranks of our bankers.*

Daily, for a week, or more, the *Summary* published the results of the canvass, giving the names of the voters, with their addresses and the names of the institutions with which they were connected. In turn, these were flashed by the wires of our press associations to the remotest sections of the United States, and were cabled even to England, where some very flattering editorial comments soon appeared in the London press, congratulating the bankers on their enlightenment and the *Summary* on its enterprise. The first concrete expression of banking opinion in this country ever published, it made bankers think on this question as they had never thought heretofore; and for more than a year and a half after the date of the poll, letters reached the writer from bankers in remote localities in refer-

* See article, "Currency Reform: A Central Bank," by writer, in the **American Review of Reviews** for January, 1908.

ence to the central bank issue, which, in all probability, would never have been written but for the poll in question.

Geographically considered, an analysis of the vote is interesting. The Central Bank plan drew support in twenty-five States: Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Missouri, New York, New Hampshire, Pennsylvania, Virginia, Washington, and Wisconsin. The American Bankers' plan, which was ignored in Delaware, Florida, New Hampshire and Wisconsin of the enumeration aforementioned, but gaining, as an offset, recognition in Maine, Vermont, Tennessee, Texas, and Wyoming, was supported in twenty-six States. The West, Middle West and South gave the Central Bank plan substantial support, notably California, Colorado, Illinois, Indiana, Iowa Louisiana, Virginia, Washington and Wisconsin. These nine States gave it more votes than all other States voting for it combined. Illinois was its stronghold, and next, in order, Louisiana, California, Indiana, Colorado, Connecticut, Massachusetts, Iowa, and Wisconsin. The American Bankers' plan was favored strongly in Indiana, Georgia, Massachusetts and Tennessee, receiving five-twelfths of its vote in these States, and making up the remainder in twenty-two others. Idaho, Kansas, Mississippi, New York, and Pennsylvania could not express a preference for either of these plans, each State casting the same number of votes for one plan as for the other.

Mr. Charles A. Wright, president of the Superior National Bank of Hancock, Michigan, attended the annual convention of the American Bankers' Association in 1904 in New York City. Thereat he became impressed with "the lack of effective association" among the banks of the country, and shortly after the close of that meeting contributed to a financial periodical an article advocating the establishment of an American central bank, to be owned and managed by the banks of the United States, and to be located in the City of New York. This was very well received by the nation's bankers, and he determined to sound them further on the question of their readiness to co-operate in organizing such an institution. On May 15, 1906, he mailed to 17,000 banks a circular letter, suggesting a basis for co-operation on the part of the banks, inviting them to join in the formation of a central bank.

In this circular Mr. Wright pointed out that such a bank could be organized under the existing National Bank Act, and that the voluntary association of a sufficient number of banks, to make the movement worth while, would be sufficient to establish a central bank which would overcome the weakness of isolation, and guarantee to the promoting banks the benefits of effective co-operation and concerted action. In times of stress or panic, for their mutual advantage, said he, there would be at hand a centralized banking power, which would minister to their wants and safeguard the national welfare. The surplus funds could be brought to bear wherever stringency appeared; while through the rediscounting facilities of such a bank, with great resources, interest rates would be largely regulated. The only drawback to such an institution, he pointed out, would be its inability to issue notes; but that might be overcome eventually by Congressional authority. In the meantime, he urged the banks to establish a central institution, giving it a portion of their reserves and deposits, to serve as a common refuge in time of need. He recognized the inherent power of such a concentration, and the protection resulting from great resources, economically administered, and responsible leadership.

Nothing came of his effort, however, but undaunted he returned to the task on February 1, 1908, and, with the evidences of the October panic of the year preceding emphasizing the weaknesses of our currency system, and corroborating the dangers of isolation among the banks which he had pointed out, he renewed his invitation to several thousand banks. This time his appeal met with better results. One thousand three hundred and forty-seven answers were received, and of these, six hundred and four banks were in favor of a central bank; three hundred and ninety were willing to join at once in the organization of a central bank, and two hundred and fourteen desired previous legislation. Five hundred and sixty-eight were opposed to such an institution in any form, and one hundred and seventy-five were undecided.

As indicating the trend of banking opinion upon this important question the newspaper poll and the epistolary invitation aforementioned, while by no means conclusive, are nevertheless not without distinct value. In the former case the central bank led against the five most widely discussed, and most authoritative plans for currency reform known to either bankers or public. It had to combat political prejudice on the one hand, and the prestige of the American Bankers' Association on the other, which in itself, was enough one should think to sweep the country.

Not so, however. The plan which had neither statesman nor public nor press behind it; which was known to comparatively few and not understood by all of this number; which had to stand or fall on its own merits, triumphed over the other plans when subjected to the test. And when a particular number expressed an opinion for or against it alone, as in the case of Mr. Wright, it received a majority—if we exclude the number mentioned by him who were "undecided." From these results it is plain that our bankers are giving much thought to the central bank question, and that the traditional prejudice of the Jacksonian era is disappearing.

CURRENCY REDEMPTION.

Opponents of a central bank offer, as a substitute, an asset currency plan for the existing national banks. This necessarily raises the question of redemption, for the soundness of any credit currency recommendation depends upon its provision for current redemption. Experience in banking everywhere shows that success in the case of individual bank issues springs from the regularity with which the notes return for redemption. The history of wild-cat banking, on the other hand, shows a resort to every available expedient by note-issuing banks to keep their notes out as long as possible and to postpone the demand for their redemption. It is unnecessary to state that this led to inflation and to loose and irresponsible banking.

The issuance of notes by individual banks under a plan whereby the notes are to be cleared through a system of clearing-houses in different sections of the country, and under which each bank is to send in the notes of all other banks for redemption—as suggested in certain well-known proposals—is correct and scientific in principle; but there are grave doubts as to the practicability of such a method. In the first place, approximately, two-thirds of our banks are State institutions and under the laws of their organization are permitted to hold bank notes in their reserves. Accordingly, in cases where there was an alliance between a national and a State bank, through the controlling influence of the same ownership, the State bank might use the notes of the national bank as a reserve basis for a large volume of deposits and loans. This would tend to divert the bank note from its intended purpose as an instrument of credit and make it a basis for further inflation. Nor is it possible, by means of a limitation upon a bank's note issues, to guarantee current redemption. For as soon as a bank had its own notes fully in circulation, the incentive to return the notes of other institutions might be tolerably weakened. And it is seriously open to question if a plan providing for the issuance of unsecured notes by more than 7,000 banks is either wise or constructive.

Experienced bankers reject this proposal incontinently. Mr. William A. Nash, president, Corn Exchange State Bank, New York City, regards the clearing-house certificate as the only form of asset currency which is not fraught with dangers greatly in excess of the benefits derived. As to the issuance of currency and expansion of credit by a series of small powers scattered throughout the country, in an address before the American Academy of Political and Social Science, in Philadelphia on the evening of December 2, 1907, he said: "I do not hesitate to say that an asset currency authorized on a forty per cent. or any per cent. basis and intrusted to five thousand banks all over the country will surely result in a cataclysm of disaster, unparalleled in the history of the country. On the other hand, if we organize in a permanent form the clearing-house loan certificate now issued so fitfully and at a time when a crisis is already upon us, we will provide the country in advance with a remedy, just as the New York Clearing House prevented a panic in 1895.

"But how shall we get this permanent form? To answer this we come up against the most venerable and senseless prejudice that obstructs the national well being, *the dread of a great central bank.* This hobgoblin of the politician and the business man has walked the earth for seventy years. The panic of 1837, has not yet been forgotten although the country is radically different from that day. We must kill this bugaboo and exorcise this ghost. The average politician is more afraid of it than any other question except the tariff. The magnetic needle does not point more unerringly to the pole, than the clearing-house certificate points to a great central bank, and dodge this as we may, and as we probably shall, finally we will come back to it and hail it as the solution of all our difficulties."

And equally explicit and emphatic on this point is Mr. James B. Forgan, president, First National Bank of Chicago. In an address delivered before the Bankers' Club of Milwaukee, Wisconsin, a few years ago, he said: "In closing, however I desire to say, without argument, that much as I should like to see assets currency become a part of the banking system of this country, I have never been able to make up my mind that it could be safely or satisfactorily connected with our present system. To me the simple statement that about 10,000 banks, with capitals running all the way from $25,000 to $25,000,000, would have the privilege of issue, settles it as impractical and impossible. Proper facilities for its redemption are impossible, and proper provisions for its safety are equally impossible. No such scheme has ever been successfully attempted in the world's history, and no such conglomeration of credit obligations was ever floated in the name of a monetary circulation. The first essential for a safe assets currency is large capitalization of the individual banks that issue it, and the second, of equal importance, is ample facilities for its prompt redemption, not only at the counter of the bank that issues it, but in the financial centre of every State in the Union. Neither of these could be adequately provided under our present system."

No one would dream of calling our present redemption system adequate. In the case of the "greenbacks," or legal-tender certificates, the reader will recall what the writer has stated in the opening chapter, while redemption in the case of our national-bank currency only takes place when the paper is worn out. Practically speaking, there is no redemption at all. When the notes return to the issuing bank they are not cancelled or laid aside in the bank's vaults, but are immediately restored to the channels of circulation to earn a return on the fixed capital invested in the bonds securing them. This is primarily true of interior banks. When money is abundant instead of retiring some of their circulation they send large deposits to their correspondents in the reserve centres to earn interest on their balances and lighten to that extent the burden of carrying the bonds aforementioned.

Fluctuations in bond prices, moreover, frequently bring losses to the banks in addition to preventing redemption and leading to currency redundancy. Here is a case in point: In 1907, during the panic, banks bid as high as 108½ and 109 for the Government Twos of 1930, in order to relieve the money stringency. The low price of these bonds in 1907 was 104⅛. Early in November, 1909, the bonds sold for 100⅜—a decline of more than 8 points! Single banking institutions, it has been stated, invested sums between $5,000,000 and $6,000,000 in these issues during the currency famine of 1907, at the high prices aforementioned, and their losses, accordingly, approximate $400,000. These stupendous losses can not be offset by profits derived from circulation, while redemption is, of course, out of the question. For those who harp on the "safety" and conservatism of the bond-secured system there is a moral in this experience.

Redundancy *not* redemption is the incident of our system, for there can be neither real expansion nor contraction of circulation based upon the deposit of Government bonds. Circulation is kept out to support the bonds and to prevent losses to the banks—without any relation to prevalent business conditions. Under a central banking system note redemptions are orderly and automatic and redundancies unknown. Germany's five per cent. tax automatically retires her excess note issues when the discount rate in the open market falls below that figure; Canada's circulation increases from October to January with the harvesting demands, and then contracts to its normal volume; while the Bank of France is so strongly entrenched it elects to redeem in gold or silver, and charges a premium for the former. In other words, a central bank is ready at all times to furnish notes at a profit to itself and at a reasonable cost to the borrower. When the transactions are completed the excess notes are destroyed, and the specie reserve maintained against them at a trifing cost is then released.

CONCLUSION.

With the basic principles of a central bank the reader has discovered its opponents in this country have no quarrel. They question its feasibility for entirely different reasons which, the writer believes, can be overcome by education. To him it is puerile for strong and, presumably, well-informed men to permit their judgment to be clouded by the fate of the second Bank of the United States. That the bank, despite its inglorious and tragic end, was hailed as a necessity, and that its services were eminently beneficial and constructive, in an earlier chapter were sufficiently emphasized. Almost three-quarters of a century have passed since the baneful influence of party spirit wrecked that institution, and it is pertinent to ask the reader if he can point out a single event in the country's history in that period which bears, in the slightest degree, an analogy to the Jackson-Clay-Biddle episode. If he fail to do so, then, he should realize the utter impossibility of its repetition, to-day. *Tempora mutantur et nos in illis mutamur.* And not alone the people but their institutions likewise have undergone a change.

Banking seventy-five years ago was a vastly different undertaking from the profession that it is to-day, and it would be as impossible as it should be inconceivable to establish a bank at the present time endowed with the privileges of the institution Jackson wrecked. *That* was a privately conducted enterprise and a competitor of existing banks basking in the sunshine of Federal patronage and favor. What sane man would recommend such an organism in the present? Absurdity could go no further than to attempt such a hopeless, such a preposterous undertaking, and there lives no man senseless enough to recommend it. Why then, the injection of the Jackson imbroglio into the present controversy? say you. Simply because of ignorance and misinformation. The bank proposed is to be a bank for banks only—a refuge, a sanctuary, not a competitor. It is not to be a privately owned institution but shall belong to the banks and the people jointly, the banks and the Government jointly or to the banks, or to the Government, alone.

Dull of comprehension, indeed, is he who can argue from such premises, danger and menace to existing banks. And as to the disgraceful contention that we could not find men honest enough to administer such a bank in accordance with the purposes of its institution, certainly the high estate of American manhood and American integrity must have deteriorated beyond hope of redemption if that is to prevail. No country can claim a monopoly of virtue, and America is no exception; but its history abundantly proves that never did a crisis in its affairs arise without providing the man to take the helm. And whether it be a Lincoln, a Roosevelt, or a Morgan matters not; the fact remains, the occasion bred the man, and always will bring him forth. To express a contrary opinion is to traverse history and to impugn the efficiency and honesty of the country's bankers, than whom, as a class, there exists in no country a more public-spirited, honorable, and conscientious body of citizens. There is not a banking centre of reasonable area in this country which could not furnish from its own quota of bankers enough competent and honest men to direct a central bank. And with all the practice the people have had in recent years in shaping restrictive legislation, surely they would experience no difficulty in keeping the bank out of the vortex of speculation or politics, and out of reach of the "interests." Should we have to abandon the project because of public inability to devise the proper safeguards, then, to the weakness of the people and not of the recommendation must failure be ascribed. No other inference is possible, for elsewhere the central banking system thrives. Out upon the man who would so impugn American initiative and efficiency!

There are other and more weighty matters to be considered, however, before the writer is ready to admit the possibility of establishing a central bank in this country. Reasoning by analogy is not conclusive in our case; for what works like a charm in England, Germany, France, or Switzerland is confronted with conditions and situations in this country radically different. In the first place, the status of existing banks must be taken into consideration. Is that going to be affected materially, slightly, or at all, through the establishment of a central bank? It stands to reason that the circulation privileges of the national banks are going to be curtailed and eventually extinguished by a central bank of issue. In itself that result might prove a very desirable achievement. But how shall this be done? Manifestly, not by any drastic step which would occasion loss to the banks or inconvenience to their customers. Upon the wisdom with which this solution is attained must public approval or disapproval of the whole project largely depend.

It is possible to reach a basis for the annual retirement of a certain amount of national-bank circulation the credit notes of the central bank to fill the vacuum in the meantime and finally replace the bond-secured currency altogether. If directed gradually the effect on the banks should be negligible; but whatever the remedy their investments in Government bonds must be protected. Doubtless many bankers would welcome a change that promised relief from the constant dread of a decline in the price of Government bonds, as has been the case for some time. Similarly, a central bank might retire the legal tenders by redeeming them in its own notes, receiving, in return, the gold reserve against them in the Treasury and other Government resources for the uncovered excess. And both of the operations aforementioned raise the practical and essential question of what proportion of coin reserve to note circulation the central bank should be required to maintain. If discussion on these vital features of the project now in controversy were more general, some measurable progress might be noted, which can never be attained while effort is wasted in arguing with blind and unreasoning prejudice over non-essentials.

Another question which must be determined before any thought of a central bank can become acceptable is that of—branches. Obviously, the bank must have branches; the immensity of the territory to be served seemingly renders that imperative. And if one central bank is not to be a competitor of the banks, it should follow that branches, for illustration, in the sub-treasury cities, established as the agents of the parent institution and bound strictly by its limits, could not compete with banks in their immediate vicinity any more than could the central bank itself in its district. It is difficult to understand why many bankers seem to favor one central bank but regard with misgivings the establishment of branches. Probably, if it were better understood that the branches are merely the conduits of the main establishment, and necessary for the ends of its institution, this feeling would change. At all events, this feature must be clarified. And a matter of preeminent importance is that of the central bank's profits. In all the proposals for such an institution, provision for a large capital, a large circulation, and a large line of deposits from other banks is a prominent feature. Yet, strange as it may seem, advocates of the central bank are singularly reticent in explaining in what investment channels the heavy resources of the bank may be embarked.

If it should be intended to make the central bank a receptacle for a considerable proportion of all the new bond flotations in Wall Street we can dispense with it *instanter*, and direct our thoughts and efforts to more profitable engagements. A central bank with the main part of its investments consisting of such securities, would soon degenerate into a hidebound institution of no practical use or benefit to the commerce of the country. On such a basis the country could well afford to reject the central bank project *in toto*. And in this connection it is likewise pertinent to observe that no bank can be organized on a basis other than that of profit. Some of the proponents of a central bank lay stress upon the fact that the bank is not to be organized for profit primarily. But it stands to reason that a central bank to thrive, and to gain the confidence of the people, must realize something more on its business than sufficient to pay running expenses and dividends. Philanthropy and banking are very distinctly apart and seldom found in unison. The former is an abstraction; the latter, in the light of a practical present, an exceedingly concrete pursuit. Hence, an overweening desire to win favor by laying stress upon the philanthropic side of the central bank may lead to delusions in the popular mind, which it may be impossible to dispel later, and if actually carried out, might defeat or seriously hamper the functions of a central bank. Of course, the bank would earn a profit on its rediscounting transactions and on its foreign exchange dealings, but there is no method of computing what figures these might reach. And it would receive returns from its Government bond holdings, turned in as part payment of capital subscriptions or acquired by purchase. But the question of investment is a basic one, and thereon the public must be advised.

In conclusion, the writer has entire confidence in the intelligence, open-mindedness, and sober sense of the American people, and believes that a practical adaptation of a central bank to our existing system is possible and likely to appeal to them and be adopted by them. Satisfied of its excellence everywhere, they only require assurances of its freedom from control by scheming politicians and financiers, and its adaptability to their traditions, habits, and experience. The least departure therein, consistent with the establishment of a central bank, the greater the possibility of success.

APPENDIX

THE PRESS ON A CENTRAL BANK.

Appended hereto is an editorial symposium on the central bank issue. Inasmuch as the American press is usually a reflex of the views of the people upon any important public issue before them, and not infrequently the moulder of their thought, the writer presents as comprehensive a summary of editorial criticisms upon the subject aforementioned, as it was possible to obtain, in order to give the reader an approximate idea of the trend of the public mind as, probably, reflected in editorial expressions. Some States are not included in this epitome for the best of reasons: their leading newspapers had made no comment upon the central bank question and so informed the writer, who endeavored to procure editorial utterances thereon from two or more of the principal cities or towns in each State. From the replies received by him, as well as from the published excerpts, it is evident that much of the supposed prejudice to the central bank proposal is non-existent. In many cases the reader will see that the question is still uncomprehended, as evidenced by the superficial reasoning attempted; in a few will be noted the deep-rooted prejudice that goes back to 1836; while in a surprisingly large number are evidences of a cautious and receptive attitude but, withal, an unmistakable earnestness to go to the bottom of the question that must be encouraging to the advocates of true currency reform. Some of the editorials included discuss the subject freely and with a grasp that bespeaks certain and definite knowledge of the question in issue. The most striking disclosure, however, is the demand for a full discussion of the proposal, and the assurance from newspapers in districts presumably hostile, "to chew the arguments offered, look at them on both sides, split them in the middle, and if sound to accept them," as the Duluth *News-Tribune* so eloquently puts it. Such an attitude is promising.

I. THE NATIONAL PRESS.

ALABAMA.

Furnish Lively Political Campaign.

The central bank idea will not win many Democratic votes and there will be plenty of insurgents to attack it. It is a Cannon-Aldrich measure, and as such is open to attack, viewing past history. The West has no regard for a central bank of issue on the Aldrich plan, thinking that it will give the East the control of banking and financial institutions. If, by the strength of the administration and Cannon and Aldrich forces, the bill is carried through Congress, there will be some lively material for campaign use next year, when a considerable number of members of both houses will seek to be returned to their seats.—**Mobile "Register," Nov. 2, 1909.**

A Complicated Issue.

The monetary commission, headed by the widely distrusted Mr. Aldrich, is hatching out a currency and central bank plan, and there are many rumors concerning it. No one knows, for example, whether or no the proposed central bank is to have the exclusive right of issuing national bank notes, an office now conducted with profit by the national banks. Nor is it known whether or no the central bank will have branch banks, as is the case in Canada. Both propositions would be sternly resisted by the banks now filling the field. Altogether the matter is so full of problems that no one expects it to materialize in the present generation. The Aldrich ambition will have to go unmet and unsatisfied if it involves a currency plan that includes a central bank.—**Birmingham "Age-Herald," Oct. 25, '09.**

CALIFORNIA.

Goes to the Heart of the Problem.

At Boston President Taft paid an earnest tribute to Senator Aldrich, who, he said, is regarded by many with deep and unjust suspicion. This official vindication of the great congressional leader will meet with a responsive chord from the large majority of well-informed people, regardless of party lines. The attempt at muck-raking tactics by the younger and less responsible Republicans in Congress has gained them little sympathy nor has it dimmed the luster of Senator Aldrich's prestige as a statesman. The latter is now behind the Central Bank bill. This is a measure which lacks the red fire and band music of muck-raking reform, but which goes quietly and effectively to the heart of the evil it is destined to destroy.—**San Francisco "Evening Post," Sept. 16, '09.**

APPENDIX

Not a Competitor of Banks.

No one but a demagogue could possibly write in that vein [comment upon Congressman Fowler's criticism] upon a financial topic. Finance has nothing to do with "monarchy" or "democracy." Its operations are the same in all countries, regardless of the form of government, and as a matter of fact in our case the most authoritative proposal is that the stock of the central bank shall be owned by the banks of the country, both State and national, and that the management shall be elected by the bank stockholders, with the addition of representatives of the Government. In no case can such a bank be a competitor of the national and other banks, but an aid to them. Its functions would be rediscounting for other banks—that is, lending money to them—the performance of fiscal services to the Government, and the supplying of currency in addition to that of the national banks whenever needed. Central banks serve a useful purpose alike in republican France and monarchial Germany. Mr. Fowler is doubtless committed to the principles of his own bill, which provided for the substitution of asset currency for bond-secured currency by the present national banks, with proper provisions for redemption, but failed to provide for the equally important function of equalizing interest rates and providing loanable funds in time of stress, functions which only a strong central bank can successfully perform. So long as Mr. Fowler bases any argument on financial considerations, as he will have an opportunity to do in Congress, he is entitled to respectful hearing. When, however, he goes outside Congress and appeals to a public not informed as to the principles of banking or finance on lines calculated to appeal not to reason, but to prejudice, he shows himself unworthy of attention.—**San Francisco "Chronicle," Nov. 5, '09.**

What Experience Proves.

Now we insist that the experience of mankind is worth something, even to Americans. And that experience proves: First, that central banks, with branches and power to issue notes and make loans, are powerful and beneficent financial institutions; second, that they do not "do politics"; third, that they do not "oppress the people"; fourth, that they are the most solvent of financial institutions; and last, that no country has ever been able to properly conduct its finances without one. —**San Francisco "Chronicle," Nov. 14, '07.**

Watch the Plutocrats.

It may be that the establishment of a national central bank is inevitable—that there is no other way of curbing the selfish and irresponsible banking trust. But we should realize that in doing this thing we are dealing with the most sensitive and vital organ of social life. And we should understand that for the accomplishment of our difficult task the plans proposed by plutocrats are not likely to be good plans. There is matter for both amusement and sober warning in the assurance that comes from Mr. Aldrich's Monetary Commission that they are planning their big bank of the nation on so stately a scale that "political control will be made very difficult." To men of the Aldrich type the political organs of society are useful tools; but they are horrified at the idea that political power should control the conduct of a bank. It was kind of these gentlemen to tell us beforehand that they are trying to make it hard for the public authority to control their institution. We shall not rest now until we find means of making it easy.—**San Francisco "Examiner," Oct. 20, '09.**

Bankers, Not Public, Distrustful.

Some of the proponents of this scheme think the central bank should be the only bank permitted to issue currency in any shape. This probably is the obstacle which stands in the way of the acceptance of the proposition by a great many of the bankers. They wish to be allowed to manage their own affairs individually, speaking of them as bankers, in their own way, giving the Government efficient supervision to see that the business is conservatively managed and especially that it is honestly conducted. In these times of violent opposition to combines and trusts and large organizations it is a little anomalous to note the general popular acceptance of the idea of a great central bank, while the bankers, on the contrary, seem to regard the scheme with more or less misgiving.—**Los Angeles "Times," Sept. 19, '09.**

APPENDIX

The Treasury Funds.

It is suspected that the strongest influence behind the demand for a central bank is a desire to handle the treasury funds. The treasury deposit in such a bank would be at present figures something more than a billion dollars. The deposits now held against gold certificates amount to $860,000,000 and there is $150,000,000 held as a reserve for the redemption of greenbacks. No part of this enormous sum earns interest, as it would be made to do were it handled by a bank. There is a vast bonanza in this single phase of the central bank proposition, but we may hazard the prediction that Senator Aldrich will say as little as possible about this phase of the project. In a financial way the present plan is unscientific. It is a waste of capital, but it may be doubted whether the people are ready to turn over their money for banking use without some reasonable compensation.—**San Francisco "Call," Oct. 24, '09.**

Proper Safeguards Possible.

It is said that Senator Aldrich is convinced that a central bank of discount in this country is the best solution of the problem confronting the nation in regard to the avoidance of monetary panics, and that his report as head of the monetary commission, having the matter in charge, will strongly favor the establishment of a central bank of issue. Rumors to this effect already have provoked sharp attacks on the plan although, as no details are known, all such adverse comment at this time surely is in the nature of hypercriticism. It is not strange that the country should beware the Greeks carrying gifts, but we prefer to examine this proposed gift to the people of a central bank on its merits, wholly dissociating the personality of Senator Aldrich from the project. The one great menace to fear is that Wall Street interests might control the bank, but this, we believe, can easily be avoided if the proper safeguards are adopted.—**Los Angeles "Graphic," Oct. 30, '09.**

CONNECTICUT.

Gaining Supporters.

The project for a central bank of issue (which is not, however, a "United States bank") is evidently gaining supporters. With the bankers of the country inclining to favor it and with the President gently commending it, there is a chance that it may be tried. The problem, as Mr. Taft said yesterday, would be to keep such a bank out of politics and also independent of the stock market. Perhaps it can be done. We shall have plenty of discussion before any action is taken, for there is to be no report to Congress on the subject for a year to come. **—Hartford "Times," Sept. 15, '09.**

Hill Ahead of Aldrich.

It is a warrantable inference from the President's speech to the Boston merchants that he thinks a central bank of issue, with proper safeguards, would be a good thing; but he did not commit himself to it—"very definitely" or otherwise. What he said in the speech was that we really must do something about our banks and currency—must mend the leaky roof; that the present trend of opinion in the monetary commission is toward the establishing of a central bank; that we all need educating on the subject; that he's glad Mr. Aldrich is going to turn educator; and that a central bank with politics in it, or under Wall Street influence, wouldn't do at all. We don't know when Nelson W. Aldrich of Rhode Island first began to think of a central bank. He's going to talk about it in public halls pretty soon, according to the President. Ebenezer J. Hill of Connecticut was talking about it in Congress a year ago last February.—**Hartford "Courant."**

DELAWARE.

History Against It.

In the light of history there is a general feeling to-day that while the interests of the people might not be really threatened by a second United States Bank, such as President Taft so ardently desires, they would not be advanced to the slightest extent. And the best commercial and financial sentiment of the country seems to be hostile to the suggestion, deeming it unwise, and possibly dangerous, to sound and stable finance, to create an institution with such superior powers and resources as a central bank would be bound to possess.—**Wilmington "Every Evening," Sept. 29, '09.**

APPENDIX

FLORIDA.

Open-Minded.

It is probable that a fight will be made in the next Congress for the establishment of a central bank. The purpose in view is said to be the furnishing of a flexible currency that will not go in hiding in time of greatest need. The subject cannot be intelligently discussed even by men well posted on matters of finance until the details of the plan are made public. Such a bank has been found useful in England, France and Germany. There are some objections to such a bank that are obvious. It is difficult to see how it could be kept out of politics, for nowhere on earth does business enter into politics for selfish ends as brazenly as in the United States. We doubt whether professional financiers in this country know much of finance. At any rate, their discussion of the subject does not clarify it. When they have finished, it is muddier than when they began. The country is to be congratulated, however, on the fact that it has a definite plan to discuss. We have often heard that our country has the worst financial system ever devised, but there has been great difference of opinion as to what should take its place. In fact, much of the discussion has stopped with condemning existing conditions without attempting to remedy them. With something definite to discuss and with no prospect of making matters worse, the country may hope for the creation of a better system.—**Jacksonville "Times-Union," Oct. 7, '09.**

ILLINOIS.

A Changed Public Opinion.

A few years ago nobody who suggested a central bank under government supervision for the solution of our currency troubles could get a hearing from practical men. The answer always was that, however desirable such a bank might be on some theoretical grounds, practically the people would have none of it. The ghosts of the two older Banks of the United States stood in the way. What a change there has been is apparent both from President Taft's references in his Boston address and from the addresses of President Reynolds of the American Bankers' Association. This change of feeling has been due on the one side to a narrowing of the function of the proposed central bank so that it becomes an institution of an entirely different class from the "banks" of ordinary everyday definition, and, secondly, to a recognition that these narrowed functions, having to do with the elasticity of the currency, must inevitably be provided for by governmental action, and that it becomes a question of technical character whether they can best be performed by such a "central bank" or by some method of formally different designation. . . . Should such a bank be empowered to issue currency based in part on a strong gold reserve and in part on its commercial paper rediscounts, it is apparent at first glance that the currency would be far different from that of the free and easy asset banking scheme which used to be advocated by many bankers. It is also clear that the bank could be kept free from domination by "the system" in any of its forms, whether of industrial promotion or stock exchange piratical enterprises.—**Chicago "Record-Herald," Sept. 16, '09.**

Good Advice.

"The Tribune" itself is determined to keep its mind open for a year and to consider deliberately all the plans that may be brought forward for the improvement of the most defective currency system known to civilization. It suggests to its readers that they do likewise. Then they will be more likely to arrive at sound conclusions about a matter of great importance. There must be a change. The question is what the change shall be.—**Chicago "Tribune," Oct. 15, '09.**

A Prey for Agitators.

A central bank would naturally exert an immense influence on American business in general and American financial concerns in particular. It might not be to us what the Bank of England, the Bank of France, and the Reichsbank are to their countries. But it would be a great, a commanding, frequently a decisive, influence beyond doubt. Its proper management would thus be a matter of vital concern with all solvent banks.

Now, imagine the situation of these banks when the undying race of demagogues and agitators arises in its might, as it is absolutely sure to arise, and makes an issue of the way the bank is being operated and appeals to every prejudice and every passion known to populistic politics. The bank and currency reformers would do well to consider this human, as opposed to the purely technical, aspect of the question.—**Chicago "Inter-Ocean."**

Pathway to Plunder.

No sane man but knows that a central bank scheme formulated by Senator Aldrich will have for its sole purpose easy concentration of bank deposits from all over the country in whatever fashion renders them most accessible to the Wall Street gamblers who are his friends and employers. Such a bank will not be a bank for protection, but a pathway to plunder.—**Chicago "Journal," Nov. 5, '09.**

Favors Government Currency.

A central bank would soon drift into the hands of manipulators of the Aldrich type. The Senator from Rhode Island has never been above the scheme of running the institutions of his State by means of politicians. George Washington said in 1787: "The majority of the people of Rhode Island have long since bid adieu to every principle of honor, common sense and honesty." This bad reputation Aldrich has steadily maintained in his manipulation of national politics. The country will not willingly see the finances of the entire commonwealth put into the hands of men whom Aldrich might select. The best thing that can be done is to let the Government issue currency when needed. This can be done by making an interchangeable bond. If we had adopted this measure in 1863, we would not have been bothered by panics, constriction of the currency and the woes that have descended upon us since that time.—**Peoria "Star," Nov. 2, '09.**

APPENDIX

INDIANA.

Is Its Advocacy Sincere?

Some exhaustive researches have been made in the Eastern States by Mr. Raymond Patterson of the Chicago "Tribune" on the subject of a central bank. The consensus of banking opinion seems to be very much along the lines followed by "The Star"—a central bank is desirable if it is of the right kind; but it should not be used as an excuse to prevent or delay currency reform of a more pressing and obvious sort; and if the bank is formed it should be made secure against political abuses or Wall Street control. It is not strange that Mr. Patterson finds true currency reformers everywhere more interested in a scientific bank currency than in the central bank, which has been injected into the discussion, not from the most auspicious sources. It is not easy to dismiss the suspicion that possibly some of the anxiety expressed for the central bank springs from persons who hope to distract attention from the cause of currency reform, which should go on whether we have a central bank or not.—**Indianapolis "Star," Oct. 27, '09.**

No Snap Judgment.

This centralizing tendency must be arrested at some point. It may be that it should stop just before it carries us to the adoption of a central bank. At least no campaign of education will serve a good purpose which does not throw some light on these questions. If such a bank were an essential part of currency reform, there would be nothing more to say. But this is yet to be proved. Unless it is necessary, we do not think the bank should be established. The fact that such institutions have worked well in other countries by no means proves that a central bank would work well here. For our conditions are peculiar. At least no snap judgment should be taken. The whole subject should be frankly presented to the people, and should be thoroughly discussed. And it should be discussed both in detail and on the broadest grounds. We ought to be sure that the bank will be a good thing in itself, that it will make our currency system what it ought to be, and then, further, that it will fit in with our political system, and will not have the effect of unduly strengthening the central authority. The question is not simply one of finance, but also of politics and statesmanship.—**Indianapolis "News," Oct. 12, '09.**

IOWA.

Objections Can Be Removed.

It is unanimously agreed among currency experts that the permanent cure will be found in some system that does away with the present bond-secured national bank notes. To do this it is also agreed one of two plans must be adopted. Either the national banks must be allowed to issue currency based on their general assets, or a central bank of issue must be established. It is the latter plan which has found favor with the monetary commission. In indorsing it the commission will do so with two provisos: (1) The central bank must be kept out of the hands of Wall Street; (2) it must be kept out of politics. If these two provisos can be observed other objections to the plan should not be hard to overcome in detail. **—Sioux City "Journal."**

Viewed with Suspicion.

The proposition to create a central bank of the United States is but a phase of a tendency so pronounced, so general, so restless as to force recognition of it as one of the processes of evolution. That it has not sooner joined the procession that leads to concentration is due to many causes, the inertia of habit being a leading one, the survival of old-time prejudices against bankers being another. But it is coming. This being the condition, discussion of it is timely and necessary. Granting its inevitableness, what shall it be, what functions have, what service perform? That it may be an instrument for great public good may be conceded. That it may be an implement for private benefit and public hurt is also clear. History shows that. Mr. Taft assured the country that Mr. Aldrich laid down two principles, absolute divorce from politics and from "Wall Street," a statement that raised a smile and excited incredulity.

Perhaps Mr. Aldrich is now sated with looking after private interests in the Government and really wishes to connect his name with a finance bill which has only public welfare in view. Such an attitude will not be accepted by the country, however, as sincere. The mere connection of his name will insure much opposition on the part of that large number who believe that no public good can come out of Rhode Island. He is "under deep suspicion."—**Sioux City "Tribune."**

KANSAS.

A Correction If Safeguarded.

The "Eagle" believes that the proposal is the most important subject likely to come before the people in a quarter of a century. If a central bank is properly safeguarded so that it must be administered with integrity, it will prove a great correction of pressing currency evils. If it is planned so that it may be manipulated, directly or indirectly, by the great interests, it will prove a millstone around the neck of the democracy.—**Wichita "Eagle," Oct. 17, '09.**

A Perfect Solution.

There would be little dispute of it [the desirability of a central bank] if the question of control were out of the way or bankers were satisfied that the organization and management can be so devised as to render it impossible for so important an institution to come under the control of any clique of financiers, which means the speculative institutions of New York. The central bank would perfectly solve the currency, or panic, question, provided it could be kept out of politics and Wall Street.—**Topeka "Daily Capital," Nov. 20, '09.**

KENTUCKY.

Aldrich an Authority.

It would be unwise to form a hasty opinion upon the matter. The problem of monetary reform has many angles, and in no sphere is a man more apt to be carried away by alluring theories that in practice prove absolutely worthless. The apparent enthusiasm manifested by Senator Aldrich, we confess, does not increase our friendliness toward the central bank idea, but we do not want to allow his advocacy to prejudice our minds against what may be genuinely good and deserving of support. Senator Aldrich can be accepted as an authority on such questions, even if at times we suspect that he is biased in his sympathy.—**Louisville "Herald," Oct. 26, '09.**

Public Sentiment Hostile.

If public sentiment is consulted, the Aldrich financial scheme will be given scant consideration. Even the lapse of time since Jackson's day has not eliminated the hostility of the American people to a central bank, but Aldrich and Cannon paid little heed to the people in revising the tariff and in reorganizing the currency and financial system of the country, they are not likely to be more respectful toward public sentiment or less zealous in the service of the special interests that dominate Congress.—**Lexington "Herald."**

LOUISIANA.

Its Agitation May Delay Report.

It is evident that bankers throughout the country realize that the Secretary of the Treasury who, in every case, is a politician, would have great power over the new bank, as he has over the present national banks. In this connection it is well to say that President Taft asserted that Senator Aldrich realized that politics must be kept out of the bank, and the bank itself must be kept free from Wall Street influences. But fine words butter no parsnips, and moreover the thing is much easier said than done in view of the fact that to-day business and politics are closely allied. Senator Aldrich, who has done more than any one man to unify business and politics, is the man who is pressing the central bank plan, hence the people may be pardoned for their attitude of suspicion and distrust as well as their belief that the financial problem can be solved by a different process and one that will not tend to a further centralization of the powers of government.

It is evident that the central bank scheme has been received with so little favor by the country that there is small chance of its adoption, but it is likely to prevent or postpone any effective reform of the currency. For all that is known to the contrary, this may have been Aldrich's purpose in devising it.—**New Orleans "States," Oct. 19, '09.**

A Tragic Admission.

Surely, it is monstrous that, with population and resources that ought to give us the primacy in commerce, we have always to take the cue from abroad. Yet there can be no escape from this indignity, till Congress shall have created a central bank to speak and act on our behalf, as the central banks of England, Germany and France speak and act, when the occasion calls. As to international finance, America is like a host without a general, a head without a brain or a body without heart. Mere bulk and brute strength do not count at junctures when there is a supreme need for strategy and finesse. The agile dwarf with the rapier may do the business for the giant with the broadsword, if the dwarf has a quick eye and a long arm.

Nor is it the mere loss of prestige that hurts, in such cases as this. In the course of a wild speculative deal, there is bound to be an immense lockup of capital and this lockup is keenly felt when legitimate trade revives. Thousands of merchants and manufacturers now have to pay an extra rate of interest, because there was no central bank to call a halt on Wall Street betimes. It would be hypercriticism to blame our bankers, as a class, for the pinch in the money market. Thousands of banks, scattered over a continent, could not act in concert, if they would. And, even if these thousands of widely scattered banks desired to act in unison, there is no machinery by which to make the will synonymous with the deed.

Have we no statesmen wise and brave enough to untie, or cut, this Gordian knot? To answer this question in the affirmative is to admit that we are without genius for leadership and that we must forever meekly follow Europe at the lockstep, as we have hitherto done. A tragic admission for a race which, in its puny youth, originated the Monroe Doctrine, gave the

French ambassador his passports and went to war with Britain herself over the right of search!—**New Orleans "Times-Democrat," Oct. 26, '09.**

Central Bank Required.

If we had a great central bank in the United States it could issue notes to meet any home demand for money, and gold would not come into question at all, but for the lack of such a source of supply our banks have drawn gold from Europe to such an extent that the foreign financiers have become alarmed for their own supply and have put an almost prohibitory check on the drain. The Treasury cannot lend money on stocks or real estate or any sort of securities upon which loans are based, because it has no power whatever to make loans. Therefore, when there is a great expansion of business and money is required to carry it on there are no means of adding to our stock of available cash except by selling our products to Europe or of borrowing there at the increased rates. Thus a central bank of issue would operate as a protector and regulator of the money market. When commercial or financial conditions become threatening, it steps into the breach with its great resources and wide connections, taking steps which will prevent the wasteful misapplication of capital, but will not cause a currency famine, as in the case of similar crises in America.—**New Orleans "Picayune," Oct. 23, '09.**

MARYLAND.

Aldrich a Drawback.

President Taft will find in due season that the association of Mr. Aldrich with any movement which professes to have for its main object a reform in the interest of the people, will be a grievous handicap on that movement, however worthy and desirable the reform which is contemplated may be. The people cannot be expected to accept a statesman of Mr. Aldrich's affiliations as a faithful and disinterested champion and promoter of their interests. It is a reflection upon their intelligence to assume, with their knowledge of Mr. Aldrich's record, of his association with monopolistic interests, that they will believe, as the President says he believes, in Mr. Aldrich's earnest desire to aid the people. Mr. Taft has blundered. He is highly esteemed by his countrymen for his admirable personal qualities, but his judgment is gravely at fault when he gives his unqualified approval to Mr. Aldrich's leadership in the movement for banking and monetary reform. Why should the President proclaim his implicit confidence in this statesman, when the people have found him ever active in promoting the welfare of interests which have grown rich and powerful at the expense of the masses?—**Baltimore "Sun," Sept. 16, '09.**

Discussion Preposterous.

Currency reform is on the calendar for 1911. This shows that the commission either is not sure that its panacea should be taken even if well shaken in congressional debate, or else it has come to the conclusion that a slow and painless death for its report would about fill the measure of the country's needs just now. Nothing would be more preposterous than to revive a panic topic at the time the country is on the rising tide of prosperity, as would be the case by agitating the currency question with the circulation working like a charm.—**Baltimore "American," Nov. 10, '09.**

MASSACHUSETTS.

Opposition Due to Prejudice.

The subject of establishing a central bank of issue in this country may be said to have been brought fairly within the domain of practical politics by the speech of President Taft in this city, and, incidentally, by the address of George M. Reynolds, the retiring president of the American Bankers' Association, at their annual convention in Chicago. The subject is evidently to be seriously discussed during the coming year, and perhaps until a bill on the subject has been passed by Congress. Two of the objections which are most often heard to the proposition were touched upon by the President in his address—the danger of control by a group of financiers in Wall Street, and the danger that the bank would become involved in politics.

Whatever the substantial merits of the project for a central bank, it is probable that these particular objections rest largely upon prejudice. Conditions have radically changed since the Bank of the United States subjected itself to criticism in the third decade of the last century, both upon the ground of unwise financial management and interference in politics. It is not conceivable that any sane president of a central bank would again enter upon speculative movements on a large scale or that he would undertake to use the influence of the bank in purely party politics. Not only should the statutes of the bank prohibit participation and speculation by its officers, but financial and public opinion would be emphatically against such a policy. Moreover, representatives of the Government should sit in the board of directors or form a separate supervisory board, and they would effectively check unwise or speculative policies.—**Boston "Transcript," Sept. 16, '09.**

Feeling His Way.

Senator Aldrich is feeling his way in the West. His initial declaration in favor of maintaining the integrity of existing banks and opposing a system of branch banks, of preventing political influence in the control of any central institution that may be established, and also of so organizing the system as to prevent sectional control, is perfectly safe ground. None will dispute him on these points. The difficulty will be in convincing the people that a central bank can be organized without one or more of these defects. And yet a bank of banks, doing business with the national banks throughout the country, owned and controlled by them through proportionate ownership of the stock, might be made proof against any of these defects and serve the needs of currency reorganization.—**Boston "Herald," Nov. 8, '09.**

MICHIGAN.

Perilous.

To establish a central bank of issue would be to radically change our system, and before that step is taken there should be a more apparent need for it than now exists. A central bank has its perils and in the estimation of a good many very thoughtful men they are greater than those contained in our present system.—**Grand Rapids "Evening Press," Sept. 17, '09.**

MINNESOTA.

Must Be Safeguarded.

Theoretically, the plan promises well, yet there is certain to be wide opposition to its adoption. If we are to have a central bank, the United States government would have to go out of the business of issuing notes. This means also that the greenbacks, a familiar means of exchange among the people, must be retired, and their places taken by the promises to pay of the central bank.

The issue is one of vast moment. It must be remembered, too, that the country west of the Alleghenies is just now disposed to look with suspicion upon any legislation proposed and favored by Senator Nelson W. Aldrich of Rhode Island, who is standing as particular sponsor for the central bank plan. However sound and desirable the plan may be, it will be handicapped in the West by Aldrich's support. It will be necessary to make it very plain to the people that the plan is so safeguarded that the machinery for the central bank cannot be operated for the benefit of Wall Street and the speculative interests of the East.—**St. Paul "Pioneer Press," Oct. 25, '09.**

How to Secure It.

The country will not tolerate a central bank, unless its freedom from political, speculative and money-power influences be guaranteed. That is certain. But it is also certain that such guarantees can be given. By limiting dividends to a small percentage, the administration of the bank as a purely profit-making institution can be prevented. By placing it in the West, its immunity from political manipulation can be secured. While a proper definition and limitation of its functions will operate to divorce it from speculation and render it an auxiliary of the legitimate, financial and commercial activities of the country.

These immunities from malign influences, these separations from politics and the exchanges, these confinements to strictly necessary and legitimate functions, are enjoyed by the great central quasi-governmental banks of Europe. The science of finance is sufficiently advanced to enable us to establish a similar institution, similarly secured.—**Minneapolis "Journal," Sept. 18, '09.**

"Must Be Shown."

It is evident that we are going to hear a great deal about the central bank plan from now on, because the ideas of those engaged in thinking out plans for curing the currency evils of the country seem to be directed largely toward that as a solution. The monetary commission headed by Nelson W. Aldrich, Senator from Rhode Island and boss of the republic, will, it is taken for granted, include in its forthcoming report a plan for a central bank of issue. Before action is taken everybody will know more than is known now about the currency and the central bank. There will be much discussion, and there cannot be too much. In the meantime the popular attitude of suspicion and alertness is the correct one. The country will "have to be shown."—**Duluth "Evening Herald," Sept. 23, '09.**

If Sound, Acceptable.

The West is always anxious to hear, to see and to learn. More than any other section, it has the open mind. Moreover, it has been born, came to thinking age and secured its vote since the days of Andrew Jackson and the "bank war." It has no undying prejudice against a central bank, and though naturally a little suspicious of Greeks bearing gifts, it will be glad to hear the arguments Mr. Aldrich has for his financial scheme. It will not promise to swallow them without chewing, nor hesitate to look at them on both sides and split them in the middle. But if they are sound, it will accept them.—**Duluth "News-Tribune," Oct. 26, '09.**

MISSISSIPPI.

Aldrich Under Suspicion.

It is not a violent presumption, after reading his Boston address, that President Taft has had enough of tariff revision. The presumption is one that he may dispel—it is to be hoped that he will, after he finds that he cannot divert public interest from that issue to monetary reform. This is plainly the central motive of his speech. The "Herald" does not believe the diversion was helped through the stress Mr. Taft placed upon its championship by Senator Aldrich. His appearance in the role of an Aldrich panegyrist did not add at all to the popularity of the President's address. He had much better have left that apostle of predatory wealth to have dealt himself with "the deep suspicion with which he has been regarded."—**Vicksburg "Herald," Sept. 16, '09.**

MISSOURI.

Country Bankers Apprehensive.

In spite of the assurance given in inspired articles sent out from Washington, that politics will play no part in a central government bank, the small bankers are apprehensive lest the contrary prevail. They can hardly conceive that it would be in keeping with the game of politics for any party to set up an institution such as a government bank without manning it with politicians, as only by taking advantage of such opportunities are great political machines built up. If past history were not sufficient to warn the American people against the experiment, the fact that Senator Aldrich is at the head of the movement for a central bank should of itself be enough to defeat the project. Every act of Aldrich is pointed in the same direction, to exploit the general public for the benefit and enrichment of the privileged few, and the central bank idea is no exception.—**Kansas City "Post," Oct. 20, '09.**

A Complicated Subject.

Apparently the commission has not been able to agree on any comprehensive plan of currency legislation. The entire subject is so complicated, so entangled with irreconcilable theories and prejudices and it involves so vitally the business prosperity of the country that a campaign of education is very desirable. Bankers and congressmen, including the eminent members of the monetary commission, need enlightenment quite as much as the masses of the people, and the opinion prevails in the West that Mr. Aldrich himself should undergo a thorough course of training on the subject of the rights of the people, as contrasted with the wishes of the great financial interests which he represents, before he can be trusted to formulate a Currency Reform Law.—**Kansas City "Times," Nov. 4, '09.**

Mr. Aldrich to Bide a Wee.

Senator Aldrich, it appears, has concluded that he will during his forthcoming address-making tour through the greater cities of the West refrain from broaching that cask of advanced thought in which he filters his Central Bank idea. This is merely an additional proof that the distinguished master of the Senate is one of the most perspicacious statesmen of his generation. There is no present Western sentiment of any large dimension favorable to the Central Bank idea, unless it be among the more powerful financial interests which are in some measure allied in Chicago. As the banker for the great Southwest, St. Louis is content for a time. Mr. Aldrich's decision to bide a wee before springing his plan indicates that he is a mind reader.—**St. Louis "Times," Nov. 2, '09.**

Mr. Aldrich's Wise Words.

Several things were made plain by Mr. Aldrich in his address in St. Louis. All sections of the country and all interests have a vital concern in the establishment of a strong, flexible currency system. No European scheme, no matter how well it may be adapted to the needs of its own people, could wisely be set up in the United States, except after material alterations. The overthrow of the second United States Bank by Jackson has, as an example, no value for us, favorable or adverse, in our situation, for nobody now seriously proposes an institution on the plan of that bank.

As the Rhode Island senator reminds his Western constituency, the financial scheme which will be adopted will take into consideration the interests of the West, the South and of the whole people. The talk in some newspapers and by many politicians that the East aims to oppress the West industrially and financially is incited by ignorance or demagogy. The well-being of each locality is necessary to the prosperity of the other members of the community. When any region suffers the whole country is affected adversely. In devising the framework of an improved currency scheme the National Monetary Commission, of which Mr. Aldrich is chairman, has a large task on its hands. It takes the conditions and the interests of all regions and of all activities into consideration, and suggestions from all of them will be gratefully received.—**St. Louis "Globe-Democrat," Nov. 10, '09.**

Concentration Feared.

The country generally entertains a doubt of the proposed central bank. It fears the possible still greater concentration of financial power that might result from it. Perhaps not until Congress meets will the subject receive serious discussion, though the propaganda for moulding favorable sentiment will continue. The outlook is that the members of the majority party will be less easily controlled by the Aldrich interests for a financial scheme than they were for the tariff measure.—**St. Louis "Star," Oct. 26, '09.**

NEBRASKA.

Opposed to Aldrich.

People in Nebraska who don't have a high regard for Wall street—and that includes nearly everybody in the state—will be satisfied to sit back and let Congressman Fowler scrap it out with Senator Aldrich on the central bank question. The opposition to Aldrich that is being stirred up in the east is the most hopeful sign of the times from this viewpoint. —**Lincoln "News," Oct. 25, '09.**

Believes in Taft.

At Boston Mr. Taft with emphasis said that he and Senator Aldrich were determined that in presenting new financial legislation they would keep out Wall street influence and the meddling of spoils politics. When Mr. Taft makes such statements, it has been proved, he means what he says and executes his promises. In publicly taking Mr. Aldrich into cooperation, in vouching for the good faith of the chairman of the committee on finance, he has disarmed any jealousy the senator may have entertained and immeasurably strengthened the potential capacity of the senate in arranging a coherent policy in the monetary system.—**Omaha "Daily Bee," Sept. 17, '09.**

NEVADA.

For Wall Street Only.

The bankers' fiat (the clearing-house certificate) was created for the purpose of giving Wall street temporary power to make and unmake panics, and the central bank is conceived to give it the power permanently. The genius of the central bank is like unto that of the Bank of England, and similar to the Canadian Bank of Commerce. It is to be a corporation of private individuals to which the government gives the exclusive right to issue money as a sort of go-between from the government to the people. In other words, it is a special privilege to a few of the richest men in the United States and the world, and the most sacred privilege that exists under this or can exist under any government—that of issuing money and declaring its character. It can make money plentiful or create a stringency at will. Its whole plan and modus operandi will be to play a fiddle while the people dance.—**Tonopah "Sun," Oct. 9, '09.**

NEW JERSEY.

A Plausible Scheme.

The Central Bank plan has been promulgated, and the men of business affairs have an opportunity for studying its worth as a panacea for the cure of past and possible future financial ills. The scheme is a plausible one and likely to meet with favor in some circles of finance, but it is not altogether assuring of stability and of freedom from attack by designing 'frenzied' financiers. —**Camden "Courier," Oct. 6, '09.**

APPENDIX

Hard Work Ahead.

"One may go a long way in an effort to controvert the underlying principles which ought to govern a central banking institution, properly founded, without accomplishing much; but it daily becomes more apparent that the campaign of education which the Monetary Commission and some of the leading bankers of the country have started in favor of a central bank is to have a rough and rugged road to travel before it can overcome the sentimental, even if superficial, objections which seem so prevalent."—**Newark "Evening News," Oct. 13, '09.**

For Practical Financiers.

An attack upon the credit of a central bank would also involve the credits of its depositing banks, which would all be sensitive to the same. Mr. Dawes instances the panic of 1837 as an example. The question of a new system of finance cannot be settled by theorists and doctrinaires; it is one for practical and experienced financiers to grapple with, the men who are in close touch with the large business affairs of the country and to whom the problems of finance are a daily study. These men are at once conservative and progressive, prudent and enterprising. They seek the maximum of benefits at the minimum of risk, and that rule they would apply to the great financial problem that Congress at its coming session will take up in earnest spirit.—**Newark "Star," Oct. 28, '09.**

NEW YORK.

Indispensable.

If anything more than a makeshift is to be adopted there must be a central bank, or the individual national banks of the country must receive the privilege of issuing notes upon their credit somewhat after the manner provided for in the Fowler bill last winter, or the country must adopt the Canadian plan of branch banking, with each bank having the right of issue. The Fowler plan would be a rash experiment. Nothing comparable with it exists anywhere. Nowhere in Europe would it be seriously proposed to trust the important function of note issuing to thousands of separate institutions, most of them in the hands of men who are not bankers in any proper sense of the term. The Canadian plan, while it has obvious merits, is impossible. The revolution which the substitution of branch banks for the little local independent banks of the country would entail is inconceivable. Moreover, with either of these systems "high finance," through the control of the greatest banks, would have its hand on the currency issue, and if there were any national regulation of it politics, too, might enter. The difficulties that confront the central bank inhere in every other possible system and the others present additional difficulties of their own.—**N. Y. "Tribune," Sept. 17, '09.**

More Discussion Necessary.

Opinions will differ as to whether Mr. Reynold's safeguards against intrusion of politics are sufficient to achieve that end, and it will also be observed that three important considerations —how the existing banknote currency is to be retired, how far the central bank, through branches or otherwise, shall compete with other institutions, and what shall be the ratio of coin reserve to note circulation—are not dealt with in his speech. As it stands, his outline of the scheme provides excellent basis for further expert discussion of the matter. The "Evening Post" is not prepared to adopt the project, however, until these and certain other considerations have been more fully debated. In particular, it is necessary to be always on one's guard against hasty analogies between the needs of the American banking and commercial organism, and those of other nations where the central bank is now in successful operation.—**N. Y. "Evening Post," Sept. 15, '09.**

Must Have Specific Proposal.

We are not at all of the opinion that the central bank is the only way. We are entirely of the opinion that the various possible programs should be laid before the people—now. In the United States there is an almost limitless ignorance on all financial questions. The general public must learn, because under our system of government, this business question will be dragged by adroit politicians to the ballot box. Well, then, let us begin. A vague groping into the air is not susceptible of definite discussion. A specific proposal is. Senator Aldrich's program—if we have guessed it right, from his cautious avoidance rather than from his bold embrace of a declaration—may be wrong; it may be right; but if he will offer his program, and if others will offer their programs, then the discussion can open; the education can start; the public can learn.—**New York "Press," Nov. 10, '09.**

Finance.

Mr. Aldrich knows, whatever the merits of the question, the people of the United States will at present not accept a central bank. Does agitating for one, therefore, appear to him a convenient method of avoiding any currency legislation whatever? Such an outcome would please most bankers.—**"Collier's Weekly," Oct. 9, '09.**

Political Danger Foreseen.

The question of assets currency, therefore, hinges on the possibility of insuring prudent and honest management of the banks issuing the notes. This might be done if the privilege of issuing notes were permitted only to a great central bank in the management of which the government itself would share. But then comes the question, could such a bank keep itself free from the suspicion of mingling in politics?—**Buffalo "Express," Sept. 24, '09.**

No Central Bank.

The "Sun" will always oppose a central bank of issue. Such a bank is intended by the Monetary Commission. The policy of that body as now formally disclosed by Senator Aldrich points to no other consummation. It is our conviction that a central bank of issue bearing the same relation to the money of this country that the banks of France and England bear to the money of those countries would prove a national evil. This country is traditionally and temperamentally unsuited to such an institution. If Mr. Aldrich and his associates by their united genius can fashion a central bank whose functions and powers shall be purely automatic and mechanical, well and good. But such a bank with us is impossible. We have developed no class in America from which we could create or recruit the administration and control of such an institution, while to isolate it from our political life is hopeless. We wish it were otherwise. It is a national misfortune that we cannot create a bank of issue, regulation and control like the Bank of England. But it is a misfortune to which we are habituated and which is an accepted condition of our economic existence.—**N. Y. "Sun," Nov. 9, 1909.**

Must Learn From Rivals.

That a great central bank is the cheapest, wisest and every way the best agency for dealing in credits and regulating the supply of currency according to the demands of business, the experience and example of every civilized nation today demonstrates. And if we are to stay in the race for the world's commerce and get our share of its business we must learn by our rivals and adopt their methods or go them better with our own. We have been far behind, with our clumsy, iron-bound, bond-secured, inelastic, war-time currency, and it is again fortunate that we make our changes while prosperity waits at our doors and the public credit is impregnable.—**Brooklyn "Standard-Union," Sept. 19, 1909.**

Two Wall Street Sides.

The President himself suggests that the "control of the monetary system shall be kept free from Wall Street influences." There is a sense in which that is true, and it is a pity that the President did not indicate clearly that he spoke in that sense. The central bank should be independent of all financial cliques, and of all merely speculative influences. But it is neither desirable nor possible that the central bank should be administered without regard for such wisdom in thought and boldness in policy as originated so recently in Wall Street, and rescued the country from the embarrassments into which it was plunged by the workings of that monetary system which Mr. Taft so aptly describes. It would have been better if Mr. Taft had recognized the obligation of his predecessor to the only part of Wall Street which is worth consideration, rather than that he should have pandered to a popular prejudice which it is better to instruct than yield to. * * * Wise consideration toward Mr. Taft, as well as duty toward the country's needs, dictates a certain benevolent reserve toward Senator Aldrich's financial masterpiece until it can be judged upon its merits, rather than upon forecasts of them. That is the surer way to get a central bank law which shall merit as well as receive judicious approval.—**New York "Times," Sept. 16, '09.**

Benefit to People.

If that idea of the central bank which is favored by President Taft and expressed by Congressman Vreeland is carried out, fear of a financial oligarchy is reduced to the minimum. Political power will be balanced by financial demands. In dividends limited to 4 per cent. the surplus will go to the treasury of the country and in the end to the benefit of the people. But even if it were to fall into the control of a few wealthy men we would be no worse off in that respect than we are now, and would have in addition the advantage we do not now have of being able to put our fingers exactly on the troubles created in a bank which controls and must do business in the public light. That, under our present system, we are not able to do until after the damage is done and we have time to reflect on cause and effect.—**Brooklyn "Eagle," Sept. 19, 1909.**

A Change Since Jackson's Day.

Much of the talk against a central bank is the outcome of conceptions regarding the United States Bank which was suppressed by Andrew Jackson, that Democrat who professed to be most democratic but who was the most autocratic gentleman who ever sat in the President's chair. But times have changed since Jackson, there is great advance in financial knowledge and in ability to meet financial requirements and the central bank now proposed will differ in many ways from the institution which Jackson smashed.—**Troy "Times," October 6, 1909.**

APPENDIX

Prejudice Can Be Overcome.

A curious state of opinion exists in regard to the creation of a central bank along lines cognate to those advocated by the Chamber of Commerce committee. Among experts there is substantial agreement as to the desirability of such an institution, yet there is great nervelessness, almost hopelessness, in its advocacy. The implication is that however great would be its benefit it cannot be obtained; that the prejudice and ignorance of congress and of the people are so deep-seated as to be practically irremovable. There is thus in effect confession of American inefficiency—that we are unable to adopt to our use a device that modern civilization elsewhere finds helpful. * * * The truth probably is that the traditional prejudice against a central bank is by no means as strong as it is supposed to be and that its last remnants would disappear if the men of congress who personally are enlightened had but the courage to act according to their convicitions.—**New York "Globe," Nov. 12, '07.**

NORTH CAROLINA.

Viewed With Suspicion.

It becomes more and more apparent that there is a concerted action, headed probably by Senator Aldrich, to revolutionize the banking business even more completely than Mr. Fowler would have done. This new revolution is for a central bank. We can express no definite opinion upon the subject until the plan is formulated and announced. We suspect that the scheme is in the hands of the same people who controlled the late revision of the tariff and that the result, if it is successful, will be a banking system about as subservient to the big interests as the tariff was made subservient to them; but we shall see when the plan comes out. If it should transpire that this central bank movement is similar to the one which Andrew Jackson broke all to pieces, or if it is one giving the control of bank note issues to a selected list of multi-millionaires in New York, then we shall have the Andrew Jackson row over again and in the meantime all the banks and all the people will suffer.—**Charlotte "Observer," Oct. 7, '09.**

APPENDIX

OHIO.

The Aldrich Bank.

There is so much opposition gathering to the central bank feature of the proposed currency system, that by the time Senator Aldrich gets in his report it will be quite unanimous; and if not by that time, it soon will be. It is very unfortunate that Senator Aldrich is in charge of the purpose to present a plan for the establishment of a new currency system. There is a deep seated feeling, throughout the country, that Mr. Aldrich's sympathy is with the interests, and that his currency scheme will be for their benefit.—**Columbus "Ohio State Journal, Oct. 11, '09.**

Not Wanted.

The idea of a great central bank never has been, is not now and probably never will be popular in this country. The effect of such a bank would be to centralize financial power and to put it into the hands of a few persons to make and unmake panics at will. The men who are behind the scheme have been tried in the tariff and other matters and have been found without appreciation of the public needs or their duty with regard to those needs. They will not be trusted in the matter of this proposed central bank.—**Columbus "Dispatch," Oct. 24, '09.**

A Fruitless Undertaking.

Aldrich closes his fruitless trip for laying the foundation for a new United States bank, by warning the country against the ghost of Andrew Jackson, who killed the old bank. Nevertheless, Jackson's ghost, like Banquo's ghost, will continue to haunt Aldrich, both awake and asleep, as long as he shall attempt to revive the monster which Jefferson destroyed. A much greater man than Aldrich met his political death by a similar attempt.—**Lorain "Daily News," Nov. 23, '09.**

Would Serve Wall Street.

In case of a casual stringency nowadays the process of relief is to have the United States treasury grab a bag of money and run over to Wall Street and help out. It will doubtless be much more convenient to have a central bank located right in Wall Street, with power to control the money market. Of course, much depends on who is given this power. If the President appoints another galaxy of corporation hirelings, of course, a politician or two, or some fellow with friendly interest in Wall Street may slip in. However, Mr. Taft and Mr. Aldrich will show the minimum of danger in this to the wild, woolly and wall-eyed west in their junket speeches. Get ready to swallow.—**Cincinnati "Post," Oct. 8, '09.**

Taft Interrogated.

President Taft tells us that a central government bank of issue (as proposed by Senator Aldrich) will be a fine thing for us all. But, says the president, it must not be controlled by Wall street. President Taft points out a danger, and he owes it to us all to tell us how that danger may be avoided. Answers to these three questions will help: What do you mean by Wall street control? How could Wall street be prevented from controlling the central government bank if its stock is owned by individuals or national banks? Do you favor the ownership of the central bank by the federal government itself?—**Columbus "Citizen," Sept. 27, '09.**

A Fantastic Dream.

If the President does not believe in the establishment of a central bank of issue until those two requirements are fully and completely covered then such bank now is but a fantastic dream, as unreal as the vision of Kubla Khan's castle conjured up by the crazed brain of Coleridge. Administrations are placed in power by political manipulation, and they are admittedly and openly kept in power through popular political activities, and charges have repeatedly been made that Wall street influences have been of great service to Presidents and Administrations, as well as arrayed against them. President Taft has made good his pledges in so many instances that the country awaits with confidence, respect and yet curiosity for this governmental bank of issue, the profits of which will accrue to the people at large and not to private individuals. The people are a unit with the President in his idea of such a bank if he can have it securely bound by his two indispensable requirements.—**Cincinnati "Enquirer," Sept. 20, '09.**

PENNSYLVANIA.

Best Opinion Favors It.

The President is not afraid to say that the trend of all the best opinion has been toward the creation of a central bank of issue, which should not interfere with the ordinary business of other banks, but should exercise that authorized and regulated control over the issues of currency for which necessity has at times compelled associated banks to invent an irregular substitute. Every great nation except the United States has some such system as is here proposed, of which the Bank of England and the Bank of France are the best exemplars, and currency panics such as have repeatedly distressed us are with them unknown. To assume that this country is incapable of profiting by the experience of the world, or that we cannot maintain a national monetary system for fear either of "Wall Street," on the one hand, or of "politics" on the other, is to confess the failure of our American institutions.—**Phila. "Public Ledger," Sept. 16, '09.**

For the Voters.

The central bank may be a good thing or a bad thing. We don't know, as yet. But it will receive full and fair discussion and eventually the electorate will pass upon it as it does upon all other questions.—**McKeesport "Times," Oct. 15, '09.**

West Against It.

Senator Aldrich's campaign to educate the West in favor of a central bank is asserted to be entered upon with an open mind. The Senator is open to conviction on any monetary plan so it's a central bank; and the West is likely to respond that it is equally open to the conviction that the central bank won't do. —**Pittsburg "Dispatch," Nov. 9, '09.**

APPENDIX

Commercial Paper.

This recent artificial panic, with all its hurts that have come or may yet come before everything is righted, will, in the end, prove a blessing to this country if, as now seems likely, the conspiracy of Wall street to destroy the character of commercial paper is exposed and broken and if commercial paper attains its rightful place in the currency and banking systems of the nation. Nothing else would contribute to the revival of real business so quickly and so fully as that. Merchants and manufacturers have been made to feel by bankers that gilt-edged commercial paper is a security inferior to the "cats and dogs" of Wall street gamblers. A cessation of all such estimates would mark the beginning of banking sanity.—**Phila. "North American" May 8, '08.**

Senator Aldrich's Open Mind.

When the fire engine needed a new coat of paint the foreman of the volunteer company said he didn't care "what color she was painted so long as she was painted red." On the subject of banking reform, Senator Aldrich has an equally open mind. In the opening sentences of his address in Chicago—the first of his educational lectures—he said: "The question of a definite plan for reforming existing conditions has not yet been taken up or considered by the commission." But a little later he said: "The conclusion has been reached with unanimity that bank note issues should always be made under government control, or at least subject to strict governmental restrictions and limitations, and that this can only be successfully done through one central and exclusive bank of issue." So the Senator has an open mind on the subject of banking reform, but there has got to be a central bank with exclusive rights of note issues.

It is not true, as the Senator supposes, that the opinion of financial authorities is unanimous that note issues should be made exclusively by one central bank. We have had notes issued by a multiplicity of banks for a great many years, and the difficulties that call for remedy are in no wise connected with the multiplicity of banks, but with the fact that the bond security, which was imposed not to protect note holders, but to force a market for government bonds during the civil war, prevents the elasticity of the currency, and that the lack of an efficient redemption system is a barrier to the contraction of the currency when it happens to be redundant.

In order to cure the inelasticity of our currency it is not necessary to adopt the most revolutionary change that could be conceived of—the concentration into one bank of the exclusive right to issue notes.—**Phila. "Record," Nov. 7, '09.**

The Only Remedy.

It will be noted, however, that the President, the Monetary Commission (unofficially), the Congressional leaders and the National Bankers' Association are pretty well agreed that a central bank is the only possible remedy for existing conditions. That seems reasonable and is certainly the apparent deduction from the absurdities and limitations of our present system. The Western bankers are right enough in their fear that such a bank may be a menace. It is just in the matter of details that the crux of the whole proposition lies. Every other nation on earth has a central bank and the principle may be conceded. What we want to know is how a bank may be established in this country which shall prove an effective regulator of the currency and discharge other normal functions of banking without becoming an organ of speculation or the source of vast power to be used by its managers should they prove at any time unscrupulous. This is what the Monetary Commission is working on at this moment. If it can provide a system with adequate checks it will be adopted, since there seems no other resource. When that plan is proposed it will be subjected to the severest scrutiny by every possible influence. It does not seem beyond the abilities of the Commission to prepare a workable and commendable plan, but until such a plan is produced there is nothing to do but wait in patience.—**Phila. "Inquirer," Oct. 17, '09.**

No Alternative to a Central Bank.

We hope one monetary fact will be understood early. Almost always, when the subject of a central government bank is discussed by bankers, the desirability of an elastic currency that will expand and contract to meet the fluctuating needs of business is admitted; but pretty often it is suggested that the central bank is only one of two alternative methods by which that object may be accomplished. The other alternative—although presented in many forms that differ as to details—has long been known as the "Baltimore plan."

The Baltimore plan proposes, in effect, that the national banks shall be empowered individually to issue circulating notes not secured by government bonds, and that the Government shall guarantee payment of the notes. Without Government guaranty the plan would be still more objectionable, for the noteholders' security would not be perfect. With such guaranty the Government would simply hand over its credit to six or seven thousand private institutions, trusting to their six or seven thousand private judgments and senses of honor not to abuse it. This is what some of our eminent financial friends mean by "keeping the Government out of the banking business."

What we hope will be clearly understood is that no such plan can be put into effect. The public may possibly be suspicious of a central bank, but we are vastly mistaken if it is not far more suspicious of empowering several thousand private concerns to issue circulating notes on their general credit. If credit notes, to pass current as money, are to be issued the credit must be that of the government. None other would be acceptable. And if the notes are to be based on the Government's credit the Government must issue them by its own agency. If we are to have an elastic currency there is no alternative to a central bank.—**Phila. "Saturday Eve'g Post," Nov. 27, '09.**

Discussion Necessary.

The Aldrich central bank project is now before the country. Every banker is studying it. Every business man of large interests or small is considering it. No one is yet ready for decision. Discussion must come first. The new central bank proposal seeks at all points to use experience elsewhere and to introduce here the best characteristics of the three great European central banks. The small rural bank will lose the profit it has drawn from currency issues, of small advantage to the big city banker. This will all be balanced by the great national advantage of a single strong banking center, guiding the banking and note issue of the country as in the three European countries, whose business centers at Berlin, Paris and London.—**Phila. "Press," Oct. 8, '09.**

RHODE ISLAND.

Obstacles May Be Removed.

It is high time that our slipshod and dangerous system or lack of system came to an end. A central bank might be devised that would degenerate into a mere plaything of politics; but there ought not to be any insuperable obstacle in the way of establishing such an institution as shall be forever guarded from partizan or personal manipulation.—**Providence "Journal," Oct. 20, '09.**

SOUTH CAROLINA.

Unreasonable Opposition.

"Essentially there is no reason why the people should oppose the operation of a bank under government auspices, and, practically, the plan has been found to work admirably and those nations which employ it have maintained a greater stability in their monetary systems than the United States has enjoyed. Practically all the European governments issue their currency through central banks, under the direction, though not in ownership of the government, and their currency is more elastic and altogether more satisfactorily controlled than is that of the United States. The prejudice against the central bank in this country is based on political tradition and not on scientific objection. It will not be easy to eradicate, but the public may be educated to regard the matter upon its merits, and if they put their minds upon the question they may overcome what appears to be rather an unreasonable opposition."—**Charleston "Eve. Post," Oct. 6, '09.**

APPENDIX

A Superior System.

It may be doubted if there has ever been a period in the history of the nation when clear-thinking financiers did not recognize the preponderating superiority of a central bank of issue over any other system of national finance, but there has been an undue timidity in the expression of this belief, due, we may suppose, to the total defeat which the United States Bank suffered at the hands of Andrew Jackson. Knowing well that the fact of the suspension of that bank weighed more heavily with people generally than the true reasons for that suspension, men have put up with the inefficient sub-treasury system rather than make a bold and energetic campaign for the renewal of a Government bank, predicating their fight on the fact that the public hostility to the old bank was due, not to the principle of such an institution, but almost wholly to the private and political nature of it. Jackson, it is true, attacked the constitutionality of the charter, but his view was contrary to the decisions of the Supreme Court, the final tribunal of appeal. So it is that the Jackson victory has held the country bound for years to a system of national finance which at best was a makeshift, and which has been bolstered up so often that it may now be taken for granted that no improvements will ever make it efficient.—**Charleston "News and Courier," Sept. 27, '09.**

TENNESSEE.

Would Split Republicans.

It (the central bank) will be almost certain to make wider the breach which the tariff bill created in the Republican party while it will receive practically solid Democratic opposition. If carried through Congress by a combination of the administration with Senator Aldrich and the Speaker of the House it will become a live issue in the congressional elections of next year and together with the tariff issue will be likely to make doubtful states of several of the commonwealths of the Northwest now regarded as safely Republican.—**Nashville "Banner," Oct. 25, '09.**

APPENDIX

A Central Bank Can Be Devised.

A central bank is another one of the things "The News Scimitar" is not afraid of. The power is in the hands of the people to see to it that the balance of power in such an institution is placed with the people or the government. A central bank can be devised that will still further reduce the danger of panics. The price for this benefit can be wholly paid by the people if they allow "the interests" to have the balance of power in it. The tendency is toward centralization or the elimination of the middle man and his maintenance in all things. It cannot be avoided and must be faced frankly and bravely and intelligently solved in the interest of the people. It is a danger or a benefit according to the alertness of the people, and progress will impose on the people greater benefit or greater danger whether or no. The alternative of greater danger or greater benefit will further inspire the people to greater discrimination in selecting their leaders.—**Memphis "News-Scimitar," Oct. 20, 1909.**

TEXAS.

"Queered" by Aldrich.

However sound the principle may be, and however meritorious the scheme of application devised by Mr. Aldrich, there is a vast volume of prejudice in this country against the establishment of a central bank, and to that historic prejudice will be added the prejudice which the measure will inherit from the circumstances of Mr. Aldrich's authorship.—**Galveston "News."**

Monroe Doctrine Invoked.

The latest scheme is for a United States bank—"a central bank of issue"—which would give Wall Street control of the finances of the country. * * *

Now, such a bank can not possibly be kept from Wall Street influences and from manipulation for political purposes. The head of a bank of the United States is master of American business and of American politics. As Jackson said, it is too great a power for any one man to have. * * *

APPENDIX

Senator Aldrich is now in Europe with the monetary commission. They will report that the Bank of England is a fine thing, and the Bank of France, and we ought to have a Bank of the United States. But America is not Europe. The Monroe doctrine ought to be extended to bar out such foreign ideas to keep the United States free.—**Houston "Chronicle," Sept. 29, 1909.**

Ideal System, If Safe.

The history of finance has demonstrated repeatedly that a people will not accept more money than they need. Money can not be forced upon them. It invariably goes back to its issuer. A central bank, with its finger on the pulse of trade, can anticipate the need of business for currency and supply it in just the requisite quantity. The sole bank of issue is, as we have said, an ideal system, but is it safe? To this question we can answer yes—if its owners are absolutely above human temptation.—**Beaumont "Journal."**

Central Bank Possible.

It is possible that a central bank, established and operated by the Government, that would have the effect of steadying interest rates, that would be the means of issuing to the people, through the banks, currency in exchange for the deposit of commercial paper and make possible the conversion of bank credits into available cash in times of need, would be a bulwark of strength against panics and financial upheavals, which the people would welcome and acclaim. It will be necessary, however, to assure the public that such a bank has not been projected on such lines as will permit its domination by a small group of financiers and that it will not become a political machine.—**San Antonio "Daily Express," Oct. 25, '09.**

State Bank Issues.

We have never been able to divorce ourselves from the idea that State banks, under proper regulations, should be privileged to issue notes. In this way, each community could supply itself with currency as required. A central bank would be too far removed from those sections which most need an emergency currency. What the Democrats should do is to demand a repeal of the tax on State bank issues, thus permitting the people in the several communities to use their credit to move their crops and their manufactured products as the necessity arises.—**Waco "Times-Herald," Oct. 13, '09.**

VIRGINIA.

An Adamantine Prejudice.

There are strong arguments in favor of the central United States Bank, but there are strong arguments against it; and over and above them all is an adamantine prejudice, combined with a fear that is by no means unreasonable. It would be hard to think of any proposition to which it would be more difficult to win the American people than the central bank idea which almost divided the Republic in its early days.—**Norfolk "Landmark," Sept. 16, '09.**

Wall Street Feared.

With millions of capital and almost unlimited government deposits at its disposal the bank can readily control the money market. But this danger is hardly so great as that attached to authorized note issues on commercial paper. Were such issues based only upon approved bonds, the authorization might prove a godsend to America. But where the paper of Wall Street brokers and New York trust companies is made the basis of exchange, the stability of the emergency currency becomes most doubtful. * * * Surely the twilight of political forgetfulness and the gloom of financial abandon have fallen on American leaders if they recklessly adopt a central bank plan which leaves the way clear for the bank to become the handy tool of Wall Street.—**Richmond "Times-Dispatch," Oct. 7, '09.**

WASH., D. C.

Must Be Fully Debated.

Whatever may be the merits of the plan to establish a central bank of issue, it has long been clear that this plan will meet with the most bitter opposition, in and out of Congress. This fact is emphasized by a statement recently given out by so able an authority on financial matters as Charles G. Dawes, former Comptroller of the Currency, now at the head of a large financial institution in Chicago. While it is undoubtedly true that the supporters of the central bank plan can make a strong case for it in many respects and while the need is plain for taking the kinks out of our financial system, such arguments as those of Mr. Dawes coming from a man of such standing as he, cannot be brushed aside. They must be met and answered to the satisfaction of the public or the central bank will not be established. —"Times," Oct. 30, '09.

WASHINGTON.

Would Be an Improvement.

Of course there are some perfectly valid objections to be urged to the central bank plan; but he is indeed a dull man who cannot realize that a central bank, controlled by the federal government, would be an improvement over the present lax and unsatisfactory system. Fortunately we are not without light on the subject. It will not be an experimental enterprise. American students of finance know what the Bank of England means in Great Britain, and they are familiar, also, with the French system. They know, too, that the bankers of this nation probably would not have been forced to the desperate and legally questionable alternative of flooding the country with clearing house certificates in the fall of 1907 if a strong, well organized and properly managed central bank had been in existence at that time.

Clothed with proper and adequate power, a central bank could have performed in a responsible way the same duties which the clearing house associations of the country performed in an irresponsible way. It is not intended to pass any criticism upon the clearing house associations; for the ability and good faith displayed by them during that unhappy period, they deserve the highest possible praise. They rescued the country from financial disaster, and they were forced to resort to an expedient of doubtful legality in order to do it. It was a hazardous undertaking, and if public confidence in the soundness and stability of the American situation had been less strong, it is a question whether the country would have been tided over the rough place.—**Seattle "Post-Intelligencer," Oct. 26, '09.**

Wide Divergence Prevails.

Whether Fowler secures his joint debate or not, he has started a discussion that ultimately will lead to legislation on the currency. All the authorities admit that something must be done. As to the cure, there is wide divergence of opinion. Congress will hesitate to establish a central bank, as urged by Senator Aldrich, but opposed by Representative Fowler and also by Mr. Bryan. But the reform of the currency system, which is now in process through the efforts of the currency commission, is certain to make progress.—**Seattle "Times," Oct. 31, '09.**

WISCONSIN.

Must Have Assurances.

There are undoubtedly many good things to be said for a central bank. It is the plan employed by nearly all of the leading foreign nations in the regulation of their currency. Germany has it, and Great Britain, and France. It is a convenient unifier of the various financial agencies, and a very pleasant refuge in time of a crisis. And it has many other merits. But the people of the United States will never accept a central bank, even though they are shown that it is the proper remedy for present ills, unless they are given absolute assurance that it will be their bank and not Wall Street's. The money moguls of the country can not, and must not, control the government's financial affairs. They have far too much power as it is without being given an instrument to work their will.—**Milwaukee "Journal."**

The Risk Too Great.

It is possible that the central bank idea might be adapted to our uses, though Mr Fowler thinks that it is unsuited to this country because of conditions existing here, but the danger is too great that it will be made the instrument for still further entrenching the forces of centralized wealth to justify the risk. We know that "the interests" are in the saddle at Washington and we may be sure that they will permit no opportunity to pass to enlarge their privileges to confiscate the people's earnings and strengthen their control of government.—**Milwaukee "News," Oct. 21, '09.**

II. THE FINANCIAL AND COMMERCIAL PRESS.

Abundant Discussion Necessary.

However this may be, it remains to say that Senator Aldrich's speeches, tactful as they have been, have been accepted by the press and the public at large as pointing strongly to his own belief in the central bank, and for this reason have evoked rather widespread comment on that expedient. Carefully as Mr. Aldrich has guarded against arguing formally for a central bank, his discussion of the great State banks of Europe, read between the lines, has made it clear where he stood on the general question.

It is not without interest to observe that such unfavorable criticisms as are made, either in public speeches or in the press, divide themselves into objections based on the political situation which would result, and objections based on the financial results. The feeling that, however disinterested might be the purposes of the framers of a law for a central bank, it could not be kept absolutely out of politics, appears to be deep-rooted.

We do not cite these objections as in all respects either logical or final; the interest in them arises chiefly from the fact that so many and so varied criticisms should have been made on the central bank plan, even before its formal advocacy by the statesmen appointed to frame a program for currency reform. We do not doubt that this attitude of the public mind will be seen and appreciated by members of the Monetary Commission and by Senator Aldrich himself. Even members of the Commission who have allowed to be known their predisposition for a central bank, have qualified this by saying that they were open to conviction in behalf of any other plan. This fact is well to keep in mind because it indicates that the discussion, even in its preliminary stages, is not yet closed; that the choice of the avenue of reform to be pursued is not yet made and will not be made until after abundant further discussion.—**New York "Commercial and Financial Chronicle," Nov. 13, '09.**

Country Is Receptive Now.

Senator R. M. La Follette, who has been heard of for some little time in connection with expert banking opinion, has again been lecturing out in the Middle West and has taken a further stand against Wall Street and the establishment of a Central Bank for Banks.

The appeal from the Senator from the Middle West to sectional prejudice is scarcely politic. There are some questions which must be decided for the whole of the Nation and any narrowness is harmful to every part. Serious consideration of the problem confronting the country must lead this United States Senator, as well as those who believe in him, to the conclusion that if the fundamentally right thing is done, the result can not be fundamentally wrong. The central banking institutions of other nations are not controlled by the speculative element. The principle involved is nothing new or strange. It has been proven to be right. It is the basis of our own Government.

The broadening of the discussion of the subject, even led by opposition, can not but be instructive and eventually helpful. It is evident in the general attitude of the country that any feeling of enmity toward the idea is confined to the few. The clamor that arose at the mention of the plan three or four years ago has quieted down now to respectful attention.—**New York "American Banker," Oct. 23, '09.**

Favors Canadian System.

In addressing the Pennsylvania Bankers' convention Mr. Vreeland complained that each individual bank "figures upon its own profits as to whether the volume of its note issue shall increase or decrease," the result being that the circulation at any given time "depends more upon the price of Government bonds than upon the needs of business." This is a true bill against the bond-security; it is one of the chief arguments for an asset currency. But it is not an argument for a central bank. The individual banks, doing business with their own customers, know quite as well as any central authority, and much better than any such authority with intimate political relations, whether more currency is needed or less. With notes issued against general assets and with a thoroughly efficient redemption system Canadian banking expands and contracts the circulation in perfect response to the commercial requirements.—**"Journal of Commerce," October 8, 1909.**

Trend of Opinion Favorable.

While there are men thoroughly conversant with banking and its relation in this country both to business and to the national government who affect to believe that a system comprehending a central bank of issue like those of France, Germany, Austria-Hungary and the Netherlands would not operate advantageously here, it is more and more noticeable every day that the trend of popular press opinion is steadily in favor of such a system—not necessarily exactly like any one of the European systems, but patterned after them. The system in detail is well worth extended study by American bankers and business men and all "currency reformers" and especially by the national law makers who within a year or two will unquestionably be called to pass upon some legislative proposal involving the establishment of a central bank of issue under government control and operation.—**N. Y. "Commercial."**

The Most Suitable Remedy.

All who believe in the central bank as the most suitable and serviceable remedy for our defective currency system may find both hope and inspiration in the remarks of the President, in favor of such an institution, at the banquet tendered him by the Boston Chamber of Commerce on Tuesday night. "It is certain," said he, "that our banking and monetary system is a patched-up affair which satisfies nobody, and least of all those who are clear-headed and have a knowledge of what a financial system should be."

The readers and contemporaries of **The Wall Street Summary** know full well that for the last four years this paper has advocated consistently and without let-up the identical reform which President Taft now approves; and, further, that the President's terse, brief, and pertinent characterization of our present currency system is expressed in the same language which **The Summary** reiterated on that subject again and again: "a patched-up affair."—**Wall Street Summary, Sept. 17, '09.**

Dangerous Influences Can Be Avoided.

The frank declaration of President Taft at Boston on Tuesday that the country should take up seriously the problem of establishing a central bank will go a long way towards removing the subject from the realm of theory to that of practical politics. * * * The declaration of the President indicates that he does not cherish the fear felt in some quarters, that political prejudice is too strong to permit the creation of a central bank in this country. His apparent trust in the disinterestedness of Senator Aldrich in the matter will strike some of those who observed the tariff contest as a striking instance of "the triumph of faith over experience." If the subject is thoroughly threshed out, however, there is little danger that the two evils which Senator Aldrich suggests—control by Wall Street interests and mixing up in politics—will be permitted to find a place in the law. The measure will be too closely scrutinized by disinterested students of the subject to permit any such influence.—**"Wall Street Journal," Sept. 16, '09.**

The Central Bank Idea.

The popular sentiment which holds the managers of the great European banks in such high estimation and the abstention of political interference or manipulation would be impossible here. It would be impossible to select a management for a central bank which would satisfy the whole country, and it would be impossible to keep the operations of such a bank outside the field of political discussion. Instead of being a useful instrument for our business affairs, it would be a center of political and business disturbance. No central bank could satisfy the various needs of such a country as extensive as ours without arousing jealousies and antagonisms, because we have not in our public sentiment the influence which in Europe takes for granted that whatever the central banks do cannot be questioned either from the standpoint of politics or business.—**N. Y. "Daily Banker," Dec. 9, '09.**

Must Be Discussed in Detail.

The intelligence of the country should demand that those advocates of the central bank who will be influential in the House of Representatives and in the Senate in framing the bill embodying the central-bank idea shall give to the country straight, clean-cut statements of the vital features of the bill, so that the trained minds of the country may be in a position to inform the people of the certain workings out of the bill, to the end that a well-grounded movement for necessary reforms in American finance shall not be permitted to be debauched in the legislative process and made the pretext for a law that will intensify financial ills.—**"Manufacturers' Record," Baltimore, Oct. 28, 1909.**

Full Demonstration Necessary.

Senator Aldrich is on the point of telling the country about his central bank plan. The Senator's lecture course, so to speak, will be devoted mainly to the middle West, where education as to the virtues of a central bank is apparently necessary. Education, according to the press, is also necessary in the South and in the East, not to mention the Pacific slope. That the astute Senator from Rhode Island knows this is beyond question. Hence his eagerness to inaugurate a campaign of education without loss of time. That he will find an awakened interest in the currency problem is evident; and he also will discover that the central bank plan will not be accepted by the country until its alleged advantages are fully demonstrated.—**"American Industries," for November, '09.**

APPENDIX

Opposition Should Be Sensible.

If the creation of a central bank is to be opposed, it should be for business and economic reasons alone. The reform of our currency system does not necessarily require the establishment of such an institution. * * * Opposition of this character is entirely rational and is deserving of serious consideration. It has nothing in common, however, with the hostility which grows out of the absurd fear that the establishment of a central bank of issue would be tantamount to handing over all our money to a handful of Wall Street financial magnates.—**"Commercial Bulletin," Boston, Nov. 6, 1909.**

A Central Reserve Bank.

There are a great many reasons why this country should have a great central bank, a bank for bankers and a bank of issue. President Roberts, of the Commercial National Bank of Chicago, has on many occasions clearly pointed out the many advantages such a bank would be to the banking system of the country and to business generally. If we had such a central bank as we find in other countries it would be given special powers to conserve our banking reserves. It would not be run for profit but to protect and safeguard the general financial situation. Such a bank would not be "loaned up to the limit," but would carry such a large reserve at all times that it could quickly respond to unusual demands in times of panic or other financial disturbance. We already have the nucleus of such a bank in our $860,000,000 gold reserve in the U. S. Treasury, the largest gold reserve in the world, and, as Mr. Roberts adds, "the most ineffective." A central bank would transform this immense store of gold from mere warehouse merchandise into an active banking power. When this country establishes such a bank, we shall take our place among the nations in financial matters where we belong—at the head of the front rank and quit trailing along in Class B. Our banking system will be strengthened so as to withstand any shock or pressure by providing a reserve center and making it a system in fact, a body with a recognized head.—**Minneapolis "Commercial West," Oct. 23, '09.**

APPENDIX

Commercial Paper's Importance.

The central bank will not play the role of Santa Claus. It will not make presents of its notes to needy banks, but will instead require of them ample security. Such security will consist of the more liquid of the assets of those needy local banks. The central bank cannot in reason accept anything else. It will not fulfil its mission if it does not so arrange its affairs that its note issues are contracted as rapidly when money begins to become easy as they are expanded when money tightens. But how can its issues contract unless back of them are assets which run rapidly to money? Obviously, they cannot, and any rational scheme for a central bank in this country will demand that the security back of the institution's issues shall consist mainly of the highest grade of commercial paper, which has at the utmost not more than three or four months to run.—**"U. S. Investor," October 16, 1909.**

Popular Feeling Hostile.

Nor is the argument that such an institution might come under the control of "the trusts" or some undesirable persons an empty one by any means; nor yet the argument that a central bank would concentrate business at one point to the hurt of thousands of other points. We have seen in the past few years the enormous aggregation of interests in the city of New York which were formerly localized elsewhere, and we have seen hundreds of industrial concerns combine into huge corporations. The tendency toward the creation of great units is one of the most conspicuous in the history of our business affairs for a generation past. If a central bank is to commend itself to the people of the United States the plan must be so devised as to afford promise of avoiding all these evils. The popular feeling, and to a great extent the feeling of experienced business men, is decidedly against this device for these well known reasons, and they must be satisfied before the plan will become workable. And it would be exceedingly unfortunate to have such an institution established by a close vote in Congress, for that would mean from the start a serious opposition to it which would stand in the way of its usefulness.—**"The Economist," Chicago, Oct. 23, 1909.**

Impossible.

As the years have gone on, the larger financial interests of the country have become more and more impressed with the idea of reorganizing our banking system more along the lines of those of England or Germany. This system embraces as its corner stone a central bank of issue. The United States in its past history twice tested the effects and value of a central bank and both times rejected the plan. So that throughout the length and breadth of the land there has been, during the past half-century, a very strong prejudice against any proposal for a great central bank which would control the currency, or act as a joint representative of the government and large financial interests in this respect. We are inclined to agree with Mr. Victor Morawetz that, whatever the merits of a central bank may be, it will be politically impossible to secure the legislation necessary to establish such a bank.—**"Moody's Magazine," November, 1909.**

Bankers Unanimous.

In all likelihood the currency problem will take precedence over the tariff at the forthcoming session of Congress. At present it is occupying the attention of the business politicians and of a large section of the daily press throughout the country. Particularly prominent in the discussion of the month were the bankers, who met in the thirty-fifth annual convention of their association at Chicago, September 14th. The deliberations there showed exactly where the country's bankers stand.

However, many different opinions were expressed as to detail. There appeared to be a unanimous sentiment in favor of the proposed central bank plan, which it is thought will be presented to Congress by the commission of which Senator Aldrich is chairman. Indeed, the only dissenting voice during the week was that of Speaker Cannon, who announced himself against the idea, for no particular reason except that he was inimical to radical reform.—**"Van Norden Magazine," November, 1909.**

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