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Proposed Reforms of the Monetary System.

BY
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Rev. Edw. Abbott

PROPOSED REFORMS OF THE MONETARY SYSTEM.

The most obvious defects of the present monetary system of the United States are its rigidity, the large proportion of credit-money, and the isolation of the ultimate redemption agency, the National Treasury, from the loan market. Other defects, such as variety in the form and legal tender quality of government obligations, are not grave; they do not menace public credit or the standard of value. Fortunately, the grave defects mentioned are so closely related that if any one is corrected, the other two must cease to cause much annoyance. If the system is made elastic, some of the causes leading to the exportation of gold and to embarrassing demands upon the treasury will cease to exist; or if the volume of credit-money is reduced, gold will be more abundant and will be more easily obtained when wanted for export; or if the business of issue and redemption can be deputed to a governmental bank similar to the Bank of England or the Bank of France, sufficient control of the loan market can be obtained to check movements of gold due to temporary irregularities of the money supply. A plan for the improvement of the monetary system must be appraised by its promise to yield one or more of these desirable results. The purpose of this paper is a critical examination of two plans recently laid before Congress and known respectively as the Gage plan and the Monetary Commission plan.

The Monetary Commission is an unofficial body of twelve men appointed as the result of a national convention of bankers and business men at Indianapolis in January, 1897. The members of this commission are men of experience and ability. They devoted several months to the study of the financial question and to the sifting of "plans" and suggestions submitted for their consideration. They finally

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agreed upon a plan, and published it with a "preliminary report," in January, 1898. A bill embodying the provisions of this plan has been introduced in the House of Representatives.

The commission pointed out nine defects in the system, which may be briefly stated as follows: (1) The vast amount of government credit currency. (2) The continuance in circulation of government demand obligations. (3) The lack of provision for increasing the volume of the currency with the growth of the country. (4) The inelasticity of the system. (5) The imperfect distribution of loanable capital. (6) The confused functions of the treasury. (7) The diversity in the forms of government credit-money. (8) The circulation of silver dollars of a nominal value greater than their bullion value. (9) An unscientific bank currency. The third defect noted by the commission is, if I understand it aright, the expression of a very mischievous fallacy. It is stated as follows:

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

That statement assumes that the money supply in a system based on the free coinage of a metal is not always self-regulating and sufficient, a fallacy which encouraged many votes for the Bland-Allison Act in 1878, and for the Sherman Act in 1890. It implies that we must make some special effort to prevent a scarcity of money as the country grows. One might suppose on the first reading that reference is here made to the inelasticity of the present system, to its incapacity to adapt itself to temporary fluctuations in the demand for money; but as that fault is clearly described in the commission's fourth "defect," the inference is unavoidable that the commission believes the future needs of the country must be satisfied with paper or credit-money rather than with gold. The correctness of the inference is confirmed by the details of the commission's plan, for under its

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operation any increase in the currency needs of the country would be met by an increase of credit-money. Yet, that the framers of the plan do not foresee or desire such a result is evident from the statement of their first "defect:"

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

PLAN OF THE MONETARY COMMISSION.

The plan of the Monetary Commission proposes to create a separate division of the treasury for the issue and redemption of government credit-money, all kinds of which, except silver certificates, are to be redeemed in gold; to retire gradually all government notes within the next ten years; to protect the gold reserve by giving the Secretary of the Treasury authority to borrow in three different ways; and to establish a bank circulation unsecured by bonds, but protected by the joint liability of the issuing banks. The following is a more detailed summary:

1. **ISSUE AND REDEMPTION.**—To create a separate division of the Treasury, in which shall be deposited funds held against outstanding gold, silver and currency certificates, silver bullion behind the Treasury notes, and the guaranty and redemption funds of national banks; also gold equal to 25 per cent of all government notes and 5 per cent of all silver dollars (a total of about \$136,000,000). Redeem in gold all forms of government credit-money, including silver dollars, but not silver certificates, which shall be redeemed in silver dollars. Silver certificates shall be in denominations under \$10; all government and bank notes \$10 and above. Gold and currency certificates not to be reissued.

2. **GOVERNMENT NOTES.**—They shall be paid out only in exchange for gold coin and currency certificates; except that the secretary, at his discretion, may use them for the purchase of United States bonds. Government notes shall be canceled as follows: \$50,000,000 at once, then for five years dollar for dollar, as bank notes increase; after five years one-fifth each year, all being canceled after ten years.

3. **GOLD RESERVE.**—It must be kept large enough to maintain confidence. The secretary may replenish it from surplus revenues or by sale of silver bullion at his discretion, or by borrowing in one of three

ways: (1) by sale of 3 per cent twenty-year gold bonds payable after one year; (2) by sale of 3 per cent gold certificates of indebtedness payable in one to five years; (3) by borrowing at not over 3 per cent in sums not less than \$50, through sub-treasuries and post-offices, keeping record of loan on books and not issuing either bonds or certificates.

4. **BANKING.**—Issue of bank notes to be limited to capital. Lowest denomination \$10. Repressive tax of 2 per cent per annum on notes in excess of 60 per cent of capital and under 80 per cent; and of 6 per cent on notes in excess of 80 per cent of capital. The notes to be legal tender to national banks and to the government, duties on imports excepted.

(a) *Security.*—(1) Deposit of United States bonds equal in value to 25 per cent of capital, their value being fixed by secretary on 3 per cent basis. After five years this bond deposit shall be reduced one-fifth annually, ceasing after ten years. (2) A common guaranty fund in gold coin equal to 5 per cent of circulation; in case of its impairment all banks to be liable to assessment. (3) Notes to be first lien on assets of issuing bank. (4) Personal liability of stockholders to extent of stock.

(b) *Redemption.*—Each bank must maintain in the Treasury a redemption fund in gold coin equal to 5 per cent of its circulation. The present system of redemption by the government to be continued, sub-treasuries becoming redemption agencies.

(c) *Retirement of Notes.*—Proportionately to its payments of lawful money to the Treasury a bank's circulation to be treated as "reduced," and its liability to the guaranty fund correspondingly diminished.

(d) *Reserve.*—The present reserve requirements against deposits to be continued, but a bank shall not count its deposits in the redemption or guaranty funds as part of its reserve, nor its own notes as part of its cash assets. One-fourth of a bank's reserve must be "coin" held in its own vaults. No reserve required against circulation.

(e) *Miscellaneous.*—(1) Banks of \$25,000 capital permitted in places of 4000 population or less. (2) Branch banks should be authorized. (3) A tax of one-eighth of 1 per cent per annum on capital, surplus and undivided profits to cover expenses of the Treasury. (4) Existing banks must reorganize within one year.

It is the evident purpose of this plan to provide an elastic bank currency, to reduce the amount of government demand obligations, and to relieve the strain upon the National Treasury. If it were adopted, would it really result in an

improvement of the monetary system? After a careful and candid consideration of all the measures involved I am compelled to conclude that it would not. The proposed banking system is the vital feature of the plan; upon its successful operation the success of the whole depends. In its general character the banking plan is an application of the "Banking Principle," yet it is not a fair illustration of that principle; several important provisions are entirely new and have not the sanction of experience, while others have in the past been proved unsound. As a result of the defects of the proposed banking system it is most probable that the plan would not lessen the proportion of credit-money in existence, nor yield an elastic currency, nor lighten the burden of the United States Treasury. It is to be feared, indeed, that the plan, instead of removing present evils, would aggravate them and also add to their number. It would tend to diminish rather than to broaden the gold base of the monetary system; it would alienate from the national bank system some of the best banks in the country; it would supply inducements for contraction at times when there is greatest need of expansion; it would leave a door wide open for fraudulent practice. Unfortunately, the objectionable features of the plan cannot be removed simply by modifications; most of them are vital, and the plan must stand or fall with them. I will discuss the defects of the plan categorically.

First. *The plan would not lessen the proportion of credit-money in the currency.* It would merely substitute bank notes for government notes. At the present time the credit-money in use in the United States, including national bank notes, amounts to about \$1,100,000,000. It is estimated that there is also in use about \$700,000,000 in gold. The experience of this and other nations warrants the opinion that this is too large a proportion of credit-money. Our gold constitutes only about 35 per cent of the total money supply, whereas in England it is 72 per cent, in France 62 per cent, and in Germany 70 per cent. Even Russia, which has only just

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adopted the gold standard, has a currency consisting of 50 per cent gold. The United States, being one of the largest commercial nations of the earth, must always be prepared to face a large adverse balance of trade, requiring large exports of gold to foreign countries. Our experience during recent years has certainly made it plain that we should be in a position to spare several million dollars of gold at any time without exciting the apprehension that we are likely to depart from the gold basis. The supply of gold in the country should be so large that every bank can easily keep the greater part of its reserve in that metal. At the present time banks hold but a slender stock of it, and when alarmed over the outlook are tempted to add their demands to those of exporters, thus increasing the drain upon the National Treasury. It seems necessary, therefore, that any plan for the improvement of our currency which looks toward the permanent establishment of a sound system should provide for the enlargement of the gold basis. This the plan of the Monetary Commission fails to do. It proposes to retire the greenback and Sherman note, and to put in their place bank money, dollar for dollar.

It is possible, indeed, that the plan would increase the need of gold in the currency. The only kinds of money available for banking reserves would be gold, silver dollars and silver certificates. Of the silver money there would be about \$450,000,000, and over half of it would be outside of banks in active use among the people, for the silver certificate would be the only paper money in denominations under \$10. On October 5, 1897, the national banks held in their vaults \$389,000,000 in cash, and the state banks about \$170,000,000. Of the \$559,000,000 thus held by banks, \$240,000,000 was in gold, the rest being in silver and government notes. If the government notes are to be cancelled, something must be found to take their place in bank reserves. Since sufficient silver certificates would not be available, it may be argued that the banks must increase

their holdings of gold, and hence that the gold base of the monetary system would be broadened. It is possible that the plan would yield those results, but there are reasons for fearing that it would not. Experience has shown that under a system permitting the prompt issue of notes against general assets a smaller cash reserve is necessary than under a system permitting note issues only against deposits of coin or bonds. Of the \$389,000,000 cash held by the national banks last October \$100,000,000 was in excess of the law's requirement. Such an excess of cash is not desired even now and would certainly not be if the banks had the power to issue notes freely, particularly if their notes were so guaranteed and protected that their customers regarded them as practically equivalent to legal tender money. Again, banking institutions outside of the national system would find the new bank notes excellent substitutes for legal tender money. The bank notes would be easier to get in convenient form than gold or silver certificates, and would perform all the functions of either. Finally, even if the banks should increase their gold holdings, gold would not necessarily be added to the money supply. Under the plan, the National Treasury, as the government notes were retired, would reduce its holding of gold by about \$100,000,000. This gold would be available for use in bank reserves, and if still more were needed the banks would doubtless attract to their vaults part of the gold estimated to be in the country at present outside of banks and the treasury.

Thus, while it must be admitted that the plan might tend to lessen the proportion of credit-money, yet that result is not certain, nor even probable. The framers of the plan have apparently not thought it a result to be desired; they have, it would seem, consciously endeavored to construct a system that would put a bank note into the place of every government note that may be cancelled.

Second. *The plan will not make the currency elastic.* This defect is due to two provisions, that which makes the new

bank note legal tender in payments to banks and to the government, and that which makes all banks jointly liable for the notes of failed banks. These provisions will tend to render the bank currency rigid and inelastic. They will evidently secure to each note a much larger sphere of usefulness than it would possess if issued on the credit of a single bank. Bank notes having such qualities and so guaranteed, bulwarked also by the pledge that all the power and machinery of the government will be used to secure their redemption, will be accepted by the individual quite as readily as if they bore the government's unconditional guaranty. No man will hesitate to accept a bank note or inquire into the credit of the issuing bank if on its face it bears the assurance that all banks will accept it and the government receive it in payment of dues. Such a note, while it cannot form a part of the reserves of national banks, will be as good as any other kind of money for all state banks, private banks, savings banks, and trust companies. In fact, there is no reason why, if this plan is adopted, three-fourths of the money payments of ten dollars and above throughout the country should not be effected by the use of national bank notes. Excepting in the vaults of national banks, they will everywhere be as serviceable in the currency as a gold certificate.

It is possible for a bank note to be altogether too "good," just as a kite-frame may be too strong if strength is obtained at the expense of lightness. A bank note is too "good" when its "goodness" is obtained at the expense of elasticity, when its security is so great and its ultimate redemption so certain that it possesses practically all the utilities of money and so fills a permanent place in the circulation. A bank note is merely a bank's promise to pay money, and is entitled to acceptance and circulation solely because of the public's confidence in the promisor. The excuse for its issue is the fact that it is cheap and can be put forth exactly when wanted, so that if a community's needs for currency

suddenly increase, they may be promptly satisfied by the bank note. It acts upon prices exactly like any other form of credit, namely, by lessening the demand for money. If banks are unable to issue notes, evidently the increasing needs for currency in a community can either not be satisfied at all, so that prices will fall, or money must be imported into the community from outside. As a rule, money will not be brought in until its importation has been made profitable, either by a rise in the local rate of interest, or by a fall in local prices, either of which is always injurious to the interests of business men and producers. A monetary system which tends to prevent fluctuations in prices or rates of interest is better than one which does not. Under our present system, as is well known, the varying needs of localities can only be satisfied by shipments to and fro of currency, for the banks are unable out of their own resources to satisfy them. The national banks are not poor in credit. The experience of the public with them for thirty years has given them a strong hold upon general confidence. They have an abundance of credit, but in times when a locality's needs for money rise above the ordinary, they cannot make the most effective use of it. If at such times they were able to coin their credit and issue it in the form of authorized bank notes, those pieces of coined credit, even though unguaranteed by the government and possessed of no legal tender power, would serve in the community all the purposes of money and save many a business from the distress which is occasioned by a temporary shortage in the current medium of exchange.

It is important to notice the distinction between a bank note of the kind here briefly described, which resembles a certified check payable to bearer, and a bank note which bears the government's guaranty. The former will have a narrower field of circulation than the latter. It is issued because of local needs, and its usefulness will mainly be restricted to the local circulation; it will not pass beyond the

limits of the bank's credit, but will circulate only where the bank is known. There it will have value and acceptability, just as a certified check has value and acceptability within the radius of a bank's field of activity. There is no reason why it should be good both in Maine and Texas. The man who says he wants nothing to do with a bank note that is not good all over the country, could with just as much reason object to a fine painting because it does not satisfy his sense of hearing. He has a fundamentally wrong idea of the one important service a bank note can perform. The guaranteed bank note, which rests upon the credit of all banks and upon the government, will be equally good in Maine or Texas. It will disappear from the locality of the issuing bank as quickly as a greenback or gold certificate, and will tend to become, therefore, a permanent part of the country's circulation. The unguaranteed note, when the exigency calling it forth has ceased to exist, will be treated like a check or draft and presented to the bank either for redemption or on deposit. When the bank's customers want credit in a form available for distant payments, they will deposit the bank note and use the bank's credit in other forms. The guaranteed note, however, whether guaranteed by the government or by all the banks of issue, being as good in one part of the country as in another, will slip away from the locality of the issuing bank and remain in circulation long after the local need for money has resumed its normal dimensions. Consequently, while we secure expansion with a guaranteed note, we can by no means be certain that we will have prompt contraction as the needs of business diminish. The guaranteed note is too good a piece of paper. It resembles money too closely, being everywhere acceptable. To be sure, it may finally be presented for redemption at some distant point, and in time be returned by the government to the issuing bank. But that process will be slow. In the meantime mischief may have been done through a possible inflation of the currency and an unfavorable turn

in foreign exchange, due to a temporary redundancy of the money supply.

It may be urged that some of the most successful banks of Europe issue notes possessing full legal tender power, and therefore that the plan of the Monetary Commission should not be criticised on this score. A rapid comparison with European systems will show that no parallel exists. The notes of the Bank of England need not be considered, for they are secured by the deposit of securities and gold equal in value to the face of the notes. Practically, they are gold certificates. The notes of the Bank of France, however, which are legal tender everywhere excepting at the bank, are secured solely by the miscellaneous assets of the bank. The Bank of France has been one of the most successful of the great banks of Europe, but it is a mistake to assume that its career warrants the issue of legal tender notes as provided for by the plan of the Monetary Commission. It is one thing to permit the issue of such notes by a single great institution, closely connected in its organization and management with the government, and quite another thing to authorize such issue by 3600 isolated, independent institutions. The Bank of France, again, is the only institution in France from which gold can be withdrawn for export. The government and the public hold it responsible for the maintenance of the public credit and the standard of value. The bank, therefore, is restrained from over-issue of notes by the strongest motives of self-protection. If embarrassment seems likely to result from withdrawals of gold, it has at hand an instant remedy, for it may raise its discount rate and thereby restrict its note issues, thus correcting the redundancy of the circulation and easing the rates of foreign exchange. In this country, however, the 3600 issuing-banks would be influenced by no motive leading to a reduction of their circulation. The National Treasury would be obliged, then as now, to bear the burden when foreign exchange rose to the export point. The banks

would feel no responsibility on this score, and would continue to force into circulation as many of their notes as possible. That is, in fact, exactly what they did in 1894 and 1895, when the new issues of government bonds depressed the prices of government securities and so increased the profits on the issue of national bank notes. The banks increased their circulation and unconsciously inflated the currency at the very time when the government was doing its utmost to prevent inflation and check the exportation of gold.*

The banks of Belgium, Holland, and Sweden, whose notes are legal tender, are in a position very similar to that of the Bank of France. Each of them is closely related to its government, and must supply the gold that is demanded by exporters. Each of these banks, therefore, is able to regulate the volume of the domestic circulation, and is under a powerful inducement to check any tendency toward over-issue.

Third. *The plan of the Monetary Commission will not lessen the strain upon the National Treasury.* Although the greenbacks and the Sherman notes will no longer be in existence, their places will be taken by bank notes. There will also be in existence about \$450,000,000 in silver coin and certificates, the latter all being issued in ones, twos, and fives. The silver dollar is to become a direct obligation of the government, redeemable on demand in gold. Inasmuch as the bank note has to be redeemed by the government in legal tender money, it is evident that the holder of any kind of money, whether silver certificates or bank notes, may demand gold from the government. Indeed, a man who has a credit at any bank can convert that credit instantly into a gold obligation. If the government wishes to put difficulties in the way, the utmost it can do is to compel

*The unsatisfactory working of the national bank note system in 1894 and 1895, I have described in some detail in the *Bankers' Monthly* for June, 1897, and in a "Discussion of the Interrogatories of the Monetary Commission," published for the University of Pennsylvania.

him first to exchange his bank notes or silver certificates for silver dollars and then exchange the silver dollars for gold. It is difficult to see, therefore, how the government's position would be improved by the substitution of these bank notes for government notes. The treasury's position will, indeed, be fortified by the secretary's right to borrow at discretion for the replenishment of the gold reserve, but the exercise of that right will never be regarded with complacency by the country and should be treated as a last resort for protection against unforeseen and unusual emergencies. It may be left entirely out of account when considering the advantages of proposed modifications of the monetary system.

Doubtless, the framers of the plan assumed that the elasticity of the bank note circulation would result in a diminution of the demand for gold for export purposes. If the bank note circulation should prove to be genuinely elastic, expanding and contracting with the needs of the country, their assumption would undoubtedly be justifiable. Except in extraordinary times, the exportation of gold is always the result of a redundant money supply. This is a truth which economists and intelligent bankers have well understood for one hundred years. It was demonstrated in the famous Bullion Report of 1810 by a committee of English financiers and statesmen. It is plain, therefore, that if a bank note currency tends to reduce its volume as the demand for money decreases, it is an automatic corrective of redundancy, and so must lessen the necessity for gold exports. In like manner, by its expansion, it renders unnecessary the importation of gold because of a temporary increase in the need for money. The Monetary Commission, therefore, if it proposed an elastic bank currency, would be justified in hoping that its plan, even though it does not add to the gold in the country, and still leaves the government liable for the redemption of all forms of a large mass of credit-money, would lessen the exportation of gold and hence lessen the demands

upon the treasury. Unfortunately, however, as I have already shown, in consequence of the legal tender quality of the bank note and its conditional guaranty, there is danger that it would be less prompt in seeking retirement than in seeking issue. There can be no doubt about its expansion. Every banker would be prompted by the strongest motives of self-interest to force upon his customers his own notes; but those notes, when once out, because of their acceptability, because of the wide field in which they could operate and perform the services of money, not only would fill a large place in the circulation permanently, but would come in slowly for redemption.

Fourth. *The plan of the Monetary Commission will tend to increase the proportion of credit-money.* Not only does the plan provide for no enlargement of the gold base of our monetary system, but it takes a step in the opposite direction, for its operation would probably result in the proportionate diminution of that base. It is evident that if the present system be continued, no more credit-money being issued by the government, either of paper or silver, and no additional bank notes, the amount of gold in our currency will gradually increase with the growth of the country. As the demand for money increases in consequence of a swelling tide of business and of an increased population, the new gold from our own mines will be coined at our mints and find employment here at home. There will be a natural, gradual, almost unperceived augmentation of the gold base of our monetary system. That base has within the last five years been increased by about \$200,000,000, but the gain was effected by a conscious, expensive and painful process, the issue of bonds. After 1878, in spite of the fact that we were adding silver credit-money to the circulation, there was a gradual and healthy increase in the gold supply. The estimated amount of the stock of gold in 1878 was \$213,000,000; in 1888 it was \$711,000,000, which is also about its present amount. Since 1888 our net exports of gold have amounted to about

\$325,000,000. In that period we added to our supply of credit-money about \$250,000,000. A student who has mastered even the elements of finance, knows well enough that but for the issue of the credit-money we should have kept at home \$250,000,000 of the gold which we lost in those years.

Now, there is reason to believe that if the banking plan of the Monetary Commission is adopted, we shall go on, as in the last decade, satisfying our growing demand for currency with credit-money rather than with gold. My fear on this score is based again on the fact that the plan proposes for the country a bank note of excessive usefulness. As we have seen, these bank notes will be available for almost all the functions of money that can be performed by notes of ten dollars and above. The only place where they will be valueless, as compared with legal tender money, will be in the reserves of the national banks. Inasmuch as it will be to the interest of every national banker in the country to obtain for his notes the largest possible circulation, since they cost him practically nothing and all income from them is pure profit, is it not probable that as the growth of the country occasions need for new currency, these bank notes will be forced into the vacuum? Among individuals, because of their guaranty and acceptability with banks and with the government, they will be indistinguishable from legal tender money. Consequently, the conclusion seems inevitable that as the country grows, the volume of bank money will expand and the volume of gold remain stationary. Thus, as the years go on, the ratio of standard money to credit-money in the circulation, instead of growing larger, thereby rendering our system more and more sound and secure, will steadily grow less, until the gold movements from the country will seem even more fraught with peril than now.

Fifth. *The best banks would probably not take out circulation.* This defect of the plan of the Monetary Commission

grows out of the joint responsibility which the banks must assume for the redemption of all bank notes. A bank when taking out its circulation must deposit in legal tender money an amount equal to 5 per cent of its circulation. This deposit is known as the guaranty fund. If a bank fails and its assets are not sufficient for the redemption of its outstanding notes, the government draws upon the guaranty fund, and other banks are at once assessed for an amount sufficient to make good the impairment of the fund. The assessment is proportionate to the amount of each bank's circulation. Evidently there is a possibility, in case of panic, speculation, and bad banking, that the guaranty fund may be many times exhausted and the solvent banks heavily assessed. It will not do to assume that banks will be managed with the same conservatism that has characterized the operations of national banks during the last thirty years, for the plan not only makes the business of banking more profitable than it has been, but introduces entirely new features into banking, so that we are not justified in assuming that the ratio of failures in the future will be practically what it has been in the past. Therefore, the fact that the safety fund during the last thirty years would have been very slightly impaired by bank failures cannot be taken as a basis of estimate with regard to its probable impairment under the plan suggested by the Monetary Commission.

At the present time the capital stock of national banks amounts to about \$650,000,000 and of state banks to about \$230,000,000. If the profits of banking under the new plan prove greater than under the old, more capital will enter the business, the state banks will probably be converted into national banks, and the total capital stock of national banks will be indefinitely larger than at present. There are now about 3600 national banks; what the number would be if this plan were adopted can only be conjectured. We should have several thousand banks, scattered in all parts of the country, authorized to issue notes against their assets, and for

the ultimate payment of these notes all the banks would be jointly responsible. The soundest and most conservative banks in the country would not enter into a scheme of this sort. It would be a blind pool in which losses, not profits, are divided. No banker likes to assume an indefinite liability. His whole training makes him shrink from entering any scheme, no matter what the promise of profit, which may make him share losses due to the misfortunes, the stupidity, or the fraud of men with whom he has no business dealings. Under this plan every banker would be, in a sense, a member of an unlimited partnership. He would be unacquainted with his partners and unable to regulate their conduct. In all probability this view of the case would present itself so forcibly to our best bankers that they would issue no notes at all. The plan does not compel the national bank to issue any circulation; consequently, those banks that desired to be absolutely certain of their solvency, or at least to have their liabilities entirely within their own control, would doubtless continue merely as banks of deposit and discount. Hence, in all probability, the notes issued under this plan would not be secured by the assets of many of our strongest banks. They would be put forth by bankers willing to take chances in order to pay large dividends. Every business man knows that banking of that sort should not be encouraged.

Sixth. *Under the Monetary Commission's plan contraction might naturally result when expansion was most needed.* Let us grant that the plan is approved by the bankers of the country and that they do issue a circulation of \$670,000,000, which is equal to the outstanding greenbacks, Sherman notes and present bank notes. What would happen in case a panic threatened? That is the time when a scientific bank note system is capable of most service to the country. Then the demand for money increases with frightful rapidity, and unless the volume of the circulating medium is increased, interest rates rise and prices fall, throwing many individuals

and firms into undeserved bankruptcy. At such a time the demand for loans is not a demand for capital, but a demand for the medium of exchange. Individual credit is in a state of collapse; creditors are not satisfied with the individual's promise to pay; they demand payment in a medium of general acceptability. At the outbreak of a panic public confidence in the solvency of banks is not lessened. The credit of banks, therefore, when issued in the form of a circulating medium, is able in the beginning to satisfy the increased demand for money, and if it is permitted to do so, that acute stage of a panic which is marked by runs on banks and is the result of a general loss of confidence, may be prevented.

Would such a healthful expansion take place under the plan of the Monetary Commission? On the contrary, many bankers would be under strong temptation to reduce rather than to increase their circulation. The first duty of a bank is to guard against its own insolvency. It is the custodian of other people's money; it must protect them against loss. If a bank manager foresees failures among business men and among banks, whatever the cause, whether excessive speculation, the misuse of capital, or the threat of war, he seeks at once to strengthen the position of his own bank. He cannot restrict his loans arbitrarily, for that would tend to precipitate a panic in his own locality and bring ruin upon his own customers. Such a policy is now well understood among bankers to be short-sighted and liable to react with injury upon the bank. But under this plan there would be one liability from which he might escape, his liability for the redemption of the notes issued by other banks. His inability to measure the danger would increase his anxiety to be rid of it. I believe, therefore, that many of the stronger banks, as soon as there was fear of panic, would promptly forward legal tender money to the nearest sub-treasury and cancel their note circulation. This action would be permitted under the plan, which provides as follows: "Any bank may

deposit any lawful money with the treasurer of the United States for the retirement of any of its notes; whereupon the comptroller shall direct the repayment to such bank of whatever sum may be the unimpaired portion of said bank's contribution to the guaranty fund on account of said notes.' Thus, there is danger that the plan, instead of giving the country a larger volume of money in times of distress, would cause a contraction of the currency and so aggravate the very evils which a bank note circulation designed to alleviate.

Seventh. *The Monetary Commission's plan offers easy opportunity for fraud.* A bank act constructed upon the principles of this plan would, in my opinion, prove a veritable Klondike for the swindler. If the plan were in operation, a half dozen men of the class who make their living off the weakness and stupidity of the public, if they could raise \$54,000, could without difficulty establish a bank in any locality. They could issue notes up to \$30,000 merely upon the deposit of \$3000 with the government, and could issue an additional \$10,000 upon making a deposit of \$1000 and the payment of a 2 per cent tax, or \$200. Thus their total payments to the government on a circulation of \$40,000 would amount to \$4200. Possibly they might secure deposits from the community, but theoretically that would not be necessary. Having loaned their capital and notes to confederates, in due time they could cause the bank to be forced into insolvency. Their gross profits, since the bank notes would be easily converted elsewhere into legal tender money, would amount to about \$35,000, and the whole transaction need not occupy the gentlemen engaged in it for over two weeks. I do not mean to imply that such operations would be conducted quite so brazenly as I have assumed to be possible, but that possibility would exist, and beyond question the country contains a number of men who would make the most of it, even though in order to avoid the necessity of flight from the country they

should be obliged to maintain for some months or years an apparent honesty of purpose as bankers. It will be noted that I have assumed in my illustration that no deposit of bonds is required as security for the notes. The plan, indeed, provides for a deposit of bonds equal to 25 per cent of the capital, but at the end of ten years this requirement is to cease. I have chosen to consider the manner in which the plan would operate after it had reached its ultimate form. The bond deposit would, of course, reduce the profits of the swindlers by at least \$12,500, leaving the gross profit about \$23,000. I think even that sum would be sufficient to induce more than one man of easy conscience to take up the study of banking.

Such, as they appear to me, are the objections to the plan of the Monetary Commission. Are they not equally applicable to any plan for the issue of notes against assets? Am I not simply repeating old objections to the "banking principle," arguments of the kind that resulted in the Bank of England's adoption of the "currency principle?" Questions of this sort are probably in the minds of those readers who are convinced that no bank notes should be permitted unless they are based upon security equal in value to their face. In order to answer these questions and show that the defects of the Monetary Commission's plan are not inherent in any plan based upon the "banking principle," I will briefly compare it with the Canadian and other systems. Such a comparison will make it evident that the plan is not the product of experience, but of theory.

The plan differs in four important respects from the Canadian system. First, Canadian bank notes are not fully guaranteed even by the banks. The Canadian Safety Fund of 5 per cent, may be utilized for payment of the notes of a failed bank, but the solvent banks are not liable to indefinite assessment. The law provides that the assessment for the repairment of the safety fund shall not in one year exceed 1 per cent of a bank's circulation. Thus

Canada bankers know the worst which they may have to face on account of the mistakes of their competitors.

Second. The Canadian bank note is not legal tender for any purpose whatever. Hence its place in the circulation depends entirely upon its acceptability among the people. It is merely a credit-instrument of the issuing bank, being more secure than a check or draft mainly because of its first lien upon assets. The government does not promise to redeem the notes, but compels the banks themselves to make provision for redemption. Thus their volume fluctuates just as does the volume of other credit paper, such as checks and drafts and personal notes, rising and falling with the varying needs of business.

In the third place, the creation of a note-issuing bank in Canada is not permitted until after the proposed incorporators have been subjected to a thorough investigation both by the government and by the interested proprietors of existing banks. Applicants for a bank charter must deposit with the Minister of Finance legal tender money equal to half the amount of the desired capital stock before their application is considered. During the interval which must elapse before it is granted, the fact of the application is advertised, and the investigation by the government is reinforced by the scrutiny of bankers themselves, who do not propose to have their safety fund liability increased by the establishment of a bank under men of unknown or unworthy character.

In the fourth place, there are in Canada only thirty-nine bank corporations which issue notes, and their minimum capital stock is \$500,000. The Canadian law does not contemplate the issue of notes by a large number of small institutions. It is assumed that the difficulty of supervision would be too great. The wants of small communities are easily satisfied through the agencies or branches of the large banks. Thus in Canada every note-issuing bank is liable to a limited extent for the mistakes committed by only thirty-

eight other institutions. It is possible to keep informed with regard to the condition of thirty-eight banks. Furthermore, if any one of these thirty-eight banks seems reluctant to let its real condition be known, or seems disposed to engage in speculative enterprises, its rivals can easily bring it to terms. They can refuse to accept its notes on deposit, and so bring the offending bank into very unwholesome discredit. Canadian bankers do not find it necessary to employ this method of coercion; the mere knowledge that it may be employed seems sufficient to check any tendency in the wrong direction.

But can it not be urged against the Canadian system that it tends to prevent an accumulation of gold in Canada? As Canada grows is it not likely that the bank circulation will expand and so render unnecessary an enlargement of the gold base of its system? There seems to be no reason why these questions should be answered in the affirmative. The possible circulation of bank notes which lack any legal tender quality or government guaranty cannot be estimated. Their volume will depend entirely upon their acceptability, and that is a product of two things, bank credit and the popular liking for paper money. If the Canadian preference for paper over coin does not increase and the credit of banks receives no shock in the future, it is reasonable to expect that the present ratio between Canadian credit-money and gold will continue unchanged as the country grows.

Furthermore, it should be noted that Canada's liabilities with regard to gold are entirely different from those of the United States. The United States is one of the largest gold-producing countries in the world, and is also one of the wealthiest. It is always liable to the inconvenience of a large and so-called unfavorable balance of trade. It may be called upon to export to Europe in a single year \$70,000,000 in gold. It must, therefore, have an abundance of the metal in its circulation, for otherwise the security of its monetary system may at any time seem to be imperiled. Canada, on

the contrary, is never likely to be called upon to export in a single year more than a few million dollars of the precious metal. If it cannot conveniently spare that amount from its own circulation, it easily makes a draft upon its wealthy neighbor. The United States, therefore, must be prepared to take care of Canadian balances as well as of its own. Surely we do not want a poorer bank currency than Canada has. The Canadian banking system permits an increase of the gold supply; the plan of the Monetary Commission would prevent it.

That England cast aside the "banking principle" over fifty years ago argues very little against it, for the principle was seldom if ever intelligently applied in England. English experience prior to 1844 furnishes eloquent illustration of mistakes to be avoided. During the period of restriction (1797-1820) Bank of England notes were legal tender, and the bank put them out on the principle that an over-issue was impossible so long as they were issued only in response to a genuine demand for loans. The managers of the bank did not understand the distinction between a demand for money and a demand for loans or capital. They thought that the presence of borrowers armed with good security, was an indication of an increasing demand for money, and that therefore an issue of notes in response to such demand could not result in an inflation of the currency. This fallacy was responsible for the curious opinion which many English financiers held with regard to the depreciation of the bank note. For many years it was gravely contended that the premium on gold indicated not an over-supply of bank notes, but an appreciation of gold. The managers of the bank made a second mistake throughout this period. The bank rate of discount was fixed at 5 per cent, and was seldom changed. As a result, whenever this rate was a fraction below the normal market rate, the bank had more than its just share of patronage, and its loans and note issues tended to expand at an abnormal pace. Thus for

a period of over thirty years the Bank of England, because of the misconceptions of its governors, failed to regulate properly the paper currency of England, and so brought what is now known as the "banking principle" into disrepute. Even after the resumption of specie payments the bank continued to make loans at an unvarying rate of interest, and as its notes, though not always legal tender, were universally acceptable, their issue constantly tended to keep the exchanges unfavorable to Great Britain. At the same time independent country banks were issuing notes, and were vigorously expanding the circulation with paper which was redeemable in notes of the Bank of England. The Bank of England had to bear the burden of the currency just as the National Treasury bears it in this country to-day. Consequently the country banks were not much concerned about the rates of foreign exchange, and were not impelled to reduce their circulation merely because gold happened to be in demand for export to the Continent. Their customers were content to receive Bank of England notes. Hence upon that bank fell all the responsibility for the maintenance of the gold standard. The Bank Act of 1844, restricting the issues of bank notes, was adopted in order to free the currency from the confusion and uncertainty which had resulted from the unscientific banking of the time.

It is not my purpose to offer any scheme for an issue of bank notes upon a correct principle. Such a discussion might possess some interest theoretically, but I doubt if it would have much practical value. It may be worth while, however, to suggest briefly certain possible methods of attaining the ends at which the Monetary Commission has aimed. If it is desirable that the bank note shall closely resemble lawful money, acceptable in all parts of the country, and that its volume nevertheless shall be flexible, it must be issued by the government itself. As soon as a bank note is made legal tender it loses at once its character as a piece of bank credit and acquires a larger circulation,

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the people justly holding the government responsible for its ultimate redemption. It becomes essentially government money. It may be wise for the government to issue credit-money, but the government, if at all, should make the issue directly. The agency for issue would be a bank of the United States similar in some respects to the institution which Andrew Jackson forced out of existence. Such a bank, managed by officers of the government, should be a bank of deposit and discount as well as of issue. It should redeem in gold all the demand obligations of the government and should regulate the volume of its notes in accordance with the needs of trade. Through its influence upon the loan market it could in some measure control the movements of gold. Experience would show how large a volume of credit-money it could safely issue. A bank of this character is practically what Ricardo recommended eighty years ago in his well-known "Proposal for an Economical and Secure Currency." It was his idea that no gold need be coined, the bank redeeming its notes in bullion. Such a bank could undoubtedly supply the people with a safe paper currency if it were soundly and conservatively managed. It is doubtful, however, if present political conditions in this country warrant any hope that such a bank would be wisely managed even if the necessary legislation establishing it could be obtained.

There are obvious objections to the existence in this country of three thousand or more bank note issues possessing different degrees of acceptability. It was, doubtless, these objections that led the Monetary Commission to provide an extraordinary guaranty for bank notes. But the objections that can be justly urged against an unguaranteed issue by 3600 banks differing widely in resources and credit, do not necessarily hold against an issue made by one hundred large and well-known institutions. If we are to adopt a system resembling the Canadian, yielding a perfectly flexible bank note, not guaranteed nor redeemed by the

government, not legal tender, yet generally acceptable, the issue of notes must be restricted to banks of large capital. Possibly a practicable scheme could be devised whereby banks of not less than \$2,000,000 capital could put forth a safe and flexible circulation. These banks should be obliged to maintain a large safety fund, and possibly in the beginning a tax upon the circulation would be salutary as a repressive measure, for bank notes must not be permitted to cause the expulsion of gold. It would be well, also, to authorize the establishment of branch banks in order that the notes might conveniently reach the country districts; yet this feature, although it would augment the usefulness of the note and benefit communities now unable to utilize their credit, would not be essential.

It may be objected that there are political reasons why the issue of notes should not be restricted to large banks. The cry of monopoly may be raised, and no political party will be willing to shoulder such an odious responsibility. In that case, if we are to have a really useful bank note, and not a pretended bank note, starched rigid by a governmental guaranty, we must return to something like the old system of state bank issues. Such an apparent retrogression would really be progress. The bank notes which circulated in New England, Indiana and Louisiana before the war were much more useful instruments of exchange than the present national bank note. If something on the lines of the famous Suffolk system could be established in each state under an act of Congress, that made strict provisions for redemption, theoretically there is no reason why a safe bank currency of great local usefulness should not be obtained. Still better results could probably be secured by the division of the country into ten or more banking districts, and the limitation of the issue privilege to banks of at least \$100,000 capital, each district maintaining a separate safety fund. In a state or district system conservative bankers would be able to exert a most wholesome influence upon their

competitors. Self-interest would cause them to keep well informed as to the condition and methods of every bank of issue within their state or district, and to bring heavy pressure to bear upon any which excited suspicion.

The government should be very slow and cautious about interfering with the established conditions which underlie the credit operations and machinery of this country. Credit is not a product of law, or of systems artificially put into operation. It is the outgrowth of conditions which legislatures may destroy but cannot create. It would be unwise therefore to attempt to force upon the country a credit system which the business men do not thoroughly understand. Their confidence is essential to its success, and it cannot have their confidence unless they understand it. The Canadian system, or the old Scotch system of banking, which compel the admiration of the student of finance, cannot be bodily imported into the United States. They are the products of years of experience. Their evolution has proceeded under the eyes of the people, and in response to the needs of the people. That is the reason why they enjoy the confidence of the people and maintain unshaken credit even in great emergencies. A gradual change of our present banking system is, therefore, rather to be recommended than a sudden transition to one theoretically ideal.

PLAN OF SECRETARY GAGE.

That it aims to accomplish certain desirable ends without any radical departure from the present order of things is a *prima facie* recommendation of the plan proposed by Secretary Gage. The creation of an issue and redemption division of the treasury, which the Monetary Commission recommends, was his suggestion originally, and is part of his plan. He proposes to refund the national debt at 2½ per cent, and to protect the gold reserve by locking up in the treasury a portion of the government's credit-money. To prevent a contraction of the currency, he would authorize

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national banks to issue notes up to the par value of the bonds deposited, and also permit them to issue, in addition to the secured circulation, an unsecured or emergency circulation equal to 25 per cent of the bonds deposited, such emergency circulation being taxed at the rate of 2 per cent per annum. The essential features of his plan are presented in the following outline:

1. **ISSUE AND REDEMPTION.**—Create separate division of treasury for issue and redemption of all kinds of government paper money. Transfer to it \$125,000,000 gold, and silver dollars and bullion equal to outstanding silver certificates and treasury notes. Do not reissue redeemed United States notes, treasury notes, or silver certificates except in exchange for the coin in which they are redeemed.

2. **REFUNDING PLAN.**—Authorize the issue of $2\frac{1}{2}$ per cent gold bonds, redeemable after ten years at option of the United States, to be exchanged on an equitable basis for the government 5's of 1904 and the 4's of 1907; also authorize an issue of \$200,000,000 of said $2\frac{1}{2}$ per cent bonds in addition to the amount needed for making said exchanges.

3. **BANKING.**—Limit the issue of bank notes to capital. Lowest denomination \$10. Two kinds of circulation: the first secured by United States bonds of a par and market value equal to the face of the notes; the second unsecured and restricted in amount to 25 per cent of the bonds deposited against the secured circulation. A bank must deposit bonds equal to 50 per cent of its capital before notes may be issued.

(a) *Deposit of Government Money.*—A bank, in lieu of bonds, may deposit as security for its notes, United States notes, treasury notes or silver certificates. But not more than \$200,000,000 of such government money can be so deposited, and the secretary may, at his discretion, substitute for it $2\frac{1}{2}$ per cent bonds, the money then becoming part of the general redemption fund.

(b) *Redemption.*—Each bank to maintain in the treasury a redemption fund equal to 10 per cent of its circulation. The notes to be redeemed at the treasury and at designated sub-treasuries. "The faith of the United States is hereby pledged" to the prompt redemption of the notes.

(c) *Safety Fund.*—Each bank to pay a tax of 2 per cent per annum on its unsecured circulation; the proceeds to be a safety fund to reimburse the United States for redemption of unsecured circulation. It may be invested in government bonds.

(d) *Miscellaneous.*—(1) A tax of 1 per cent on circulation, except that issued against the deposit of government money. (2) Banks of \$25,000 capital to be permitted in places of 2000 population or less. (3) Present law as to legal tender character of bank notes not changed.

Secretary Gage's plan would increase the profits and enhance the volume of bank circulation. Theoretically it renders possible a bank note inflation of the currency, the amount of the national debt alone placing a limit upon the issue of notes. It is fair to assume, however, as Secretary Gage does, that banks will be unable to buy more than one-half of the outstanding United States bonds at prices which would make the issue of notes profitable. His plan would undoubtedly give a great boom to government securities, yet many of them are held by investors and institutions because of their security, and would not be thrown upon the market even though the price should advance. Nevertheless it must be admitted that the possibility of inflation would exist, and that should be guarded against. If the issue of secured notes under this plan were definitely limited to about \$500,000,000, objections on the score of possible inflation would be obviated, for the plan contemplates the reduction of the present circulation by about that amount. Of government money at least \$200,000,000 is to be tied up in the treasury; and the Redemption Fund of 10 per cent would tie up \$50,000,000, which is \$40,000,000 more than is in the fund at present. Adding to these sums the present amount of national bank note circulation, we have nearly \$500,000,000.

Would his plan lessen the strain upon the National Treasury? Secretary Gage holds that it would, but his reasoning is far from conclusive. He maintains that it would reduce the amount of the government's demand obligations liable to be presented for redemption at the treasury from about \$860,000,000 to \$360,000,000. He reasons in this way: \$200,000,000 tied up in the treasury, \$40,000,000 added to the Bank Redemption Fund, and \$250,000,000 tied up in the

banks and in the pockets of the people in bills of small denominations, the government having a monopoly of the issue of small notes. He is inclined to believe that exporters of gold will have difficulty in getting hold of much of the remaining \$360,000,000 of government obligations, and so will be unable to bring great pressure to bear upon the treasury. In other words, there will be a scarcity of legal tender credit-money, and banks will find it as convenient to redeem their notes in gold as in government paper. The flaw in this reasoning is the assumption that the demand for gold for export is somehow related to the quantity of government credit-money in circulation; whereas in this country it is mainly due to the inelasticity of the currency. So long as the government undertakes to maintain an absolute par between gold and all forms of credit-money it must stand ready to pay out gold whenever any of the paper for which it is sponsor is presented. Its guaranty of bank notes makes them virtually a government obligation. Unless they contract in volume when the money supply is redundant, gold will be forced from the country and exporters will get it in the easiest possible manner. Under Mr. Gage's plan, on account of the government's pledge of redemption, the bank notes of the future would probably be found as useful instruments for draining the treasury as greenbacks have been in the past.

Does the plan introduce into the currency any element of elasticity? If it does, the liability of the treasury to demands upon its gold reserve will be reduced. The secretary's banking plan is certainly a step in the direction toward the "banking principle," with its consequent elasticity of note issue. Up to 20 per cent of their capital stock, banks are permitted to issue notes secured solely by their general assets. These notes, however, on account of their guaranty and limited legal tender quality, will enter into general circulation and be indistinguishable from those which are based upon bonds. They will not remain in the vicinity of the issuing banks any

more than would greenbacks or silver certificates. The 2 per cent tax would tend to cause their retirement, or the retirement of an equal amount of legal tender money, whenever local rates of discount became so low that the issuing banks made no profit out of their emergency circulation. It is to be feared, however, that the tax of 2 per cent would prove too small to be effective in many parts of the country. Certainly in the West and South banks would not be restrained from putting forth these emergency notes by so low a tax. Even the New York banks have for years been willing to pay that rate on bank balances, an indication that they are able to find profitable use for the money. It is likely, therefore, if Mr. Gage's plan were adopted in its present shape, that a large number of banks would put forth their emergency circulation in normal times and be unable to respond to the increased demands of their customers when times of real emergency arose. The tax should be so large that very few banks would be able to pay it except in times of extraordinary demand for money. The Bank of Germany pays a tax of 5 per cent on its emergency circulation. In my opinion, that is about the rate which banks should be compelled to pay in this country if they are permitted to issue guaranteed notes in excess of the security which they deposit. Such circulation would then expand in times of real distress, and thereafter almost instantly disappear.

Secretary Gage's plan, with the two amendments that I have suggested, might be adopted without any risk which I can foresee. It is far from ideal, but it is a step in the right direction. The new features which it grafts upon our present system would be readily understood by bankers and business men. That is a great point in its favor. Experience under the plan would gradually impress upon the public the importance of elasticity in the currency, a matter in which they have had no experience or instruction for nearly forty years. In time it would doubtless be possible

still further to amend the system and to mould the currency gradually into something like ideal shape. Although Secretary Gage's plan does not provide a place for new gold in the currency, yet it is not, like the Monetary Commission's plan, open to the objection that it might prevent the broadening of the gold base in the future. The amount of bank notes that may be issued under his plan has comparatively definite limits, and the permanent place that they would fill in the circulation is not liable to great expansion as the country grows. There would be no doubt about this whatever if the issue of secured circulation were limited to a fixed amount; then the development of the United States would certainly be accompanied by a rising proportion of gold in its money supply.

President McKinley's recommendations as to the currency are aimed especially at the difficulty and cost to the government of maintaining the gold standard. In his message he urged that greenbacks once redeemed should not be paid out again except in exchange for gold. This simple measure would tend to improve the situation to some extent. The gradual retirement of greenbacks as suggested by the President would tend to make them essentially gold certificates, and is quite possible without any contraction of the currency; for their place in the circulation would be immediately filled by gold fresh from the mines of this country, gold which would be otherwise sent to Europe. The President's recommendation is excellent, not because it proposes to retire the greenback, but because it proposes to reduce the volume of credit-money and increase that of gold. The greenback has suffered undeserved odium, for it is commonly assumed to have been the cause of the treasury's embarrassment in recent years; whereas the real cause lies in the rigidity of our monetary system, in the large proportion of credit-money, and in the inability of the treasury to influence the movements of gold. The greenback has been merely a convenient instrument for effecting changes in the money supply

which these conditions have rendered necessary. Of course, the retirement of the greenback, or of any form of credit-money, should be gradual and at the discretion of the Secretary of the Treasury. The foreign exchange market furnishes a trustworthy barometer. The rise of exchange to the export point, particularly if accompanied by low rates on discounts and call loans, is an indication of excess in the currency, which will be corrected by the exportation of gold if not corrected in some other way. At such a time, if the revenues are yielding a surplus, the Secretary of the Treasury might retire easily and safely a certain amount of demand obligations by a judicious reduction of government deposits in national banks. Instead of losing gold the country would lose credit-money; there is no doubt as to which can best be spared.

In view of the antagonistic attitude of the friends of silver toward currency reform, it is worth while to note the fact that two entirely different "money questions" are before the people of the United States. One concerns the standard of value, the other the defective character of the present monetary system. Logically there is no reason why these two questions should be confused. The vital issue between monometallism and bimetallism is one of prices; the bimetallist holds that prices will fluctuate less under a double than under a single standard, or, at least, that if they do change they will tend to rise rather than to fall. This issue is one that cannot be settled merely by improvements of the present monetary system; nor, on the other hand, can the defects of the system be remedied merely by a change of standards. There are two distinct "questions" here, and each should be settled on its merits. For twenty years the Congress of the United States has been tampering with the monetary system under the mistaken idea that by enlarging the use of silver it could effect a satisfactory compromise between monometallists and bimetallists. The result has been satisfactory to nobody,

excepting perhaps the gold-using nations of Europe, whose currencies we have enriched with gold at the expense of our own. It is time for bimetallists to recognize the fact that the policy of the United States since 1878 has not only given it an unsafe and top-heavy monetary system, but has also helped make easy and inviting the path of the gold monometallists in other parts of the world. Instead of strengthening the prospects of bimetallism, our stumbling, empirical imitation of it has convinced many plain, practical men of affairs that it is something irrational and visionary, approved only by English university professors and debt-dodging Americans. On all accounts, therefore, it is well to stop confusing the two "money questions." The defects of our monetary system are independent of any defect in the standard; they would exist even if gold as a measure of values were universally admitted to be ideal. On the other hand, improvements of the system cannot affect the general tendency of prices, and therefore cannot cut away the ground upon which the bimetallist stands. The country is trying to do business upon the gold basis; all outstanding credits, both of the government and of the individual, have been accepted as promises to pay gold; there should be no doubt about the meaning or the fulfillment of those promises. To remove all occasion for doubt is the real purpose of "currency reform," and there is no reason why a fair-minded bimetallist should not work for it as ardently as a gold monometallist. He would be a dangerous ship's captain who refused to take in sail merely because he preferred steam to sail vessels and hoped that some accident might win his employer over to his view.

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