

EVILS OF THE NATIONAL BANKING LAWS

Referring to the provisions of the national banking law which require national banks to maintain a reserve and the clause which permits banks in certain cities to count "balances due to an association" as a part of their reserve and that each bank in designated cities shall select an association in New York where one-half of its reserve may be deposited, Mr. O. H. Schreiner of Brooklyn, N. Y., in an article published in The Commoner said, that the concentration at New York of the reserves has been the nourishing mother of trusts and their great water capitalizations. He contended that the plain intent of the law is that the reserves should be kept sacred and unimpaired, but that New York bankers loan them to stock exchange gamblers for speculative purposes. This lopsided distribution of the reserves, he said, constitutes a preference in law or its administration, but that even a gradual correction of the law would probably distress Wall Street.

A reader of The Commoner, who has had excellent opportunities for observing the practical operation of the national banking law, makes interesting comment upon Mr. Schreiner's article. This reader says:

"In the October 1905 number of the International Quarterly, Mr. C. A. Conant says that the funds required to finance the gigantic combinations, trusts and mergers, flow to New York because that city is the center of American financial operations, and particularly because national banks are permitted to count money deposited with New York banks as a part of their reserves.

"Mr. Frederick W. Gookin says, in a letter published in The Nation, January 18, 1906 that the stringency of the New York money market during the autumn of 1905 was due to the locking up in New York stock exchange speculations of the free loanable capital of the country which accumulates at New York because the country banks can not loan it at home.

"There is a natural tendency for money to accumulate at the centers of population and wealth but local development demands that this inclination be curbed as much as possible. The laws governing national bank reserves, however, not only stimulate it but actually force money to concentrate at these points, especially at New York, and as "demand" and short time loans are very profitable to New York bankers, this particular provision appears to have been dictated by them. They accept and pay interest on all money temporarily out of use during the dull season of the year, and loan it to speculators at high rates. When crop moving time comes the country banks call in their New York deposits, and this cuts off the supply for speculative purposes. Then New York bankers come forward with their asset currency schemes and point to the stringency in the speculative money market as indicating the necessity of such a law. The secretary of the treasury is also importuned to deposit public funds with them, for which they would pay nothing, to loan at high rates of interest to the stock gamblers who at such times are making desperate efforts to stave off disaster as long as possible.

"The establishment of postal savings banks by the government would be a blessing to the thrifty but would prove disastrous to the banking interests and the speculators whom they supply with funds at usurious rates, hence the postal savings banks are not established. The national banking law is utterly without a commendable feature, but if national banks were permitted to loan money on real estate security the concentration at New York of enormous sums of money would be materially lessened. But such loans would not be as profitable as those to stock gamblers because home-builders could not afford to pay exorbitant rates of interest, hence there is no likelihood of the law being amended in this respect.

"But the reserve clause of the law is not worse than its other provisions, and to propose amendments thereto is to give tacit indorsement of the law and the principles upon which it is based. The law should not be amended, but repealed. When it was enacted in 1863 the very life of the government was threatened by war. Funds were necessary to prosecute the war but the "defenders of national honor" who had money to loan would not loan it to the government without special inducements and special privileges, and the national banking law gave them what they wanted. It provided that those who would loan the government money by buying its bonds, if they would organize a national bank, should have the privilege of issuing money (the

bank to deposit bonds to secure its circulation but to receive interest on them from the government) which they could loan at interest, or discount notes, checks and other negotiable paper.

"A public law which confers special privileges is not a law in substance, but a privilege and therefore an exception to the rule of law. It is a law only in that certain constitutional formalities were complied with in its passage. The most vicious, indefensible and repulsive characteristic of such laws is that they invariably discriminate in favor of the strong and against the weak. The ideal government is the one that protects the weak from the encroachments of the strong, and it is only necessary to note the fact that many of our laws lavish special privileges upon the strong to prove that our government is not an ideal one in its practical operations.

"For the government to discriminate between its creditors is a crime, yet this is what the national banking law does when it confers upon national banks the power to issue money, secured by depositing bonds. To say that all owners of bonds may become bankers and thus secure the same privilege does not meet the issue. In effect the government says that to become its creditor the individual must become a banker, or it will discriminate against him. This law has practically compelled the private holders of government bonds to sell them to national bankers because the national banks are, by reason of the privileges they alone enjoy, able to loan money to the government at a lower rate of interest than private individuals could afford to accept. This lowering of the interest rate is heralded as a great financial feat, but every decline has been purchased at the price of giving privileges which more than offset the saving in interest. The act of March 14, 1900, which republicans point to as the acme of financial legislation, authorized the secretary of the treasury to refund into thirty year two per cent bonds, the outstanding three per cent bonds due in 1908, the four per cent bonds due in 1907, and the five per cent bonds due in 1904, a total of \$839,000,000. The people heard much about the saving in interest, but little or nothing about the price paid in sacrifices and privileges. The fact that the banks exchanged old bonds bearing a higher rate of interest for the new two per cent bonds is evidence enough to convince any intelligent man that it was a victory, not for the people, but for the banks. In the first place the public debt is fastened on our back for thirty years, but this not being sufficient inducement for the banks to make the exchange, the secretary of the treasury was authorized to pay a premium for the old bonds, and furthermore those banks exchanging old bonds for new ones, as a deposit to secure national bank notes, were relieved of one-half of the tax on such notes. The premiums paid and the loss of one-half of the circulation tax largely offset the saving in interest, and the public debt is tied up for thirty years.

"As the national debt is the basis for national bank currency the liquidation of the debt would necessarily be followed by the retirement of the national bank currency. From an inducement to loan the government money, as originally intended, this law is being used to compel the government to borrow money and perpetuate the national debt.

"The platform of the democratic party in 1900 contained the following clear statement:

"A permanent national bank currency, secured by government bonds, must have a permanent debt to rest upon, and if bank currency is to increase with population and business the debt must also increase. The republican currency scheme is therefore a scheme for fastening upon the taxpayers a perpetual and growing debt."

"At this time there are about 5,770 national banks with over 300,000 shareholders. As a rule these shareholders are men of wealth and influence, and their connection with the bank affords many opportunities to grant or withhold favors and in this way are able to exert more influence than men of equal wealth in other professions. It is impossible to conceive of a more powerful engine of intimidation in political campaigns than this organization of over 300,000 national bank stockholders. They not only vote and work solidly against the party which antagonizes special privileges, but they contribute money to defeat it, and if the amount of their contributions was known the contributions made by the insur-

ance companies would appear insignificant in comparison.

"The power to issue money carries with it the power to contract or expand the volume of money in circulation and this means that the banks can make prices high or low as best suits their interests. That they contract it when metallic money is scarce and expand their issues when metallic money is plentiful can be demonstrated by the fact that national bank notes decreased from \$358,742,000 in 1882 to \$167,927,000 in 1891, during which time gold production was stationary. On March 14, 1900, bank note circulation amounted to \$254,000,000, and on October 1, 1904, it was \$442,000,000, and during this time gold production almost doubled.

"To surrender governmental functions to private corporations is a great wrong and injustice to the people. This power is exercised to oppress the people and oppression and despotism breed revolution. This is not the time to propose pop-gun amendments to the national banking law. The disease demands more radical treatment than that; the law must be exterminated and the people again assume their rights."

HE INVITED PENROSE

In his Fourth of July address at Oyster Bay President Roosevelt observed that while the problems of today are not the same as in Lincoln's administration, they must be met with the Lincoln spirit and the Lincoln devotion to duty. But Mr. Roosevelt has not so far invited the gubernatorial candidate of the Lincoln party of Pennsylvania to confer with him. Can it be that Mr. Roosevelt is not willing to meet the situation in Pennsylvania "with the Lincoln spirit and the Lincoln devotion to duty?"

SPECIAL OFFER

Following are extracts from letters received at The Commoner office:

W. H. Easterling, Imus, Cavite, P. I.—I have long been a subscriber to your valuable paper and would not be without it at any price. The work it is doing in the interests of the masses as against the classes calls for the active support and co-operation of all who believe in equal rights to all and special privileges to none.

Dr. D. S. Byers, New Hampton, Ia.—I have been a subscriber to The Commoner from its first issue, and as an old subscriber, I will send you a new subscriber. I hope each old subscriber will be able to send one new one so as to aid the spread of the doctrine of democracy in the United States.

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