PREPARE FOR THE ASSET CURRENCY QUESTION

Commoner readers will desire to be thoroughly prepared for the discussion of the asset currency question. That question has frequently been discussed by The Commoner, and now that the American Bankers' association has inaugurated a determined effort to bring about asset currency the subject is now of special interest. A gentleman who has made a careful study of finance and of banking business generally has written for The Commoner a series of articles relating to asset currency. The first installment is presented in the following:

Numerous schemes for reforming our currency have been threshed out in congress during the past few years. Most of these bills have the same purpose in view but differ in details. The end ultimately sought is to hand over to the national banks the issuance of paper money, with the power, of course, to expand and contract its volume at will. The retirement of United States notes, or "greenbacks," is also provided for in nearly every bill.

The Hill bill provided for a division of issue and redemption in the treasury department under the control of three comptrollers of the currency, and to this division all funds in excess of a cash balance of fifty million dollars, and all gold and silver coin and bullion, was to be transferred for the purpose of redeeming greenbacks, treasury notes and certificates in gold, which were to be cancelled, and in their place "national reserve notes" were to be substituted. These new notes were to be issued by any national bank to any amount not to exceed its paid-up capital, the bank to surrender to the treasury an equal amount of greenbacks. They were to be legal tender and the issuing bank was required to provide for their current redemption in gold. National banks then in existence were required to take out "national reserve notes" to the amount of twenty-five per cent of their capital, but in compensation for the assumption of their current redemption the banks were to be given the privilege of issuing currency based upon commercial assets, without the deposit of United States bonds, to the amount of forty per cent of their paid up capital, on condition that bond-secured notes (present national bank notes) and new reserve notes were taken in equal amounts. Thus a bank with $100,000 capital would be required to take out $25,000 in national reserve notes and to deposit in the treasury $25,000 of United States bonds, against which it could issue $25,000 in national bank notes and also a like amount of asset currency notes, and an increase of asset notes could be issued if bond deposits and holdings of reserve notes were increased in equal proportions. This process could be continued until the bond-secured notes, asset currency notes, and reserve notes, were each equal to forty per cent of the paid-up capital, making an aggregate of $80,000 bank notes and $40,000 reserve notes, without the payment of any tax. If notes in excess of eighty per cent of paid-up capital were taken out, the excess was liable to a tax of one-half of one per cent monthly, or six per cent annually, but bond-secured notes could be issued to full amount of capital without any tax. The banks were required to redeem their reserve notes, and to maintain a five per cent gold fund for this purpose in the treasury. But this was only for current redemption. The reserve notes were to be guaranteed by the government and to be ultimately redeemed by the government from its own resources upon failure of the bank to which they were issued. The asset notes were to be secured by a first lien upon the assets, which would not amount to much after the bank had failed. This bill was before the second session of the Fifty-fifth congress in 1898.

The Fowler bill, which was before congress in 1902, was similar in many respects. It differs mainly in the details of retiring the greenbacks. Instead of bringing in a new form of paper money to take the place of the greenback, the Fowler bill places upon the bank the current redemption of greenbacks, to the amount of twenty per cent of its paid-up capital as a condition precedent to granting it the right to issue asset currency as follows: Ten per cent of its paid-up capital yearly for the first two years upon which a tax of one-fourth of one per cent must be paid. This tax could not be increased so long as the bank continued to currently redeem its portion of greenbacks. But if the greenbacks were finally redeemed by the government, then the tax was to be increased to one and one-fourth per cent.

After the expiration of two years and yearly thereafter for four years the bank could take out an additional ten per cent of its capital in currency based upon its assets, for which it would pay a tax of one and one-fourth per cent. With the approval of the board of control, the bank could, after the expiration of six years, take out twenty per cent of its capital in asset notes for which it would pay a tax of one and one-half per cent, and after seven years another twenty per cent for which it would pay a tax of two and one-half per cent.

The greenbacks which the banks were required to currently redeem were to be indorsed as follows:

> "For value received, the........National Bank of (city and state) will currently redeem this note in gold coin until the same has been paid and canceled in accordance with the provisions of law."

Any note so endorsed was to be a legal tender for all debts, public and private, except duties on imports and interest on the public debt.

So far there appears no intention to retire the greenbacks, but to place the above endorsement on them would be an insult to the intelligence of the people. For over forty years the greenback has been a legal tender without any endorsement except that of the government, and with the United States back of it it was even honored in Europe. But the following provision would have put the good old greenback out forever.

> "Whenever a national bank shall present any United States notes at the United States treasury for endorsement, as aforesaid, it shall at the same time surrender to the United States treasury an additional amount of United States notes equal to one-half of the United States notes presented for such endorsement, and receive in exchange therefor gold coin; and the United States notes so redeemed shall not be re-issued, but shall be cancelled and destroyed."

Then the act provides that when the national banks shall have assumed the current redemption of $130,000,000 of greenbacks, and the government has redeemed and cancelled $65,000,000, no national bank shall pay out any greenbacks, the current redemption of which has not been assumed by some national bank, but shall return them to the treasury where they shall be redeemed and cancelled.

After getting the greenbacks out of the way in the manner described, the banks which had not assumed the current redemption of any of the greenbacks were to be permitted to take out asset notes on an equal footing with banks which had assumed the redemption of greenbacks.

While these asset notes were to be a first lien upon the assets of the banks, yet the banks were only required to deposit United States bonds or gold coin to an amount equal to five per cent of the notes taken out. The security was the assets plus five per cent. These notes were to be receivable for all public dues except duties on imports, and when so received they could be paid out again, which would give them currency, though not a legal tender.

The secretary of the treasury was authorized to deposit all public funds in excess of fifty million dollars (and the money in the division of issue and redemption) in national banks, the banks to deposit United States bonds in equal amount, the government to receive one per cent interest on average balances. Section twenty permits national banks to open branches without limit in the United States, and banks with a capital of five million could open branches in any part of the world.

Neither of these bills, nor any of the other bills before congress dealing with asset currency, passed for the reason that the banks and banking interests were not unanimously agreed on the subject. While the various bills gave them the right to issue money based upon their assets, yet this privilege was always coupled with some provision which they did not approve. In short, they wanted the government to grant every privilege they desired without any responsibilities attached.

Now that the American Bankers' association has entered the field with a plan of their own making, we may expect asset currency legislation at the coming session of congress, regardless of the rights and interests of the people. We shall then have government of, for and by the banks, directly and emphatically, and those who do not like it have the privilege of moving out of the country.

Here is the plan adopted by the bankers: Any national bank that has been in business one year and having a surplus of twenty per cent of its capital, shall have authority to issue credit notes to an amount equal to forty per cent of its bond-secured circulation, upon which it will pay a tax of two and one-half per cent per annum. Provided, that if at any time in the future the present proportion of United States bonds to the total capitalization of all solvent national banks shall diminish, then the authorized issue of credit notes may be increased to a correspondingly greater percentage of its bond-secured notes.

A further amount of credit notes equal to twelve and one-half per cent of the capital may be issued, on which the tax will be five per cent. The taxes paid on credit notes are to be paid in gold to the treasurer of the United States, and shall constitute a guaranty fund for the redemption of notes of failed banks. In order to provide an ample guaranty fund from the beginning, any bank making application for credit notes must deposit an amount of gold equal to five per cent of the notes taken out, and if this sum is not used it shall be an asset of the contributing bank, and shall be refunded from time to time when the guaranty fund exceeds five per cent. The provisions of existing law limiting the retirement of bond-secured notes to $3,000,000 per month shall be repealed. All public moneys above a reasonable working balance shall be deposited from day to day in national banks without requiring any security or guaranty therefor, but no bank shall receive an amount of public funds in excess of fifty per cent of its capital. All banks receiving public moneys shall pay two per cent interest thereon.

The general outline of these three propositions will enable the reader to make a comparison and form an intelligent opinion on the subject. In a subsequent issue the merits of asset currency will be discussed and its dangers exposed.

THE PRIMARY PLEDGE

As this copy of The Commoner may be read by some one not familiar with the details of the primary pledge plan, it is necessary to say that according to the terms of this plan every democrat is asked to pledge himself to attend all of the primaries of his party to be held between now and the next democratic national convention, unless unavoidably prevented, and to secure a clear, honest and straightforward declaration of the party's position on every question upon which the voters of the party desire to speak. Those desiring to be enrolled can either write to The Commoner approving the object of the organization and asking to have their names entered on the roll, or they can fill out and mail the blank pledge, which is printed on page 14.

James Daniels, Webster, Ill.—I send you twenty-nine primary pledges.

Henry Hayes, Guise Mills, Pa.—Find herewith four signers to the primary pledge.

Roy R. Hall, Weston, W. Va.—I send you six signatures to the primary pledge.

William Huffman, Brookville, Ky.—Enclosed find seventeen primary pledge signatures.

Erwin Elmer, Devereaux, Mich.—As I have been a reader of The Commoner since its first issue, I believe I have a right to say that The Commoner is giving me a political education, and I believe that we, the readers of The Commoner, would be much pleased if Mr. Bryan would give us a series of articles on the study of political economy. I send my primary pledge and I believe the plan is working well.

W. M. Cooper, Spring Dale, Ark.—You will find enclosed a primary pledge with thirty signatures. You will probably think I am a tardy old fellow. I am past the eightieth mile post and yet I hope to live to see one more democratic president in the chair at Washington. I have been a resident of Benton County, Ark., for fifty-four years and never voted for anything but democratic principles. Success to The Commoner and the cause it advocates.