

A NEBRASKA BANKER ON ASSET CURRENCY

Henry W. Yates, president of the Nebraska National bank, Omaha, delivered an address before the Nebraska Bankers' association in opposition to asset currency. Mr. Yates has written for The Commoner an article presenting his views. While The Commoner does not entirely agree with Mr. Yates, his article will aid Commoner readers in obtaining a correct view of the dangers involved in the proposition now urged by the "no-cent dollar" people. Read Mr. Yates' article carefully. Here it is:

The so-called asset currency, but which would be more properly termed "credit currency" for the reason that it will be unsecured, and based only upon the credit of the issuing banks, seems to have recently gained considerable impetus, and stands a good chance of getting a foothold in our financial system, by the passage of a law authorizing it at the ensuing session of congress. The scheme now prominent was prepared in a remarkable manner and is launched upon the country as an unanimous agreement among bankers. In the report of the special committee of the American Bankers' association proposing this measure it is declared: "That the present volume of bank notes is wholly irresponsible to the demands of commerce. It does not expand with the need for currency in the crop moving period, causing a stringency; nor contract when the uses for currency are less extensive causing a redundancy." Under this specious pretense it is proposed to involve this country into a system of bank note currency which met with its quietus fifty years ago. The committee does not explain how it is that the mere failure to expand should cause a stringency, it is certainly something else which causes the stringency. What, of course, it means is that the use for money at certain periods is greater than its supply. This is a condition which frequently happens in this life both to banks and individuals. Bank notes are singled out as being this very defective currency but why should not gold and United States notes be embraced in the same category?—their failures to expand ought also to cause stringency under like circumstances.

I said that this committee's report was prepared in a remarkable manner—the facts will justify, I think, the assertion.

In order doubtless to be rid of a question which was constantly "bobbing up" the convention of the American Bankers' association held last year voted the appointment of a committee to report upon the currency question at the next session. This committee presented its report at the convention lately held in St. Louis. There was no possibility of this committee's recommendations being adopted and the result would indicate that the main intention was in some way to get the association committed to the general proposition in such a manner as to have the appearance of unanimity. In the discussion of the question hours were given to papers and addresses in its favor, but by the adoption of a cast iron rule, only five minutes were allowed to anyone who might have something to say against it. This was the unanimity mentioned in the committee's report. Whether so especially designed or not there could not have been a better organization in a packed political convention to accomplish a definite purpose, than there was in this convention to stampede the bankers of the country into favoring the scheme, by causing it to appear to be the unanimous conclusion of the bankers there assembled.

In the late hours of the convention, when other matters were pressing, a resolution was put through for the appointment of a committee of fifteen to prepare a plan for submission to congress. Of the fifteen the five members making the report, whose position was well known, were specifically named and the remaining ten were to be selected in a manner which practically precluded the possibility of any one being appointed who did not agree to the proposition.

Here was unanimity again.

The proposition is clearly and distinctly in the interest of the banks. What public interest may be joined with the banks' interests depends solely upon the assertion that the additional issue of bank notes is "imperatively demanded" in the business of the country.

By inference certainly if not directly, this must mean that our present volume of currency is inadequate.

Leaving out the volume of gold entirely and figuring only what may now be called credit money—meaning thereby all money which de-

pends upon gold for the maintenance of its parity, and the volume of this composed of United States notes, national bank notes, silver, and silver certificates—is about \$1,600,000,000. This is a per capita of nearly \$19 against a per capita of similar money in Great Britain of \$5.32, Germany \$6.74, Canada \$12.38, and France \$13.38. Any increase of this volume enlarges the load upon our gold supply which is now ample, aggregating about \$1,400,000,000. We can not always expect to have prosperous years—the balance of trade may sometime turn against us, and our gold stock may vanish as it did in 1893-4. Especially may this be the case if it is subjected to the increased burden proposed and in that case all the benefits the country has believed it achieved by the victory of the gold standard would be put in jeopardy.

The magnitude of our present stock of money is the wonder of the world, both for volume and per capita. Compared with Great Britain, the only country with which we ought to be compared, and the contrast is amazing. A few extracts from an article published in the New York Bankers' Magazine for October by an able English writer, will be pertinent in this connection. He says:

"Many people both in London and New York seem to dream all the time of elastic currencies (meaning in reality a constantly expanding currency), elastic credit and elastic bank deposits. Give them a few million sovereigns or American eagles as a basis, and they will build up on it pyramids of paper wealth. The boldest pyramid builder may be the keenest buyer of gold simply because he has most need of it.

"If money, metallic or paper, or both combined, could make a people happy, the Americans ought to be the envy of the world. They have the largest quantity as well as the greatest variety of it. The only nation which might presume to compare itself with them as regards plethora of paper is the neighboring republic of Colombia, whose paper dollars run up into hundreds of millions. At the same time the United States, while eclipsing Colombia on soft money, can beat France itself on 'hard money.' It is the one and only possessor of a three billion dollar currency—quite a unique distinction in commercial history.

"At the nearest available date to July 1, 1906, the circulation of the United Kingdom was, in round numbers, one hundred and fifty millions sterling—less than one-fourth of the stock of money which the Americans find so inadequate and inelastic.

"The comparative volumes of the two currencies, British and American, are irreconcilable on any theory of the relative amounts of work they have to do. The only ground on which the Americans might claim a larger circulation than ours is that they number eighty millions against our forty-two millions. In every other respect the advantage is with us. Our foreign trade as a whole, that is imports and exports combined, is still forty per cent larger than theirs.

"We come now to the final and crowning paradox in this series of contrasts between a new currency system and an old one. The new one, which so far as its stock of money is concerned ought to be much the stronger of the two, draws most frequently and systematically on the foreign money markets."

It is asserted that there is no intention to inflate the currency—that the plan is only to provide elasticity to our existing money. But there is no proposal to retire a single dollar of this money as the other is issued.

It is true that the proposed bill limits the amount of notes to the capital stock, which is the volume now authorized for notes secured by bonds.

This limit has never been reached—for the reason that the bonds can not be had or will cost too much to make it profitable. The average now is said to be about 62½ per cent. It is proposed to issue the remaining 37½ per cent in unsecured notes.

The imperative necessity for this issue is said to occur in the fall, when it is claimed a critical condition frequently exists by reason of the demand upon New York for money to move the crops. The impression is actually sought to be conveyed that notwithstanding our immense money stock a sufficient quantity of it can not be had to finance an ordinary trade movement.

That there is "water, water everywhere and

not a drop to drink." If this is true the public is certainly interested, and especially the agricultural producers whose crops must be moved.

This extraordinary demand in the fall has been so constantly asserted that it may be hazardous to interpose a doubt—still there are facts to the contrary which I think deserve consideration.

Years ago a large amount of currency was certainly required in this section of the country in crop moving times. But this has not been the case in late years, and I believe the statistics of the express companies would confirm the assertion. More currency than usual may be needed, but to no large extent. It is a period when there is a hardening of money rates everywhere, from the fact that merchants and manufacturers then make their arrangements for the coming year, and cattle feeders and grain storers need money to carry on their operations. But to satisfy these ordinary requirements actual currency is not demanded.

The reason for this change in the currency demand is apparent and what has occurred here has happened almost everywhere else. More currency was needed when banks were not so numerous as now and trust in them not so great. Checks to a large extent perform the service for which money was formerly required.

It will be admitted, I think, that if there is a large movement of funds in the fall from New York to the interior it would be manifested by a reduction of the deposits of the interior banks in the New York banks. The only figures at hand for this investigation are found in the comptroller's reports. I do not pretend to say that these figures are conclusive of the question. There may be intervening periods which would show differently. But certainly the comparisons I now make are very suggestive, and may not be easily explained otherwise than as they show. The comptroller's report for 1906 is not out. The latest statement in the 1905 report is that of August 25, or near September 1—prior to this is that of May 29. These two statements for New York City compare as follows:

Loans—May 29, \$770,886,897; August 25, \$805,665,911; increase \$34,778,114. Cash—National bank notes, legal tenders, specie, fractional, May 29, \$246,478,829; August 25, \$254,762,641; increase, \$8,283,812. Deposits of banks—May 29, \$367,222,968; August 25, \$391,351,721; increase \$24,128,753.

Going back to 1904 in order to get a later date than August 25, with which to compare the summer statement, we have as follows:

Loans—June 9, \$728,100,554; November 10, \$788,156,445; increase, \$60,055,891. Cash—June 9, \$266,542,847; November 10, \$259,111,381; decrease, \$7,431,016. Deposits—June 9, \$343,754,449; November 10, \$386,707,328; increase, \$42,952,879.

It will be seen from the above that with no considerable change in cash the deposits from May 29 to August 25, 1905, increased nearly \$35,000,000, and in the period from June 9 to November 10, 1904, they increased about \$43,000,000. In both cases there was a large increase in loans.

From this it can be easily seen that the reserves of the New York banks may be vitally affected, without the banks parting with any cash. A large increase in loans as a rule is attended by a coincident increase in deposits—not of banks, but in the accounts of the parties concerned in the loans.

This increase in deposits demands under the law increased cash and hence it follows that the banks' reserves become strained. Currency undoubtedly is frequently sent to the country, but this demand does not necessarily affect the loans. If it affected anything it would be the deposits and the lowering of deposits would also lower the reserve required.

This comparison, I think, will confirm the popular impression which has long existed, that the extraordinary high interest rates which sometimes prevail, not only in the fall but at other periods of the year in New York are due to conditions peculiar to that market and not to the ordinary business demands of the country.

The volume of securities depending almost solely upon New York for the support of their current prices is enormously large.

We can not know of course to what extent the holders of a large portion of these securities have personal control of some of these banks, but it has been demonstrated on many occasions

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