A CANDID BANKER

The Omaha Bee recently printed this editorial:

"Mr. Cortelyou, secretary of the treasury department, is taking special interest in plans that are being discussed by bankers' organizations and other financial experts for amendments to the currency laws of the nation. In a recent interview, published in a financial paper, he called attention to the peculiar position in which he is placed by the necessities of existing laws relating to the management of the federal funds. The national debt, in round numbers, is now $900,000,000, and the treasury has a balance in excess of $250,000,000 for which it has neither immediate nor prospective use. The treasury department could wipe out one-fourth of this debt without any inconvenience, but such action would instantly start a panic in the financial world. The treasury notes and all the national bank notes of the country are based on government bonds issued to provide for the $900,000,000 national indebtedness. Any real reduction of the national debt would reduce the basis of national bank and treasury note circulation which, it is generally admitted, is no more than adequate to meet the growing commercial demands of the country. The result is that the government is compelled to pay about $1,000,000 a year interest on a debt it could reduce by one-fourth, in order to not disturb the financial equilibrium. In other words, the nation may have money only by remaining in debt. Under the existing arrangement and laws, when the demand for additional currency becomes imperative, the country would have to devise some new plan for increasing its debt to meet the emergency. The condition is a peculiar one and well worth the study of the experts who are devoting their time to it."

Henry W. Yates, president of the Nebraska National bank, Omaha, has written for "The Western Banker," an interesting article referring to the Bee editorial and the statements attributed to Secretary Cortelyou. Every Commoner reader ought to give thoughtful consideration to Mr. Yates' article. It is as follows:

"The above is an editorial which appeared recently in the Omaha Bee. The assertions therein made are most remarkable, and they are especially so when coming from the head of the treasury department.

"A contraction of national bank note circulation caused by the payment from funds in the treasury of United States bonds securing circulation could not possibly produce a panic, as stated in the article. This fact is so well understood among bankers that it scarcely needs saying, but the general public may not so easily see the fallacy in the statement. Concede, for instance, that the treasury holds, as stated, $250,000,000 which is applicable to the reduction of the bonded debt, and in order to make the case as strong as possible, also concede that the bonds subject to payment are on deposit with the treasurer to secure circulation, what follows if the cash in the treasury is applied to the payment of these bonds? The treasury will hold $250,000,000 less cash and the banks deciding to use the funds for retiring circulation will have $250,000,000 less circulation. It would not be necessary to call in a single loan and no commercial interest would in the slightest manner be affected by the transaction. It would not even cause a ripple in the treasury department. The $250,000,000 would be taken from cash and credited to 'bank note redemption account,' and the notes would not be actually redeemed until presented for payment in the course of time, which is a slow process. So far from causing any contraction of capital, an expansion would actually follow, for the reason that the five per cent reserve held by the treasurer against the circulation would be returned to the banks, thereby increasing their loanable funds to the extent of $12,500,000.

"This writer has been unable to obtain a copy of the financial paper said to contain the interview, and is inclined to believe that Mr. Cortelyou is not correctly reported and that the writer of the editorial has misunderstood the purport of what he did say. The predicament in which it is stated Mr. Cortelyou finds himself concerns public deposits, not circulating bank notes, and this is a much more serious matter.

"Mr. W. E. Curtis, in the Chicago Record-Herald of May 22, states the whole case, although he naturally leans to the side of the 'frenzied' financiers, who are constantly demanding that the United States should adopt the custom which prevails with foreign governments and deposit all its funds in banks, so that commerce may obtain the benefit of them all the time and not solely at sporadic periods when the government is forced to come to the relief of the money market.

"Deposits can now be made with banks, but—until as recently administered—the law requires United States bonds for security, and as these cost more money than the volume of deposits to be obtained, the arrangement does not operate as a remedial measure during money stringencies. The financiers demand that the deposits be made without security, or in any event with such security as it may be convenient for the banks to supply. Mr. Cortelyou has appointed a committee of experts to consider the question and advise him in what manner he may safely and satisfactorily distribute these deposits.

"The statement in the Bee editorial will be very pertinent if it is made to apply to bank deposits and not bank circulation. If the government funds are deposited in banks upon no security, or upon other security than government bonds, the peculiar condition referred to can easily be conceived. The government in time of financial stringency might not dare to call for its funds, for fear of producing thereby a disastrous panic, and it can be easily imagined that it might be even forced to borrow money to meet its urgent obligations. In this manner it might be said to pay a 'premium upon its own debt' or interest upon its own funds. This condition, however, has not yet arisen. The discussion brings up an old question—in fact, two of them. It was the withdrawal of the public deposits from the United States bank which brought on the panic of 1837 and the subsequent loss to the government by the failure of the 'pet banks.' This led to the establishment of the independent treasury during the administration of President Van Buren, which has served us ever since. It is now proposed practically to abolish this independent treasury and return to the old depositing system, which carries with it, to be consistent, the establishment of another United States bank or a system of real national banks.

"History may in this manner repeat itself, and, in connection with this action, another question would inevitably come to a head, which in the past has received no little attention as a political question. It may well be asked why the necessity of collecting so much money in the public treasury not needed to meet its current requirements? Why not reduce taxation and thereby lessen or remove the menace conveyed in such an enormous accumulation of public funds? This spells tariff reform, and the 'powers that be' will hesitate to re-open such burning questions when there are so many other things with which they may keep the minds of the people engaged."

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OREGON'S GREAT PROGRESS

In the opinion of United States Senator Fulton, republican, of Oregan, the state government of Oregon more nearly approaches a pure democracy than does that of any other state of the union and Senator Fulton says: "This is due to the amendment to its (Oregon) constitution adopted by vote of the people in 1902 and known as the 'initiative and referendum amendment.'"

Senator Fulton has written, for the North American Review, an interesting article entitled "The People as Legislators." From this article The Commoner is privileged to make some extracts to which it invites the thoughtful consideration of its readers. Senator Fulton says:

"Under this provision, the 'power to propose laws and amendments to the constitution and to enact or reject the same at the polls, independent of the legislative assembly,' is reserved to the people. It is provided that eight per cent of the legal voters may, by petition filed with the secretary of state, propose any measure desired. It is required that the petition shall include the full text of the law and be filed not less than four months prior to the election at which the proposed law is to be voted upon. If approved by a majority of the votes cast, the measure immediately becomes a law and is not subject to the governor's veto. Such is the initiative.

"The referendum may be applied to any law enacted by the legislature, except such as are 'necessary for the immediate preservation of the public peace, health or safety.' It may be ordered by a petition signed by five per cent of the voters, or by the legislature itself. When ordered, the measure to which it is directed does not become a law until it has been approved by a majority of the votes cast thereon.

"Thus it will be seen that, excepting such constitutional limitations as are imposed on the legislative power and apply to the legislature as well, there is no limit whatever to the right or power of the people to legislate by direct enactment independently of the legislature, and but slight limit to their power to veto laws enacted by the legislative assembly.

"The first exercise of the power to initiate and enact legislation by the people was at the June election in 1904, when, by a vote of more than three to one, they enacted the direct primary law, whereby all nominations of candidates for public office, excepting school district offices, and municipal offices in towns of less than two thousand inhabitants, are required to be made by direct vote of the people. The primary election is held and conducted almost entirely under the general election laws and, practically, in the same manner as are the regular elections, the exceptions being only such as are rendered necessary by reason of the relation of political parties thereto. The purpose being that the members of each political organization shall nominate the candidates of their respective parties; a voter is required, if he desires to participate, to cause to be entered in the registration book, at the time he registers as a voter, the name of the political party of which he is a member. A separate ballot box is provided for the voters of each party, but the primary election is held at the same time and place for all parties, and presided over by one set of judges, who are, as well, the judges appointed to preside at the general election next ensuing.

"An important and interesting feature of the direct primary law is that it expressly provides for the nomination of candidates for United States senator. Provision is made for placing on the official ballot to be used at the election following the primary the names of all nominees, including names of nominees for senator. It is also provided that a candidate seeking a nomination for the legislature may file in a designated office one of two statements. One of these statements is in the following terms: 'I will, during my term of office, always vote for that candidate for United States senator in congress who has received the highest number of the people's votes for that position at the general election next preceding the election of a senator in congress, without regard to my individual preference.' This is known as 'statement No. 1.' Statement No. 2 is: 'During my term of office, I shall consider the vote of the people for United States senator in congress as nothing more than a recommendation, which I shall be at liberty to wholly disregard if the reason for so doing seems to me to be sufficient.' If a candidate shall decline to sign either statement, his name must, nevertheless, if petitioned for, be placed on the nomination ballot.

"The first nominating election under this law occurred in April, 1906, to nominate candidates to be voted for at the general election to be held in June of that year. A senator in congress was to be chosen by the legislature then to be elected. A very considerable majority of the candidates for the legislature signed statement No. 1, and when the legislature was elected it was found that signers of that statement constituted a clear majority on joint ballot. The result was that a United States senator from Oregon was, for the first time in many years, elected on the first ballot. It was, indeed, a most welcome change, for so bitter had been the factional differences in the republican ranks in Oregon during the preceding twenty years that people had ceased to expect an election of a senator to occur before the last ballot on the last night of the session; and it was always possible that there would be no election, as indeed was the case in two instances. In fact, I am confident that the bitter and long-drawn-out contests that had become the unbroken custom in senatorial elections in Oregon contributed more than all else to arouse the people to take the matter into their own hands. Of course, the people know that the legislature can not constitutionally be required to elect to the senate the candidate in favor of whom they declare, but they also know that few members will care to jeopardize their political future by declining so to do. Furthermore, if a candidate for the legislature signs statement No. 1, he is, in case of election, bound by an obligation as solemn as his oath of office to conform to it, and it is quite apparent that a candidate who signs that statement will always occupy a much stronger position before the voters than one who declines to sign it. Consequently, we may reasonably expect that every legislature will be composed of members of whom a majority were elected on that pledge. Hence it may be said with perfect accuracy that, in Oregon, United States senators are elected directly by the people. It is the only state in which that is done. In some others, nominations are made directly by party voters, but in no other, to my knowledge, is the nominee required to go before the people for election. At the last session of the legislature, an attempt was made to amend statement No. 1 so that the legislative candidate's pledge would be to vote for such member of his own party as should receive the highest vote in the primary; but the amendment was not adopted."