along nearly all lines of business and is necessarily attended with great business depression and industral distress.

Preventing a bank panic may be comparatively an easy matter—the means for doing this are now provided in the Aldrich-Vreeland law —but no means have yet been discovered to prevent an economic panic.

The so-called panic of 1907 was a bank panic only—there was no economic disturbance—and after the excitement ended business of all kinds went along just as it had before. In fact, this country has repeatedly been on the verge of a bank panic that did not materialize, when there was nothing whatever to indicate even an approach to an economic disturbance.

It is not correct to say that panics, if reference is thereby made to these economic disturbances, occur in this country with greater frequency than in other countries.

The French government has recognized their periodic occurrence by creating a commission whose especial duty it is to study international economic affairs for the purpose of taking note of occurrences which may indicate a coming crisis.

This commission has very recently announced the opinion that these disturbances occur with considerable regularity and that the next one is due between the year 1914 and 1917. From Germany comes also a note of warning. The commission which supervises financial affairs in that country has recently addressed a letter to the executive committee of the Bourse which corresponds to our New York Stock Exchange, in which it is urged to check the exaggerated activity in certain stock dealings, and the president of its largest bank has declared recently that in his opinion the Bourse shows signs of a coming collapse.

Now these may be false prophets—we will hope they are—but it is an undeniable fact that these economic upheavals have occurred in this country at almost regular intervals of about twenty years.

A CENTRAL BANK WILL INTENSIFY PANIC

It would be well if we had in this country, as in France, a disinterested commission who would study these matters and by timely notice would prepare us for such occurrances and lead to the adoption of measures which might lighten the effects of the catastrophe. A great central bank, however, whose managers and clients would be the chief factors in the activities leading to the conditions being forced to a head, could not be depended upon for such an emergency.

On the contrary, with the extraordinary power given it to inflate the currency—a temptation could not be resisted at such a time—it would serve only to intensify the situation.

BANK PANICS FREQUENT

It will be admitted that bank panics and severe monetary stringencies do occur more frequently in the United States than in other countries, but the reason for this can be easily discerned.

The immense volume of securities issued and floated in the money market offers a situation of constant peril. If bank loans were confined to commercial and industrial paper there would be no such risks as now exists. That class of operations has periodic periods of settlement and the capital used in them is automatically returned to the channels from which it is taken. Just as naturally as harvest time succeeds seed time, payment follows borrowing.

The availability, however, of loans against securities for the employment of idle money supplies an attraction for banks which they can not resist. Many of these securities are first class in every respect and in ordinary times supply a means of quick convertibility into money which is not possessed by commercial paper.

But while commercial and industrial paper liquidate themselves, the capacity of the capital supply to absorb these securities can not be foreseen, and when this supply fails, as it sometimes does, a condition is at once produced of severe monetary stringency leading to a bank panic. The stock exchange collapses and securities are thrown in large volume upon the market with no buyers for them.

THE ALDRICH RESERVE BANK

It is constantly denied that the central institution created by the Aldrich plan is a bank. It is claimed to be merely an association of banks for a mutual purpose and interest.

Any close investigation will show that it is not only a bank with all the needed power to do business as such, but that under these positions it is clothed with greater power and authority over other banks than has ever before been given any bank in this country and so far as I know of in the world.

The fact of its separate capitalization deprives it of all semblance to a mutual association. It is true that every bank possessing the required capital may become a stockholder, but to do this it must put up money. This demands an increase of capital in many cases, or else the bank must do business with its active capital impaired.

I think I have shown conclusively in my papers that no large number of the interior or country banks will find it to their interest to take stock in the reserve bank.

Granting, however, that all may do so, in what possible manner can their comparatively small holdings participate in its management?

The creature once created will be superior to its makers. Once organized as a living force it would be an independent body operating through its officers with full power and authority to do whatever in their arbitrary judgment they saw fit to do.

In its dealings with its members this bank may discount direct what are called acceptances or prime bills which would not be possessed by interior banks. All other loans must come through the branches, and these are limited in ordinary times to paper having not more than twenty-eight days to run. The branches would be under the control of the central authority, and the paper offered them for discount or rediscount may be accepted or declined just as the policy of the bank may dictate.

The bank is given police power over its members, which power has never before been given to any bank. The intention seems to be to confer upon the bank all the supervisory powers now exercised by the comptroller of the currency, and these powers are so great that it can easily be seen it would be practically exercised over all banks whether members or not.

INDEPENDENT BANKING REFORM

In my opinion anything which is done to give greater elasticity to our banking transactions should be along the same independent lines which now marks our banking system.

A reform in loaning operations to be of real value should be one which will give actual fluidity to bona fide good commercial paper. It should not be in the power of any set of men to dictate and set bounds to such operations. If the money supply justifies, nothing except the interest rate—equalized to all banks—should impede its quick convertibility into cash. A bank whose business calls for some expansion should have a certain market for its bona fide business paper and not be subject to the delay and the final arbitrary decision of some governing body. If its paper is of unquestioned character, it should feel the same assurance of its being promptly cashed as it has with a good bank draft which it mails to its correspondent. The only restrictions should be the statutory ones applying to the volume of rediscounts for any one bank and excess loans to corporations and individuals.

A PLAN FOR SEPARATE RESERVE ASSOCIATIONS

The real weakness in our banking system is the inelastic character of the money reserves required by law to be maintained and to which I directed attention in papers published many years ago, and urged then some legislation to permit of their use to a certain extent.

This weakness is admitted on all sides and is being used as one of the levers to propel the Aldrich scheme.

The effective use of a portion of these reserves, concentrated in some manner for the purpose, supplies a ready means of removing this weakness and giving to our banking system a much needed steadiness and support.

This may be accomplished by means of mutual associations in specified districts, in which all the banks of a district should be members. The arguments in favor of such associations are so numerous that I will not undertake to detail them; they will be apparent to everyone who will investigate the plan.

I will only endeavor in a general way to submit the outline of what I would propose as a substitute for the Aldrich plan.

1. CAPITAL

The capital possessed by the banks forming a reserve association would be ample protection to the public and no additional capital should be required.

The plan of reform is designed to assist and relieve banks—not to oppress them by requiring increased capital. Each association, however, should be duly incorporated, just as clearing houses now are, and should be composed of not less than ten banks having an aggregate unimpaired capital of $5,000,000.

The country should be divided into districts somewhat in the manner provided in the Aldrich bill for loan associations and in the Aldrich-Vreeland bill for currency associations.

The wishes of the banks should be consulted as far as possible in defining the territorial limits of each association, but when organized, all the banks in a district should be limited to membership in that association.

2. MANAGEMENT

Each reserve association should elect a board of directors and in its by-laws provide for the officers by whom its business shall be transacted.

It should choose a city to be its reserve center and its principal place of business. The board of directors, in addition to its other officers, should name a managing committee taken from the banks in the reserve city or from banks contiguous thereto.

The managing committee should employ a manager and such other employes as may be required.

This committee should pass upon all paper offered for discount or as security for discounts and should establish the interest rate to be charged, and should raise or lower this rate from time to time as the state of the reserve fund and circumstances justified or demanded it.

The manager should give such bond as the committee might require. He should have charge of the funds, securities and accounts of the association under the supervision of the managing committee.

3. DEPOSITS

The business of the association should be transacted upon the deposits of its members with its manager.

These deposits with the reserve association should be counted by each bank as so much of its cash reserve required by law to be kept on hand.

As an illustration of what the deposits may amount to, we will take the state of Nebraska for a district.

The total cash on hand in the state and national banks of Nebraska by the latest reports for 1912 was $16,608,749. One-half of this—which might be easily spared—would create a fund of $8,304,375.

The deposits with the separate reserve associations need not, however, be confined to the actual cash shown in the bank reports—they may also include balances due from other banks.

The total cash with balances due from reserve agents was $56,484,927. One-half of this would be $28,242,463, a sum more than double the national bank circulation of Nebraska.

This ample sum for any emergency could be still further increased by $20,000,000 if the entire reserve fund now with reserve agents should be deposited in the separate reserve association.

These figures show conclusively that the deposits of a reserve district would supply funds sufficient for the needs of that district under almost all circumstances.

The volume shown for Nebraska is so large that two reserve districts could be easily maintained, with ample funds in each district to meet all ordinary requirements.

4. CIRCULATION

There should be printed and held by the comptroller of the currency for each separate reserve association bank notes of the usual form, character and denominations.

Upon the receipt by the comptroller of a certificate executed by the proper officers of a reserve association setting forth that good commercial paper, as per schedule attached to each application, was held by the association, separate and distinct from its other assets as security for the circulation desired, in addition to the guaranty of the same by all the banks forming the association, the comptroller shall deliver circulation to the extent of 80 per cent of the aggregate amount of pledged paper.

The circulation so received should be subject to a tax of 5 per cent per annum, payable to the treasurer of the United States in the same manner that national banks are now required to pay on their circulation.

The reserve associations should not be required to hold a cash reserve against this circulation except the 5 per cent redemption fund

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