Working for the Aldrich Currency Plan

Henry W. Yates, president of the Nebraska National bank, Omaha, has written many able articles against the Aldrich currency plan. Mr. Yates has recently written to each member of congress the following letter:

Omaha, Neb., Dec. 31, 1912.—Dear Sir: The writer respectfully submits for your consideration the plan suggested for separate reserve associations, found at page 11 of the enclosed pamphlet, as a substitute for the banking and currency bill now pending before congress, best known as the Aldrich bill.

He believes this plan would accomplish the reforms demanded by the public in our monetary system, with the least change from our existing methods, which in most respects can not be improved upon.

The plan is not novel, but is along the lines of what we already have in clearing house associations. Even the emergency currency suggested had to some extent practical demonstration during the disturbance of 1907 when banks under clearing house authority issued cashier's checks to circulate in place of money. Illegal, clumsy and inefficient as this expedient was, it yet served at that time a most useful purpose.

The writer does not claim this to be the only means available to remove the defects in our banking system. There may be other suggestions equally as good and the plan here presented may be improved upon.

The point he wishes to press is that in order to accomplish reforms actually needed, it is not required that our present government currency shall be replaced with unsecured credit bank notes or that the banking business of the country shall be put under the control of a strong central institution.

No separate capitalization is required for clearing house associations and there should be none required for these proposed organizations. Separate capitalization would defeat the special object desired, which is that all the banks of the country shall become members of these associations. It would demand the putting up of more money, which would be a burden upon many banks and might deter them from joining. The separate capital would also make possible the secret ownership or control of an association, even if the transfer of stock was prohibited as in the Aldrich bill for members of that proposed organization.

The strongest argument, however, against separate capitalization lies in the fact that the combined capital of the banks joined in an association would be far greater than any special capitalization could be and would give the associations a stronger claim upon the confidence of the public.

Two important privileges are suggested for these separate associations:

1. The reserves of banks composing an association may be deposited with its manager and loans to the extent of fifty per cent of these reserves may be made to the member banks at such interest as may be fixed from time to time.
2. Should the demand for loans be greater than the associations can supply, they will be permitted to issue bank notes to circulate as money.

The weakness in our monetary system, which is constantly harped upon, is its inability to withstand panics. The cause of this weakness is apparent and universally admitted.

The banking business of this country, aside from the capital belonging to banks, is transacted upon the temporarily uninvested capital of the country, which in most cases is subject to call. This capital is sometimes used by banks in making loans upon securities, which should belong only to actual investors. When the capital they handle is needed by its owners, or may be required to supply the imperative demands of trade and commerce, the banks find themselves unable to respond. It is not a national demand for more currency, but merely a demonstration of the fact that the banks have overloaned upon securities which can not be marketed for cash.

Perhaps such situations are unavoidable, and it is proposed to relieve them by an issue of bank notes.

But the notes suggested for the separate associations are very different from those proposed by the asset or credit bank note advocates.

They will not be issued or withdrawn at the will of a board of governors of a central institution, but the issue will be influenced solely by the natural operation of trade and commerce, which will be indicated by the interest rate.

Instead of being both unsecured and untaxed, as proposed in the Aldrich bill, they must be secured in a manner to make them absolutely safe in the hands of the public and taxed at such a rate that they will never be issued except when needed and will be retired as soon as the need disappears.

It is only by taxation that the return and cancellation of bank notes can be enforced, and it is entirely proper that the public who, accepting the notes really loans its credit to the banks, should receive a large share of the benefits realized.

The prompt cancellation of notes and stoppage of tax can be easily arranged in the manner now provided for the retirement of national bank notes.

Anyone can see that the emergency bank notes printed in advance and held in the treasury, as now done under the Aldrich-Vreeland law, would be a sure and ready means of stopping any bank panic, whenever and wherever it occurred.

It has been generally assumed that no effort will be made during the present congress to pass a currency bill, but there are indications that its promoters intend to make a desperate effort to get a bill through, as the prospect for favorable action is still less promising in the next congress.

The leading daily papers, since the election, have been flooded with long articles from prominent bankers and others who have been conspicuous in the campaign for the Aldrich bill.

The writer is conscious of the fact that the voice he raises in opposition will not likely be heeded by those disposed to be influenced by what may be called the preponderance of expert testimony, but he submits the fact that the statements he has made in a number of papers, denying and controverting this testimony, have never been gainsaid and can not be successfully disputed.

Take, for instance, a paper published since the election by a prominent New York banker, who has repeatedly heretofore displayed his views upon the subject. He again asserts in the most positive manner that "it is the experience of the world," that "a properly regulated bank note currency is the only currency which will come into being when wanted and will be retired when there is no longer need for its use."

Now, as a fact, which can be easily ascertained by anyone, such a currency as he describes has no existence now and has never existed in any country of the civilized world. Perhaps little Canada may be cited as one of them, but this is not worth considering, and by "the experience of the world" must be meant the great nations of Europe.

Great Britain has no credit bank note currency of any description, unless the "fixed issue" of the Bank of England against government securities, amounting to only $90,000,000, or the still more insignificant issues of the old chartered banks left over from 1820, can be so called.

The volume of both of these classes of bank notes is as inflexible as anything we have. The only notes in addition to this "fixed issue" that the Bank of England may put out, correspond closely to our gold certificates, as they can only be issued pound for pound against actual gold coin or bullion deposited.

The note issues proposed for the Aldrich bank can only be compared with that of the great government banks of France and Germany. The note issues of these banks are controlled by their board of governors. The Bank of France issues its notes against a metallic reserve only. So much of this is silver that it possesses the power of practically suspending gold payments by threatening to pay silver—a power which it does not hesitate to exercise. The German bank, like the Bank of England, maintains a reserve of gold alone.

The Aldrich bank, in the bill pending, is permitted to issue an unlimited amount of notes against a reserve of lawful money, which includes legal tender notes, silver coins and silver and gold certificates, as well as gold coin and bullion. In other words, against what is believed by many to be an inflated volume of such money, the bank may issue $2 for every $1 it holds of it, and under some circumstances even a greater proportion than this.

The main basis for the arguments used in favor of credit bank notes may be truly termed a conspiracy to change the character of our banking resources from "deposits" to "bank note currency." The attempt is constantly being made to confuse the public mind concerning these bank liabilities and cause them to appear to be the same thing.

In one of these recent articles even the subterfuge is dropped, and the writer uses together the two terms, "deposit currency" and "note currency." Now anyone can easily realize that there is a great difference between a check upon a bank deposit, which must be presented at once, and a bank note which circulates from hand to hand and may never be presented for payment at all.

It is true that a certain part of bank deposits are fictitious, but this would not make it a currency.

When banks make loans and credit the proceeds, the deposits are abnormally increased.

But the mainstay and sole basis of deposit banking in the United States is the use of actual individual capital called "deposits." The depositors loan their funds to the banks and the banks in turn loan the same funds in trade and commerce. There is a positive limitation to this volume and we all know it. If banks, however, may loan credit bank notes which will cost no more than the paper and printing used to produce them, why should they bother wth deposits at all?

The secretary of the treasury has also recently given his vigorous support to the Aldrich banking plan.

No one will disagree with him when he says that the distribution among banks of the surlus funds which accumulate in the treasury places into the hands of the secretary "a power greater than any American should have."

The question of these surplus funds trenches upon politics. There would be no great surplus if our national taxes were imposed and collected for revenue only and not for some other purpose.

Conceding, however, that this surplus is inevitable, does this of itself require (using his own words) that "we should have in this country a quasi public institution, not only to hold the ultimate cash resources of the banks and to regulate the rate of discount, but to act as fiscal agent of the government?" That it should also "hold the government balances as deposits and the government could check against them just as any large business concern checks against its balances?"

The independent treasury system was devised by our fathers to protect the national treasury from any danger through the failure of banks. It was not disturbed when the party came into power which was bitterly opposed to the democratic party who enacted it, and even during the civil war, when the exigencies of the government would have justified almost any expedient, it remained unchanged. In these piping days of high finance it is proposed, as suggested by the secretary, to abolish it.

The funds of the nation are very different from those of states, counties and cities; they must be handled so as to be absolutely available at any time. If all of them should be deposited in banks it may be easily seen that a time might come when, should the government withdraw any considerable sum at one time, it would cause a panic.

The secretary especially refers to "our treasury hoard of idle gold." He states the fact that the New York banks keep a reserve of $500,000,000 against a deposit liability of $2,000,000,000, and he implies therefrom that this "idle gold" may float a credit of four times its volume if deposited in banks.

Now, as a fact, the gold in the treasury is no more idle than the $500,000,000 lawful reserve held by the New York banks. It is now doing its duty as a reserve to even a greater extent than the New York reserve.

Under the provisions of the act of congress of March 14th, 1900, known as the "gold standard" act, the government is pledged to maintain at parity with gold every species of currency it has issued or authorized.

To maintain at parity means to redeem in gold when a demand is made, and to make this possible, the act requires that a reserve shall be maintained in the treasury of $150,000,000 gold.

The liability against this reserve is about $1,650,000,000, which is more than ten times the reserve. Can this gold be called "idle?"

Would it serve the same purpose if deposited in banks and loans expanded against it to the extent of four times or even twice its volume?

Its active use would be greatly increased, but would its use for redemption purposes be equally safe and secure? HENRY W. YATES.