

CURRENCY SPEECH OF CARTER GLASS

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parts of the country to those regions where they could be used to best advantage, and as a result to diminish the rate of interest prevailing in the communities which thus receive the additional capital through the use of the acceptance method. There is no reason why at the present time there should be variations in rates of interest from 3 per cent in New York city to 12 or 15 per cent in small towns in the cotton-growing regions. If a standard kind of paper were provided it should command exactly the same confidence and bear exactly the same rate of interest in one part of the country as in another. This would mean that acceptances based upon goods—protected by cotton in this instance—would constitute a standard kind of paper which would be available for rediscount at any federal reserve bank, as well as purchasable by investors and banks everywhere throughout the country. The consequence would be, as already stated, a very great reduction in the rate of interest to the grower or factor who had produced cotton and merely required loanable funds as a basis for business.

It is true that the use of the acceptance principle is limited in this bill to those commodities and operations that are connected with exportation and importation. This limitation has been complained of by many of those who believe that its extension to domestic operations would be highly advantageous to industry and would be free from the dangers which others have predicted. Whatever opinion may be entertained on this head, however, it is certain that the cotton grower or the wheat shipper can not share it in any such proportion as can other commercial factors. The fact that so much of our cotton goes abroad and that we still ship grain in enormous quantities means that those who are concerned in the exportation of these items have been exceptionally favored through the restriction of the acceptance business to them so that whatever funds are ready to be employed in that line of paper will go directly and without interference into the channels afforded to them by the trade in these commodities.

I want to add an emphatic word upon the other phase of the subject to which I have already referred—the farmer's interest in getting not only accommodation under the terms of this bill, but his interest in getting it in the cheapest possible way. I have already indicated the reasons for thinking that the working of the discount portions of the bill will greatly reduce the farmer's interest burden and supply him with means for marketing his crops to advantage. From the standpoint of the mechanism employed by the farmer there is, however, much to be said in addition to what I have already pointed out. Today the farmer in many parts of the country wants his accommodation in the form of currency. This he can not get under the existing conditions without involving the bank in heavy expense and consequently necessitating the payment of a materially higher rate of interest by himself. The reason for the conditions to which I have thus referred is this:

Under the national-banking act the bank which wants \$100 in notes must buy \$100 in bonds and deposit them with the treasury. Assuming that these bonds were bought at par, it cost \$100 in cash to get \$100 in notes, and the bank must furthermore place with the treasury a 5 per cent redemption fund for the purpose of bearing the redemption of the notes when they are brought to the treasury. I will not go into the de-

tails of the cost of issuing notes further at this point than barely to refer to these matters and to the additional outlay involved in getting the plates and paying the charge for transportation of paper necessitated by the present note system. The bank gets 2 per cent interest upon its bonds and whatever interest it can secure from the community by lending the notes. When allowance has been made for the expenses already mentioned and for the due share of administrative outlay involved in the process of conducting the bank, and presumably assigned to the loans made by the issue of notes, in proportion to their amount, as compared with the total loans of the bank, it is clear that the percentage of profit is very small where anything like a reasonable rate of interest to the borrower is charged. The borrower must therefore, and is in practice, required to pay a very high rate of interest to any bank which habitually makes its loans by issuing its own notes. Obviously, therefore, anything that will reduce the cost of this necessary instrument will reduce the charge for loans to the farmer.

Under the proposed bill it is clear that banks may obtain a supply of notes for customers who want their loans in this form by paying to the federal reserve bank of the district in which they are situated such rate of rediscount as may be necessary to get the reserve bank to take their paper. As the reserve bank can then get the notes by segregating the borrower's paper to protect the accommodation thus secured, it is evident that there is no reason why the notes should cost the farmer anything more than the rate of rediscount fixed by the federal reserve bank plus such commission as the local bank may charge for indorsing the borrower's paper and passing it on to the reserve bank. This change alone ought to reduce the cost of getting notes for bank loans by a very material proportion of its present amount. While no one can calculate the exact saving which will thus be made with precision, I should be inclined to estimate that through the elimination of bond security and the substitution of the new plan of issue there should be no good reason why the note loans made by banks in agricultural regions should run to a higher figure than perhaps 6 or 7 per cent as against the charge of 12 to 15 per cent that may now be found in many of the small towns of the west and south during the height of the season.

As previously stated, Mr. Chairman, we have not sought in this bill to help the farmer because he is a farmer, but help the community which resorts to the banks for loans and to help the farmer as a necessary and important figure in that community. We have helped him as we have helped the merchant and manufacturer and other members of the body politic, by enabling him to secure, as we think, better and more abundant bank accommodation. But, in addition to this, we have removed the exceptional burdens which rest upon the rural borrower under the system of national bank-note issue which now prevails, and we have thereby placed him upon a footing of greater equality and of equity of treatment by making his credit instruments as reasonable in their expense to him as are those employed by the merchant and manufacturer. We have not attempted to exalt him and his interests above those of other elements in the community, but we have sought to give him what we believe he wanted—an open and fair share upon equal terms in the commercial credit of the country.

Exactly the same advantage, and in like degree, that will be afforded the farmers of the country under the rediscount provision of this bill will extend to every description of legitimate business and industry; hence I

will not further consider this section of the measure.

BANK RESERVES

Section 20 of the pending bill, Mr. Chairman, constitutes one of its vital features. It is the real point of attack by the big bankers of the central reserve cities. Recently at their Chicago conference and now before a standing committee at the other end of the capitol these gentlemen enumerate various alterations which they would have made in this bill. But in real truth their fundamental and insuperable objection is to the reserve requirement. All other fault finding is simply strategic. This is no conjecture of my own; I assert it as a fact which has been borne in upon me time and time again since the first print of this bill came from the press. I assert it as a fact and have conclusive proof of its verity. Not one of the bankers who have recently testified before the senate committee can controvert the statement.

The whole fight of the great bankers is to drive us from our firm resolve to break down the artificial connection between the banking business of this country and the stock speculative operations at the money centers. The monetary commission, with more discretion than courage, absolutely evaded the problem; but the banking and currency committee of the house has gone to the very root of this gigantic evil and in this bill proposes to cut the cancer out. Under existing law we have permitted banks to pyramid credit upon credit and to call these credits reserves. It is a misnomer; they are not reserves. And when financial troubles come and the country banks call for their money with which to pay their creditors they find it all invested in stock-gambling operations. There is suspension of payment and the whole system breaks down under the strain, causing widespread confusion and almost inconceivable damage.

THE REAL FIGHT

The avowed purpose of this bill is to cure this evil; to withdraw the reserve funds of the country from the congested money centers and to make them readily available for business uses in the various sections of the country to which they belong. This we propose to do cautiously, without any shock to the existing arrangement, graduating the operation to prevalent conditions and extending it over a period of 36 months. This affords ample time to the reserve and central reserve city banks to adjust themselves to the reserve requirements of the new system. Out of abundant precaution we have actually given them a longer time than the best practical bankers of the country have said was needed. But, Mr. Chairman, the plaint of these gentlemen is not as to time but as to fact. They do not want existing arrangements disturbed; they desire to perpetuate a fictitious, unscientific system, sanctioned by law, but condemned by experience and bitterly offensive to the American people—a system which everybody knows encourages and promotes the worst description of stock gambling. The real opposition to this bill is not as to government control, upon which we shall never yield; it is not as to the capital subscription required, which is precisely that of the Aldrich scheme unapishly indorsed by the American Bankers' association; it is not as to the 5 per cent dividend allowed member banks, the exact limit prescribed in the Aldrich bill; it is not as to compulsory membership, which was provided in another way in the Aldrich scheme; it is not as to the bond-refunding proposition, infinitely simpler and less expensive than the Aldrich device. It is none of these things, Mr. Chairman, that vexes the big bankers. It

is a loss of profits derived from a system which makes them the legal custodians of all the reserve funds of the country, \$240,000,000 of which funds on the 24th day of November, 1912, they had put into the maelstrom of Wall street stock operations.

DISAGREEING CRITICS

I distinctly am not appealing to the prejudice against great bankers. No man worthy to be a representative of the American people ought to deal with a problem of such magnitude without feeling profoundly the obligation to be fair and just to every interest involved. But so should the big bankers deal with us. They have assured us that the bill is workable; yet in another place they say it is not. The critics are not agreed among themselves even as to what the bill provides or as to what it means. Mr. James B. Forgan, the nestor of American bankers, testified before the senate committee last Friday that this measure would contract credits to the extent of \$1,800,000,000, whereas Mr. Chas. G. Dawes, an ex-comptroller of the currency, now president of a large bank in Mr. Forgan's own city, publicly asserted a week ago that the bill involves an enormous inflation. So in the east recently an eminent banker of New York city declared that under this bill there would be a frightful contraction of credit, whereas in the same city the foreign exchange expert of one of the biggest banks there figured out for the president of the institution that possible expansion under the bill would reach the aggregate amount of nearly \$2,000,000,000.

And thus the conflict of opinion runs. As a matter of fact, Mr. Chairman, neither of these postulates is true. Certainly it is impossible that both of them can be true. It may be confidently asserted that there will not be one dollar of harmful contraction under this bill; and those who undertake to figure otherwise conveniently ignore the fact that we have released a considerable portion of existing bank reserve. Frankly, there can be expansion under the bill; and, according to Mr. Frank Vanderlip, of the National City Bank of New York, the country just now greatly needs credit expansion. He figures that \$2,000,000,000 can be used within the next five years in developing a single industry in America. But the committee has carefully provided against dangerous or undue expansion. If the banks of the country will not exercise common prudence in the matter, it is within the power of the federal reserve board to compel them to do so by laying a firm hand upon the rate of discount. Moreover, the gold-reserve requirement and the redemption facilities afforded by the bill will have a powerful tendency toward checking expansion. But I will not longer claim the attention of the house upon this particular phase of the subject. I desire briefly to demonstrate the entire feasibility of the scheme provided by this bill for shifting the reserves without contracting credit. The matter has been figured out by the best experts in the country. It has been gone over with extreme care and we confidently challenge criticism of the facts and figures presented.

PRESENT RESERVE REQUIREMENTS

Section 22 of the bill provides for a revision of the existing reserves of national banking associations, which, under the present reserve system, are divided into three classes, (a) country banks, (b) reserve city banks, (c) central reserve city banks. Country banks are required to hold 6 per cent of their deposit liabilities in lawful money and 9 per cent in balances with other banks; reserve city