

Our Banking Policy.

The United States Investor, one of the leading financial publications, in a recent issue has printed an interesting article concerning "Our Banking Policy." The Investor points out that "our national banks are able to sail along on a pretty even keel in smooth water, but just at the time when we want most to rely on them they are rather apt to fall short of the necessities of the institution." The Investor article is in part as follows:

If we were asked what constitutes the real defect in our present banking method, we should answer that it lacks largeness, using this term in a quantitative sense. We are rapidly acquiring largeness in a quantitative sense, but are not sure that the country has as yet profited very much from that fact. A single bank in New York possesses over \$130,000,000 of deposits today, but very likely the best interests of the community would be subserved if it possessed only a small fraction of that amount. Largeness in banking in a quantitative sense is unquestionably a very desirable thing, provided it is the natural outgrowth and accompaniment of largeness in the quantitative sense. Great banking does not consist in getting a vast amount of wealth together in the shape of deposits, and lending it in large amounts in an arbitrary fashion. It consists in handling the funds committed to your charge, be they great or small, with honesty, intelligence, and in a manner to build up and strengthen the material interests of the entire community. If greatness in banking consists in taking great chances, then certainly American banking is entitled to be called great. But if it consists in acting with disinterestedness, with a shrewd knowledge of human nature, with a quick understanding of what is actually needed to advance the material interests of the community in a permanent manner, with an eye sharp to perceive the opportunities to further this last mentioned end, with a breadth of vision that will not be bound by purely local and temporary conditions, American banking is still far from being entitled to the designation "great."

All this has been exemplified time and again. Perhaps the gravest defect in connection with our banking has been the tendency

Away From Sound Principles. to conduct banks on about the same principle on which we conduct an ordinary private business enterprise. Banks are of

course to be governed by all the economic considerations that influence the merchant and manufacturer. But their obligation does not end here. A merchant may fail without entailing widespread disaster, but it is hardly possible for a bank to do so. The merchant has only to think of himself and the few people to whom he may owe money, but the bank has to think, or at least ought to think, of the effect its actions will have on the entire community. This is an obligation, however, which the banks ignore to quite an appalling extent. Many of them are started in just exactly the same spirit that actuates the creation of private business enterprises, and are conducted with an eye purely to the interests of the few people who may be actually concerned in their management. They solicit the money of the community at large, and proceed to use this money in a way to advance their own interests and those of their particular friends; and if public interests are advanced in any measure, it is a mere incident. Every financial panic sends a swarm of institutions of this class to ruin. We need not stop to recall how many of them toppled over in 1893. Such incidents as the present Seventh National bank affair are getting to be altogether too frequent. Instances of this kind are apparently

not on the decrease, but are actually increasing. Of course, we understand that a good deal of allowance should be made for banking in a new country, such as this has been up to a comparatively recent period; and we are ready to make such allowances. It would be gratifying, however, if we could begin to see some marked indications that we were at last getting down to a large and scientific, not to say disinterested, kind of banking. We do not fail to recognize that there are a host of national banks in the United States today that are models of banking propriety—that is, so far as they can be under a law which contains features that must ever strike the economic mind as absurd—but notwithstanding this fact, the main drift seems to be away from, instead of in the direction of, sound and stable banking.

Another feature which, to our mind, indicates that banking in the United States is drifting away from safe moorings is the modern doctrine that banks exist more for the purpose of furthering large stocks market deals, than for the purpose of primarily effecting mercantile transactions. The old idea of a bank was that of a financial institution which stood ready to discount the notes of its customers, issued for the purpose of transacting the commerce of the world. That is still largely the function of American banks, but there is nevertheless a manifest tendency in certain quarters to regard this as a more or less archaic form of banking. A very large part of the business of the banks in the great financial centres now consists of loans on stock market collateral; and many banks frankly declare that that is the kind of business they most like to transact; to be too solicitous for the comfort of mercantile borrowers is regarded as a bit of old-fogyism; and there are some banks that are not over-anxious to have mercantile accounts (especially if they are not more than moderate in size) kept with them. It is to this tendency that we may trace in very large measure the enormous increase in the volume of stock market speculation in recent years. Now the dangerous feature of this policy is, that the banks in making and looking after their stock market loans are a good deal more influenced by the mere stock market quotations on the securities which constitute the collateral for the loans, than they are by the real facts in connection with the industries against which these securities are issued. One reason why they are so much inclined to make loans of this sort, in preference to purely mercantile loans, is that they can realize on their assets so much more quickly. Their principal care is to keep their stock market loans properly margined. Now it is well enough known by the community at large, and it is probably equally clear to the banks, that a very large part of the stock market securities against which they lend their money so freely represents "water," pure and simple; that is, there are no tangible assets back of them in the shape of plant and supplies, and very little of intangible assets in the way of earning capacity. But that is a matter which the banks who do this business do not feel called upon to take very much into account, as these securities have a ready market, and all that's necessary for the banks to do is to margin them sufficiently to admit of their getting out without loss in the event of a drop in the stock market. The theory is beautiful; in actual operation it does not always work as well as might be desired. The objection to too great a prevalence of this kind of banking is twofold. In the first place, it incites overspeculation in the stock market, and is therefore the mother of financial panics; and in the second place, it is likely at any moment to cripple the legitimate mercantile business of the country by the withdrawal of loanable funds necessary to its proper conduct. No one who has kept an eye on the financial situation in recent years can question the fact that the policy

we have been describing inevitably works in the direction of overspeculation in the stock market. This point could be amply illustrated by the case of the National City bank of New York. (We may parenthetically say that we allude to this institution so frequently because it is the largest bank in the United States, and because it is one of the leading exponents of the dangerous tendencies in American banking which it our aim to point out.) This bank, as we have before pointed out, had a great deal to do with fostering the great boom in copper shares a few years ago, and the part which it is universally credited with playing in connection with the panic of May 9 of this year is another instance of the thing we have in mind. As regards the likelihood of hardship from this policy (viz., of loaning whenever possible on stock market collateral) to the real mercantile business of the country, there is no occasion for us to say anything at this time; the danger is too obvious to escape any one's notice.

This tendency to make banking a mere adjunct of the stock market is bound to impose a very severe strain on the morals

Misuse of Bank Funds. of those who have the banks in charge. The new policy brings the managers of the banks into

too close intercourse with Wall street, and makes them too susceptible to the influence of the "get-rich-quick" theory. The managers of an old commercial bank were hardly likely to be carried off their feet by any temptation to misuse the bank's funds in carrying out private commercial ventures. They were not in a position to carry through such ventures, requiring much time and special knowledge for their consummation. But it is altogether different with stock market schemes. As regards these, the managers of a bank can sit in the back parlor, and, by using the bank's funds for their private purposes, make vast sums of money without any effort at all. That is, they very readily think they can, and they very frequently try their hand at the game. Of course, as a matter of fact, they are fully as likely to come to grief, and to send their bank to ruin, as they are to come through successfully; but experienced bank presidents and directors are quite as apt to be carried off their feet by the curse of stock gambling as any one else. Our plea is, that if they confined themselves a little less exclusively to making stock market loans for their banks—or at any rate if they were a little less disposed to take the view that banks exist mainly to further speculation—the temptation to misapply other people's money to their own unlawful ends might not be quite so hard to overcome. With this reflection we must leave the subject for the time being, though we had hoped when we began that the space at our command would admit of our saying a number of things regarding the present tendencies in banking which we find we shall have to reserve for another occasion.

The Pope on Women's Clothes.

The pope has recently manifested a preference in regard to ladies' apparel over and above the strict regulation in regard to ladies who are received by the Holy Father at the Vatican. A niece of the pope was about to be married, and her distinguished relative took so great an interest in her trousseau as to stipulate that the young lady should only have white, blue or black gowns, adding that these were the three colors most becoming to young girls. "Gray and brown," remarked His Holiness, "are only suitable for old women, and I do not like any other colors." Possibly the pope prescribed white because it is the symbol of purity, blue because it is the color dedicated to the Virgin Mary, and black because it is the time-honored hue of dress for outdoor wear for Spain and Italy.—From the Pall Mall Gazette.