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A FEW WORDS WITH SECRETARY SHAW

To Secretary Shaw: You are reported as advocating the passage of a law that will enable national banks to issue emergency currency based upon their capital or assets. As this would be an innovation, there are several questions that ought to be carefully considered before such a law is enacted.

First—Why let the relief of the public in money matters be left to the whim, caprice or interest of those who are in charge of national banks? If more money is needed, is it not safer and better to allow that money to be issued by the government which acts in the interest of all the people and is directly responsible to the people? Experience has shown that the banks are governed entirely by their pecuniary interests in increasing or decreasing their circulation. During the panic period following 1893 when more money was badly needed, the banks defended their refusal to materially increase their circulation by saying that it was not profitable; after 1896 when there was a large increase in the volume of money from other sources, the banks defended a considerable increase in the bank note currency by saying that the reduction in the tax on circulation and the increase in the limit had made the issue profitable. Today, while you are depositing government money with the banks to relieve a stringency the banks are trying to retire circulation because they think they can make a profit on their bonds. You are certainly aware that the banker's speculative interest in the market is different from, and often antagonistic to, his interest in serving his patrons and the country.

Second—Why do you single the banks out for the special and valuable privilege which the issue of money confers? Even at present, when money is issued upon government bonds, the bank has a great advantage over the ordinary individual. If a farmer or a merchant or a laboring man purchases government bonds he is out the use of the money invested and must be content with the interest, but a bank can purchase the same bonds and by depositing them receive the face value in notes, upon the payment of half of 1 per cent interest. The bank thus has the use of its money (for this insignificant interest) and draws interest on the bonds besides. This is a pecuniary advantage granted to the banking class and denied to others. Just how much profit there is in it can be seen from the following statement: If a bank purchases one hundred thousand dollars' worth of 2 per cent bonds at $1.09 and deposits those bonds it receives back one hundred thousand in bank notes and as these bank notes serve the same purpose as the money paid for the bonds, the bank has invested in the bonds only $9,000. The $5,000 retained at Washington, as a reserve fund for the redemption of the notes, is constructively in the vaults of the bank and is as useful to the bank as if it were actually in the vaults, because that sum can be counted in the bank's legal reserve and the bank is thus enabled to use that much more of the money on hand. Having invested this sum of $9,000 in the bonds the bank pays half of 1 per cent tax to the government, or $500 a year. It lays aside a small sum to retire the premium, pays another small sum for the printing of the currency, and draws two thousand dollars interest from the government. After deducting the tax and all other expenses, the bank makes a net profit of between 10 and 15 per cent on the money actually invested, namely, $9,000.

Statistics show that the farmers of the United States do not make anything like that interest upon the investment which they have in farm property, and yet they take risks far greater than the bank takes, for there is no risk to the banker at all in this transaction.

Statistics also show that in banking the percentage of failures is smaller than in merchandising. Why this valuable privilege to the banks?

Third—In what respect is a bank note better than a greenback? During the war when gold and silver were at a premium the bank note and the greenback kept company because the bank note was redeemable in lawful money and the bankers used the cheapest lawful money they could find. It is worthy of note that the bankers, while insisting that other people shall pay them in the dearest money, always exercise the right to redeem their bank notes in the cheapest money. Even today when there is so much talk about gold and about the government paying debts in the best money, the bankers are not willing to have a law passed compelling them to redeem their bank notes in gold. The bank note is good because it has a greenback behind it; why is the greenback not good without any bank note in front of it? The bank note is not a legal tender; the greenback is a legal tender. Which is the better money? If you are afraid that the volume of government money might be unwisely increased or decreased, do you not find a lesson in the fact that for thirty years the volume of greenbacks has remained stationary while the volume of bank notes has constantly fluctuated? Would you not rather risk the decision of congress, the secretary of the treasury or the president to determine when the volume of paper money should be increased or decreased, than to leave that matter to be determined by a coterie of bankers?

Fourth—If this emergency currency is a lien upon the assets of the bank, will not the issue of it be an announcement to the public that the bank is in difficulty? Will not the issue of such currency frighten depositors, and make probable a run on the bank? The rate of interest has not been decided upon, but it is evident that the scare will be somewhat in proportion to the rate. If a bank has to pay 6 per cent interest, the public will know that it is in greater financial difficulty than if it issued currency at 3 per cent. If it issues at 3 per cent, it will be known to be in greater financial difficulty than if it issued at 1 per cent.

How can you keep an emergency issue from aggravating the very conditions which it is intended to relieve? Is there not danger that with an asset currency, a bank official may run away with the assets and leave the currency outstanding? If you find any pleasure in the contemplation of a currency system under which the bank would still owe for the currency even when its assets had disappeared, you will relish the story that is told of a man who carried contentment so far that when he traded off his coat for a loaf of bread, and a dog then snatched the bread, he thanked God that he still had his appetite left, even though he no longer had the means of satisfying it.

If emergency currency is issued with the knowledge of the public it is apt to frighten the public; if it is issued without knowledge of the public, is it fair to the depositors? If it is intended to make all of the banks liable for the emergency currency issued by each bank, it imposes an unjust burden upon the well conducted banks for the benefit of the poorly conducted ones. If the government is to guarantee this currency, is it not unfair to give the bankers the benefit and make the public pay the expenses?

Fifth—Does the issue of an emergency asset currency contemplate a restriction upon the interest to be charged by the banks which issue it? Will the government issue at a low rate to the banks and then permit them to loan it at a high rate? If this is solely in the interest of the banks, it would be natural to allow the banks to make as much out of the privilege as possible, but if it is done in the interest of the public, ought there not to be some relation between the interest paid by the bank to the government and the interest charged by the bank to the people? And if this legislation is intended for the benefit of the public, why is the benefit given by indirection? If a bank in time of emergency is allowed to issue money on its assets, why not allow people engaged in other business to issue on their assets in an emergency? Most of the banks loan money to farmers, and the notes given by the farmers are good because the farmer has land or personal property of value. Now if the government is going into the business of helping people in an emergency why not loan the money to the farmer directly, and take a mortgage on his property? If the government can loan to the banker because the farmer's note is good, why can it not loan to the farmer and save him the interest that he would have to pay to the banker? Why help the banker out of an emergency by loaning him money at a low rate of interest merely that he may turn around and help the farmer out of an emergency by loaning him the same money at a high rate of interest? And what is said of the farmer may be said of the merchant, and men engaged in other occupations. The bank's assets are composed to a large extent of the notes of business men. Now if the bank is good it is because the business men are good. If the notes of business men are good enough to make the bank good for a government loan, why are not these notes good enough to loan on directly? Why should the government turn the money over to the banker and then permit him to profit by the merchant's embarrassment? It is not contended here that the government should loan to the farmer or to the merchant, but attention is called to the discrimi-