THE FARMER'S INTEREST IN THE BANKING QUESTION.

Two recent numbers of Sound Currency, by L. Carroll Root, secretary of the Reform Club's Sound Currency Committee, and formerly assistant to the Indianapolis Monetary Commission, deal with the banking question from a somewhat new, but very important point of view. The first is entitled "Deposit Currency." In it the author shows how bank deposits subject to check constitute the main currency of all the larger business of the country. He demonstrates conclusively that these deposits are bank currency just as truly as bank notes are, the two being only different forms which bank credit takes, and being similarly created in the operation of discounting the notes of the bank's customers, and both performing all the offices of currency where used. Mr. Root shows what are some of the considerations which have made the note form of currency more acceptable for use in country districts and at the same time have resulted in a decided preference for the bank deposit as the main currency for use in the cities and the distinctly commercial communities.

In the second pamphlet, entitled "The Farmer's Interest in the Banking Question," the author develops this point further, and shows how, because of it, the restrictions which our laws have placed upon the issue of bank notes in excess of those put upon the use of deposits amount to a practical discrimination against the use of bank notes and in favor of those whose currency is deposits, and is thus a discrimination against the country in favor of the city.

The most important of these restrictions are the special taxation of bank notes and the requirement for investment in United States bonds to be deposited as security for their issue. Because of these restrictions the use of bank notes by those whose habits and convenience require that form of currency (that is by the farmers and the population of our agricultural sections generally) has been made expensive, while the commercial and financial classes, who do not care to make use of notes, but whose business is best and most conveniently done with deposits, have been left free to use their own particular form of currency without restrictions or burdens. This naturally and necessarily produces higher rates of interest in country districts, as the author shows by a series of concrete illustrations. He takes, for example, a typical city bank of $100,000 capital, with $150,000 of deposits. Its condition would be represented by the following balance sheet:

ASSETS.	
Loans and Discounts	$212,500
Cash Reserve (25 per cent)	37,500
	$250,000
LIABILITIES.	
Capital	$100,000
Deposits	150,000
	$250,000

With $5,000 expenses, this bank could earn a 6 per cent dividend upon its capital if its loans were made at an average rate of 5.18 per cent.

Contrast with this the situation of a typical country bank under the existing system. In order to furnish its currency in the form needed by its customers, a large part of it must be in the shape of bank notes, instead of all deposits, as in the city. Take, as before, a bank of $100,000 capital, with $150,000 demand liabilities—$90,000 of which are notes and $60,000 deposits. It is necessary under the present system that the bank should buy $100,000 of United States bonds, to be deposited with the treasurer at Washington. These at present prices would cost about $112 500. This will leave the bank, after keeping out a cash reserve of $37,500 as before, only $100,000 for general loans and discounts. Its condition will be as represented by the following balance sheet:

ASSETS.	
United States Bonds	$112,500
Loans and Discounts	100,000
Cash Reserve (25 per cent)	37,500
	$250,000
LIABILITIES.	
Capital	$100,000
Deposits	60,000
Circulating Notes	90,000
	$250,000

To the same expenses as are borne by the city bank must be added $900 for tax on circulation. A 6 per cent dividend would take $6,000 as before. The bank's total income must therefore be $11,900 in order to make possible a 6 per cent dividend upon the capital stock. Now the net return upon the $112,500 invested in United States bonds is only $2\frac{1}{4}$ per cent. The total net income on the $112,500 thus invested is, therefore, only $2,531.25. In order to make the total income up to $11,900, the loans and discounts must produce $9,368.75—which requires that they should be made at an average rate of about 9.4 per cent.

This is the reason, as the author shows, why rates of interest are so high in our agricultural sections. More money can be made by starting a bank in a city and lending at 5 per cent, where the form of currency desired (deposits) is untaxed and unburdened, than can be made by loaning at 9 per cent in a country district, where a considerable portion of the currency must take the form of notes, the issue of which is so severely burdened. Until those burdens are removed rates of interest must remain much higher in the country than in the city.

Another common-sense view of the question is as follows: The city bank is left free to loan its entire $212,500 to local borrowers. The country bank, in the typical case mentioned, is required at the outset to withdraw $112,500 for investment in bonds at $2\frac{1}{4}$ per cent interest. This reduces the portion to be loaned to local borrowers to $10,000. And it "stands to reason" that if so large a part is required to be invested in a special form at a rate of interest much below the normal commercial rate, the part loaned at home must be loaned at a rate enough above the normal rate to make up for what the bond investment falls below it.

How different the situation if the issue of notes, within reasonable limitations, were no more restricted and no more heavily burdened than the use of deposits! Then the discrimination between city and country would disappear, and the rural community which preferred its currency in the form of notes would be at no disadvantage as compared with the commercial community; the country bank would then be in a position to make loans on as favorable terms as the city bank, and the average loaning rate required to earn a 6 per cent dividend in the typical case mentioned would fall from 9.4 to 5.18 per cent.

PARTISAN MALICE. Secretary of the Treasury Gage is being assailed with more than ordinary partisan malice by all the bigoted and infatuated disciples of the money fallacies in the United States. An organ of calamity at Lincoln heads an article:

LET GAGE BE IMPEACHED.
HE HAS ENGINEERED A STEAL THAT IN ENORMITY ECLIPSES ANYTHING EVER BEFORE ATTEMPTED.

Now every citizen of Chicago and the Northwest who knows Lyman J. Gage is absolutely certain that he is utterly incapable of wilfully violating the law. However much THE CONSERVATIVE may differ from the secretary in some things—after a personal acquaintance of many years—it is perfectly confident that the headlines quoted are malicious and false. Secretary Gage could not "engineer a steal" if he would, and it is not decent to accuse him by such reckless and mendacious allegations.

To threaten the Southern states with a loss in representation "is poor statesmanship and poorer politics," the St. Paul Pioneer Press (rep.) says. "If by educational and property qualifications, justly enforced, the white can maintain the domination that he is bound to maintain anyway, the day will not be far distant when the Southern voter can give as free expression of his views as the Northerner. And if the qualifications now imposed in Mississippi, Louisiana and South Carolina are sometimes inequitably applied to bar out negro votes, that is a matter that time and an awakened political conscience can be depended upon to remedy."