

### THE FARMER'S INTEREST IN THE BANKING QUESTION.

How the Present System Discriminates Against the Country Districts in Favor of City Communities.

Our natural sense of justice revolts at unjust legislative discriminations against any one class of our citizens as compared with another. The character and relative importance of our great agricultural industries especially demand that there shall be no such discrimination against them. It is, therefore, eminently proper that we should inquire whether there is anything in our existing currency legislation which unduly burdens our agricultural communities—anything in short, which favors the city at the expense of the country.

It is the object of this paper to carefully consider the farmer's relation to the currency question from this point of view, and to direct attention to what amounts to a serious discrimination against him as compared with his neighbor in the city, and to suggest the measures by which the injustice can be effectually removed.

Notes, the Country Currency; Deposits, the City Currency.

In the preceding issue of Sound Currency it has been made clear that bank deposits constitute a portion of our currency as truly as do bank notes. It has been shown that in principle and economic effect they are identical; and that the differences between them are such as spring from the difference in form and manner of transfer and consequent differences in applicability to various uses. They are suited to the habits and convenience of different classes of people.

For the purpose of the larger commercial transactions, the deposit currency was long ago found so much more convenient than the note that even before the Civil War it had, by its superiority, driven the note as an instrument of exchange into a relatively insignificant position in commercial communities, and especially among the commercial classes in such communities. This movement from the note currency to deposit currency has progressed rapidly since then until now the deposit occupies a position in our currency system which the note never attained, and never, under free competition, could attain. This growth of deposits at the expense of notes has, it is true, been facilitated by the restrictions placed upon the issue of bank notes in the last 35 years. But that it is due to a tendency which was rapidly forcing the deposit currency to the front in commercial districts even under conditions of more equal competition, is shown by the developments under some of the free bank systems before the war.

Illustration Under State Bank Currency System.

In the state of New York, for ex-

ample, the aggregate note circulation of the banks reporting Jan. 1st, 1832, was \$12,005,824; and their individual deposits, \$5,783,101—a total currency in both forms of \$17,788,925, of which it will be observed the notes constituted 67 per cent, and the deposits 33 per cent. As will be seen from the last columns of the table which follows, the proportion of deposits to the whole increased from 33 per cent in 1832 to 50 per cent in 1835, 57 per cent in 1840, 66 per cent in 1850, 72 per cent in 1854, and to 80 per cent in 1860.

Table Showing Development of Deposits as Compared With Bank Notes in New York State, 1832-1860.

	NEW YORK CITY BANKS.		BANKS OUTSIDE N. Y. CITY		TOTAL NEW YORK STATE.	
	Notes.	Deposits.	Notes.	Deposits.	Notes.	Deposits.
Jan. 1, 1832					\$12,005,824 67%	\$ 5,783,101 33%
Jan. 1, 1835	\$4,993,778 31%	11,594,198 69%	\$9,470,273 77%	\$2,790,038 23%	14,464,023 50 "	14,384,236 50 "
Jan. 1, 1840	3,414,658 25 "	10,020,347 75 "	6,522,404 67 "	3,192,976 33 "	9,937,062 43 "	13,213,323 57 "
Dec. 21, 1850	6,584,539 15 "	38,869,284 85 "	21,531,724 60 "	14,223,163 40 "	27,926,263 34 "	53,092,447 66 "
Sep. 23, 1854	7,944,295 12 "	57,402,613 88 "	23,030,682 50 "	23,604,688 50 "	31,974,977 28 "	81,096,666 72 "
Dec. 29, 1860	7,999,650 9 "	78,792,627 91 "	20,240,300 39 "	31,882,551 61 "	28,239,950 20 "	110,664,578 80 "

In this development, however, not all portions of the country fared alike. Taking the country as a whole, the deposit currency, between 1835 and 1860, moved forward from a position in which it constituted 45 per cent of the aggregate bank currency to one where it amounted to 55 per cent; while, as shown by the table above, the advance in New York state in the same period was from 50 per cent to 80 per cent.\*

The explanation of this is to be found in the fact that New York City was the leading commercial city of the country; and the substitution of deposits for notes has been preëminently a commercial development. The preference of the bank's customers has been the decisive factor. As already suggested, where banks are equally free to make use of either note or deposit liability (as the most of our banks were in the early part of this century) it is comparatively immaterial to the bank which

form of liability is employed. Not so, however, with the customer. His habits are more or less fixed, and if he finds one or the other more convenient for his use, he is not slow about manifesting his preference. In a preceding article some of the considerations which have tended to make the note currency preferable to the deposit-and-check system in the country districts have been suggested. On the other hand, the greater convenience of the deposit-and-check system where large amounts are involved naturally led to a decided

preference for that form of currency among those largely engaged in the larger commercial and financial enterprises. This has resulted, practically, in a division of our population upon the question of form of currency along lines which coincide to a remarkable degree with the distinction between the commercial and non-commercial communities—between the city and country districts.

It is not intended by this to suggest that there is not an important part of the business of the cities as well as of the country which can be carried on only by the use of actual money or credit currency in the form of notes. Such, indeed, are all the minor transactions, the payment of labor, and in the city, perhaps, to an ever greater extent that in the country, the largest share of the retail trade. But beyond all transactions of this character, which are common to both city and country, there re-

\* The development of the system of deposit currency in the United States, and its relative importance as compared with the note currency, may be seen from the following table:

Year.	Note Currency.	Deposit Currency.	Total Currency.	Percentage of Total.	
				Notes.	Deposits.
1835.....	\$103,000,000	\$ 83,000,000	\$186,000,000	55	45
1845.....	89,000,000	88,000,000	177,000,000	50	50
1855.....	186,000,000	190,000,000	376,000,000	49	51
1860.....	207,000,000	253,000,000	460,000,000	45	55
1865.....	314,000,000	849,000,000	1,163,000,000	27	73
1870.....	292,000,000	815,000,000	1,107,000,000	26	74
1875.....	318,000,000	1,162,000,000	1,480,000,000	21	79
1880.....	317,000,000	1,310,000,000	1,627,000,000	19	81
1885.....	268,000,000	1,338,000,000	2,206,000,000	12	88
1890.....	122,000,000	2,711,000,000	2,833,000,000	5	95
1895.....	182,000,000	3,295,000,000	3,477,000,000	5	95

Under the head "Deposit Currency," the deposits of savings banks are, of course, not included; because they are not subject to check, and thus are not able to perform currency functions. The statistics for 1835-1860, are from the Reports of the Secretary of the Treasury on the Condition of State Banks, those for 1865 and 1870 include, in addition to the deposits of the National banks, \$300,000,000 as an estimate of the deposits of State and Private banks and trust companies. For 1875-1895 the figures are from the report of the Monetary Commission (p. 175.) They include for the years 1885-95 an estimate of \$300,000,000 for the deposits of private bankers, not officially reported since 1882.