A Study

OF

National Finances

BY

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Superintendent of Banks, Minnesota.

1895.

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A Plan to Secure the Following:

"The establishment of such a safe system of bimetallism as will maintain at all times the equal power of every dollar coined or issued by the United States in the markets and in the payment of debts." (Extract from the Act of Congress Nov. 1, 1893.)

"The Republican party demands the use of both gold and silver as standard money with such restrictions and under such provisions, to be determined by legislation, as will secure the parity of values of the two metals, so that the purchasing and debt-paying power of the dollar, whether of silver, or gold, or paper, shall be at all times equal" and further "demand that every dollar, paper or coin, issued by the Government shall be as good as every other." (Extract from Republican National Platform of 1892.)

The Democratic party "hold to the use of both gold and silver as the standard money of the country, and to the coinage of both gold and silver without discrimination against either metal, or charge for mintage, but the dollar unit of coinage of both metals must be of equal intrinsic and exchangeable value, * * * by such safeguards of legislation as shall insure the maintenance of the parity of the two metals and the equal power of every dollar at all times in the markets and in the payments of debts," and "demand that all paper currency shall be kept at par with and redeemable in such coin." (Extract from Democratic National Platform of 1892.)

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NATIONAL FINANCES.

The President's message and the report of the Secretary of the Treasury and the inferential propositions of the Comptroller of the Currency, so far as they relate to proposed changes in national finances, have as their keynote the retirement and cancellation of the United States notes commonly called greenbacks. This may not be the true position of the Democratic party, but seems to be the only remedy that its leaders have to offer to relieve the treasury of the difficulties surrounding it.

This view is a narrow one, since it does not recognize the burdens of the people, nor propose to lighten them in any particular, but seeks by labored arguments to assure them that the retirement of so large a volume of accepted money will not add materially to such burdens. That the enforced retirement of so large an element of circulation as the greenback would increase the burdens of the debtor class, has been one of the principal reasons for continuing their use, and the desire to relieve that class from the increased burdens resulting from a contracted circulation, led to the enactment of the so-called Bland and Sherman laws. Our national financial legislation has been undertaken on demand to relieve some pressing necessity, rather than to astablish an intelligent and well digested system that would bring all the various kinds of currency in use into harmonious and interchangeable values, so arranged that by reason of accident or by virtue of some assumed right, no person or corporation could demand of another any one kind of legal tender money as distinguished from another.

That the politicians realize the necessity of such harmony and interchangeableness is evidenced by the party platforms.

The Democratic party in its platform adopted at the national convention in Chicago in 1892, declared that "We hold to the use of both gold and silver as the standard money of the country, and to the coinage of both gold and silver without discriminating against either metal or charge for mintage, but the dollar unit of coinage of both metals must be of equal intrinsic and exchangeable value or be adjusted through international agreement or by such safeguards of legislation as shall insure the maintenance of the parity of the two metals and the equal power of every dollar at all times in the markets and in the payment of debts; and we demand that all paper currency shall be kept at par with and redeemable in such coin."

Dropping the question of international agreement from this paragraph, the demand is for such legislation as shall keep all forms of money on a parity for the protection of all citizens from the evils of a fluctuating currency.

The Republican party put forth its platform at the national convention at Minneapolis in June, 1892, and said "The Republican party demands the use of both gold and silver as standard money, with such restrictions and under such provisions, to be determined by legislation, as will secure the maintenance of the parity of values of the two metals, so that the purchasing and debt-paying power of the dollar, whether of silver, gold or paper, shall be at all times equal." The convention further declared that the interests of the country "demand that every dollar, paper or coin, issued by the Government shall be as good as every other."

The act of Nov. 1, 1893, repealing a part of the Sherman Act (so-called), was passed by a vote of the members of both parties and closes with the declaration "that the effort of the Government should be steadily directed to the establishment of such a safe system of bi-metallism as will maintain at all times the equal power of every dollar coined or issued by the United States in the markets and in the payment of debts."

So far as can be obtained from the proceedings

of the present House of Representatives, the Republicans appear to be opposed to the retirement of the greenback element of the currency.

From the foregoing it appears to be the policy of the two parties to maintain the equality of all money issued by the Government and to divide as to the retirement of the greenbacks, but neither party has put itself on record as to any plan covering the whole system, although the discussion of the currency question, including the position of silver and the necessities of the national treasury, has reached a point where it is conceded by all parties and persons that it must be settled in the near future, in some rational manner to prevent disastrous business changes, and the people expect Congress to formulate a policy that will be comprehensive and generally satisfactory.

The necessities of the treasury are not alone to be considered, and in view of the varied troubles surrounding the financial system of the country, I have become convinced of the necessity of some settled policy of such a character as to accomplish the following objects:

1st. To relieve the national treasury of the necessity of issuing bonds to maintain or replenish the gold reserve.

2d. A wider or more extensive use of the existing silver coinage of the country.

3d. Some plan for an elastic currency so that a safe increase of recognized money can be had in times of necessity with reasonable restrictions, so that no kind of money in use should become so redundant as to depreciate in value below any other kind, and so arranged that all kinds may be acceptable to both debtor and creditor in the ordinary transactions of business.

4th. To prevent contraction of the present circulating moneys, and to provide for a healthy and legitimate increase of circulation as the population increases and business interests and needs require it.

With a plan that includes these four absolutely necessary propositions, I am convinced this country could go on with full confidence in its business and industrial pursuits and carefully investigate all measures looking to free coinage of silver or any adjustment of international currency relations, without any internal dissensions, and adopt or reject such measures without detriment to any debtor or creditor either domestic or foreign.

During the past three years all classes of citizens have seen the necessity of some method of accomplishing these objects and have looked to gatherings of bankers and business bodies hoping for a formulary that would commend itself to the common sense of the public as a reasonable solution of the problems and worthy of adoption.

During all the long period of distress and trouble in financial matters we have waited in vain for financiers and officials in charge of the country's finances to declare a plan that would reasonably afford permanent relief.

During the past six months, with its numerous political gatherings in conventions and elsewhere, while the financial questions have been given the most prominent position and discussed by our greatest statesmen and economists, the failure to present a reasonably fair proposition in regard to the whole subject has been the most surprising result, and this surprise has been deepened by the apparent necessity for a definite and declared plan as a remedy for existing conditions, which conditions seem to be inherent in the policy and financial legislation of the country and not the direct outcome of the financial stress of the period.

To change this policy and relieve the Government and distribute the burdens, or more properly to remove the burdens imposed on persons who have been innocent of any wrongful act, or complicity in any act that has contributed to this condition, I have become convinced that the following plan would be a fair solution and would not prove detrimental to any legitimate business, or involve any abrupt change in the conduct of any business now established.

The several propositions in their order and the proposed remedies are as follows:

ELIMINATE THE GREENBACK.

1st. To relieve the national treasury of the necessity of issuing bonds to maintain or replenish the gold reserve.

The integrity of this reserve can only be preserved by eliminating the greenback currency as a factor in the ordinary business transactions of the country. So long as the greenback currency is easily obtainable, the treasury gold will be open to the world with the privilege offered to all to help themselves.

To prevent this let Congress enact that from and after a given date in the near future, the greenback currency shall be a subsisting debt, on which at stated intervals the Government will pay a specified rate of interest, and that such greenback currency, exclusive of any accumulated interest, shall retain all its present functions and attributes as currency.

(At the first presentation of the greenbacks for payment of interest, the old issue to be cancelled and the new issue to have the interest clause inserted therein.)

Should such a law be passed, fixing the rate of intererest at one per cent per anum, I am convinced that the entire volume of greenback currency would be absorbed by the banks in their cash reserves, and that the banks would not part with such reserve holdings except under the greatest stress. This will be apparent when the anomaly of an interest bearing cash reserve and the position the banks holding such a reserve would assume towards anyone seeking to obtain interest-bearing greenback currency so held.

Suppose a bank had $10,000 of such reserve. Should anyone desire to obtain a part of the greenback reserve, he would be met with the fact that the bank not only had to maintain a reserve for to-day, but for its entire life as a bank, say for ten years in the future. The income of the $10,000 greenback reserve for the term of ten years would be $1,000, and the bank would demand in addition to $10,000 (the full value) such a sum as would produce at the end of ten years an additional $1,000, which additional sum would be nearly or quite $500, or a premium of five per cent. If the bank were convinced that it would need the reserve for a longer period, then the premium would be raised accordingly. When this position of banks and their reserve is considered it is clear that only under exceptional conditions would a bank part with such reserve at its present value, including accumulated interest.

The total outstanding greenback issue is given at $346,681,016.

The annual interest on this sum at one per cent would be $3,466,810.16, which would be a small sum to pay for immunity from demand and payment.

As a further safeguard against presentation, let the act provide that if in any one month the sum of $3,000,000 or less of such currency was presented and redeemed, then such currency so redeemed should be permanently canceled, and any excess redeemed in any one month over $3,000,000 should be reissued. If the maximum sum ($3,000,000) were presented constantly each month, it would take one hundred and fifteen months to redeem the whole, but the very fact that such cancellation would occur, would induce the banks to be more tenacious of their holdings, as there would eventually be difficulty in replacing those parted with, and the result would be that very little would be presented for redemption.

The reserve required in national banks on Sept. 28, 1895, was $406,000,000, or $60,000,000 more than the entire outstanding greenback issue. The amount of cash held by national and other banks on or about July 11, 1895, was $631,000,000, or nearly $285,000,000 *more* than the greenbacks outstanding. Hence it is certainly safe to say that if the greenbacks were exceptionally desirable for reserve, that the entire issue would eventually be absorbed by the banks for that purpose.

That this course would be cheaper in annual interest charge than any possible bond issue is apparent.

USE OF EXISTING SILVER.

The next proposition is:

2d. A wider and more extensive use of the existing silver coinage and silver representatives (silver certificates).

The act of Congress of Nov. 1st, 1893, heretofore referred to, to repeal a part of an act approved July 14th, 1890, entitled "An act directing the purchase of silver bullion, and the issue of treasury notes thereon, and for other purposes," closes with this significant declaration: "And it is hereby further declared that the effort of the Government should be steadily directed to the establishment of such a safe system of bi-metallism as will maintain at all times the equal power of every dollar coined or issued by the United States in the markets and in the payment of debts."

In considering bi-metallism in this country the total amount of gold and silver in circulation is an important element.

Muhleman's "Monetary Systems" gives a table (C. page 132) showing that at the close of 1894 there was in circulation:

Gold coin	$498,000,000
Gold certificates	66,000,000
Total	$564,000,000
Silver dollars	$ 51,000,000
Silver subsidiary	58,000,000
Silver certificates	327,000,000
Total	$436,000,000

The coinage of gold has probably increased the difference that existed at the close of 1894.

In view of the fact that silver is considerably less than gold in the circulating medium, it ought not to be difficult to "maintain at all times the equal power of every dollar coined or issued by the United States in the markets and in the payment of debts" as declared in the party platforms and the act of 1893 to be the duty and intention of the Government. But in order that the metals already coined or in use may be enabled to circulate side by side and maintain such equal power, there should be no discrimination on the part of the Government against either metal, either in the laws relating to it or in its use by the Government.

So long as the Government displays hostility to silver and gives gold the preference in its use, to that extent the ability of silver to maintain itself is questioned, and the two metals assume somewhat the relations that exist between preferred and common stock of corporations, gold being given the preference, or the difference that exists between negotiable and non-negotiable paper of the same individual, of whose solvency there can be no question.

So far as the Government is concerned its attitude toward the existing coinage should be absolutely fair and without discrimination, and where it has the power to compel fair treatment of the metals on the part of others, it should exercise such power to the end that the present circulation of the metals may maintain the equal powers that the Government declares that its efforts should be directed toward establishing.

Having placed such a declaration on the statutes, it does not need any argument to sustain the foregoing proposition as to the attitude that the Government should itself maintain regarding the present circulation. This being admitted, then in order to be fair and to exercise its powers to the end declared, all discriminating, or apparently discriminating, statutes should be repealed.

This would require the repeal of the words "except where otherwise expressly stipulated in the contract" where they appear in the acts of Congress of February 28th, 1878, and July 14th, 1890, relating to silver coinage and the purchase of silver bullion and known as the Bland and Sherman Acts, respectively.

Having by such repeal removed the statutory ban placed upon silver, provide that the Secretary of the Treasury may in his discretion use one-half gold and one-half silver (including silver certificates) in the payment of claims upon the treasury, and provide that the treasury may demand in payment of customs one-half gold and one-half silver, except in cases of goods imported from countries not using silver, the Secretary may in his discretion demand gold for customs dues.

EXCHANGE OF BANK RESERVES.

The Government has also power to designate what may be kept as reserve in national banks, and to the end of maintaining equal power of the two metals should enact that when a national bank holds in its reserve gold or its representatives, such bank should also hold an equal amount of silver or its representatives, and give the Secretary of the Treasury the right and power, when he finds a bank carrying an excess of gold over silver, to remit to such bank, at Government expense, silver or its representatives, and demand a delivery of the gold in exchange for such excess.

As to the state banks, the same privilege could be extended to the treasury by the enactment of the legislatures of the different states.

While this seems harsh and despotic when first heard, yet when the functions and real ownership of a bank's reserve is considered the proposition is stripped of its apparent harshness and may be deemed as a fair enactment to prevent those in a favorable position from discriminating against silver by the mere fact of such position. To elucidate this the following propositions are submitted:

Banks are required to keep a reserve against certain liabilities. In the case of national banks these liabilities are deposits and circulation. While the banks hold all moneys as the property of the bank as a corporation, it must use such moneys in the payment of its liabilities, and if necessary the reserve may be drawn upon; the law providing for a limitation of its business during the period its reserve is below the lawful limit. The law also provides for a surplus and its maintenance, and further provides that no portion of its capital shall be withdrawn while it continues its banking operations, and also provides for payment of dividends from net profits.

The stockholders by virtue of their having paid in the capital own the bank, and provide for its government, but have no claim upon the reserve in any form, not having the right to withdraw capital or surplus, and in the case of winding up its affairs in court the reserve is used in payment of the creditors as distinguished from the stockholders.

This being so, the reserve is a fund that belongs to the creditors other than the stockholders, and it certainly cannot be a hardship to a bank to determine that it shall hold certain funds for the payment of its creditors when such funds have full power to discharge all indebtedness by reasou of legal tender quality.

Again, banks take on deposit without any objection all kinds of money now in circulation, the greater part of such deposits, when presented in form of money, being silver or its representatives and national bank notes, and generally when repaying such deposits in money such payment is made in silver or its representatives or treasury notes of 1890 and national bank notes. In other words, very little gold or greenback currency is received from depositors or paid out over the counters of banks to its creditors.

What is good enough to satisfy the creditors of a bank is equally good for its reserve.

That the banks discriminate against silver in their reserves is easily seen by noting the various kinds of money that constituted the reserves of national banks Sept. 28th, 1895, as shown by their reports of that date to the Comptroller.

The reserve consisted of the following:

Gold coin	$110,378,360
Gold treasury certificates	21,525,930
Gold, clearing house	31,021,000
Gold, in all forms	$162,925,290
Silver dollars	$ 5,505,469
Silver treasury certificates	22,914,180
Silver fractional coins	4,892,381
Silver, in all forms	$ 33,312,020
Legal tender notes	$ 93,946,685
Legal tender notes deposited with U. S.	49,920,000
Legal tender notes, total	$143,866,685

Considering the legal tenders as really demand notes payable in gold, here is gold and its equivalent to the amount of $306,791,975, as against silver and its representatives $33,312,020, or nearly five times as much actual gold as silver, and with greenbacks as prospective gold, nine times as much gold in all forms as silver. Probably the statistics of the state and private banks, if they were obtainable, would show a similar condition, relatively, in their reserves.

The banks are not censurable for this state of affairs, as it has been brought about in a large part by a fear of some collapse in national finances that would render our silver circulation a burden that could not be sustained, and prudence dictated the action of the banks in securing gold or its equivalent and excluding silver. If the Government had possessed the right to transfer silver and take gold from the national banks on September 28, 1895, there would have been available for that purpose $64,806,635, and if the privilege were accorded as to state banks, a large sum would have been available in their reserves.

With the greenbacks in hiding in reserves and not easily obtainable, and the use of gold and silver in equal quantities, the national treasury with the foregoing enactments and privileges would be at great ease so far as its gold reserve is concerned and might deal with the question of a deficit in receipts without considering the shipment of gold as being a factor of much importance.

The question of the value of our present silver circulation would soon be eliminated, and the consideration of its further use could be taken up in all its forms without disturbing the operations of the treasury.

The exacting of gold contracts would in a measure subside, as the banks could not hold gold in large amounts in excess of silver, and they would not desire to collect it for the government. If on account of gold contracts gold rose to a premium, the Government could avail itself of the accumulation and pay all gold for a considerable period and would to an extent possess an "endless chain" for the procuring of gold, somewhat similar to the present one of greenbacks now used against the treasury.

By enactment of the laws suggested, the Government would go far in accomplishing its purpose as declared in the act of Nov., 1893, to maintain the equal power of every dollar coined or issued by the United States in the markets and in the payment of debts, and would in a great measure be freed from demands from foreign countries for gold from the treasury.

The effect on foreign exchange would, I believe, be beneficial to this country, especially from a protective tariff standpoint.

Under its operation it might be difficult to obtain gold for shipment abroad, hence foreign exchange would rise and the price of foreign goods in this country would rise correspondingly. While this would enhance the cost of such goods to the consumers, it would have a reflex action on the price of grain, cotton and other commodities demanded in foreign markets, since if it were difficult to pay in gold or exchange, grain, cotton and other commodities would be sought for shipment to pay balances in the place of gold.

GOLD CONTRACTS.

Gold contracts have recently come into prominence, and the demands of creditors to have a discriminating clause of that character entered in their contracts have led to feelings of great disquiet on the part of debtors in the fear that an unearned increment in the form of premium on gold may in the near future be exacted through such contracts. It is clear that most debtors who execute such contracts in effect sell gold short, as very few of them have any present expectations of obtaining gold to fulfill such contracts, or any knowledge as to where such gold is to be obtained, and are simply taking chances that there will be some change in conditions whereby they may be relieved of any hardship that their contracts may ultimately impose upon them. That the holders of such contracts do not expect some advantage to themselves other than being protected from the consequences of some failure on the part of the

Government to maintain equality of all money issued or coined is not so clear.

Many of these obligations are payable to banks, and it would not be difficult for the banks to obtain statistics of the total amount of such contracts in their possession at any given time.

The clearing house of New York might easily obtain the total amount of such contracts held by banks on January 1st, 1896, and if it were found that such total largely exceeds the amount of gold in the country if the banks should enter on a course of demand for payment in terms, gold would inevitably go to a premium, and as the banks hold the gold, an enforced payment in terms would enable them to reap a profit not generally in contemplation at the inception of the debts. This state of affairs might come about even when the national treasury was in possession of a full gold reserve and all necessary funds.

That such a course would be disastrous to general business conditions is a protection against such a procedure on the part of the banks at any time, and perhaps the doubt of ability to finally enforce the demands in courts may also operate as a restraining influence.

After a long and bitter contention the legal tender quality of the greenback seems to have been finally established in the case of Knox v. Lee, reported in 12 Wallace (U. S. Sup. Court), 457. This decision was made December, 1870, and in December, 1871, the court in the case of Trebilcock v. Wilson (12th Wallace, 687), held that it was necessary, in order to avoid ambiguity and prevent a failure of justice, to allow judgment to be entered for the payment of coined dollars, when the kind of money was specifically designated in the contracts upon which suits were brought.

To this conclusion Justices Bradley and Miller dissented.

The significance of the words to "prevent a failure of justice" used as a reason for rendering the decision should not be overlooked, and taken in connection with the dissenting opinions of Justices Bradley and Miller lends color to the hope that if it were shown the court that injustice would result then a different conclusion would be reached.

This latter decision (Trebilcock v. Wilson) instead of securing freedom of contract, seems to have established the dominion of the creditor over the debtor in all cases of renewing obligations, leaving it optional with the creditor to exact present payment or fix the kind of money in which ultimate payment would be made, regardless of the conditions that existed when the debt was contracted. That courts would enquire as to former conditions and relations of the parties, and "prevent a failure of justice" by only enforceing specific performance where it was shown that the creditor had furnished the exact kind of money he was seeking to recover, or that the kind of money that he was demanding in payment was of no more value generally than the kind originally parted with, would be demanded by every honest debtor.

If the courts did not take this view of the relations of creditor and debtor, the conflict would take the form of a change of the personality of the court, which would be an unfortunate contest, but which would not perhaps be doubtful when the numbers of the two parties to such a contest is considered.

A curious phase of the legislation on the silver question is afforded by the two acts wherein the discriminating clause "except where otherwise expressly stipulated in the contract" appears.

The courts had fully determined in 1871, in the case cited (Trebilcock v. Wilson), that they would enforce specific performance of contracts providing for payment in specie either in gold or silver as distinguished from greenbacks.

The first act containing the discriminating clause was that of February 28, 1878.

This legislation was undertaken by Congress presumably with full knowledge of the scope of the decision of the courts, and the position silver held relative to other moneys, and that it might be discriminated against by contracts payable in either gold or greenbacks. With this knowledge

Congress enacts that silver dollars shall be legal tender at their nominal value for all debts and public dues *except where otherwise expressly stipulated in the contract.* (The italics are mine, to call attention to the language).

This clear reading of a statutory provision made after the decision of the court that contracts might be enforced wherein it was stipulated that some other money than silver should be paid, leaves silver legal tender, except where otherwise expressly stipulated in the contract, that is a contract payable in gold may be paid in silver dollars unless there is an express stipulation that it shall not be paid in silver. The agreement to pay in gold does not contain an express stipulation as to silver, and as such an agreement was good against silver before the enactment, the legislation has determined that in order to be effective against silver there must be an *express* stipulation that silver will not be accepted in payment.

In this connection the situation of silver in France may serve to partially show the effect that would follow the proposed extension of its use here.

The stock of metallic money in France, as shown by Muhleman, consists of $863,000,000 of gold, $653,000,000 of full tender silver and $50,000,000 of limited tender silver. The population of France being 38,300,000, and the *per capita* circulation is given at $42.84, the silver per capita being $18.35. (Muhleman, pp. 152-3.)

Under these circumstances, France not only maintains the equality of the two metallic moneys at home, but the silver five franc piece, with a coinage value in the United States of 93½ cents, has been quite steadily quoted at 94 cents in New York.

Should France discredit her silver issue in the manner that this country does its silver currency, I venture the prediction that it would be difficult to maintain its value in New York with any degree of uniformity. Near the end of 1894 the Bank of France is said to have held $414,000,000 of gold and $247,000,000 of silver (Muhleman, p. 161), showing that four-elevenths, or more than one-third of its coin was silver; or relatively three times as much silver was held by that bank as is held by national banks in this country.

AN ELASTIC CURRENCY.

The next proposition is:

3d. Some plan for an elastic currency, so that a safe increase of recognized money can be had in times of necessity with reasonable restrictions, so that no kind of money in use should become so redundant as to depreciate in value below any other kind, and so arranged that all kinds may be acceptable to both debtor and creditor in the ordinary transactions of business.

There have been various plans suggested for securing an increase of money in times of stress, such as the past two years has developed, and also to furnish an increase when business needs require it in ordinary times, and which would automatically adjust itself to the business situation, appearing when needed and disappearing when its mission is accomplished. It seems to be admitted that the supplying of this desirable element of the currency cannot be undertaken by the Government, hence it must be undertaken by some agency that has the confidence of the people.

The only agency having this qualification at present is the national banking system.

Whatever may be said as to the shortcomings of that system or any member of it, the note issues of all the banks have the unlimited confidence of the people, and justly so.

If some plan that will permit that system to supply the demand for more currency in times of need, to be retired when not needed, can be devised, then it would seem to be wisdom on the part of the Government to avail itself of that agency already established and well known, than to attempt to create a new agency that must to a certain extent be in the nature of an experiment.

Of all the plans proposed, that of an increased issue by national banks of a certain per cent of their capital, with a "Safety Fund" provision, and

a graded tax on the increased circulation based on the time elapsing from the date of issue appears to be the most feasible, and the one that can be put into practice the quickest, and that would be able to maintain the confidence that is now accorded to bank notes.

In order to induce banks to increase the permanent circulation, the oft suggested modification of the present law in that respect, so as to permit the issue of circulation to the full par value of the bonds deposited, would seem to be worthy of consideration. This coupled with a reduction of tax on circulation, as suggested in the president's message, might induce the banks to make a material increase in the issue based on bonds.

This circulation, however, will not be elastic, as there is no inducement or necessity on the part of the bank or the holder to have it redeemed.

The holder of a national bank note at present would not cross the street to change it into another kind of money, and the holders of such notes do not pay any attention to the failure or dissolution of national banks, as the notes of such banks are as absolutely good as those of the strongest bank. The new currency must have this element of value in the holder's hands, hence the only way to secure its retirement will be to make it an ever increasing object to the banks issuing it, to retire it after a limited period of unburdened circulation.

The first consideration of making the emergency circulation secure can be accomplished by creating a "safety fund" from all or the greater portion of the taxes received from banks on the entire circulation, such fund to be limited in total accumulation to one-tenth of the total emergency circulation that could be issued. Should it at any time be inadequate to redeem promptly the emergency circulation of banks that may have failed or dissolved, then provide for replenishing the fund from the general funds of the Government by transfer, the Government to be reimbursed from a special levy of a tax pro rata on the entire circulation for such sum as may be needed for the purpose, and the banks to be reimbursed for such extra tax by the sums realized by the Government upon its emergency circulation upon the assets of the failed or dissolved banks respectively.

The emergency circulation at the time of issue should not exceed twenty-five per cent of the unimpaired capital of the bank applying for it. The bank applying for it to pay the expenses of the department connected with its issue. The bank receiving it to have it four months (or some other definite time) without any charge on the part of the Government. If the bank retains the whole or any portion of the issue for another definite period (four months for instance), then a tax of one per cent on the issue so retained be imposed by the Government, and if the bank retains the issue for another period, then a further tax of two per cent on the issue so retained be levied, and so on with an increasing tax for each period, until the amount of the tax is so burdensome as to compel the bank to retire the whole issue. The taxes so levied to be a part of the "safety fund." The currency so issued, and tax thereon, to be in all cases a first lien on the assets of the bank in case it becomes necessary to resort to a compulsory payment of same.

That a currency issued under such restrictions would be safe in the holder's hands is obvious, and that it would disappear when it became unprofitable to use it, can be safely predicted.

Another consideration favorable to the use of such temporary circulation would be in the opportunity it would give the banks to obtain money for temporary use in localities where there might be an unusual demand, within a restricted territory, as, for instance, commencing in September and for a season of four months there is an extraordinary demand in the Northwest for money to move the crops. The banks in this locality instead of having to depend on Eastern or foreign capital for the purpose, could obtain the emergency circulation, and as the crop went forward they would be gradually reimbursed and could retire the circulation before the first period of taxation begun.

INCREASE OF CIRCULATION.

The last proposition is:

4th. To prevent contraction of the present circulating moneys, and to provide for a healthy and legitimate increase of circulation as the population increases, and business interests and needs require it.

The first part of this proposition regarding contraction relates principally to the currency over which the Government has primary control, which consists of the coinage of all metals and the silver and gold certificates, the greenbacks and the treasury notes issued under the Sherman act of 1890. At present there does not seem to be any disposition to retire any of the coinage or certificates issued upon bullion deposits, and it is not necessary to consider those as in the discussion. This narrows the question to the greenbacks and the Sherman notes.

The first proposition if adopted would as stated, in my judgment, prevent much contraction of that element. However, as there is a proposed opportunity for a reduction to the extent of $3,000,000 per month, and if any contraction of the currency should happen under this provision, the Secretary of the Treasury should be authorized to purchase silver at bullion rates in the market, and issue certificates against such bullion, to the amount of its cost, which certificates should be redeemable in silver bullion at its market value on the date of redemption. This was the late Secretary Windom's plan of using silver, and until there is a settled policy as to silver coinage and its ratio, it seems to be the only plan that could be pursued whereby the Government could handle the silver without difficulty. This might entail some loss in case bullion fell in the market, but there could not be a serious loss in any event.

The treasury notes under the Sherman act have not been separately considered as they are redeemable in gold or silver coin at the discretion of the Secretary, and he could protect the treasury from gold drains from that source. However, the law for re-issue should be amended so that if necessary the Secretary might permanently cancel them when redeemed and coin an equal amount of silver dollars from the bullion against which they were issued in place of the canceled notes.

Coming now to the bank note circulation over which the Government exercises secondary control, to provide against contraction, the law should make it obligatory on the banks to take out a minimum amount of circulation.

At present they are required to deposit bonds in amount not less than one-fourth of the capital stock paid in. There is no requirement that the bank shall take out circulating notes. The law should require the banks to take circulation to the amount of the minimum deposit of bonds and this requirement would very nearly maintain the present circulation of that character.

The last question to be considered is that of providing for an increase of circulation as the population increases, and business interests and needs require it.

In considering this the per capita circulation at present must be taken into account. This has fluctuated from 1881 when it first rose above $21 (in the series of years 1860-95) to $24.44 in 1892, the highest rate, and in 1895 it had fallen to $22.96.

Placing it at $23.00, some authority should be given to increase the total amount of money so that the per capita sum should not fall much below that amount, assuming that to be the normal sum.

The average rate of increase of population is about two and one-half per cent per year, based on the population as found by Government census at each decade. The population in 1890 was 62,622,250, and two and one-half per cent of that number is 1,565,556, and that number multiplied by $23.00 would require an annual increase in circulation of $36,007,788. The average annual increase from 1885 to 1895 was $30,143,144, the per capita in 1885 being $23.02, and in 1895 $22.96.

The total coinage of the mints in 1894 was $89,184,688, of which gold was $79,546,160, and the balance silver. Allowing a large sum for recoinage the total amount of gold coined in 1894

must have far exceeded the average, and the lowest point in the decade from 1884 to 1894, was in 1890, when the gold coinage fell to $20,467,182.

With the great increase of gold production it is within reason to predict that the mintage of gold will keep up the per capita sum of $23.00 without providing for a special increase from other sources.

It must not be forgotten, however, that an increasing trade with silver-using countries may absorb a part of our silver coinage, and if there should be a considerable sum deported, its place could be advantageously filled by the use of bullion silver on the Windom plan.

In conclusion, I desire that it be understood that the foregoing propositions, and the methods proposed to secure them, are not intended as establishing an ideal financial system, but only intended to adjust the present defective system to the needs and business of the country, and so far as possible relieve the national treasury from the dilemma in which it is placed, and to attempt to bring about that parity in use of the several kinds of Government money that the Government, by statute, has stated as being its intention, and the two leading political parties, by resolutions, have declared as their policy. I bespeak for the plan suggested—first, a careful analysis to see if it will accomplish desired changes in the system and result in improvement of financial relations generally; and second, a careful study as to whether any legitimate business interest would be injured in any degree.

No abrupt changes are proposed, necessitating an adjustment of prices or methods of business, and it is believed that the changes that might happen would come about gradually by the drifting of greenbacks into banks and the gradual accumulation of gold in the treasury, and the more general use of the silver circulation.

There are some details, such as the payment of interest on the greenbacks, the exchange of gold and silver, etc., that can be easily arranged should the plan ever come to be seriously considered.

ST. PAUL, Dec. 21, 1895.

ADDENDA.

The foregoing propositions were so well received that I have concluded to reprint the book, the first edition being exhausted. It has received the condemnation of some as being favorable to banks, and has also been considered by a leading banking journal as likely to be opposed by national banks because it seeks to impose obligations upon them; and national bankers have expressed the opinion that the plan would be a long step [illegible] the direction of solving the present financial [illegible]oblems. From these expressions I conclude th[illegible] is what it was intended to be—a conservative pl[illegible] for adjusting the present heterogeneous moneys in [illegible]culation to the needs of business and to relieve the national treasury. Occasionally some one has tried to find that it is a free silver document, but it is easily seen that it has no such bearing. In regard to the silver portion of the plan, it is intended to bring about an equality among the people of this country in their business relations when using the present silver coinage and its representatives. As stated at the outset, the Government and the two great political parties are committed to this policy of equality, and there is no doubt that the coming conventions of those parties will reaffirm these declarations. *In the meantime the present silver money is being placed in such a position that without some legislation looking to its wider use, it will be permanently discredited. Every gold contract made closes an avenue to silver and renders more and more difficult its use as standard money, and leaving it in a secondary position will only add to the embarrassment to the Government in maintaining its parity. Unless it is the intention of the Government to ultimately discard the use of the existing silver circulation, it must give it equal advantages with gold in order that it may maintain itself.* The idea is industriously circulated that the Government must in some way redeem silver with gold in order to maintain parity. This the Government does not do, nor will it ever do so unless it intends to retire the silver portion of the

currency. So far as the Government is concerned it is standard money, and by making it unquestionably so among all citizens it will maintain itself, and in no other way can this be secured.

Any course that does not give the present silver currency equal right of way in financial channels tends to force it to the wall and eventually will compel its retirement. This is not a question of free coinage of silver, but is a question that affects every business man, every property holder and every wage-earner, and its proper solution is demanded by all interests, and that solution must be on lines that will not be to the advantage of any one interest.

ST. PAUL, March 14, 1896.