

THE NATIONAL BANK CIRCULATION.

THE history of banking in the United States is marked by two remarkable facts. One is that the notion that banks are especially institutions for issuing notes has acquired traditional force which it seems impossible to break. The other is that there has been a regular alternation of periods in which banks have been petted and endowed with dangerous privileges, and of periods in which terror of the "money power" has aroused senseless hostility against them. The explanation of these facts is not difficult. The great need of the country has always been capital. The need for capital has been confused with a need for money, and bank-notes have been supposed to be money. It has therefore been believed that to multiply banks and to give them free powers of issue would supply the need of capital. The consequence has always been that after a few years, the banks, which have abused their powers of issue in every way and to the utmost extent, have been found to be the owners of much of the property of the community. Their chartered privileges have shielded them against just responsibility. They have escaped their share of the ills which they helped to bring on the community by "suspending," and the business community has been forced by its own dependent position to acquiesce in the action of the banks.

The consequence is that there is a strong distrust of banks of the old kind in certain portions of the country, especially where the abuses were formerly greatest. By comparison with the currency used in the Ohio valley during the twenty years before the war, the currency since the war may justly be called "the best we ever had," and probably any one acquainted with public opinion in that region would confirm the statement that it is largely influenced by memory and fear of the old "Wild-cat" banking.* It is

* A very well informed member of Congress from Central Illinois once said to me: "If you should come here to preach hard money, and convince your entire audience, I could take them all away from you by just rising and shouting 'Masillon!'" It appears that a "bank" was organized at Masillon, Ohio, during the fifties, which printed a mass of notes. With these, certain agents went through Illinois buying grain. The grain was shipped eastward. The bank then failed and the farmers held its notes. Forty years earlier the same operation was repeated in very numerous instances through the Middle States.

a good instance of the way in which one error begets another.

When the banking system collapses and its terrible injustice is perceived, the outcry against the "money power" begins. It was heard in Massachusetts during the colonial times, and in Pennsylvania under the Confederation, when a fierce opposition to the Bank of North America arose. It was heard again in 1819, and in the distress which followed the crisis of 1837. Capital is unquestionably a great power. If it were not, men would not work as hard as they do to get it, and those who want to borrow it would not offer such strong inducements to those who have it to lend. These promises, in the eagerness of demand, and under sanguine hopes of the future, go beyond what is possible to be performed. A frontier district which wants a railroad can be checked by no warning, when it makes impossible promises to the capitalists who can build it. The community which wants a bank has no patience with a legislature which would put salutary restraints in the charter. The "money power" becomes odious when it claims a fulfillment of the promises, or uses the powers granted. Capital, moreover, is a social and civil force which, if recognized, may be made to serve the state. The men who want to lead an idle life are very few, and they are never found amongst men who have acquired fortunes by an active life. Men of the latter class find a natural field of activity in public life, which offers scope to their ambition, and at the same time stimulates honor and patriotism. If, however, the possession of wealth, when wealth is fairly and openly regarded as security and independence from the harshest needs of life, constitutes a bar to public activity, the "money power" is driven into secret, corrupt, and demoralizing modes of activity. The energetic man has no method of employing his energies save in further accumulation, and the force, repressed in public, is exerted in corrupting elections and in lobbying. The more we attempt to deny or ignore the power of capital, and to exclude it from its just public influence, the more dangerous it becomes.

We have reached another period of outcry against banks and clamor against the "money power." The national banks have

certainly no sins to answer for, such as those which have been above referred to on the part of banks in former times. Neither have they made offensive exhibitions of the power of wealth. It may be doubted whether they care very much for the threat to deprive them of the power to issue notes. With the resumption of specie payments, that power would lose much of the value which it has had. The proposition to retire the national bank notes, and replace them by greenbacks is a question of public policy, in which banks are especially interested only as they are financial institutions. If the proposition is discussed at all, it must be discussed as a question of public policy.

The issue of notes to circulate as substitutes for money is a monopoly. Taking the supply and demand of the precious metals as they stand at any moment, the United States needs a certain number of grains of gold to do its business with. We put so and so many grains into a single piece and call it a dollar; then we need so many dollars. The total amount of dollars for which we can issue notes is thus fixed by the requirement for money. The notes displace gold to the extent to which they are issued, and if this is less than the requirement, the remainder will be specie. If the notes exceed the requirement, specie will be at a premium. It is immaterial whether there be one issuer or two thousand.

The gain of the issuer comes from the fact that he, in effect, gains possession of the coin which his note displaces; with the coin he buys capital and earns interest. He has, therefore, printed a promise to pay, for which he gets interest. If he keeps a dollar in gold in his vaults for every dollar he issues, he loses an equivalent interest, and the note only saves wear of coin and serves convenience. Therefore, the proportion of gold which he keeps goes just so far to offset the interest obtained for his notes, and, if he has no gold at all, and is issuing a purely irredeemable note, he is winning interest on the product of the printing-press, as if it were capital. An irredeemable bank-note is therefore a pure swindle. On the other hand, the public is often told about the economy and profit of a paper currency, convertible, but only partially protected by reserve. It should not be forgotten, however, that this gain is not won by the public, but by the note-issuer. In any case, the public pays for a value currency to the full amount of its requirement, and, if it gives up any part of it, and makes

use of a substitute, it makes a gift of just that amount to the issuer of the substitute. Cheap money is never cheap to anybody but the issuer.

It is now urged, in view of these facts, that the nation ought to provide its own paper, and win the profits on it, since it is the people who, by using the paper, provide the profit. Some propose that the national paper issues shall be convertible, but the demand comes chiefly from those who favor irredeemable paper money, and who urge the replacement of bank-notes by greenbacks, because resumption would turn the bank-notes into convertible notes, if not by law, by the force of circumstances. The two propositions may be considered separately, but it must be observed at the outset that the profit of paper issues, beyond a remuneration for the cost, and care of them, ought to accrue to the public treasury. One beneficial result of steps to secure this would be that only a few of the largest and strongest banks at the different financial centers would find it profitable to retain their circulation.

The notion that the public treasury could carry a circulation of convertible notes on a reserve of one-third specie is erroneous. Those who believe in it forget that a bank does this only by virtue of its discount and deposit business. A bank is really an intermediary between the parties to an exchange, which is not completed on the spot. The bank pays for the goods which are delivered to-day, and waits a few months for its payment on the delivery of the goods given in exchange. The outflow and inflow of money in this transaction must be equal and, as the transactions are opened and closed every day, the outflow and inflow are continuous. The public treasury has no analogous ebb and flow. The receipt of revenue and payment of expenditure bears no true analogy. It has not the same regularity; it is not controlled by natural laws; it bears no comparison in volume. A mere fraction of the total annual revenue would suffice for the transactions of the treasury, by frequent transfers. The demands for redemption would at one time be very heavy; at another time they would die out entirely. The old rule (if it can be called a rule), based on banking experience, would not apply to such a system at all.

It is difficult to see any way in which this proposition could be made practicable unless the issue department of the treasury should act automatically, like the issue department of the Bank of England, holding

coin for every note, and exchanging notes for gold or gold for notes as might be demanded. It is not impossible that such a plan might be perfected, and that the national banks might use the treasury notes as reserve, but it would be open to the second objection to the plan as already discussed. There would be very great danger in giving such a function to a governmental bureau. The coin deposit would be seized by the government in the first moment of financial trouble,—of course under a solemn promise to restore it. History contains abundant warnings that this is no vain fear, and the need of giving banks of issue an independent organization and existence over against the state is recognized by all the best financial authorities, and by all the wisest statesmen.

We have next to consider the proposition to replace the bank-notes by treasury notes, and to leave the whole amount irredeemable. If the present gold premium is an indication that the present volume of paper is just at or above the specie requirement of the country at the present time (a supposition which is open to doubt), then we should fix our paper issues at that amount in a currency totally without elasticity. The revival of business may be expected to release and set in motion much currency which is now idle, and it is very possible that, although the premium on gold is now slight, the present amount of paper may prove in excess of the normal and healthy requirement of the country. In any case, it is to be expected that, if the paper issues were fixed at the present amount, there would remain a slight premium on gold, just sufficient to retain and render permanent all the doubt, vexation and mischief which now exist. That state of things would also act as a continual stimulus to ruinous propositions, such as are now being made for increasing the issues. If the treasury notes existed as the sole paper money, and were in circulation for an amount far less than the requirement, they would be bad enough; but they would not have this effect. In short, the great reason for rejecting the proposition under consideration is the one on which the opponents of it have rightly laid the chief stress. So long as the nation issues any of the currency, so long the amount to be issued will be a political question. That question will form the issue between parties, arousing the bitterest passions, undermining civil order, and arraying citizen against citizen in malice. It will offer to dema-

gogue the material on which they fatten and prosper. It will give to the most reckless and disreputable men the greatest control in politics. It will corrupt elections beyond anything yet experienced. It will push out of sight all the reforms in legislation and administration by which we might abolish the advantages now enjoyed by the crafty and unscrupulous, and will re-open for that class the means by which they have won the success which is now used as an argument against all wealth. It will make every session of Congress a new occasion for doubt and dismay to the whole industrial community. Is not this a description of what we now see going on? If we perpetuate the causes, what can we expect but a continuation of the effects? There are but two points of rest; one is no government issues, the other is government issues expanded until they are worthless. So long as there are any greenbacks, we shall oscillate between these two points under continual apprehension and distress. At present we are at the very point where suffering on the road to no greenbacks ceases, and we can go forward to retire them, without distress. To establish them in perpetuity is to make trouble perpetual.

If we turn to consider the national bank circulation as a means of supplying such paper currency as we need, we shall gain something by observing the history of the bank-notes.

At the outbreak of the war, the currency of the country consisted of state bank notes up to the full requirement of the country, or, if anything, a little beyond it. During the year 1861, the banks of the Eastern cities strained their resources to assist the treasury, but their ability was small under the circumstances. The result was suspension, December 30, 1861. The treasury was overwhelmed by the necessity of meeting great war expenditures, and was forced to have recourse to all the quickest and most desperate financial means. It issued legal-tender notes, but, as the channels of circulation were already full of bank-notes, the treasury notes at once depreciated. It issued bonds and, like every debtor in distress, it offered high inducements to those who had capital to lend. It promised to divest itself of the power to tax the bonds, and to use its power to forbid any one else to tax them. It thus discounted any future taxes which it might itself have laid, and it discounted and appropriated the taxes which other authorities might have laid. It then

sold out to the subscribers to its loan the right to issue notes to be used as currency, to the extent of three hundred million dollars, for twenty years.

The plan of selling to the subscribers to a loan the right to issue convertible notes is not new. It was employed at the foundation of the Bank of England and of the first United States Bank. Primarily it is a financial resource for the government, and not a plan for giving security to the note-holders. It is a relic of the old financial systems in which privileges, franchises and monopolies were sold to obtain money to meet pressing necessities.

The value of the privilege of issuing convertible notes has been already described. The state pays to its creditors one interest and endows them with the privilege of taking another interest from the public for all the uncovered notes. Such a privilege ought, in any case, to be limited in its duration.

By the circumstances of the case our national banks acquired the privilege of issuing inconvertible notes, or, to describe the facts more accurately, the existing banks were forced by a tax on state bank notes, to change their issues already irredeemable, and not limited in amount, into issues limited in amount and secured by the bonds which they were forced to buy. The state bank notes were thus abolished, and national bank notes were put in their place, absorbing the loan to the same extent. The national bank notes were to circulate on a par with the government notes. It is to be observed that greenbacks to the same amount could not then have been issued without carrying the gold premium to 500 instead of 250.

By the law of July 12, 1870, additional issues were authorized to the extent of \$54,000,000. This act did not have its motive in the desire to place a public loan, but in a demand for "more money" from people who wanted more capital. As they had not capital they could not organize banks. New banks were organized only in the old states where capital was abundant, and, even there, never up to the limit allowed. By the Act of June 20, 1874, free banking was established for any who would buy bonds and organize under the law. Then the limit no longer existed, and the only monopoly was the one which is fixed in the nature of things. This act also was a concession to inflationist views. Up to this time all the natural forces of recuperation

have tended so forcibly toward a reduction of the amount of paper afloat that this law, which gave liberty for either increase or reduction, has operated only in the way of reduction, by the voluntary action of the banks, so that the amount of bank-notes now out is just above \$300,000,000. The advocates of this law, disappointed in its effects, are now those who want to abolish the bank circulation altogether. We cannot expect prosperity while interests so delicate as those which are here involved are at the sport of such varying and irresponsible clamors.

It has been shown above that the privilege of issuing irredeemable notes is one which is indefensible. So long as the national bank notes are of this character they are open to serious attack, but it has been in our power, at any time, by resuming, to correct this evil. The theory and intention of the National Bank Act never was to grant the privilege of irredeemable issues in perpetuity, or for any length of time. The act was evidently constructed with a view to immediate resumption after the war. Then the country was to have what it had always longed for—a uniform currency. It was to have a system of local small banks, such as it was accustomed to, and free from the objections raised against a great national bank. The notes were to be convertible and to be secured by the bonds deposited. Whenever the greenbacks were redeemed, the greenback reserves would become gold reserves, and the banks, prevented from expansion under suspension by the fixed limit on their issues, would resume when the government paid its floating debt.

It is not necessary now to inquire whether this theory is a good one, or whether the results expected will all be realized. Experience will soon show, after resumption, and it will be possible to go on and improve the banking system for the security of the public, as may appear necessary. The question now before the public is, whether, after resumption, it will be better to have convertible bank-notes, or either convertible or inconvertible greenbacks. The best result of the discussion will be to show that this is only another phase of the question whether to resume or not.

It is evident that resumption would at once do away with the chief objections to the bank-notes. It would bring the banks under the control of natural laws. It would by no means constitute a return to the old state bank system, as some seem to dread. The

free banking act might, very probably, become mischievous, for bank issues might be simply expanded to supply the place of greenbacks withdrawn. It certainly is not worth while for the public to buy back a value currency for the sake of giving it away to banks again. As fast as the greenbacks are redeemed with specie, specie ought to take their place in circulation. Some persons pretend to say that no one wants specie. It is difficult to see what right they have to speak for any one but themselves. A generation which has grown up to know only irredeemable paper, will not, probably, know the advantages of specie currency in elasticity, in uniformity, in retail business, in expenditures for consumption, in all the transactions of the man of small income. If they do not know this advantage, they may foolishly give it away. Business men and bankers educated in the same system, may not appreciate at once the great necessity which arises from time to time for a mass of specie in the circulation, which can be easily drawn to the banks to support

bank-notes, or the evils which may arise if no specie is present in the circulation. Nevertheless, it is true, and experience of convertible currency will soon show it, that a good currency must consist of both notes and specie. As to the proportion in which they should exist, that depends on convenience entirely. Sometimes one prefers notes and sometimes specie. The bank-note becomes mischievous the moment it displaces a coin which the holder might have and would prefer to have. It is useful and beneficial only so long as, under complete liberty of choice, it supplies a substitute which the holder's convenience prompts him to prefer. In the course of time, therefore, after resumption shall have been accomplished, it will be necessary to modify and improve the bank-note system until it answers the purpose of facilitating exchanges with absolute neutrality between the parties. For the present, the national bank notes offer the only paper issue upon which we can pass over to specie payments, if we are to resume at all.

 THE CRICKET.

BLITHE minstrel of the fading year!
 I love thy song of cozy cheer,
 And though my cell be rude and bare
 With thee my lonely hearth I share,
 Nor would I thy thin pipe forego
 For sweetest reeds that man may blow.

Without, November's tempests roar;
 The maniac wind assaults the door,
 And shrill through mountain gorges bleak
 The writhen hemlocks sigh and shriek;
 But what care I how wild it be
 So Fate sends comrade such as thee?

Estranged, unvisited, forlorn,
 I give the false world scorn for scorn!
 Remote from man, to hear at night
 Thy faultless treble's crisp delight,
 And warm my old bones by the fire,
 Are the sole comforts I desire.

When on my ruined past I brood,
 And maddening memories intrude,
 Then, welcome guest! thy cheerful strain
 Diverts and solaces my pain,
 And makes me for an hour forget
 All, save thy tiny clarionet!

When sleep's soft fingers close my eyes,
 And childhood's fairy pictures rise,
 Thou art my sleepless sentinel,
 Whose watchword tells me all is well—
 Whose sudden silence warns my ear
 If aught of evil wanders near.

Thou art the hermit's closest friend;
 And when my mortal day shall end,
 And my cold hand at last shall tire
 To light at eve the fagot-fire—
 Though none are left to weep for me,
 Thy song my requiem shall be!
