BANK CIRCULATION AND FREE COINAGE.

About two years ago I had the honor to present to the Committee on Banking and Currency of the House of Representatives a plan for a permanent National Bank circulation; and I now present this proposition in a condensed form, for consideration with other similar propositions which have since been presented here and elsewhere.

I believe that the circulation we had in this country from 1863 until a late period was the best paper currency ever issued in this country, and, probably, taking everything into consideration, the best form of circulating notes likely to be issued for a great and prosperous country like this. It was a currency composed of about one-half of Government notes and one-half of National Bank notes. It was not and is not an ideal currency, such as I would prefer, if circulating notes are hereafter to be issued by chartered institutions only, such as were issued in small amounts years ago in the City of New York and the City of New Orleans, and such as are now issued by privileged corporations in Canada, and by privileged corporations in European countries. But the bank circulation to which I have referred is fast being withdrawn. The Congress of the United States is neither willing that the National Bank currency should be of sufficient profit to encourage its issue, nor, on the other hand, will the Congress of the United States pass the necessary legislation to authorize the National Banks to retire, at their pleasure, the amount outstanding.

We have, however, under the operation of this law, since the time when the maximum amount reached $352,000,000, retired about $230,000,000 of this currency voluntarily. In the year 1878, in an official document, I said:

"Few persons have a just conception of the many advantages possessed by a homogeneous currency, fully secured, the issue of a single system, redeemable

At the Convention of the American Bankers' Association, lately held at New Orleans, Mr. John Jay Knox, President of the National Bank of the Republic, of New York, discussed the subjects of "A Permanent National Bank Circulation," and of "Free Coinage of Silver." Upon request, Mr. Knox has revised these discussions from the advance sheets of the "Proceedings of the Association," for publication in the Forum.

at a common point, and excepted from the discount occasioned by any irregularity of value in different localities. Great pains have been taken to obtain an estimate of the amount of exchange issued annually upon New York by the Western and Southern States.

"The amount drawn upon New York is estimated at nearly $3,000,000,000 annually, and it will not be an exaggeration to say that not less than $4,000,000,000 annually are drawn in exchange by the West and the South upon the East. The amounts drawn upon each other by banks in the commercial cities and States of the East is also great. In 1859, only a few years ago, the average cost of southern and western exchange upon New York was not less than one to one and one-half per cent. If this latter rate should be restored the cost of exchange alone would be $60,000,000 annually, while if the rate would be but one-half of one per cent, which was the current rate in the State of New York in the year 1860, a loss in exchange of $20,000,000 annually would ensue, to say nothing of the loss upon the issue of the banks not properly organized." *

This was in 1878. The exchange of the South and the West upon the East, and of the different sections upon each other, has immensely increased since that time. †

The repeal of a single clause of the Revised Statutes of four lines would restore to each State the right again to authorize the issue of bank notes, which would be redeemable at various points remote from the commercial centres, and precipitate again upon us rates of exchange similar in degree, if not so great in amount, as those to which I have just referred.

A bank circulation founded upon the assets of a bank can be issued only to such institutions as hold convertible assets and are managed by men skilled in the principles of sound banking. Circulation of this kind has been heretofore successfully issued by the joint-stock banks of England and of Scotland, and by other chartered institutions like the Bank of France, and the Royal Bank of Germany, but there is no probability of the passage of a law in this country authorizing the issue of circulation to privileged corporations. At the time the National Bank Law was first passed in 1863, the amount of circulation authorized to be issued was limited, and it was truthfully said by those who opposed the system that it was a monopoly. The banks which were organized in the Eastern States absorbed the circulation which had been authorized, and there was little, if any, left for the use of banks organized or to be organized in other sec-

* Report of the Comptroller of the Currency, 1878, p. 25.

† The Comptroller of the Currency, in his report just issued, gives returns from the National Banks, showing that the amount of exchange drawn on New York during the last fiscal year was $7,836,000,000, and on New York and all other ports $12,782,000,000.

tions of the country. The subject was fully discussed throughout the country, and finally by the Act of January 14, 1875, the system was thrown open to all, so that any association of persons, anywhere in the country, could organize a bank and issue circulation under the same general law.

The attributes of a perfect system of paper currency in this or any other country are: 1, safety; 2, elasticity; 3, convertibility; 4, uniformity. The greatest and most important of these is safety. It is said that an unsecured note issued by the banking institutions of the country, based upon the assets of the bank and the individual liability of the shareholders, would respond to the demands of business. If the volume was too great the notes would return home for redemption. If the volume was too small a greater amount would be issued. But if elasticity should be obtained at the risk of safety, the mistake would be irreparable. The currency of the State Banks previous to the late war was said to be elastic, but, unfortunately, it was as elastic in value as in volume, and as long as the remembrance of the wild-cat and other forms of ante-bellum currency remain, there is no danger of an unsecured bank currency being substituted for treasury or bank notes, which are perfectly safe. Those who advocate a system of this kind for the banks composing the National Bank system, overlook the fact that *no system of free banking* has ever been successfully organized or continued, which permitted the issue of circulating notes by any association of persons desiring to found a bank, without adequate security for their issues. In every case where banks have been organized, like the joint-stock banks of England and of Scotland, and of our neighbor, Canada, it is well known that such banks have been authorized under special charters or by special legislation, for a few favored persons who were so fortunate as to be able to obtain special privileges not granted to all.

Indeed, it is well known that the liability in Scotch banks, if not the English, is unlimited, and that upon the failure of such a bank every dollar of the property of each and every stockholder may be taken to pay the debts of the corporation, even though the shareholder should own but one share of $100 in stock. The system in effect was an authorized partnership and not a corporation with limited liability.

So much for a currency that is elastic, but not well secured. However desirable such a currency may be, we all know no system of bank circulation can be authorized in this country, which will give a special privilege to a few persons. No special law can be passed;

such privileges must be open alike to all bank corporations. Nor should the forty-four different States of the Union ever be permitted, under any circumstances, to authorize the issue of circulating notes. What we need in a country like this, if we are to have a bank circulation, which I hope we are to have at some time in the future, is a circulation which is both safe and elastic. I grant that the National Bank circulation, while it filled all of three requirements of safety, convertibility, and uniformity, was defective in the principle of elasticity.

The proposition which I had the honor to present to Congress was, in brief terms, as follows: That National Banks organized in this country should be allowed to issue circulation upon seventy-five per cent of their capital. A bank of $400,000 capital should have the right to issue circulation to the amount of $300,000. Half of that circulation ($150,000) would be secured by gold or silver coin or bullion, or, if you please, by the public debt, until the maturity of the four per cents in 1907. So far the circulation would be based on security similar to that of the Bank of England. The other portion of the circulation would be secured by a safety fund. Of course, if circulation was issued on gold or silver coin or bullion alone, there would be no profit on that circulation; but upon the other half of the circulation there would be a sufficient profit, as it would be secured wholly by a safety fund.

The principle of the safety fund rests upon the well-established fact that at least three-fourths of the banks are managed with ability, and under no circumstances are likely to become insolvent. We have experience to guide us in this matter.* During a quarter of a century, during twenty-five years, one hundred and thirty National Banks failed, having an aggregate circulation of $15,000,000. Under this system one-half that amount would have been secured by a deposit of coin or bullion. The other half would have been secured by a safety fund. This safety fund would be formed by a contribution of all the banks of

* The Comptroller in his report for December 7, 1891, gives, on page 5, the number of National Banks organized from 1863 to 1891 as 4,648, with an aggregate capital of $683,000,000. Of these banks one hundred and sixty-four failed during twenty-nine years, having a capital of $30,000,000. If circulation amounting to $350,000,000 had been issued upon three-fourths of the annual average capital of all the National banks, we should have had an annual loss during the twenty-nine years of, say, $750,000, one-half of which would have been secured. The loss arising from the other one-half of the aggregate bank circulation would have been $380,000 annually, and the income from the safety fund $3,500,000.

the country of one per cent upon the amount of circulation issued, the same amount that is now contributed to the Government of the United States as a tax upon circulation. We would have then a loss of $15,000,000 during every twenty-five years, an annual loss of $600,000. One-half of this annual loss would be secured by the safety fund and the other half by bonds or by coin or bullion. The income of the safety fund derived from the tax of one per cent, provided that $300,000,000 of circulation was issued, would be $3,000,000 a year. The loss would be $300,000, or a loss of only one-tenth of the amount of the income, taking the experience of the last twenty-five years as correct data. If the loss should be five times greater or ten times greater than the experience of the last twenty-five years, there would be still enough in the safety fund to cover all possible requirements. If the safety fund should by any possibility be exhausted, the unsecured insolvent notes would be entitled to preference in payment from the assets of the bank and the individual liability of the stockholders. While the total of insolvent National Bank notes during the last twenty-five years has been $15,000,000, the amount derived from the assets and the individual liability of the stockholders of insolvent banks has been more than $16,000,000. So that such insolvent notes, if the banking system is conducted as safely in the future as in the past, would be secure without a safety fund. But without the safety fund the amount which would be taken to pay these notes would be taken from the fund which properly belongs to the depositors of the bank.

The present proposition differs from all others which have been previously offered, in this respect, that it is a practical combination of our present system of absolute security with that of the safety fund. It provides, in the first place, an issue of circulation for only three-fourths of the capital; secondly, absolute security for fifty per cent of that amount; and, thirdly, a rapidly increasing and abundant safety fund as security for fifty per cent of the circulation; and, finally, a pledge of all the assets of an insolvent bank, and the individual liability of its stockholders for the ultimate redemption of its notes.

If the tax of one per cent upon circulation should not supply an abundant safety fund it can be increased; if the fund is too great it can be reduced. The other provisions of the National Bank Act in reference to the security, the redemption, and the retirement of the circulation would be continued as at present.

When a large safety fund shall have accumulated, then the amount of circulation to be issued may be increased twenty-five per cent, or to the full amount of the capital of such banks as shall desire it, at the season of the year when an increase is most needed. This addition of circulation in the fall season of the year should be printed upon distinctive yellow paper, and would be readily retired if the law should authorize it to bear interest from a given date, or if a small premium should be required, to be paid by the issuing bank (say one-fourth of one per cent) upon such circulation as remained outstanding after a date to be fixed annually by the Comptroller of the Currency. Such an addition to the circulation could probably be safely made, and thus contribute largely each year to that elasticity of the currency, which is so much desired.

FREE COINAGE OF SILVER.

I am happy to agree with the statement that the silver dollar now coined in this country, if held in England, would be worth a gold dollar, less the loss of interest and the cost of transportation across the Atlantic. This statement is true. I hold in my hand the five-cent nickel coin. If one hundred thousand dollars of these five-cent nickel coins, which are intrinsically worth one cent each in the bullion market, were offered for sale in China or in Japan, in England or in France, to a shrewd broker, they would be worth to him exactly one hundred thousand dollars in gold, less the loss of interest and the cost of transportation from England or France, or China or Japan, to this country. What amount that broker would give for such a large amount of nickel coin or silver dollars is quite another question!

I hold in my hand our smallest coin; not so small as the centime of France or the pfennig, the smallest copper coin of Germany; but the centime of France, the pfennig of Germany, the one-cent piece of the United States, are all worth anywhere their nominal value in gold, less the loss of interest and the cost of transportation to their respective countries.

Why is this? Not far distant is our neighbor the Republic of Mexico. It issues a silver dollar. A few years ago it was in circulation here. Every bank in the country held these coins during the war and before the resumption of gold payments. Have we any of them now? The silver dollar of Mexico is a full legal-tender in all payments in the Republic of Mexico. The silver dollar of Mexico is worth more intrinsically than the four-hundred-and-twelve-and-a-half-grain dollar of the United States. Why is it not worth a gold dollar less the cost of transportation to Mexico? Mexico is enjoying the blessings of the free and unlimited coinage of silver! Why then do we not receive this Mexican dollar at par over our counters? How long after we have had the benefits of the free coinage of silver will *our* silver dollar of four hundred twelve and a half grains be received in the capitals of the Old World at its face value in gold, at one hundred cents on the dollar, less the cost of transportation? How long will it be received at our bank counters at par in gold after free coinage has been authorized? I need not reply to that question. All financial men know that when free coinage is authorized, our silver dollar here and abroad will be worth only its intrinsic value, as the silver dollar of Mexico is worth only its intrinsic value. They know what a credit this great United States has built up; they know what credit the great Republic of France enjoys; they know what credit the German Empire, the Empire of Great Britain, and the Bank of England has. Back of their one-cent pieces, back of their centimes, back of their pfennigs, back of their half-crowns, and of their subsidiary silver coinage, is the credit of the country, the promise to redeem these coins in gold. That is the answer to the question why the silver dollar to-day is worth more than its intrinsic value in the hands of foreign dealers in bullion. It is because these coins are redeemable in gold, it is because we are upon the gold, and not upon the silver standard. When free coinage of silver comes, the promise of this great country, with its great credit unsurpassed anywhere in the world, is withdrawn, and our silver dollar, like the Mexican dollar, becomes worth its intrinsic value only, at home and abroad.

Two years ago we were issuing silver certificates based on silver dollars of 412½ grains. We were not only issuing these certificates, but about thirty millions of silver dollars were being coined annually at a large expense. In the Convention of the American Bankers' Association at Kansas City on September 26, 1889, a resolution was introduced instructing the Executive Council to consider the policy of issuing no silver certificates thereafter except those based upon the full market value of silver. In the discussions at that convention, the policy was advocated of issuing no more silver certificates, except those based upon the market value of silver; of stopping the coinage of silver because the silver bullion itself was a better security than the silver coin, and because the expense of coining each one hundred million of silver dollars was at least two millions. In the discussion of this subject it was also said:

"Some gentlemen are sanguine that the purchase of 48 millions' worth of silver annually and its coinage at great expense will rapidly enhance the value of silver. Equally sanguine were the advocates of silver coinage ten years ago when we commenced the purchase of $24,000,000 annually, but the result has not justified their hopes; for there has been a steady decline in its value. The rise of silver expected may not follow upon the purchases of the Government. A largely increased production may prevent it. The hoards of silver held by other countries, and by France as well as by Germany, are a continual menace upon the market. The probability of a change of legislation in this country in reference to the purchase of silver, the certainty that the purchase of silver will cease not long hence, even if the proposed plan should be adopted, will have the effect to prevent the rapid enhancement of its value. Even if there should be a temporary rise, the increased smeltage of inferior ores consequent upon the increase in price, and the danger of the disappearance from the market of a purchaser like the Government, will combine to prevent the return of the relationship of silver to gold—of 16 to 1—of fifteen years ago."

But the Act of July 14, 1890, more than doubled the annual purchases of silver. It increased the purchases from 2,000,000 to 4,500,000 ounces monthly. This Act has been in operation seventeen months. During this time 70,000,000 ounces, or more than *two thousand two hundred and fifty tons of silver bullion*, have been bought by the Government, and during this time the price has fallen from 114 to 96, a decline of 18 cents per ounce! These figures and the monthly figures from the Treasury are a more convincing argument against free coinage than any words!

President Harrison presents the facts concisely and forcibly in his Message to the present Congress, when he says:

"Under the law of July 14, 1890, the Secretary of the Treasury has purchased since August 13th, during the fiscal year 48,393,113 ounces of silver bullion at an average cost of $1.045 per ounce. The highest price paid during the year was $1.2025 and the lowest $0.9636. In exchange for this silver bullion there have been issued $50,577,498 of the Treasury notes authorized by the act. The lowest price of silver reached during the fiscal year was $0.9636 on April 22, 1891, but on November 1st the market price was only $0.96, which would give to the silver dollars a bullion value of 74¼ cents.

"Before the influence of the prospective silver legislation was felt in the market, silver was worth in New York about $0.955 per ounce. The ablest advocates of free coinage in the last Congress were most confident in their predictions that the purchases by the Government required by law would at once bring the price of silver to $1.2929 per ounce, which would make the bullion value of a dollar 100 cents and hold it there. The prophecies of the anti-silver men of disasters to result from the coinage of $2,000,000 per month were not wider of the mark. The friends of free silver are not agreed, I think, as to the causes that brought their hopeful predictions to naught. Some facts are known. The exports of silver from London to India during the first nine months of this calendar year fell off over fifty per cent, or $17,202,730, compared with the same months of the preceding year. The exports of domestic silver bullion from this country, which had averaged for the last ten years over $17,000,000, fell in the last fiscal year to $13,797,391, *while, for the first time in recent years, the imports of silver into this country exceeded the exports by the sum of* $2,745,365. In the previous year the net exports of silver from the United States amounted to $8,545,455. The production of the United States increased from 50,000,000 ounces in 1889, to 54,500,000 in 1890. The Government is now buying and putting aside annually 54,000,000 ounces, which, allowing for 7,140,000 ounces of new bullion used in the arts, is 6,640,000 more than our domestic product available for coinage. . . . *Nor should it be forgotten that for every dollar of these notes issued, a full dollar's worth of silver bullion is at the time deposited in the Treasury as a security for its redemption.*"

The Act of July 14, 1890, provides "that the Treasury notes issued in accordance with the provisions of this Act shall be redeemable on demand in coin at the Treasury of the United States or at the office of any Assistant Treasurer of the United States and when so redeemed may be re-issued, but no greater or less amount of such notes shall be outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the Treasury purchased by such notes. . . . That upon the demand of the holder of any of the Treasury notes herein provided for, the Secretary of the Treasury shall, under such regulations as he may prescribe, redeem such notes in gold or silver coin, at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio or such ratio as may be provided by law. That the Secretary of the Treasury shall each month coin two million ounces of silver bullion purchased under the provisions of this Act, into standard silver dollars until the first day of July, 1891, and after that time he shall coin of the silver bullion purchased under the provisions of this Act as much as may be necessary to provide for the redemption of the Treasury notes herein provided for, and any gain or seigniorage arising from such coinage shall be accounted for and paid into the Treasury."

Under this Act the coinage of silver dollars is no longer obligatory, and under its provisions *promissory notes* of the Government of the United States are now issued instead of silver certificates. It is important to call attention to the fact that the Secretary of the Treasury announces that hereafter in the issue of every one hundred millions of certificates we are to save two millions of dollars, which is the cost of coinage, and we are to issue these promissory notes of the Government of the United States, and we are to retain behind them the whole bullion value of the silver. Here is what he said, at Findlay, O.:

"Many sound thinkers believe that the present legislation upon the silver question is not sufficiently conservative. In other words, that we have already gone so far as to endanger the maintenance of gold payments. I do not see any immediate danger from the present policy, which requires for every dollar of paper issued for the purchase of silver bullion *an equal dollar's worth of bullion behind it.* This act does not require—except for the purpose of redeeming the Treasury notes issued in payment for bullion—the coinage of silver dollars. . . .

"When we coin gold and silver we stack up the product in the Treasury of the United States, and issue certificates for these gold and silver dollars, which the people use in preference to the gold and silver coin itself. Of the coined silver dollars (now about 408,000,000), something over $60,000,000 are bodily in circulation, and about $24,800,000 are held in the Treasury vaults against the issue of Treasury notes, coined between the 13th day of August, 1890 and the 1st day of July, 1891, under the Act of July 14, 1890. The balance, $324,000,000, is represented by silver certificates.

"When you present a check to the bank if you are offered gold you prefer paper, whether it be bank notes, Treasury notes, gold certificates or silver certificates. In fact, you do not stop to determine which of these you receive, but prefer the paper to the gold; and if you are offered more than five dollars in silver you absolutely rebel against taking it. I ask, then, can any one tell me what the use is of going to the expense of coining either gold or silver, and after it is coined to stack it up in the Treasury and issue certificates against it? Why not issue certificates for the bullion and save the trouble and expense of coinage? Of course I mean that we shall coin all the gold and silver that our people may desire to use, but beyond that, for my own part, I do not see any necessity for coinage."

This is undoubtedly the correct interpretation of the legislation of the last Congress, and the whole country is to be congratulated upon the fact that it has a Secretary of the Treasury who believes and who intends that all the silver bullion bought, shall be sacredly held as security for the issue of silver Treasury notes, as United States bonds are held as security for National Bank notes. The country is to be congratulated upon the fact that the late law, which in my opinion contained unwise legislation, increasing the purchases of silver and making the new notes a legal tender, also contained these two *good* provisions improving previous legislation; and also that it has a Secretary of the Treasury who states unqualifiedly in the letter which was read at the last convention of the American Bankers' Association, in New Orleans, as well as in his speeches elsewhere, that it is his purpose to maintain gold payments, to redeem these late issues based upon silver and upon the credit of the Government, at all times in gold coin, which is the basis here and elsewhere. It is the basis not only in England, but really also in France; for the English sovereign is the recognized standard of value in all great financial transactions in every country the world around.

JOHN JAY KNOX.

IS OUR MILITARY TRAINING ADEQUATE?

In an age so remarkable as the present for the variety of its industries and the great and ever-increasing scope of its scientific acquirements it becomes each day more evident that the powers of an individual are inadequate to master thoroughly more than one branch of knowledge or one form of industry, or, in some cases, even more than a subdivision or special application of either. To excel in the rush of time and events, it is imperative to concentrate energy, vitality, and attention. Every trade has its bibliography and growing body of scientific law; every science has its mass of data to be assimilated and its unknown regions awaiting exploration. Competition is keen; the number of clear active thinkers multiply; the standard of achievement is pushed rapidly forward. Woe to the sciolist, the smatterer of any stripe who enters the fight with a sword of straw! If the blade is not keen, the steel tempered, the grip strong, the point true —fall to the rear, or be trampled upon.

The trade of war has felt this impulse. Through successive ages its great principles have been slowly formulated, indistinctly apprehended, grasped by isolated geniuses alone. Its details multiplied in incoherence and its *personnel* remained for the most part an assemblage of impersonal units of whom no higher quality was demanded than physical courage and blind obedience. The spirit of the age has changed all this. Slowly at first and latterly with a rush the principles of science have invaded every detail of the art of war and controlled the operation of its entire mechanism. It is no longer, if it ever was, the art of luck and audacity dominated by genius; but an art of method and minute elaboration; of exhaustive research and careful preparation; of test, of experiment, of caution; and above all, of individual responsibility and development. Woe to the people who invoke the power of the sword and fail to sharpen it, who trusting war, fail to master it. If peace and its fruits are at the price of battle, then the law of battle must be learned. From this conclusion there is no escape. All history shows it. However crude its method, success in war on a large scale has gone hand in hand with the best