cant fact that in the pressure of 1907-08, while the issues of the state banks were contracting by $5,000,000, those of the National Bank of Mexico were increasing by a nearly equal amount.

Thus, in all these cases, it appears that there is in fact, though not in law, a system of central banking, only modified by the circumstance that moderate issues of notes are permitted to other banks. Moreover, in these cases of apparent exception to the general rule, the countries concerned, while large factors in the commerce of the world, are not a part of the mechanism of international finance to the extent of London, Paris, Berlin or New York. In the hands of the bankers of the first of these three great centres lies the distribution of surplus capital to new and developing nations. If New York would become a serious competitor with them as a centre of exchanges, for her share in this process of distribution, it is absolutely essential that she also should possess a financial mechanism cohesive, flexible and concentrated, capable of handling without risk the largest affairs, guarding the gold stock of the country, and guaranteeing by its strength the soundness of the monetary system.

CHARLES A. CONANT.

THE CENTRAL BANK PLAN.

UNDER our existing system of independent local banks we have prospered beyond all other nations. Therefore, this system cannot be wholly bad. But periodically the country has suffered from severe money stringencies which sometimes have resulted in panics and wide-spread disaster. We need a banking system that *always* will be safe and that *always* will serve the needs of industry and commerce. Foreign countries have such safe and serviceable systems. Can we not have such a system in the United States?

General money stringencies and wide-spread financial troubles in the United States have not been caused by the mismanagement of individual banks or trust companies. In the main the management of our banks and trust companies has compared favorably with that of similar institutions in other countries. Important bank failures have occurred in England, Germany and France as well as in the United States. No system can make bank-managers honest and prudent or guard against the penalties of dishonesty and imprudence. But under a safe system the failure of an individual bank will not result in a general money stringency, as sometimes has been the case in the United States. If the banks generally have not expanded their deposit liabilities beyond the limit of safety, borrowers who are refused accommodation by a particular bank, as a rule, can obtain credit from some other bank; and a bank which has good assets can strengthen its reserves in case of need by selling some of its assets or by diminishing its outstanding loans. But when practically all the banks have expanded their deposit liabilities to the limit of safety, shifting loans from one bank to another bank, or strengthening the reserves of some banks by drawing upon the reserves of other banks is of no avail, for then no bank can strengthen itself without pulling down some other bank.

In the United States there is no way of regulating or controlling the expansion of bank credits in the aggregate, and there is no way of securing the adoption of a common policy by all the banks and trust companies when this is necessary for the security of the general credit situation. Each of the twenty-five thousand independent banks and trust companies in the United States carries on business for its individual interest alone, independently of the others, and each at all times seeks to lend its credit to the limit permitted by law as long as it can make a profit by doing so. The result is that bank credits are expanded, speculation is encouraged and business operations are extended to the utmost limit in normal times, while no provision is made for those times when an exceptional amount of currency is withdrawn from the bank reserves for use in circulation or when there is a demand for an exceptional amount of bank credit. The rope of credit, having been stretched in normal times to the limit of its strength, breaks when an additional strain is put upon it.

Some way must be found to hold in check the aggregate expansion of bank credits in normal times so that a sufficient amount of reserve money and of credit power shall be held back and kept available for use in times when an exceptional amount of currency or of bank credit is needed. In every country of Europe the machinery for securing the necessary regulation and control of the expansion of bank credits in the aggregate and for keeping available an adequate amount of reserve money and of credit power has been provided by establishing a central bank which is deemed to be charged with the responsibility and duty of protecting financial conditions throughout the country. The necessary power is vested in the central bank (1) by making it the common depositary of a large part of the reserves of the other banks; (2) by making it the sole depositary of Government moneys; and (3) by conferring upon it a monopoly of the right to issue circulating notes.

The required regulation is effected by one or both of the following methods: (1) by acting as a bank for the discount and rediscount of commercial paper and by raising or lowering its discount rate, the central bank to a certain extent regulates interest rates and the expansion of credits and influences the flow of gold to or from the country; (2) by issuing its notes, which serve as circulating currency in lieu of gold, the central bank prevents the withdrawal of gold from the bank reserves for use as circulating currency, with the consequent reduction of credit power; and by diminishing the volume of the outstanding notes it checks over-expansion of bank credits and the export of gold when this should be prevented. The central banks of Germany and France use both of these methods of regulating banking conditions in their respective countries. The Bank of England uses only the first method, namely, by changing its interest and discount rate; but this method alone has not proved always adequate in England and certainly would not prove adequate in the United States.

There are eminent bankers who hold that we should establish in the United States a great central bank vested with powers similar to those exercised by foreign central banks. Undoubtedly the central banks in European countries effectively and satisfactorily regulate and control banking conditions in those countries; and if conditions in the United States were similar to conditions in European countries the argument in favor of establishing such a bank in the United States would be conclusive. However, conditions in the United States are so different from those existing in European countries that the central banks of Europe cannot fairly be considered precedents for the creation of a similar bank in the United States.

In Europe each country has established its own central bank, but no one country of Europe can be compared with the whole of the United States. The territorial expanse of the United States is as great as that of all the countries of Europe combined. Control of the business interests and financial resources of the United States is not centralized, and cannot be centralized, to the same extent as control of the business interests and financial resources of a single country of Europe. The different sections of the United States have developed rapidly in wealth and in financial independence, and there exists a strong and growing feeling of opposition to the concentration of financial strength in few hands or in any section of the country.

In order to establish in the United States a central bank on the European plan, it would be necessary to concentrate vast resources in this bank and to constitute it the reserve depositary of the banks throughout the country. It would be necessary also to take away from the existing national banks their power to issue notes and to give a monopoly of this power to the central bank. To allow such a bank to be organized like an ordinary corporation, with transferable shares and an elective board of directors, so that a few rich men might purchase control, certainly would not prove satisfactory. To vest in the Government the power to appoint the managers of the bank, or to control its operations, might make the management and policy of the bank depend upon the result of popular elections and might constitute control of the bank a political prize, to be disposed of by the party in power. To provide that some of the directors of the bank shall be elected by its shareholders or by the other banks, and that some of them shall be appointed by the Government, probably would suit no one and certainly would not prove effective. A great bank must have a consistent policy and an executive head who can carry out this policy. By the creation of a composite board of directors diverse interests cannot be fused so as to produce a harmonious and satisfactory result. Ultimately full control would pass to such of the different interests represented on the board as might happen to unite so as to form a majority. Under any plan the business management of the bank would be controlled in great measure by its president or chief executive officer. As New York is the chief financial centre of the country the principal sphere of activity of the bank necessarily would be in New York even if the principal office of the bank should be located elsewhere.

Such concentration of financial power surely would result in sectional jealousies and dissensions.

The central banks of Europe were developed gradually, and became useful institutions because they were in harmony with the social conditions, the business habits and the political methods of the countries in which they were established. The Bank of England is a private stock company whose directors are chosen from among the merchants of London, but the management of the bank is governed by long-established customs and traditions which have acquired practically the force of common law. In France and Germany the directors or head managers of the bank are appointed by the Government, but in these countries also the management of the bank is governed by long-established customs and traditions. In European countries there exists the utmost confidence in the wisdom, the impartiality and the disinterestedness of those who have charge of the management of their central banks, and in no country of Europe are banking and currency problems deemed fit subjects for party politics. Though a central bank in the United States might be created by an Act of Congress, no Act of Congress could create the conditions, the customs and the traditions which in foreign countries have made central banks safe and serviceable institutions.

Almost from the beginning of our Government banking and currency questions have been treated as political questions. The first Bank of the United States was chartered by Congress in 1791 under Washington's administration. The bank became a football of politics, and when its charter expired the bank was destroyed. The second Bank of the United States was chartered in 1816, and the management of this bank also became an issue in party politics. When its charter was about to expire in 1836, the proposal to renew the charter resulted in one of the most bitter political controversies in the history of our country and was made the leading issue of a Presidential campaign. The party that favored the bank was defeated at the polls and the bank was destroyed.

No doubt business conditions have changed since the days when Jackson, Taney, Webster and Clay fought over the Bank of the United States; but have our political methods changed, and do we now exclude financial questions from our party politics? After the war the greenback question was treated as a political question, and the issue of irredeemable fiat money was approved by popular vote in a number of the States. A long and bitter political fight was waged in favor of the proposal to pay our Government bonds in irredeemable paper currency. For twenty-five years the silver question was treated as a question of party politics, and twice the free coinage of silver became the dominant issue of a Presidential campaign. In our last Presidential campaign the principal issue advanced by one of the candidates was the compulsory guarantee of bank deposits. In each of these cases far-reaching financial policies were included in political platforms to be submitted to popular vote in the heat of a Presidential campaign. On several occasions the country was saved from the wildest financial heresies and from financial chaos, if not dishonor, by only a small majority of popular votes.

Having regard to our political history and to the political conditions which we know to exist, is it reasonable to suppose that the management and policy of a great central bank could be kept out of politics? If, after the creation of such a bank, it should become the cause of sectional differences and dissensions, and if its management, or perhaps its very existence, should become a political issue, the bank, instead of rendering financial conditions safer and more stable, would make them far more perilous than they are to-day. And if in the end the bank should fail to accomplish its purpose and should be dissolved, like the former Banks of the United States, probably it would pull down with it the political party that was responsible for its existence. No one can foresee what financial heresies then might prevail, but true reform of our banking and currency system surely would be postponed for a generation.

The main purpose of a central bank is to secure the safety and stability of financial conditions throughout the country. Cannot the desired result be attained in the United States without a great central bank by adopting in modified form such features of the central-bank system as are suited to practical conditions in the United States?

Though it would not be desirable or practicable to concentrate the reserves of all the banks in a single central bank, concentration of part of the reserves of the banks in the several sections of the country is both desirable and practicable. In order to effect such concentration of reserves so far as practicable and desirable, the national banks in the several sections of the country should be authorized to unite in forming sectional reserve banks, to be controlled by them through stock ownership, each bank depositing part of its reserves in the sectional reserve bank of which it is a member. The sectional reserve banks, of course, should be required to keep ample reserves of lawful money and should engage only in the safest kind of business, so that at all times they would be in a position to furnish reserve money to the several banks by paying checks drawn upon their deposit accounts or by rediscounting their paper. The several sectional reserve banks also should make arrangements among themselves to facilitate exchanges between the different sections of the country.

For the purpose of establishing the necessary central regulation and control of the aggregate expansion of bank credits in relation to the aggregate bank reserves, the national banks, or the sectional reserve banks formed by them, should be authorized to form a note-issue association and to elect a central board or committee having power from time to time, with the consent of the Secretary of the Treasury, to increase or reduce according to the needs of changing conditions the volume of uncovered bank-note currency which the banks throughout the country may have outstanding, such increase or reduction being effected by increasing or reducing the percentage of their notes which the several banks must keep on deposit in lawful money in note-redemption funds to be held by the note-issue association or by the Comptroller of the Currency. By increasing the required percentage of the note-redemption funds the expansion of bank credits in the aggregate could be checked. By reducing the required percentage the banks would be enabled to meet a demand for more circulating currency without drawing upon their reserves against deposit liabilities.

VICTOR MORAWETZ.

GOVERNMENT BANKING.

IN his address at Boston, September 14th, the President, referring to the work of the Monetary Commission, informed the country that the trend of opinion among the members of that body is favorable to the establishment of a "central bank of issue"; and that foreshadows a discussion of the question whether