

## AMERICAN BANKING SYSTEM.

### Mr. Bryon E. Walker Discusses Its Abnormal Features and Suggests a Remedy.

The weakness of the United States banking system and the measures that have been proposed to remedy it were ably discussed by Mr. Byron E. Walker, president of the Bank of Commerce, in an address entitled "Abnormal Features of American Banking," delivered before the meeting of the American Banker's Association, at Denver, Col., on Wednesday. He treated the subject under five heads—Reserves, Clearing House Certificates and Re-discounts, the Treasury System, Bank Note Issues, and the proposed Central Bank.

In the opening part of his address, Mr. Walker referred to the efforts made by Alexander Hamilton at the close of the eighteenth century to restore the then disordered finances of his country and to set in the right path for the future the great industrial agency of banking. At that time, in the face of many difficulties and prejudices, the first Bank of the United States was founded. But in a few years, and while it was doing its allotted work very well indeed, it was strangled by those who favored the small banks. Almost immediately the second Bank of the United States followed, only to meet a similar fate at the hands of Jackson. "Thus for the second time a system of banking which might have made the country strong to meet financial emergencies, which tended already to make the various scattered parts of the country cohere in commercial matters, which was rapidly creating credit in Europe, and which with all the inevitable faults of youth was performing the functions claimed for it remarkably well, was destroyed in favor of an incoherent system of individual state banks."

#### Should Learn From Experience.

Mr. Walker expressed the opinion that Hamilton planned a system which contained much of which was good in the successful systems of the world. But the United States people would not have his system. They preferred to repeat in each new district, from east to south and west, wherever debt and ignorance combined to create banking and currency, the same errors which made such startling history in the early part of the nineteenth century. Is it not time for us, he asked, to put aside that silly vanity to which democracies are inclined—that it is better to try our own experiments and to ignore history?

Mr. Walker pointed out that the profound line of cleavage which made it so difficult to create the first bank of the United States, and which destroyed it and its successor, still existed. "It lies between those who favor a system of banking good for the nation as a whole, as opposed to a system of banking which may be right or wrong for the great number of units engaged in the business of banking, but which is clearly not right for the nation as a whole."

#### Defect of Law Relating to Reserves.

Coming to the subject of the so-called fixed reserves, Mr. Walker explained that the defect in the present United States law regarding them was that by arbitrarily fixing the minimum reserves which must be always in hand it practically forbade the use of reserves for the very purpose for which they had been created. "The law undertakes to supply that wisdom which it presumes the thousands of bankers do not all possess, and to lay by for them against the rainy day the provision which it presumes they would not be prudent enough to make. But who is to supply the wisdom demanded by such authorities as Walter Bagehot, who says that in a panic the sound banker should lend to the bottom of his box? In times of peace the wise prepare for war, but when war comes the army is flung into the field, not still held in reserve. The law, however, having forced the sequestration of so much cash and cash resources against the day of trouble, provides no means by which, either under its own wise and paternal direction or at the discretion of the bankers unaided by the wisdom of the law, the cash thus provided may be used to avert disaster."

#### Breaking of Law the Best Remedy.

"Everybody admits the mischief created in the United States from the inability to use legally the reserves for the very purpose for which they are held, and I do not remember that anyone has suggested a better remedy than that which takes place in every panic, viz., the breaking of the law by simply not maintaining the reserves. But through the press the public is kept keenly aware as to the exact point in the New York reserves below which the use of them will be illegal, and thus the panic is increased by the very attempt to get at the cash necessary to allay it, while under any ordinary system the panic could probably be averted altogether by a wise use of the cash in hand, instead of being allowed to reach a stage where it can only be stopped by almost superhuman efforts after it has run part of its course of ruin and disaster."

With regard to the clearing-house certificate, Mr. Walker said that so long as its use was between banks alone it was a perfectly natural and most effective plan for allaying a panic that has once been created. It could also be made an instrument in connection with a proper use of reserves, to largely avert panics, if only some wise autocrat could be entrusted to decide when clearing-house certificates should be issued. But as to the moment of necessity there was never likely to be unanimity of opinion so long as the decision depended on the judgment of several bankers. The illegal use of the cash reserves and the issue of clearing-house certificates must therefore always come too late to prevent the panic.

The wide extension of their use raised a new question, and there use in numerous towns and cities where actual cash supplies were nearly exhausted, and their issue in small denominations to the general public as currency, in open defiance of the law, while creditable to the ingenuity and audacity of the American people, were new features of an alarming character.

#### Banks Accentuate Panics.

One result of the existence of thousands of individual banks instead of a comparatively few large banks with branches was the extraordinary spectacle which accompanied every panic in the United States of each particular one of the thousands of banks trying to stand alone, except to the extent that the clearing-house certificates had made them cohere.

Mr. Walker defined a panic as widespread fear without cause, and stated that in the United States whoever might start the panic, those who accentuated it most were the thousands of individual banks by their distrust of each other. They spoke indignantly about the private individual who withdrew his deposit in currency and hoarded it, but in time of panic the most active agency in drawing out currency and hoarding it was the country bank. "And it is not the fear of the failure of banks, but the fear of the disappearance of currency, which aggravates panics, and brings about disaster and terrible reduction in values."

#### Safeguards in Other Countries.

"To sum up, it would appear that the same elements which in the United States cause panics of the most ruinous character would not be apt to cause panic at all in better regulated countries. In such other countries, firstly, the reserved cash would be instantly available; secondly, the banks would not be likely to fear one another, but would cohere in meeting any panicky feeling on the part of the public; thirdly, the power of rediscounting or of issuing clearing-house certificates would need to be used to but a small degree if only the demands of the public had to be met and not the demands of thousands of individual banks; fourthly, with these things assured and a reasonably flexible currency, no stoppage of currency payments would be likely to arise."

As to the treasury system, Mr. Walker quoted Mr. W. B. Ridgely, Comptroller of the Treasury, who, writing early in the present year, showed how the United States had collected from the people \$245,000,000 surplus above its necessary expenditures, and in order to restore this money to circulation and repair the damage done to business by its withdrawal, had had to deposit \$222,000,000 with the national banks; and when the supply of Government Bonds gave out, had had to accept various other bonds as security."

#### Why the Treasury System was Created.

"Why not face the fact that the present Treasury system was created because of the destruction of the system of large banks in favor of the system of small banks, and would never have existed otherwise? Under the present system there is no one bank and no series of banks to whom the United States people, as they are represented by the Federal Government, can entrust their balances without very complicated arrangements, including the deposit of security. Whatever may be the remedy, in the meantime we must add the Treasury system to that list of abnormal features which this country has to bear because of its thousands of individual banks."

#### Bank-Note Issues.

Premising the fact that in the United States there was no currency of the kind usually known as bank-notes Mr. Walker said that while the National Bank notes which took the place of those issued before the war possessed good qualities not possessed by the old state-bank issues, they carried with them the great defect of rigidity which accompanied nearly all Government note issues. The whole machinery provided by the new "Currency Association Law" was so difficult that the Act might quite fail in its purpose. The recently-passed Canadian Act providing for emergency circulation contained 967 words, while that part of the United States Act relating to emergency circulation contained 3,730 words; and it might be said that the difference in words fairly represented the difference in ease with which the additional franchise of an emergency circulation might be given