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Source: *The Economic Journal*, Vol. 13, No. 49 (Mar., 1903), pp. 30-57
Published by: Wiley on behalf of the Royal Economic Society
Stable URL: http://www.jstor.org/stable/2956865
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# THE NEW YORK MONEY MARKET

Two characteristics of the New York money market must at once attract the attention of the observer familiar with the money markets of Europe. There is in New York no single bank holding the reserves of the other banks of the city itself and of the country generally, and taking that lead in times of financial difficulty which inevitably must be assumed by a central reserve bank. There is a large number of banks of varying size almost all of which, judged by European standards, are of small capital and engaged in business of comparatively insignificant proportions. These characteristics of themselves render a clear understanding of the New York money market difficult for those not directly concerned with its daily operations, and that difficulty is greatly enhanced for the foreign student in consequence of the complex monetary system of the United States and of the variety of legal arrangements under which banking is carried on. Besides private banks and financial houses, there are three distinct groups of incorporated banks—national banks, state banks and trust companies. The national banks work under the provisions of the national banking law, the most comprehensive system of banking law in the world. The state banks are chartered under the somewhat less rigid laws of the State of New York and the trust companies are also under state laws of a distinctly less stringent character so far as their purely banking operations are concerned. There are in New York city forty-two national banks, forty-two state banks and thirty trust companies. State banks may be passed over with a few words of explanation. With three exceptions they are all small banks and all are engaged in an almost purely local business. Useful to the trade and industry of the city itself, they may be disregarded in a study of

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New York as a great financial centre.[1] Some of these banks make large advances in connection with Stock Exchange dealings in a manner not permitted to the national banks by the certification of checks for brokers who at the time have not an equivalent deposit to their credit. The banks are in effect making loans of a very temporary nature upon personal security alone. These cheques are used in payment for stocks which on delivery can be used to secure the loan, if the obligation is not extinguished by cheques received by the broker in the course of current business. During periods of active speculation, when an increasing volume of these cheques is being drawn and paid day by day, the danger of heavy loss is very great, but since the introduction in 1894 of the Stock Exchange Clearing House for active stocks the demand for such accommodation has been much reduced. The magnitude and character of the business of the trust companies require more detailed consideration, but for the present we may devote our attention exclusively to the national banks which are in every respect the most important of the financial institutions of the city.

The commanding position of the national banks of New York is primarily the result of their position as depositories of the reserves of other banks, not only of the city, but of the country generally. New York is in a sense the central clearing house for the entire country. Settlements are there made for a multitude of transactions representing business dealings which have their origin elsewhere, and all European exchange operations, for Canada as well as the United States, are there conducted. All banks of any importance throughout the country must have some bank as their agent in New York, and must have a sufficient deposit there to be able to provide customers at any moment with means of payment in New York. The convenience and necessity of an account with a New York bank to banks in other parts of the country had given the banks of that city the position of reserve banks long before the national banking system was organised in 1863. The custom was fully recognised in that system, and unquestionably the force of the existing tendency was greatly strengthened by the provisions relating to reserve of the national banking law. The present law requires country banks to hold a reserve

[1] The total resources of the state banks on September 12, 1901, amounted to $262,000,000, capital and surplus together were $32,000,000, loans $144,000,000, deposits $190,000,000, and cash $43,000,000. *Annual Report of N. Y. State Banks*, p. 214.

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of 15 per cent. of their deposits, three-fifths of which may consist of a deposit in a "reserve city." Cities with a population of 50,000 may become reserve cities upon application of three-fourths of their banks. Banks in reserve cities must keep a reserve of 25 per cent., one-half of which may be held in "central reserve city" banks. Cities with a population of 200,000 may become central reserve cities on application of three-fourths of the national banks there established, and banks in such cities must hold a reserve in their own vaults of 25 per cent. A country bank then may deposit either in a reserve or central reserve city bank, and the reserve city bank in a central reserve city bank. There is a large and increasing number of reserve cities, twenty-eight at present, whereas of central reserve cities there are but three, New York, Chicago, and St. Louis. Of these last New York holds bankers' deposits many times larger than those held in the other two cities. On September 30, 1901, the New York banks were indebted to other national banks for $205,000,000, those of Chicago and St. Louis together for but $69,000,000.[1] In addition the New York banks owed to State banks the sum of $68,000,000, and to savings banks and trust companies $99,000,000. The leading position of the New York banks is shown even more clearly if we analyse the total reserve of the national banks of the country: 3,885 country banks against deposit liabilities of more than $1,500,000,000 held a total reserve of $429,000,000, of which but $134,000,000 was in cash in their own vaults. The 275 banks in reserve cities against deposits of a little more than $1,000,000,000 held a reserve of $291,000,000, of which $131,000,000 was in cash. The 61 central reserve city banks against deposits of nearly $1,100,000,000 held a reserve in cash of $276,000,000, of which $207,000,000 was in New York against deposit liabilities of $794,000,000.[2]

It will be observed then that for the banking system as a whole there exists but one large store of cash, that held by the New York banks. In this very important respect, the only difference between the banking system of the United States and

[1] These, as well as other statistics relating to the national banks, are taken from the annual report of the Comptroller of the Currency. These reports, in two yearly volumes, contain an immense variety of data concerning the banks of the United States.

[2] The 5 per cent. fund deposited at the United States treasury for the redemption of banknotes is counted as a part of the required reserve. It has no very great significance, however, since the total for all the banks amounted, at the above date, to but $16,000,000.

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those of European countries lies in the distribution of that reserve among many banks. The decentralisation of reserve is, however, by no means so great as might be supposed to judge from the number of national banks in New York city. These bankers' deposits, though large in the aggregate, would give to each bank a somewhat insignificant amount if they were divided with anything like equality among all the banks. But not all of the banks hold bankers' deposits; some of the national banks, like the state banks, confine themselves to a local business, and among those which seek to attract the accounts of outside banks there is active competition. Interest is offered for such deposits, usually at the rate of 2 per cent. The New York banks also grant facilities for the business of country banks, and accommodation in the way of loans and re-discounts. Some banks have naturally been much more successful in attracting these deposits than others. In 1901 nine banks held, of such deposits, less than $1,000,000 each, ten banks less than $2,000,000, and six banks between $2,000,000 and $8,000,000; making a total for these twenty-five banks of but $35,000,000. Nine other banks held between $8,000,000 and $20,000,000, with a total of $95,000,000; and eight banks, each with more than $20,000,000,[1] held a total of $295,000,000. Out of a total of $425,000,000 of bankers' deposits, the seventeen larger banks held $390,000,000.[2] These seventeen banks may properly be regarded as the reserve banks of the country. Their position is increasingly important since they are acquiring year by year a larger share of the business of holding bankers' deposits. This is particularly true of the six or eight most important banks. These deposits give them the use of large sums of money in addition to that furnished by their capital, surplus, and undivided profits, which for the seventeen banks in 1901 amounted to $56,000,000 and to $67,000,000 respectively, out of a total capital for all the banks of $70,000,000, and surplus and undivided profits of $93,000,000. In respect to these items there has been during recent years a notable increase in the New York banks as a whole,[3] and during the last ten years there has also been some decrease in the number of banks. In 1891 there were forty-nine banks, while at

[1] These figures are of the gross bankers' deposits; those on p. 32 were of net deposits.

[2] The National City Bank alone, with $60,000,000 of such deposits, held as much as twenty-eight of the smaller banks.

[3] The National City Bank has recently increased its capital from $10,000,000 to $25,000,000 and its surplus from $7,000,000 to $15,000,000; increases not included in the above figures.



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present there are but forty-two. The decrease has taken place in most instances through the consolidation of two or more banks in order to form one large institution. This movement would probably go much further but for the provision of the national banking law against branch banking. On account of this obstacle, there has been a noticeable movement towards greater unity of control and management through the purchase of a controlling interest in several banks by different groups of capitalists.

The position of the more important New York banks is entirely analogous to that of the great central reserve banks of Europe, such as the Bank of England and the Bank of France. Any unusual demand for actual cash, either for domestic purposes or for export, is certain sooner or later to bring about a withdrawal of money from the New York national banks. In Europe responsibility for reserve is centralised, and the policy to be adopted to protect the reserve is in the hands of one body of directors; in New York the reserve is scattered among a number of banks, and the responsibility is therefore divided.

On the surface this scattered responsibility might seem to render any uniform policy almost impossible of attainment. The withdrawal of cash may not be felt equally by all the banks, and consequently the policy to be adopted may not meet the approval of many boards of directors acting upon different information and under varying degrees of necessity. In times of crisis a device has long been in use, which secures unity of action;[1] but in times of only moderate stringency the same policy may not always be followed by all of the banks. All banks do not shorten sail at the same time. While some banks are curtailing discounts, other banks may be seizing the opportunity to extend their business. On the whole, however, it would be difficult to show from actual occurrences in recent years that this splitting up of responsibility has been a serious source of weakness. The conditions to which the operations of banking are subject in New York are well understood by those directly concerned, and the working at cross purposes is apparently no greater there than in European cities between the large reserve banks and the other banks. There is no doubt greater friction in the ordinary workings of the New York money market, but it may properly be ascribed to conditions forced upon the banks by the national banking law and the general monetary

[1] See p. 49.

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system of the United States, conditions for which the banks are in no way responsible.

Before entering upon an analysis of the conditions to which the market is subject, a digression is necessary to make clear the position of the bank note. All national banks may issue notes to the amount of their capital on the deposit of an equivalent value at par of government bonds at Washington. The position of the New York banks as reserve banks has not, therefore, like that of the European banks, been brought about in any measure through the monopoly of note issue. It would be the same if no banks whatever were allowed to issue notes. It may further be said that the note issue has absolutely no effect upon the working of the New York market, and that in every essential respect it would be what it is if no notes at all were issued. The present note issue is much more akin in its mode of circulation and in its effects to a government issue of paper money than to a bank note issue as it is ordinarily understood. The chief factor determining the increase or decrease of the notes is the price of government bonds. The notes increase when the price falls quite regardless of anything else, just as government issues increase in response to government needs and without relation to business demands. Even in case of an acute demand for actual cash, when notes would be as readily accepted as gold, the time required for taking out new circulation, from four to six weeks, is such as to preclude any general resort to that expedient. In ordinary times all banks pay out all notes, their own and others, without distinction, selecting notes from the various kinds of money, gold, silver and legal tender notes received in the ordinary course of business, because the bank note cannot be counted as a part of the legal reserve. On September 30, 1901, all the banks of the system held but $26,000,000 of notes of other banks out of a total circulation of $353,000,000, and the New York banks held but $725,000 of such notes—in both cases an amount probably representing the notes which had been received in the course of the day's business. The notes form a permanent part of the circulating medium in every day use. If they were absent altogether there would unquestionably be a larger amount of gold in the country, just as would be the case if the government issues of paper money were retired. The banks would in that case doubtless hold a larger proportion of gold than they do at present since the preference of the people for paper money for every day use would probably



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absorb all of the government paper issues, a part of which now rests in the vaults of banks constituting a portion of their reserve.

In respect to note issue the New York banks are in a position very similar in many ways to that of the Bank of England. There are many purposes for which bank notes are as serviceable as gold, some sort of money which will pass readily from hand to hand is often required and deposit accounts against which cheques are drawn will not serve the purpose. Holiday demands in England may be mentioned as a familiar example. Such demands are met by the withdrawal of either coin or notes from the Bank of England. It matters little which is drawn out, since in either case the reserve is reduced. In France a similar demand would not reduce the reserve unless it were for coin. A demand for notes would simply increase the demand liabilities of the Bank of France and reduce the percentage of reserve, but of course much less than an equal withdrawal of coin. In New York, and for the country as a whole, a demand for money for every day use involves a reduction of bank reserves. Conceivably banks might keep a stock of bonds to secure an emergency or temporary circulation, but clearly such a system would not be profitable for the banks. Temporary demands for cash are in fact met from funds on hand, usually in paper money without much discrimination as to the particular variety. In any case the reserve is reduced and that is the matter of importance for the banker. The inelasticity of note issue is a source of much greater difficulty in the United States than in smaller and more thickly settled countries like England, where cheques can be used for a larger proportion of business purposes. In a very striking way the difficulties which result from an inelastic circulating medium are illustrated every autumn when there is always an unusual demand for money to "move the crops." Crops of corn, wheat and other cereals in the West, and of cotton in the South, are, in large part, bought by dealers during September and October. Farmers require payment very largely in cash to pay labourers and frequently for their own use where, as often happens, they have no account with a business bank. To meet this demand banks in the South and West draw on their reserve agents who may, of course, be once or twice removed from the reserve banks of New York city. But this demand for cash is simply transferred from agent to agent and most of it comes sooner or later upon the reserves in New York. In the course of two or three months the money will have passed

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from the banks to the dealers, from them to the farmers, then into the hands of those from whom the farmers and their labourers make their purchases, and thence into the local banks. By the end of January most of it will have returned to New York. This transfer of cash to and from the West and South goes on every year; it is a regular demand similar to that which is every year met in Scotland by an increase of notes. It is somewhat more prolonged in the United States on account of the greater extent of territory and because the various crops are not harvested at exactly the same time.

The reserve regularly begins to fall shortly after the middle of August. The withdrawal of cash is at its height in September, and this adverse tendency, though less marked, continues as a rule to the end of November. The outward movement is particularly strong at the end of September, because then the movement of the cotton crop is being completed, and that of the cereal crop is well under way. Late in October money may begin to flow back from the South, but a greater quantity is still going out to the West. As a rule, gold exports are unusual at that period of the year. Exchange is drawn against cotton and cereal shipments made or expected, and almost invariably gold is imported from Europe. From forty to sixty millions may be regarded as a fair estimate of the amount withdrawn from New York for crop movement purposes, but the effect on reserves is usually somewhat neutralised not only by gold imports, but by the deposits of Eastern banks. The reverse movement, slow and uncertain in December, becomes pronounced with the beginning of the year, and by the middle of February reserves have reached the midsummer level. Year by year the return movement seems to be more and more postponed.

The consequence of this movement of currency away from New York, is a stringent money market nearly every autumn, which can only be avoided by keeping a large supply of idle cash on hand during the rest of the year. In view of the temporary nature of this drain and of its domestic character, it might be thought safe to allow reserves to be reduced for the time being without any restriction of accommodation in New York, relying upon the return of cash at the end of the year to restore the depleted reserves. A reduction of the reserve of a similar nature at the Bank of England is regarded as having little importance, and does not lead to a rise in the rate of discount such as would follow an even smaller outflow for export purposes. In the United States the autumn demand for currency extends over a

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period of months rather than of weeks, and in New York, moreover, the legal requirement of a reserve of 25 per cent. is a serious obstacle. All decreases of reserve are alike, from the point of view of the requirement of the legal reserve, and if money is going out, the only steps open to the banks are the restriction of loans, and the increase of rates for money, in order to attract gold imports. It is clear that this legal provision must often be the cause of dear money in New York, when without such a provision, and without curtailing discounts, banks would simply trust to the course of events to strengthen their position. A reserve which may never be used even for emergencies, might seem to rest upon a complete misunderstanding of banking principles. More properly it may be regarded as an illustration of the inevitable difficulties in the way of legal restraints designed to secure safety in so complex and elaborate a mechanism as the machinery of credit. In one way, of course, the banks might free themselves from this difficulty. They are inclined at all times to extend their credits close to the legal requirement, thus rendering necessary curtailment in some direction when unusual demands are made upon them for cash. For banks in the position of those in New York a reserve much larger than 25 per cent. would seem to be advisable at all times. If the banks were accustomed to keep a reserve well over 30 per cent., there would be a large margin for withdrawals before meeting the rigid wall of the legal requirement. At times the desirability of such a policy has been discussed, but the banks have never made any serious efforts in that direction. It is a matter in which action is difficult on account of the number of banks in the system. In order to reap any gain from the use of the bankers' deposits upon which they are paying interest, the banks must lend at all times very close to the limit allowed by law, and particularly when rates for money are low. Herein is found one of the most certain advantages of the central reserve system of a single bank. The Bank of England, paying no interest on deposits, can with an equal profit keep a much higher percentage of cash against its demand liabilities.

Absolute rigidity is fortunately not insisted upon in the law. Banks whose reserve is below the legal requirement are merely warned by the Comptroller of the Currency to increase their reserve within 30 days. Failure thereafter may lead to the winding up of the bank; a step it may be added not very likely to be taken where the failure to maintain reserve is due to general causes

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and not to the negligence of the managers of a particular bank. Throughout July and August, during the crisis of 1893, the reserves of the New York banks were continuously below the minimum, falling at one time to less than 21 per cent. Similarly in 1899 the reserve for three weeks was below the line, and naturally when the average is close to the line many individual banks will be considerably below the required limit. On the other hand, the 25 per cent. minimum is not a simple dead letter. The banks make every effort to keep within the required limit. Custom of many years is strong and public opinion everywhere regards a smaller reserve as a sign of weakness, and unless curtailment of loans will bring about acute distress the banks follow that policy, at the same time raising rates for loans, particularly rates for call money.

The absence of branch banks in the national banking system adds to the difficulties which must be met by the reserve banks.[1] In a country having so wide a variety of conditions and occupations as the United States, among the 4,000 or more national banks it must often happen that when many demands are made upon some banks, and when they are consequently withdrawing money from their city agents, other banks will find themselves with an abundance of cash, more than is required for current needs. Under a branch system of banking, money would be readily transferred from those branches where it was not needed to the central bank. Even under the present system, as a rule, the transfer is remarkably rapid. The interest given by the reserve banks is amply sufficient to bring about the deposit of funds not actually required. In the course of a crisis, however, the case is altered. Then the desire to strengthen the reserve at all costs is strong, and many banks withdraw money which they do not actually need, thus accentuating the acuteness of the disturbance in reserve cities and particularly in New York.

Another source of difficulty is due to the independent treasury system of the United States. Receipts and payments are made through the United States treasury at Washington and through various sub-treasuries in all of the more important cities. If government receipts and expenditures were well balanced, this system would be but a temporarily disturbing factor during those weeks or months in the year when the income of the government was coming in most rapidly. But in the United

[1] In a few States the state banks may organise branches, but comparatively little use has been made of this liberty. New York City state banks may establish branches within the city limits.

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States there is far less approximation to equality of inflow and outgo than in most other countries. This is partly due to the fact that one chief source of revenue is customs duties, but it is even more largely because appropriations are made with little reference to probable revenue. Particularly in periods of prosperity, receipts are likely to exceed expenditures, and just at the time when banks find the most active demand for loans, the government will be locking up week after week money which is largely drawn in last analysis from the New York banks. During the fiscal year ending June 1901, government receipts exceeded expenditures by $77,000,000, and for the following year the excess was $92,000,000. There are several ways in which these withdrawals are returned to the market. Government funds may be deposited with the banks on the security of an equal par value of government bonds deposited at Washington. In this way $93,000,000 of government money was held in June 1901, and nearly $120,000,000 in June 1902. Money thus deposited is expected to be left for a considerable period, and this resource can only be regarded as an outlet for large permanent accumulations. It may be added that there is little profit to the banks in this transaction when 2 per cent. bonds are selling at a premium of 8 to 10 per cent.[1] Bond purchases for the sinking fund are made by the government, as a rule, at those times when lack of money is most severely felt. This method is certainly very effective to meet temporary periods of great stringency and is often combined with the prepayment of interest on government bonds. Purchases for this purpose were made during the fiscal year 1901 amounting to $36,000,000, and for 1902 to the amount of $56,000,000. It will be readily seen from the foregoing that financial difficulties in the New York market must often be the result of unsatisfactory conditions which can hardly be overcome by bankers, and which could be very easily done away with by changes in legislation.

A third cause of change in bank reserves is due to exports and imports of gold. Withdrawal of gold is usually met by the presentation of legal tenders at the New York sub-treasury in exchange for gold. The gold does not, as a rule, come directly from the banks, but of course the legal tenders do come from the banks and reduce the reserve just as if the gold itself were taken directly. Until recent years withdrawals of gold

[1] The larger city banks are often in sufficiently good credit to borrow bonds from large holders for this purpose. $14,000,000 out of the $35,000,000 of bonds deposited by the New York banks were acquired in this way.

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have always been the cause of uneasiness in the New York market. This uneasiness was not due to a fear that the banks themselves were in an unsound condition, and in no position to withstand a strain upon their reserves. It was the result of the slight foundation of gold upon which the great mass of government money rested, both silver and legal tender notes, as well as the fear of the direction which future monetary legislation might take. It has not been sufficiently realised that such difficulties are less and less likely to occur in the future. Since the repeal of the Sherman law in 1893 there has been no appreciable increase in the volume of either silver [1] or greenbacks. The greenbacks have remained stationary since 1878 at $346,000,000, the silver coinage, taking both that coined under the Act of 1878 and that of 1890, amounts to $570,000,000. In 1893 the currency of the United States was certainly redundant, and gold was accordingly forced out of the country. In recent years, however, the demands of an increasing population and greater business have absorbed the silver issues for everyday purposes; the country has grown up to its supply of domestic money and even grown beyond that supply. But aside from bank notes, the only kind of money capable of increase is gold. The volume of bank notes has increased somewhat,[2] but the supply of gold has increased in much greater degree. Between 1896 and 1901 the stock of gold in the country is estimated to have increased from $600,000,000 to over $1,100,000,000.[3]

This increase of gold clearly places the currency of all sorts in the United States upon a much sounder basis, to say nothing of the increased demand for the paper and the silver in everyday transactions. Its effect is clearly shown in the character of the money forming the New York bank reserves. In 1896 the gold holdings of the New York banks were about $50,000,000, in 1901 they were nearly three times as great, amounting to $149,000,000. Of silver in 1896 there was less than $6,000,000, in 1901 $15,000,000; of legal tenders $57,000,000 and

[1] The coinage of the bullion purchased under the provision of the Sherman Law of 1890 involves a slight increase of the silver currency.

[2] The Currency Act of 1900 increased the amount of notes to be issued against the par value bonds from 90 to 100 per cent. and, in other ways, made the issue of notes, for the time, more profitable. In the course of the following year and a half the volume of notes increased by rather more than one hundred millions, but since that time notes have been withdrawn as rapidly as the law will permit, *i.e.*, $3,000,000 a month.

[3] Both estimates are certainly too large, but of the amount of the increase there is less doubt.

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$49,000,000 at these two dates. Very nearly all the increase in the reserve has been through additions to the stock of gold, and the same has been true of the reserves of the banks for the country as a whole. The stock of gold in the United States treasury has also at the same time so greatly increased that withdrawals of gold in the future are altogether unlikely to affect the ability to meet without difficulty any demands which the obligations of the existing monetary system place upon the government of the United States.

This increase in the supply of gold is often overlooked by foreign observers, who chiefly notice the movement of gold to and from New York. Almost all the gold which leaves the United States goes from New York, but a very large part of the gold which enters the country comes to ports on the Pacific coast. During the six years from 1896 to 1902 gold exports from New York amounted to $263,000,000 and imports to $225,000,000. The total gold exports of the country, however, were but $308,000,000, as against total imports amounting to $458,000,000, the excess of imports at San Francisco alone amounting to $96,000,000. Gold which enters the country by way of the Pacific coast is almost immediately available in New York, it being deposited in San Francisco in exchange for drafts on the sub-treasury in New York. To this increase in the stock of gold from sources outside of the country, there must be added the yearly product of the country itself, which during recent years has run well above $70,000,000. It will thus be seen that a more or less chronic movement of gold away from New York may take place without involving any weakening of the basis upon which the currency of the country rests; and that in fact gold exports of themselves from that city, apart from their temporary effects, have little or no significance.

Knowledge of the actual position of the New York market at any time is largely based upon the returns contained in the Weekly Bank Statement issued every Saturday. This statement contains returns of the condition of all the clearing house banks, of which there are at present fifty-nine—forty-two national banks and seventeen state banks. The returns for each bank are published, and from those returns a statement is made up of the condition of all the banks. This statement, however, is not of the condition of the banks at any one moment; it represents the average for the six preceding days of business. Sometimes, therefore, the statement taken by itself may be somewhat misleading. If, for example, large withdrawals of

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cash take place late in the week they will not be fully represented in the returns. Such a statement is spoken of as one based on falling averages. Similarly the return may be one based on rising averages, when loans have been largely reduced at the end of the week involving a consequent decrease in deposits, or when there has been a considerable inflow of money. The following is the return for the week ending July 26, 1902:

| | 000's omitted. | Difference from previous week. | |
|---|---|---|---|
| Capital | 100,072 | | — |
| Surplus | 114,387 | | — |
| Loans and Discounts | 913,294 | Increase | 9,957 |
| Circulation | 31,997 | ,, | 188 |
| Net Deposits | 952,097 | ,, | 11,404 |
| Specie | 174,136 | ,, | 967 |
| Legal Tenders | 79,390 | ,, | 1,676 |
| Reserve held | 253,526 | ,, | 2,644 |
| Required Reserve | 238,024 | ,, | 2,851 |
| Surplus Reserve | 15,602 | Decrease | 206 |

The changes of the week can be in part explained from the return itself and from other accessible data. The increase of $11,400,000 in deposits is in large degree the result of the increase of nearly $10,000,000 in loans, which are only slightly accounted for by the very small increase in circulation. The larger fluctuations in the deposit account are almost invariably due to similar fluctuations in loans and are a most striking illustration of the fact so often overlooked, that deposits are much more largely the result of credit advances than of money actually paid into banks. The further unexplained increase in deposits of rather more than $1,500,000 is more than accounted for by the increase of $2,600,000 in specie and legal tenders—a discrepancy perhaps due to the average system, or to changes in minor items such as stocks and bonds not included in the weekly statement. During the week in question the banks had received from the interior $8,300,000 and had shipped $4,500,000, these operations showing a net gain for the banks of $3,800,000. With the subtreasury the dealings of the week showed a net loss of $2,000,000, the result of both movements being a net gain for the banks of $1,800,000. The increase of the reserve was $8,000 in excess of this amount, a gain to be accounted for by the average system or by local movements of cash in the city itself. During this week gold exports amounted to $2,600,000, which was withdrawn from the treasury in exchange for legal tenders. In conclusion, it will be observed that although there was an increase

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in the actual reserve held, the surplus reserve on account of the large increase in deposits was somewhat less than on the previous week.

The conditions peculiar to the New York money market increase greatly the chances of wide fluctuations in the demand for cash incidental to every central reserve money market. Banks so situated must exercise great caution and their loans must be of an unusually liquid character lest the resources of the banks, however good in the long run, be so placed as to be unavailable. For banks so conditioned call loans are everywhere regarded as the most satisfactory form of investment. Call loans are chiefly of service in connection with operations on the stock and other exchanges. The existence of large funds which may be borrowed on call is a necessary prerequisite for such dealings, and the presence of such funds more than any other single factor gives New York increasing pre-eminence in the United States in that class of dealings. Not only do the growing bankers' deposits in New York provide an increasing fund for call loans, but a larger proportion of the business of the New York banks seems to be taking that direction. In part this seems due to changes in business methods. The integration of related occupations, which is a common feature of many of the more recent industrial combinations, reduces distinctly the demand for advances against commercial paper representing the sale of goods by one group of producers to another. Moreover, largely on account of improvements in transportation and of other means of communication, the period between the purchase of goods by retailers and their sale to consumers has been considerably shortened. Stocks of goods carried by dealers are smaller, and consequently the amount of credit advances in connection with such business has diminished. The following table of classified loans of the New York national banks brings out very clearly this tendency during recent years:

| | 1890. | 1896. | 1901. |
|---|---|---|---|
| On demand | $102,000,000 | $110,000,000 | $279,000,000 |
| On time secured by collateral | $43,000,000 | $69,000,000 | $129,000,000 |
| On time against commercial paper | $152,000,000 | $144,000,000 | $203,000,000 |

All classes of loans have increased, but those on commercial paper less rapidly than demand loans or time loans. Time loans represent in part advances in connection with stock exchange dealings, and very largely advances in connection with the formation and floatation of new companies. The rate for time loans

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is generally somewhat less than that on commercial paper, and such loans are consequently preferred for general business purposes.

In any market call loans are subject to very wide fluctuations on account of the nature of stock exchange dealings, in connection with which the demand for money varies greatly in amount and in degree of urgency. For reasons already pointed out rates for call loans might be expected to fluctuate more widely in New York than in other great markets. One cause of variation in the demand for call money present in London and continental cities is absent in New York. Settlements on the New York stock exchange are daily, not fortnightly, as is the rule elsewhere. Stocks are usually delivered and paid for on the day after their purchase. The day to day demand for loans will vary with the volume of each day's business, but there is no such accumulated demand from time to time as comes on other exchanges working under the system of fortnightly settlements. On the other hand, in New York the requirement for loans is more immediate, and failures sometimes occur from lack of time to make necessary arrangements to overcome difficult situations. In the call loan market rates are subject to wide fluctuations, for another reason quite apart from the particular nature of the banking organisation of the country. Speculation in the United States has, upon the whole, been more unrestrained than in other countries, in large measure a consequence of the rapid development of a new country, in which the possibility of sweeping changes and of large gains is much greater than in an older country where conditions change but slowly. The closest analogy to American conditions, which is found on European exchanges, is in investments in certain groups of foreign securities. Notable instances of unchecked speculation in such securities tend to show that with similar conditions like movements will result on any exchange. Movements, which in England are confined to a few classes of securities, have extended in the United States to very nearly the entire list. Moreover, until very recently the stocks and bonds bought and sold in the New York market have been without exception American securities. A few foreign securities are now regularly listed on the stock exchange, and their number seems likely to increase. This widening of the market may well be expected to have a steadying effect. Financial difficulties in New York have frequently been made more acute through the return of American securities held abroad, thus rendering more difficult attempts to check the export of gold. In the future

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unfavourable foreign exchanges may perhaps be reversed by the withdrawal of American capital invested in other countries.

Rates for time loans and for commercial paper do not seem to be subject to greater extremes than similar rates in other markets. It does indeed sometimes happen that the national banks greatly reduce their advances of time loans and particularly their discounts of commercial paper; the entrance of out of town banks into the market as purchasers of commercial paper is at such times not infrequent. When rates for such loans are high in New York, banks outside the city find it profitable to enter the market either because rates at home are low, or, as often happens, because there is no local market for all of their funds. It sometimes happens that the New York banks withdraw entirely from the market for such loans except for regular customers without any very great increase in rates, or serious diminution of advances for general business purposes.

The requirements of the market are also largely supplied by the trust companies whose powers of extending credit are unchecked by any legal restraints. The banking operations of the trust companies have of recent years come into general notice. Trust companies were originally formed for the purpose of administering trust funds and estates either under will or generally. The powers granted to them by their charters were wide, and placed no obstacles in the way of a general banking business. This business was entered upon at first probably as a mere convenience in connection with the business for which they were primarily organised. It was soon seen, however, that the trust companies had certain advantages over the banks in liberty of action owing to the absence of legal restrictions. Trust companies have accordingly been formed in many instances primarily and even exclusively for the purpose of engaging in banking, and banking has become an increasingly large part of the business of very nearly all of them. In New York in 1901 the trust companies had a total capital of $37,000,000, with surplus and undivided profits of $85,000,000, while the deposits subject to cheque amounted to $566,000,000, an amount nearly two-thirds that of the national banks.[1] It should be noted that a larger proportion of these deposits than in the national banks are to the credit of persons not engaged in active business and are rather in the nature of savings bank deposits. In a measure

[1] Some of the trust companies return both trust and general deposits together, and, accordingly, the amount given for deposits in the text is somewhat too large.

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also the loans of the trust companies are not in the field of the national banks. Mortgage investments form an important part of their dealings, as well as loans of a long time nature upon other securities. After all deductions have been made, however, there remains a large and increasing part of their business which competes directly with the banks. The total of loans on collateral and on personal security, including commercial paper, amounted in 1901 to $497,000,000. The reserve of the trust companies is, with few exceptions, entirely deposited with the national banks. In 1901, $89,000,000 was thus deposited, while cash on hand amounted to but $6,800,000, and of this some $6,000,000 was held by three companies, leaving all the other companies, with deposits of $482,000,000, but $745,000. The advisability of larger reserves actually held by trust companies has been at times discussed; but the general situation, the arguments in favour and the obstacles deferring action, closely resemble those affecting the London joint stock banks. If any action is taken it will come either through legislation designed to place the trust companies on the same footing as the banks, or from the banks themselves through the clearing-house.[1] By far the larger part of the loans of the trust companies are made against collateral securities. In the call loan market they compete constantly with the banks, and are said to take a larger proportion of the total of those loans than of time loans. Direct discounts of commercial paper are forbidden to them by law, but lending on such security is accomplished by direct purchases of commercial paper from note brokers. These purchases, always considerable, vary greatly in amount, rising when the resources of the national banks are fully absorbed in other directions. The transfer of loans from the banks to the trust companies is a common practice when the reserves of the banks are getting low, and then the weekly bank statement may show a heavy reduction in loans, and consequently in deposits, without involving any real reduction in the total of credit advances.[2] Transfers of loans are facilitated through the close relationship between individual trust companies and individual banks. Where, as often happens, the same names appear on the directorate of a bank and of a trust company there

[1] A rule has recently been proposed by the clearing house banks requiring a reserve of 5 per cent. from all trust companies; a reserve which will gradually be increased to 10 per cent.

[2] Weekly reports of the condition of the trust companies are made to the clearing house association, but they are not published.

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can be no doubt that both institutions work together with a common policy.[1]

Another feature of the New York market which in the last few years has become more prominent requires attention, although it is a matter on which no definite conclusion can be reached. The directors and chief owners of many of the more important banks are not primarily bankers. Their chief interests are in railroads and in the larger industries of the country—coal, iron, oil, copper, sugar and the like. Banks are important to them not as a source of profit from dividends, but as a convenience in carrying on their various outside dealings. In this respect there is a striking contrast with the London joint stock banks, the controlling influences in which seem to be much more exclusively purely banking influences. How far this difference really involves a difference in the nature of the business of the banks in the two cities, and in their relative strength and solidity, no one except those actively engaged in business in both cities can form a satisfactory judgment. From time to time more or less well authenticated rumours appear concerning arrangements favourable to various syndicate operations which might be regarded as undesirable judged by conservative financial standards. The most that can be said with certainty at present is that the financing of some large speculative enterprises is probably somewhat more easy in New York than in London.

In the absence of a central controlling reserve bank some unity of action among the banks has been brought about through the clearing house association. The clearing house is composed of the forty-two national banks, seventeen state banks and the United States sub-treasury. The other banks and the trust companies clear through some member bank. Aside from rules governing clearing house operations and the requirement of weekly reports of condition from all the banks, member and non-member, little has been done in the direction of common rules until recently, except in time of crisis. The rule mentioned above with reference to the reserve of trust companies and the system of uniform charges for collection of out of town cheques may be mentioned as recent instances of clearing house action.

No analysis of the New York market would be complete which failed to consider the mechanism which has been devised to meet the exigencies of a financial panic. All experience shows that the sole remedy in the midst of a crisis is the con-

[1] For an interesting article on the New York trust companies, see *Political Science Quarterly* for June, 1901.

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tinuance of advances by banks. In a central reserve system the necessity devolving upon the reserve bank to continue to lend is well understood and followed without exception. Where there is no central reserve bank acting also as the centre for the clearings of other banks, the situation is not so simply dealt with. If some banks continue to lend they must face the prospect of an unfavourable balance against them at the clearing house in favour of the banks which restrict their advances, and will day by day see their stores of cash diverted to the banks which are doing nothing to relieve the situation. In New York this difficulty has been completely met by the device of the clearing house loan certificate. On the security of stocks and bonds deposited at the clearing house, a bank receives certificates which it may use at the clearing house in case of an unfavourable balance. The bank which continues to lend loses no cash, and the banks which restrict advances do not thereby increase their stock of money. It ceases to be to the advantage of any bank to pursue the policy of *sauve qui peut*. Practically, for the time being, the reserves of all the banks are combined, and are now subject only to reduction through the actual withdrawal of money by individual customers or demands from other parts of the country. This device, resorted to in every emergency since 1860, has sometimes completely relieved the situation, and always has been of very great assistance even when the difficulties were too general and deeply rooted to be entirely overcome.[1]

The working of the New York money market was most strikingly illustrated during the last six months of 1902, a period of financial stringency, but not complicated with general economic disturbance. Business in almost every direction had been phenomenally active and prosperous for several years, and so continued during the six months under consideration. Throughout the country there was a great demand for capital which was naturally reflected in advancing loans and expanding credits, as shown by deposit accounts; while the reserve of banks everywhere was unusually close to legal requirements. In these circumstances the autumnal withdrawal of money from the New York banks might well have been expected to be unusually heavy and prolonged. Nevertheless, in that city no apparent efforts were made to husband resources and build up reserves. The demand for loans there was strong, not only for general com-

[1] For a detailed account of the issue of clearing house loan certificates at different times, see Dunbar, *Chapters on Banking*, Ch. VII.



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mercial purposes and stock exchange dealings, but also in connection with industrial and railway combinations. Few new arrangements of the latter kind were being entered upon, but a number of important "deals" had still to be carried to completion. It was well known, also, that a decided check had been experienced in the sale to the general public of the vast mass of securities which had been created during the previous three years. Underwriters were heavily burdened with these stocks, which they were carrying largely upon loans secured both in Europe and in the United States. American indebtedness in Europe, in the form of permanent investments, had certainly been greatly reduced through the sale to New York of American securities formerly held abroad; but the temporary indebtedness of New York bankers in London, Paris, and Berlin was of enormous proportions, being commonly estimated at about $300,000,000. Increasing imports and decreasing exports, the natural consequence of the high level of prices prevailing in the United States, had recently reduced by nearly one-third the favourable trade balance. In the autumn of 1901, instead of European gold imports, normal at that time of the year, $20,000,000 was exported; and even with the most favourable harvests there was little likelihood that more foreign bills would be created than would be required to pay for imports and a part of the temporary loans above mentioned. Increasing imports also involved large customs payments, which fall more directly upon the New York banks than do other government receipts. Between February and August the Treasury had absorbed nearly $30,000,000 from the ordinary channels of trade.

In these circumstances caution, if not absolutely necessary, was certainly to be desired. Nevertheless, during July and the first half of August, a speculative movement, unusually active for the time of year, took place on the stock exchange. Rates for call loans were not advanced, and the total loans of the clearing house banks increased, between June 28 and August 16, from $893,000,000 to $925,000,000; at the same time the surplus reserve above the 25 per cent. requirement fell from $13,000,000 to $7,000,000. Then at last began the inevitable reduction of loans, which by September 20 stood at $887,000,000. But meanwhile withdrawals of money had reduced the reserve to $220,000,000, a loss of $20,000,000 which turned the surplus reserve into a deficit of $1,642,000. In the course of the following week loans were further reduced by $12,000,000, with an almost equivalent decrease of deposit liabilities; which

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brought it about that, while actual reserve changed but little, a reserve surplus of $3,000,000 was secured. Rates for loans of all kinds had rapidly advanced. Commercial discounts at 6 per cent. were 1½ per cent. higher than in August, and were not easily procured. Except for regular customers, the New York banks were out of the market for commercial paper, and high rates continued to the end of the year. Nevertheless, we may conclude that discounts were not greatly contracted, since outside banks, at least in part, took the place of the New York banks, and since no important business failures occurred.

The effects of stringency were felt much more severely in connection with stock exchange dealings and by those engaged in company flotations. The reduction in the amount of both time and call loans was probably greater than in the amount of discounts, and certainly the advance in rates for this class of accommodation was greater and produced more definite results. The rate for sixty-day time loans moved upward from 4 per cent. early in August to 6 per cent. after the middle of September, with a commission of from ¼ to 1 per cent. added; and even at that figure were hard to get, since the banks were disinclined to lose control of money for long periods. Call loan rates showed the widest fluctuations, reaching 20 per cent. before the middle of September, then falling below 6 per cent., and rising to 35 per cent. before the end of the month.

The immediate effect of advancing rates in New York was to cause a fall in foreign exchange to about the specie importing point. Early in September $4,000 000 was engaged in Australia, arriving in October, and $4,500,000 was imported from Europe; but a considerable part of the latter was the result of a special transaction, and not an ordinary exchange movement. No further imports occurred, however, to the end of the year. On the contrary, rates of exchange soon moved in the opposite direction, and gold exports seemed almost certain to take place throughout the autumn, while further advances of money rates in New York appeared to render withdrawal more imminent. For a long time distrust of the general economic situation in the United States had been apparent in Europe. It was felt that too much floating capital had been locked up in connection with industrial and railway combinations, and the danger of a complete collapse in the value of securities was thought not improbable. When, therefore, the situation became acute in New York, and higher rates for money caused liquidation and a fall in the value of stocks, the maturing foreign loans were renewed with difficulty,



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and the payment of a part of them was required. Moderately high rates might in such circumstances prevent gold exports, but very high rates and general restriction of loans would have been almost certain to bring about gold exports upon a large scale. The market had, therefore, to extricate itself from its difficulties by the aid of domestic resources alone.

During September the Treasury had absorbed a further sum of $7,000,000, although several efforts had been made to get rid of its accumulations.[1] On September 29 call loans were at 35 per cent., and the liquidation in stocks threatened to assume unmanageable proportions. On that day, rather unexpectedly, the Secretary of the Treasury came to the assistance of the market. By a somewhat strained interpretation of the national banking law, two entirely novel expedients were authorised. Banks were not to be required, as hitherto, to carry a reserve against government deposits, which, it will be remembered, are specifically secured by the deposit of an equivalent amount of government bonds. Government deposits at this time amounted to about $130,000,000, of which $40,000,000 was in New York. This expedient was not looked upon with favour by the banks in New York. The clearing house did not rescind its own rule requiring a reserve of 25 per cent., and the only result was a separation in the bank statement of the two kinds of deposits. The substitution of certain state and municipal bonds as security for government deposits was also authorised. These bonds were to be taken at 65 per cent. of their par value, the remaining 35 per cent. to be still filled by government bonds. This substitution was to be allowed only on condition that the government bonds thus set free were to be used to take out further circulation. In the course of the autumn some $20,000,000 of state and municipal bonds were substituted, and about $13,000,000 of government bonds were thus secured as a basis for further note issue. This device was chiefly made use of by banks in leading cities, and, with other bonds, the circulation of bank notes was increased by $19,000,000 between September 15th and November 25th. In New York alone circulation was increased by about $10,000,000, chiefly during the last two weeks

[1] On September 13th, the prepayment of October interest, amounting to $4,500,000, was announced, and further deposits of government money in the banks were arranged, which restored to the banks a similar amount. On September 25th the prepayment of interest to July, 1903, at a discount of $\frac{2}{10}$ per cent. was announced, and on the following day the government offered to purchase 5 per cent. bonds of 1904 at 105, but this price was so unsatisfactory that only $25,000 was offered.

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of October.[1] The government bonds must be replaced before August, 1903, and since the banks are unlikely to purchase a further supply of bonds, some retirement of circulation will be brought about.

Neither of these expedients was received with general approval, not because they involved risk to the government but because they seemed to be possible only under what, to say the least, was a somewhat strained interpretation of the national banking law. Nor was the positive assistance thus given very great, except in its effect upon general sentiment. The opinion also found expression that the stringency was purely an affair of certain banks, private bankers, and speculators, and that government intervention was neither deserved nor required. Whether deserved or not, the indirect effects upon general business of a general stock market panic are sufficient to render any aid within legal limits proper from the point of view of public policy. The novel expedients of the Secretary of the Treasury, moreover, only deferred resort to the same method which had commonly been pursued under like circumstances by previous Secretaries—the purchase of government bonds.[2] During the first two weeks of October the reserves of the banks underwent little change, receipts from various sources serving to balance the continued outflow of money to the West and South. On October 17th the government announced its willingness to purchase its 5 per cent. bonds of 1925 at 137¾. A preliminary arrangement had been made with a syndicate of bankers and bond houses, which agreed to furnish a large block of bonds at this price, which was certainly favourable to the government. Bonds requiring the payment of $16,000,000 were at once received, and that amount of money was immediately transferred from the Treasury to the banks, the reserves of which during the week advanced from $221,000,000 to $238,000,000, and a week later stood at $244,000,000.[3] By means of the bond purchases, increase of bank notes, additions to government deposits, and imports of gold, the amount of money in circulation and in the banks, for the country as a whole, was at the end of October $60,000,000

[1] Early in the summer the Secretary had induced many large banks to make preliminary arrangements, such as printing and the like, so that circulation might be taken out quickly if once determined upon.

[2] Purchases had been discontinued early in the year on the ground that the price of bonds was being forced up, and that banks were withdrawing circulation in order to sell their bonds to the government.

[3] Between October 17th and November 8th, the period during which this offer was open, $22,800,000 was paid for $16,800,000 of bonds.

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greater than at the beginning of the month. At the same time, $25,000,000 had been added to the reserve of the New York banks, which now had a surplus reserve of $21,000,000. From the same causes the total of money in circulation was increased by $16,000,000 during the month of November, but the New York banks lost $15,000,000 through the continued movement of money away from that city. The outgo, in fact, continued to the close of the year, when reserves stood at $223,000,000. With the beginning of the new year a rapid return movement began, and on January 24th the reserve had advanced to $254,000,000. The prolongation of the crop movement period was in large part due to the widespread prosperity in agricultural sections of the country. Cotton and cereal growers are able to hold out for higher prices much longer than used to be the case. On the other hand, high prices during the autumn checked foreign purchases, and therefore the supply of bills of exchange drawn upon Europe was until December smaller than might have been reasonably expected. Early in that month $2,000,000 was sent to Argentina on English account, but later in the month exchange at length fell far below the export point.

One consequence of the new devices of the Secretary of the Treasury at the end of September was to greatly relieve the general situation, although the stock of money held by the banks was not increased. Rates for call loans fell to about 6 per cent. and liquidation on the stock exchange ceased. In fact, a new speculative movement was started by a group of speculators, a movement which sheds not a little light upon American financial conditions. Early in the summer this group of irresponsible speculators purchased control of a majority of the stock of the Louisville and Nashville Railroad, and an alarming situation confronted the more conservative interests controlling the two other important railway systems of the Southern States. The railroad was bought at a high price, and payment took place early in October. With this money an upward movement in stocks was started, to be, however, soon sternly checked by the banks, which at length had determined upon a more decided policy. Rates for loans were advanced, loans were restricted, and those which seemed designed for further speculation were refused. During the week ending October 18th, loans were reduced by $9,000,000 to $865,000,000, the lowest point of the year. The increase in reserve which followed the government purchase of bonds was followed in turn by a reduction of money rates to a point little

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above the normal level, but the amount of loans was not greatly increased, and there was no further upward movement in stocks to the end of the year. Liquidation in the stock market continued, and values of shares generally fell off until the end of November, though slowly and in such a manner as not to produce anything in the nature of a panic, and there were no failures of any general significance.

Early in December the possibility of another period of acute stringency was recognised. The withdrawal of gold for South America, already mentioned, was thought to be the possible beginning of heavy gold exports; money was still going to the interior of the country, and the close of the year was certain to lock up funds in connection with dividend payments. Rates for loans were again advanced, and further liquidation and depression of values seemed imminent. On December 13th a "money pool" was therefore formed, comprising most of the leading banks of the city. The most important firm of private bankers and seven of the national banks subscribed for $5,000,000 each; one bank for $2,500,000; two banks for $1,000,000; and several other banks for the remainder. The effect of the announcement of this arrangement was immediate, and no necessity arose to call upon the committee in charge of the pool for assistance. In some quarters the ability of the banks to lend this additional amount without a further supply of money was questioned. The effectiveness of such an arrangement becomes evident, however, when it is compared with the operation of the clearing house loan certificate. Each bank that came into the pool subscribed a sum roughly proportional to its ordinary call loan dealings. Had all of the $50,000,000 been borrowed, it would have raised by that amount the deposits of the banks, thus increasing the volume of cheques to be cleared, but not greatly altering the balances to be paid by the banks. The proportion of reserve to deposits would have been diminished, but in something like equal proportions among all the banks.

These occurrences in the New York money market make clear both its weakness and its strength. That a difficult situation was handled skilfully and adroitly is evident; but one cannot but feel that so much skill and adroitness ought not to be necessary. In fact those who were responsible sailed altogether too near the wind; no balancing of forces could have saved the situation had there been poor harvests of cotton and wheat. A decided absence of conservatism is evident, due in large part to

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the fact that most of the leading banks are not independent entities. They are inextricably drawn into arrangements for carrying through vast operations in which their directors are not only interested but the controlling factors. In these circumstances it is not unlikely that the periodic check to expansion of credit which comes every year through the withdrawal of money to the interior is of the greatest service. An elastic currency (note issue) is now generally advocated by bankers in order to prevent the recurrence of such difficulties each autumn. Had such a system prevailed, it is indeed possible that during the period just reviewed everything would have gone well, that credit advances would not have been contracted, and that all the various engagements entered upon both in the United States and in Europe would have been met without difficulty. On the other hand, the possibility is probably greater that optimistic forecasts would have been accompanied by the formation of further combinations and further expansion of credit, until speculation and advancing prices were ruthlessly cut down through the curtailment of foreign loans and the export of gold in large quantities.

The independent Treasury system of the United States, however, is clearly from every point of view an unmixed evil. The banks will never depend entirely upon themselves while millions of dollars are in the Treasury certain to be disbursed, according to some plan or other, if the general financial situation becomes critical. It is entirely unlikely that any Secretary of the Treasury will ever absolutely decline to return government money to the banks, whatever the cause of the difficulty may be. Just before an election he may take the initiative. Were government funds deposited entirely with the banks all the time, a more conservative policy would be adopted at once; and if it were not, it would be forced upon the banks after a single experience of the difficulties which would otherwise arise. Not only does the fiscal system of the government relieve the banks of the necessity of depending entirely upon themselves; but also it obscures the causes of monetary difficulties. The withdrawal of money by the Treasury during the first nine months of 1902 was the reason commonly advanced in explanation of the situation during the autumn months. The total of those withdrawals amounted to but $37,000,000, surely an insufficient cause for the later difficulties; and the amount returned to the market during October was far more than had been previously absorbed. Fundamental causes of weakness are thus obscured

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or but lightly touched upon, and the necessity for a change in the policy of the banks is not clearly seen. Evils due to existing banking law are alone recognised, and improvement through banking legislation is given too exclusive attention, both by bankers and the general public.

O. M. W. SPRAGUE

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