

**STATEMENT OF JAMES H. ECKELS. THE  
COMMITTEE ON BANKING AND CURRENCY,  
HOUSE OF REPRESENTATIVES, ON THE  
EXISTING  
FINANCIAL AND BANKING SITUATION AND  
THE PROPOSED REMEDIES, JANUARY 28,  
FEBRUARY 1, 2, 8, AND 18, 1897, PP. 232-435**

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**COMMITTEE ON BANKING AND CURRENCY,**  
*Washington, D. C., Thursday, January 28, 1897.*

The committee met at 10.30 a. m.

Members present: The chairman (Mr. Walker), and Messrs. Brosius, Johnson, Van Voorhis, McCleary, Fowler, Lefever, Spalding, Calderhead, Hill, Cooke, Cox, Stallings, Black, Newlands, and Hendrick.

The CHAIRMAN. Gentleman of the committee, we are to hear to-day Mr. James H. Eckels, Comptroller of the Currency.

The Comptroller of the Currency appeared before the committee in response to the following resolution:

[Extract from the Record of the meeting of the Committee on Banking and Currency, December 9, 1896.]

Mr. Brosius offered the following resolution, which was unanimously agreed to:

*Resolved*, That all general bills [H. R. 171, 1896, 6442, 7085, and 7247] now before the committee contemplating a revision of the banking and currency system be submitted to the Comptroller of the Currency, with the request that he analyze the same in writing and come before this committee and state the effect of each bill if enacted into law, and also that he formulate and submit to this committee his views of a proper measure for the revision of the financial and banking system of the country.

**STATEMENT OF HON. JAMES H. ECKELS, COMPTROLLER OF THE CURRENCY.**

Mr. Eckels addressed the committee as follows:

MR. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE: I am not sure I can be of much practical benefit to the committee at this time. The committee were good enough to extend an invitation to me to come before you to present such views as I entertain upon the subject of banking and currency, and wishing to cooperate with you in arriving at such conclusions as will remedy patent defects in the existing banking and currency laws of the country, I accepted it, and am present to discuss such questions as it is deemed best to inquire into.

There have been sent to me by the chairman a number of bills which were prepared and presented by different members of the committee, and which, I believe, have been discussed by the authors of them at greater or less length. The accompanying communication requested me to analyze the same and state to the committee what I deemed would be the effect of these bills if enacted into law. The task imposed is rather a difficult one, and I have not undertaken it except in a general way. I have not reduced my views to writing, and therefore do not wish that which I say to be considered in the nature of a set argument. My purpose is to talk on the general subject in a very conversational way.

I am sure everyone will agree that there is something wrong in the financial condition of the country, and that it ought to be remedied. The difficulty arises not so much in knowing what the causes are, but in agreeing as to the remedying of the financial laws of which the people complain.

#### LONG-CONTINUED FINANCIAL DEPRESSION.

The long-continued financial depression under which the country has rested and the general ill condition of both our own trade and commercial relations have been the means of attracting more attention to the lack of proper finance laws than would otherwise have followed. I think it not unlikely the general public charge more to the lack of proper financial measures as a cause of hard times than should attach to such cause. My own belief is that a great many causes have contributed to produce the conditions which have characterized the business world throughout the last few years. I think a great deal of business loss and depression has been brought about by overtrading and a great deal by unwise speculation. So, too, a great deal has resulted from an undue extension of credit, and still more by unusual and unnecessary extravagance in public and private expenditure. A careful examination will show that there has been on the part of the public a living beyond the public income, and on the part of the individual a similar disregard of the first essential to prosperity. In addition to all of these sources of commercial and industrial weakness the country has passed through an unusual number of far-reaching agitations of domestic and foreign questions, all tending to disturb, unsettle, and retard business undertakings.

#### LEGISLATION NEEDED.

However, all these things in and of themselves would not have produced the results now seen had they not been brought to a climax by both bad financial legislation and a want of good financial legislation. It therefore seems to me, as a step toward placing the country in a proper condition, there ought to be enacted such legislation as will completely relieve the Treasury's currency difficulties and give the people a banking law that will, as nearly as possible, furnish all sections of the country with proper banking facilities, both as to deposits and discounts and bank-note issues.

#### VOLUME OF CURRENCY NOT THE QUESTION.

Throughout the whole discussion of this question, both in the press and in public, and, with all due deference to Congress, in Congress as well, it seems to me there has been more importance attached to the mere matter of the volume of the circulating medium of the country

than to some other things which are quite, if not more, essential to a right solution than volume. There may possibly have been a time in the country when the volume of the circulation was the most important factor to consider, but I think that period has passed. It is a great mistake to take the position that it is essential to financial prosperity that in any particular country or in any particular financial center there should always be a large volume of money. The modern methods of transportation and the improved methods of banking exchanges have largely solved that question. It is now of a great deal less importance in this country, for instance, whether there is always here a large volume of money than it is that here is maintained the very highest credit, national, corporate, and individual. If we have credit and hold out investments which offer inducements to those who have capital to invest, it is immaterial whether loanable capital is immediately in this country or elsewhere. It will always seek the place where the returns on the investments promise to be the best for the lender.

#### ESTABLISH NATIONAL CREDIT.

The first essential to placing the people of this country upon a safe business basis is to so establish the national credit that it will cease to be a matter of discussion either here or elsewhere. It ought to be rid of everything which raises the question as to whether or no the country will at all times and under all circumstances maintain it. The simple fact that there has been a continual discussion for the past four years of the ability of the United States to maintain the credit of the country and redeem its demand obligations in gold has alone been a great source of financial embarrassment to the people. The agitation of it worked harm to them abroad and, through a reflex action, at home. I am thus certain that the important act is to take the step that will obviate any further discussion upon the question of the maintenance here of national credit. Ultimately, if not immediately, I think the solution of the question of money, standards, and volume of circulation in this country will come through an economically sound banking bill.

#### BILLS BEFORE THE COMMITTEE.

The bills which have been presented, with a single exception—the one presented by Mr. Brosius—all tend to the same thing, in recognizing, as the predominating evil in our financial system and a source of immediate weakness, the demand obligations of the Government. The bill prepared by the chairman of the committee recognizes that fact; the bill which was prepared by Mr. Fowler recognizes that fact; the bill prepared by Mr. Hill recognizes that fact, and the bill prepared by Mr. Cox does also. The bill prepared by Mr. Brosius as an amendment to the present law not only takes the position that these demand obligations are not an evil, but distinctly provides that nothing in his bill shall in any wise repeal or set aside the provisions of the present law which provide that the demand obligations of the Government shall not be canceled and retired, and makes compulsory their reissue by the Secretary of the Treasury. While these bills recognize this fact, they all differ upon the point of how the Government shall be rid of these obligations.

#### THE SOURCE OF OUR FINANCIAL TROUBLE.

I am confident that the greatest source of the financial difficulty in the Treasury arises from the recurring current redemption of the demand obligations of the Government. My own opinion in this regard is



emphasized by the provisions of these various bills which I have enumerated. If it was put to any one of the authors of these measures, I do not believe there is one of them, except Mr. Brosius, whose views, judging from his bill, are very decidedly the other way, but would say that the best thing to do, if it could be done without too great expense, would be the funding through a bond issue of these demand obligations. In this way the payment and cancellation of them could be had and the Government be put in a position where it would not be necessary for it, at great cost and worry, to maintain against them a gold reserve for their current redemption. But while all seem to agree that such course would be the best to pursue, there is apparently a difference of opinion as to whether it is at this time the most practical thing to do.

I am very free to say that my own judgment is that the practical thing in a matter affecting the public interest is always the best thing, and the best thing is always the practical thing. There may be, however, in this instance, some very good reasons known to those who take such view why, if the desired thing is to be accomplished in the end, the most direct way is not the best.

#### PROTESTS AGAINST RETIREMENT OF GREENBACKS.

I am aware that there is much protest and many objections urged against the refunding and cancellation of the Government's demand obligations, even on the part of those who believe they cause more or less loss. The main objection on the part of those who believe in the retirement of them, but not in funding them through an issue of bonds, is that the public would protest against the plan and the requisite legislation could not be passed. The error of the general public arises in the first instance from looking upon a legal tender demand obligation of the Government as a noninterest-bearing debt, and in the second because of a belief that their funding would tend to contract the country's volume of currency. It is not a noninterest-bearing debt, but instead is the most expensive debt the Government has to do with. As a direct money proposition the keeping idle and out-of the channels of trade of a large sum of gold as a necessary reserve, with the consequent loss of interest on it, is one item of continued expense, while the interest upon and ultimate payment of the bonds to maintain the current redemption of the legal-tender obligations is a still larger item of cost to the people. Added to these things is the patent fact that these demand obligations are always, in a time of financial depression, a source of weakness not only to the Government but to every business interest, thus making them immeasurably a greater burden than a bonded indebtedness for a definite amount and limited as to payment to a definite period of time.

#### WOULD NOT CAUSE CONTRACTION.

Turning to the suggested dangers of a contraction of the currency the assumption that such a result to a harmful extent would follow is erroneous. I do not believe that a contraction of the currency beyond that which is healthful is possible in this country, if this country's credit is unquestioned and unquestionable. I do not believe, if the legal tenders were retired gradually—you can not retire them all at one time, and I do not think anybody ever contemplated that they should be—any contraction in the volume of our circulating medium would follow more than was needful to business interests.

If the plan which was entered on by Secretary McCulloch, under an act of Congress, had been continued to the end, the country would not have suffered from half the financial difficulties it has. There would also have been less financial heresies taught upon the subject of a Government-created money.

If these obligations should now be retired gradually, whether by funding or otherwise, it would be found wherever money was needed that either the banks would supply the necessary currency or else gold would come from other places where it was not needed to fill up any vacuum here.

The practical truth in currency matters is that there never is a vacuum permitted to exist which ought to be filled, and where reasons exist why it ought to be filled, but that it is immediately filled. The needed amount for this purpose comes from places where there is too much money to be profitably employed.

#### DANGER OF THE PRESENT SYSTEM.

If the legal tenders were retired, with the country possessed of a proper banking bill, whatever deficiency was created or increase in the circulation was needed would come through the banks, or else gold would come here from other countries. At present the business interests of the country do not suffer half as much in actual money loss from the present banking system as they do from the compulsory maintenance of the demand obligations of the Government, which are currently redeemed and which are never retired. It must be evident to any man of practical business experience on this committee that he would find himself financially embarrassed at the end of a reasonable period of time if he undertook to always keep out his own notes to a larger amount than it seemed he could redeem, and whenever he would pay one would reissue it again, whether or not it was necessary to so do. He would some time come up against a settling day which would break him.

This is just the case with the policy the Government is trying to make successful. It has recently been near a settling day, and only by a narrow margin escaped disaster. I hardly think it will be as fortunate again. It certainly ought not to run the risk with the attendant consequences that would fall upon all interests in case of failure overtaking it. If, as I have stated, the evil through which our financial system entails the greatest loss is these demand obligations, there will not come from a revision of the present banking system a practical, substantial benefit to the people unless it is provided in some way to get rid of them.

#### BANKS SHOULD ASSUME REDEMPTION OF NOTES.

A prominent feature, as I have said, in all of these different bills, is a provision to this end, and I think it may be said, so far as those who have introduced the bills with such provision are concerned, they recognize that the largest benefit to be obtained in a new banking law is to get the Government out of the business of issuing credit currency and bestow such power entirely upon the banks, making the banks maintain not only the current but the permanent redemption of their notes in gold. I think the banks are fully able to do this.

Mr. JOHNSON. I would like to have you amplify that—that the banks will be fully capable of sustaining the burden.

## BANKING BEFORE THE WAR.

Mr. ECKELS. Up until the time of the war the banks of the country, which were not then either as strong in their financial condition or as well equipped in facilities of exchange and methods of transportation, wherever properly and honestly conducted upon safe banking principles and not as speculative enterprises, maintained not only the current and ultimate redemption of the notes which they issued, but were strong enough in their gold holdings to furnish all the gold that was needed for domestic trade and to settle international balances. They not only did this up to the time of the breaking out of the war, but for some time thereafter. Again, after the resumption of the specie payments they continued to maintain themselves strong enough in their gold holdings to furnish all the gold needed for all business purposes, but in addition so supplied it to those wishing it for any purpose that the demand obligations of the Government were not presented for current redemption.

Mr. HILL. And as a matter of fact we were more dependent upon foreign nations at that time than now?

Mr. ECKELS. Yes; very much more dependent.

The CHAIRMAN. At that point, if you want a suggestion as to the fact—

Mr. ECKELS. I would be very glad, Mr. Chairman, at any time to have any suggestion any member of the committee may desire to make.

## THE SUFFOLK SYSTEM.

The CHAIRMAN. In New England, under the Suffolk system, which is generally conceded to be the best banking system on the whole we had in this country before the war, the total specie held in those banks for circulation in New England was 13½ per cent, and that would amount on \$800,000,000 of circulation to \$108,000,000. Their specie for loans and discounts was 3.9 per cent, and that, on the \$4,000,000,000 of discounts, \$1,800,000,000 of national-bank loans and discounts and \$2,200,000,000 of State bank loans and discounts, would amount to \$158,000,000. I think we now have of visible gold \$315,000,000. I thought I would give those figures.

Mr. ECKELS. Thank you. So the only thing to judge by, as to what can be done, is that which the history of the country shows has been done. There is the fact that before the war, under the then existing State banking systems, properly conducted institutions redeemed their notes in gold, and were always furnished the gold necessary for the business interests of the country. Of course there were a great many institutions which were wholly fraudulent, and there were great losses to note holders, but that was because of the bad banking laws and the reckless and dishonest manner in which the individual banks which failed to redeem their notes in gold were conducted.

Mr. CALDERHEAD. The Government obligations were at a discount the most of the time for several years before the war.

Mr. ECKELS. I do not think the Government ever had any such obligations out before the war except in the shape of a comparatively small amount of Treasury notes during a period shortly after the war of 1812.

The CHAIRMAN. How long were those out?