THE PROBLEMS OF FINANCE

DISCUSSIONS OF THE BANKERS' ASSOCIATION AT SARATOGA.

OPENING ADDRESS OF THE PRESIDENT—THE BENEFITS DERIVED FROM RESUMPTION—SUGGESTIONS AS TO NEW LEGISLATION—SEVERAL PAPERS READ BY PROMINENT BANKERS.

SARATOGA, Aug. 11.—The American Bankers' Association met at 11 o'clock this morning, in the Town Hall, and was called to order by Mr. J. D. Vermilye, of New-York. He introduced the President, Mr. Alexander Mitchell, of Milwaukee, who made the opening address, congratulating the members of the convention on the change in the financial condition of the country which has taken place during the past two years. Then the problem of a return to specie payments pressed for a solution, which all awaited with anxiety, and some with apprehension. Now, the fact of resumption awakens only surprise at the ease with which it was accomplished, and the entire absence of all those difficulties and disasters predicted as likely to accompany and to follow it. Beyond a doubt the success of resumption was largely, if not entirely, due to the cordial and organized effort and co-operation of the banks and bankers of the United States; and thus, one of the great objects of this association had been happily achieved. Resumption has only been tested under the most favorable circumstances. It was preceded by a long and elaborate preparation. Over-trading had been checked by the enhancement in value which the currency had undergone in anticipation of the day fixed for resumption. The balance of our foreign trade was in our favor; the prosecution of works on public improvements had been partially suspended, and trade and commerce had been placed on a footing of prudence and economy. Since that time the country, as if relieved from a burden of suspense, has entered on a career of unexampled business prosperity. Large crops, and high prices abroad, have furnished the stimulus to a vast trade, to the wants of which the volume of the currency has been found adequate. In this country one extreme follows another; periods of depression follow periods of prosperity with the certainty almost, if not with the regularity, of the seasons. Such a period of depression may now be looked for at any time in the future, when an extensive failure of the crops shall concur with a season of over-trading and extravagance in enterprise and expenditure. It is, therefore, a matter of the most serious importance what effect such a depression would have on the present apparent stability and equilibrium of our banking system. What checks, what safeguards does that system furnish to avert disaster? What action will the Government take—what action can it take—to protect the business community from the effects of a general money panic? Under the old system it was the practice of the banks to watch the approach of the storm and control their discounts. In their efforts to strengthen their condition, the legitimate wants of customers are, from a supposed necessity, apt to be disregarded, thus intensifying financial disasters, disorder, and panic. In England a different practice has prevailed. The financial condition is noted as if by a very sensitive barometer, which, acting automatically, applies a remedy for the disorder it has discovered. An advance of the rate of interest by the Bank of England by one, two, or more steps, according to the gravity of the case, checks over-trading, stops effectually the drain of specie from the country, and operates as a safeguard against any sudden panic or considerable commercial revulsion. Here, on the other hand, the rate of interest is limited by usury laws of more or less severity. The remedy of raising the rate of interest to meet the emergency of a threatened panic, even if a combination of the bankers of the country were practicable, would be impossible, except within certain narrow limits, by the obstacle of those laws. And without now expressing an opinion on the wisdom of the Government engaging in the business of banking, so far as to issue notes for circulation, it may well be questioned whether there be lodged in the Federal Government any power to prevent a financial crisis, or whether any action it might or could take would be more efficient than that of the banks in mitigating the disasters of such an emergency. And another very important problem presents itself, which may be found equally difficult of solution, growing out of the continuous coinage of silver under the existing laws. As long as no special effort shall be made to force this silver into circulation, its existence will affect chiefly the Government Treasury to which it belongs, and to which it apparently sustains the relation, substantially, of silver bullion. But, whenever by failure of the crops, or other exigencies of our foreign trade, balances must be remitted to Europe, gold alone will subserve the purpose. Doubtless, any considerable drain of gold will throw this silver into circulation. Paper money will then fall to the rank of silver, and our entire circulation will be depreciated to the value of the silver dollar.

The Government tax on deposits, continued Mr. Mitchell, is so illogical in its conception and unjust in its operation as to claim the most earnest attention of the association. The profits of a bank are derived from the use of capital, and anything which adds to the expenses of its operation tends to reduce its profits, and calls for a corresponding increase in the rate of discount to meet the deficiency. It is a plain proposition, that every burden imposed on capital enhances the charge for its use, and thus the taxes, whether State or national, to which the banks of this country are subjected enter directly into the question of the rate of interest to be exacted for loans and discounts. Just as the people at large make up in higher prices for a shortage of the grain crops caused by drought or the ravages of insects, just as consumers pay any excessive foreign or inland freight on goods delivered at their doors, so customers of a bank must pay its excessive taxation. That this tax is double in its operation, being assessed on the same paper in the hands of each banker through which it may pass in the ordinary course of business, does not require illustration. Its benefits are all centred in the national Treasury; its injuries are as wide-spread as the national commerce and public enterprise and industry. But notwithstanding the unanswerable arguments that have been advanced against it, and although the great necessities of the Government which first led the national Congress to impose it, have long since passed away, the tax still continues. It stands, one of the few remaining mementoes of a class of taxes which, for several years, bore with crushing weight on the industrial and commercial interests of the country. Every passing year adds to the prosperity of our national finances, and brings more and more into relief the gross injustice of this tax.

EXECUTIVE REPORTS.

The report of the Executive Council states that the expedients suggested at the last convention, with a view to an increase in membership and usefulness, had been put in operation, and resulted in an increase of membership by 222. The number of circulars, pamphlets, and newspapers circulated during the year was 175,482. There have been 155 deaths of bankers and bank officers during the year, among them being Thomas W. Olcott, the oldest banker in the United States at the time of his death. In reviewing the work of the year it is found that the spirit of cordiality and union has been gathering strength, and that the 6,000 banks and bankers of the country are gradually uniting for carrying on a common work for their mutual benefit.

The Treasurer's report of the Bankers' Association showed the total receipts of the year to be $14,857, and the expenditures $11,868.

BANKING AND KEARNEYISM IN CALIFORNIA.

Mr. George R. Gibson, of California, spoke of the effect of Kearneyism and the new Constitution, and upon the industrial condition and resources of the State. The advent of the Chinaman, bringing industrious habits and tireless energy, and requiring moderate compensation, made his services efficient and profitable. A reaction from prosperity brought competition between Chinese and white labor, and the so-called "working men's movement." The new Constitution, into which this movement crystallized, is essentially and radically bad, making common warfare on Chinese labor and corporate capital. In enacting laws to enforce this Constitution, the most stupid one adopted by the Legislature was that taxing depositors in savings banks for their deposits at the same time that the entire volume of deposits were assessed to the bank. Unless evaded, this double taxation will prove utterly destructive to savings banks in California. National banks have never met with great popular favor, because State and private banks more readily conformed to the business peculiarities of the coast, and partly because the people preferred coin to bank currency—a prejudice now almost extinct. Nine banks were established under the National Gold Bank act of 1870, one of which went into liquidation, five continue, and three have been converted into national currency banks. The number of failures in California was in 1880—first half—just half in number of those in the corresponding period of last year. Oppressive taxation has compelled the Banks of Nevada and California to reduce their capitals each to $3,000,000. The new Constitution has been instrumental in destroying confidence and producing temporary business stagnation in a State of more varied resources than any other in the Union, but foreign capital operating there enjoys an immunity from its worst features, and this explains the organization under Eastern laws of corporations doing business in that State. The Comstock lode, which first attracted attention 20 years ago, has produced $300,000,000, but the operations there are carried on at a monthly expense of $1,000,000, the outgo being greater than the income. This fact aided Kearneyism in producing the general business depression which exists on the Pacific coast. The vision of a bonanza inoculated all classes with the mania for gambling in silver-shares, to the neglect of the safe and profitable, but less glittering, opportunities in the gold fields. Both as producers and exporters of silver, the Pacific States are as deeply interested in silver legislation in New-England is in the Tariff laws. The almost universal legislative crusade against silver would have been far more injurious to that region had not Congress, in 1878, provided for the "trade dollar." It is the opinion in the best-informed circles that the mere fact of converting silver into this convenient and acceptable form upon payment to the Government by its owners of the expense of coinage, appreciated the value of all the silver bullion produced on that coast fully 2 per cent. The statute creating the standard dollar abrogated the law providing for the trade coin; but the new dollar is fictitious in value, and can never be exported. It is coined on Government account, and at present quotations of 52¾d. per ounce, is worth only 89.4 cents on the dollar. Mr. Gibson suggests export to China and India as a way of affording an outlet for our surplus of silver. If it be said in defense of the trade dollar that it would be injected into home circulation, the profit, after paying seignorage, of the difference between its bullion and nominal value, improperly accruing to private parties, instead of to the Government, the objection can be removed by legislation. It is only necessary to provide that depositors of bullion for such coinage shall accept trade-dollar warrants, the coin itself being deliverable only into the hands of a Custom-house officer, for export, as directed by holders of warrants. Being designed solely for foreign use, the only purpose for which these trade dollars could properly be imported would be for remelting or sale to the Government as bullion. Thus, to prevent their importation for use in home circulation, it should be provided that they can only be withdrawn from bonded warehouse for delivery into the hands of a mint officer, to be sold to the Government, or converted into bar silver and proceeds returned to the owner. With these legislative restrictions, the mint might safely be opened to a trade coinage which would accommodate itself to the export demand.

THE NATIONAL BANKING LAW.

The Hon. Edward A. Sowles, of St. Albans, Vt., made a brief address upon the National Banking law. He was of opinion that some legislation was required to cure defects in its administration and to insure its continuance. If a bank which had been a long time in existance, when its charter was about to expire, could reorganize under its existing name and succeed to all the rights of the old bank, and have its new departure date from the period of its reorganization, and then have a succession for 20 years after that, he thought the National Banking law should be so amended as to make that power clear. Whether this could or could not be done, was of vital interest to every National Bank in the United States. The rights of shareholders were not sufficiently defined in the law as it now existed, though he thought a judicial construction might cure that defect. The law declaring that no shareholder whose liability was past due and unpaid should be allowed to vote, might be construed so as to exclude a shareholder from voting who owned a majority of the shares in a national bank, who was at that time surety, guarantor, or indorser on a fifty-dollar note owned by the association, and past due and unpaid at the time of the annual meeting. This raised the question of the power of Judges of Election under the National Bank act. These Judges now had arbitrary power. They might entirely disfranchise a shareholder owning every share of stock in a national bank of $1,000,000. He could not appeal to the Controller or maintain legal proceedings, because the highest court of Connecticut had decided that no court in this country had any legal jurisdiction. The various sections of the act authorizing actions, suits, and proceedings failed to confer power upon individual shareholders or officers, or persons claiming the offices or franchises of any bank organized under the act. In regard to the taxing of banks, Mr. Sowles claimed that the Legislatures of the various States made unequal discrimination. Customers as well as banks suffered in this respect, and the evil should be remedied as soon as possible.

INTEREST ON DEPOSITS.

Mr. U. B. Van Slyke, of Wisconsin, claimed that banks should not, and need not, be borrowers of their own customers, and he thought it would be found true, as a rule, that the increase of deposits at even a low rate, would not be sufficient to pay interest on accounts. The interest paid on deposits, he thought, would be found to be an unwarranted rate upon the proportion of increased deposits when offered as an inducement to depositors. Interest on deposits should be gradually reduced and finally abolished. Intelligent customers had more confidence in non-borrowing bankers. He deprecated the system of small drafts which was now in vogue, as it induced laxity on the part of debtors who drew them, there being no penalty or dishonor attaching if they were unpaid. There was a risk in receiving collections, with the only evidence or authority for not protesting being the pinned-on slip.

BANKING IN PENNSYLVANIA.

The Hon. Hugh Young, of Pennsylvania, speaking on the subject of banking in Pennsylvania, said there were in that Commonwealth 607 banks, with an aggregate capital of $71,000,000, and $187,000,000 of deposits. Of this number, 235 were national banks, with a capital of $55,000,000, and deposits amounting to $100,000,000. There were 372 State, private, and savings banks, with an aggregate capital of $16,000,000, and deposits amounting to $87,000,000. These banks annually pay to the National Government taxes amounting to $1,500,000, while the State and municipal taxes amounted to $500,000 more. He thought the frequent publication of statements of the condition of banks was the best restraint that could be devised to prevent loose and careless business methods. He advocated the reduction of the taxes on bank stock.

THE BANKS OF WISCONSIN.

Mr. John Johnston, of Milwaukee, gave an exhaustive history of banks and banking in Wisconsin from the time the Bank of Wisconsin was chartered, in 1835, by the Legislature of the Territory of Wisconsin, to the present day. With the crisis of 1837 a mighty wave of migration set westward, and many of the new-comers reached Wisconsin, and among those who came were Mr. George Smith and Mr. Alexander Mitchell, the President of this convention. These men encountered difficulties and hostilities, but established successful institutions and good names. By the Constitution of 1848, the people were called upon to vote "banks or no banks," and decided in favor of banks, so that, in 1852, a general banking law was passed by the Legislature, resembling the free banking law of New-York. All the banks of Wisconsin were badly shaken by the rebellion, more than one-half of the 4,000,000 of Wisconsin bank circulation being secured by bonds of the Middle and Southern States. The Legislature instructed the Bank Controller to take no proceedings against banks which failed to redeem their circulation, and passed a law forbidding notaries to protest the notes of banks till Dec. 1, 1861. The State issued bonds for $800,000 for war purposes, and through excellent management, on Dec. 1, 1861, every bank had its notes well secured, and stood ready to redeem them in coin, and continued so until the National Government authorized the suspension of specie payments. Not one of the Wisconsin bank-notes ever got so far below par in coin as did the greenbacks a year or two later. Of the 140 banks in Wisconsin to-day not more than 40 have any circulation. The general development of banking in Wisconsin is best indicated by a comparison of deposits and loans and discounts in 1856 and 1880 respectively. In 1856 the deposits were $4,965,567; in 1880, $28,131,642. The loans and discounts in 1856 were $5,058,613; in 1880, $20,895,227. The deposits per head in 1856 were $8 82; in 1880, $20. The loans per head in 1856 were $8 47; in 1880, $14 91. The deposits have grown in the last year from $21,000,000 to $28,000,000, and Mr. Johnston thinks that this money will be withdrawn for more lucrative investment.

GRANGERS AND GREENBACKS.

W. S. George, of Michigan, read a paper on "Grangers and Greenbacks," in which he said that the Grangers' influence was not inimical to banks, and very few of them were ever found opposing well-managed banks. Their main object is to educate farmers' sons and daughters to their business and to get good crops and the pay for them. They demanded low freights of railroads for the benefit of their crops. Many bankers are high officers in granges. The Greenbackers are speculators who would give notes at banks and want them continually renewed. They demand that the Government should make fiat money to cancel them. He had met Greenbackers on the stump, and could generally convince all reasonable ones. He compared fiat money to a man who would give his daughter's portrait to her husband in place of his daughter's person.

The election of officers was postponed and a committee appointed to nominate them. Adjourned.

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