

**A PROTEST AGAINST THE FITY-
YEAR EXPERIMENT IN MIXING
POLITICS WITH FINANCE.
SEPARATE RESERVE
ASSOCIATIONS**

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A protest against the fifty-year experiment in mixing politics with finance. Separate reserve associations by J. Howard Cowperthwait

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**A PROTEST AGAINST THE FITY-
YEAR EXPERIMENT IN MIXING
POLITICS WITH FINANCE.
SEPARATE
RESERVE ASSOCIATIONS**

Revised Edition

A Protest against
The Fifty-Year Experiment in
Mixing Politics with Finance
Proposed by the Aldrich Monetary Commission

SEPARATE RESERVE ASSOCIATIONS

Non-Political, Preventive of Financial Panics
Suitable to all American Conditions

BY
J. HOWARD COWPERTHWAIT
Author of
Money, Silver and Finance
(1892-1896)

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SEPARATE RESERVE ASSOCIATIONS.

The very valuable library of financial works written at the instance of the National Monetary Commission shows that we need financial reform but does not show the way to get it. The Aldrich Plan is not a necessary outcome of the investigation. For instance, the argument of the experts is in favor of a concentration of banking reserves but the degree of concentration is a matter for further and more careful consideration. A **single** reserve centre suits England, suits France, suits Germany; but it does not follow, therefore, that a **single** reserve centre would suit the United States with its great variety of interests and its vast area, about twenty-five times as large as that of England and about seventeen times as large as that of France or Germany. In our case something may be said in favor of the **diffusion** as well as in favor of the **concentration** of reserves. The author claims that the proper degree of either is to be found in **Separate Reserve Associations**, as distinct from the one association, with branches, suggested by ex-Senator Aldrich and accepted by the Monetary Commission. The Aldrich verdict does not appear to be in accord with the testimony as to degree of concentration or of diffusion of reserves. And the political features of the Senator's plan are without any expert backing and must be taken only as his own creation. This gives us the right to look into these features for a new form of Aldrichism. If the old combination of politics and tariff-schedules might possibly be succeeded by a new combination of politics and finance the public should reject the Aldrich Plan, no matter what its good points may be. The political dangers involved in the Aldrich Plan will be treated after we have closely studied the financial problem itself.

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The author of this pamphlet had the honor of appearing before the Banking and Currency Committee of the House of Representatives, on February 4, 1908, in advocacy of the enlargement of the duties and privileges of clearing house associations and of a plan for depending upon them to give us general financial reform. As clearing house associations had always gotten the country out of financial difficulties, it would seem natural to suppose that they could keep the country out of such difficulties if given the legal right to do so. In the light of further study and reflection, assisted by the publications of the National Monetary Commission, particularly those regarding English finance and all European open discount markets, this present plan has been evolved and is now offered but with no thought that it may not easily be improved or that important errors may not be pointed out. There may still be room in the American Cemetery for Financial Plans but the plan to outlive the others must, in the opinion of this author, grow out of the American clearing house system and without politics being grafted upon it. Critics may say that a better plan would have been offered if French, German and other experiences in central banking, had been as fully drawn upon as English experiences, but a fair answer would seem to be that those other experiences might prove to be misfits when brought to America: the French, because a large portion of French business is done with money rather than checks, French bankers not yet drawing all the little hoards of money into their tills; the German, because we could not tolerate in America the meddlesomeness of the officials which people are used to in Germany; and the financial experience in still other countries than England is unimportant because of every other country's lack of a

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vast internal and external trade. English finance, on the contrary, on account of its extreme fineness of development and because it has proved suitable to a people used to a great volume of trade and who care as much for individual liberty of action as we ourselves care, may well be drawn upon for our guidance, yet with the fullest recognition that American business, American politics and American life have their own distinctive characteristics and to which American finance must conform.

As monetary panics do not occur abroad where there are central banks to provide new money and new credit, and where there are open discount markets for the sale and resale of commercial and financial paper, it would seem to be evident that no statement of our financial problem could be complete without specifications of our lack of a supply of new money and new credit in time of need, and also our lack of open discount markets for financial and commercial paper at all times, and that any good plan of financial reform must give due consideration to the need of establishing open and broad discount markets as well as to the building and filling of reservoirs of new money and new credit. Perhaps, however, we are reasoning too fast as to the **certain** need for both new money and discount markets since the record shows that in England the discount market works so well in connection with the Bank of England that the reservoir of new money has not been tapped in half a century; and, that today, the volume of paper money in England remains as fixed by the Act of 1844, that is at less than the equivalent of \$100,000,000, excepting only such paper money as has the nature of gold certificates, the growth of British trade and industry having had to depend upon the importations of

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gold and upon the expansion of credit. English experience does not indicate **certainly** that we need a great supply of new money but that we need either that or manipulative financial skill, exercised by a central institution in open discount markets and for the benefit of the whole community. The getting along without **emergency** money is the best proof that the English system is favorable to the development of financial ability which is available for the public benefit and not only for **private** or **corporate** benefit.

It can not be disputed that the expansion of credit in all Europe has proceeded most generously in the open discount markets where endorsed notes and accepted drafts are sold and resold over and over again, and, therefore, it should be worth our while to ascertain why we have no such markets in this country. The inquiry may be worth while even if we learn that it must be a long time before we see any discount markets of European breadth. It may not be out of place to add that interest rates in England are usually lower than in our country, although we have twice as much money per capita.

There is a fundamental difference between American and foreign business customs, including English, and this difference gives a different character to the commercial paper created on the opposite sides of the Atlantic. Abroad, merchants buy goods on credit and give an acceptance on time-drafts, to cover the bill of sale or get bankers to accept for them, thus creating "prime bills" of exchange. These bills, originating in certain mercantile transactions, with two names on them, the drawer and the acceptor and sometimes getting many names, are considered suitable for the investment of any idle funds, and when approaching maturity

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these bills become very choice for temporary investments. The discount market is so broad that nobody in buying such bills need fear that he may not be able to sell them should he, himself, be in need of funds before the bills mature. Here, on the contrary, the general custom with exceptions in a few lines or in country districts is to buy goods for cash, less a cash discount. The buyer provides himself with the necessary funds by selling his note through a broker or by getting his own bank to discount it; the note, in either case, being more suitable for its new owner to hold until its maturity than to resell, for to attempt to resell the note is possibly to excite suspicion of its value, or, maybe, to excite distrust of the strength of the bank which tries to resell. When banks resell paper, the transactions, as a rule, are in small circles among institutions habitually working together. It will be noticed, too, that while American commercial paper is supposed to arise from the need of manufacturers and merchants to obtain funds to pay for merchandise, yet each piece of paper has not on its face the evidence of such use of the funds. Our kind of paper, when made in Europe, is avoided by bankers because of its possible financial character, as distinct from the desirable commercial character. But however advantageous to the further development of American industry and commerce, might be the changing of the quality of our paper so as to give it a better chance to become easily salable and resalable, it must be admitted that American business methods are not at all likely to be changed and therefore that American paper will continue to be drawn somewhat as at present. The cash discount which a buyer deducts, in paying for goods, is generally twice as great as his loss of interest upon his own note, which