THE TREASURY AS A CENTRAL BANK

The Panama Payment Financed by Credit Exchanges.

DIVERSE FINANCIAL FUNCTIONS

Development Into the Third National Bank of the United States of the Independent Treasury, Organized to Divorce the Government from Banks.

The Secretary of the Treasury has been waiting for the Attorney General to approve the title to the Panama Canal.

Preparation for paying $40,000,000 to the Panama Canal Company in such manner as not to cause unnecessary disturbance in the money and foreign exchange markets was made last March, when the 20 per cent. of United States deposits called in from out-of-town banks was concentrated in ten special depositary banks: City, Commerce, First, Hanover, American Exchange, North American, Chase, Park, Mercantile, and Citizens' Central.

The details of the plan of payment have been changed from time to time, and are still subject to change, but the fundamental idea of Secretary Shaw remains unchanged. This is to make the transfer of the special United States deposits to the fiscal agent of the Panama Canal Company by a bookkeeping entry, without requiring the actual return to the Sub-Treasury of $30,000,000, to be immediately paid out on the warrant issued to the canal company.

It is to be remembered that the transfer to the special depositary banks of about $22,000,000 United States deposits from banks all over the United States was effected by bookkeeping entries. Deposits of these banks with their New York correspondents to this amount were drawn upon to the order of the depositary banks. If the deposits were already in one of the special depositaries the entry was made in the books of that bank. If the correspondent of the out-of-town bank was not one of the special depositaries, the check went through the Clearing House.

The transfer of United States deposits was completed on March 25. In that week United States deposits were increased by $15,000,000, although the full increase did not appear in the bank statement until the following week, by reason of the system of averages, while the net gain in cash from the interior on all accounts for the two weeks ended March 31 was only $5,447,200.

The demand was made in many quarters some years ago, when the currency question was uppermost in the minds of the people of the United States, that "the Government get out of the banking business."

Very few, if any, of those who made this demand knew what was implied by it. The number of people who realize to-day the importance of the United States Treasury as a factor in the financial situation is limited, even among bankers.

Every living being breathes, but science has not yet defined all the constituents of the atmosphere nor learned all the functions of those of them which it has distinguished, and bankers of to-day could not tell how much they depend upon the United States Treasury until by some political convulsion it should be rudely "put out of the banking business."

Every great nation needs and must have a central banking institution, whose chief and most important functions is to supply the circulation. Some nations approach the task of creating such an institution directly. Others go about it by indirection. The methods differ, according to the extent b which National actions respect the logic of the situation, or are controlled by a multiplicity of motives with which logic has very little to do.

The United States belongs in the latter category. The irony of fate, in the long run, vindicates the logic of every situation, and because it is irony, often, one might almost say always, leaves the logical exponent of the situation in the lurch.

Thus it has come to pass that the successful effort of Andrew Jackson to destroy the political power of the second bank of the United States, which ended also in the destruction of its financial power, has resulted in the development, through long years of growth, of a centralized banking institution of greater political potentiality than was possessed by either the first or the second bank of the United States, and infinitely greater than that of the national banks of Great Britain, France, Germany, or Russia.

The "independent treasury" was established by act of Congress in 1846, after the Government of the United States had sustained serious losses from 1833 to 1846 through the insolvency of State banks in which the public funds had been deposited that were withdrawn from the second bank of the United States on Oct. 1, 1833, and in which subsequent revenues were deposited.

The independent treasury was intended by its creators to separate the fiscal operations of the United States absolutely and forever from any connection with banks. All the revenues were to be paid in coin, and the coin as received was to be locked up in the vaults of the Treasury at Washington, and of the Sub-Treasuries at New York and other points, until it was paid out in kind upon warrants to those who were entitled by law to receive it.

The civil war taught Congress the necessity of a firm alliance between the Government of the United States and banks. Instead of creating one central National bank with many branches, Congress authorized the organization of as many thousands of National banks as could comply with the requirements of the law, each of which might be designated as a fiscal agent of the United States, a depositary of public money, except receipts from customs, and all controlled by an officer of the Treasury at Washington, the Controller of the Currency. The capital of a National bank in a village of 3,000 population may be as small as $25,000; in a metropolis the only limit upon the capital of a National bank is the sky. The nearest approach so far is $25,000,000.

The system is not logical, but it suits the people of the United States, who are jealous of the political power of a central National bank.

Natural law, however, is more potent than statute law. Gradually, step by step, meeting emergencies as they arose, creating precedents day by day, in accordance with the wise statute governing all executive departments, which authorizes the head of each of them to make all needful regulations not inconsistent with law, the Independent Treasury during the past forty years steadily outgrew the limitations of its origin, until by the act of Congress approved March 14, 1900, it became vested with the most important powers of a central National bank.

First of these is the power to supply the circulating medium of exchange. The several mints and assay offices are compelled by law to receive all gold bullion that may be offered to them at the rate of $20.67 per ounce fine, paying for the same by check upon a Sub-Treasury. These checks are paid in coin, or in gold certificates of denominations from $20 to $10,000, and certificates for $10,000 may be made payable to order. Such certificates may also be issued in exchange for gold coin, and $10,000 certificates to order are preferred for bank reserve, because if stolen they could not be used by the thief.

The Independent Treasury performs all the functions of the issue department of the Bank of England. The Bank of England, however, is not required by law to pay in its notes more than £3 17s. 9d. per ounce for gold, British standard, 11-12 fine, and the coinage value is £3 17s. 10½d.; whereas the United States Mints and assay offices pay the full coinage value.

When gold is required for export the Sub-Treasury at New York redeems in coin at par, without question, gold certificates and legal tender notes, or, if desired, furnishes assay office gold bars at the nominal premium of 40 cents per $1,000.

The Bank of England redeems its notes on demand in sovereigns, but does so with reluctance when gold is required for export, and charges for gold bars any premium that it pleases. The Bank of France, upon occasion, absolutely refuses to redeem its notes in gold, when the metal is desired for export, and stands upon its legal right to redeem its notes in silver coin.

These two National banks, although the fiscal agents of their respective Governments, are operated for the profit of stockholders.

The United States Government operates its own fiscal agency, the Independent Treasury, not for profit, but at the public expense for the benefit of the public, and the benefits to the public are distributed chiefly through the National banks, although individuals and other financial institutions share therein.

The Independent Treasury is the redemption agent for the National banks. National banknotes sent to the Treasury at Washington in multiples of $1,000 are promptly redeemed to the sender by a check upon a designated Sub-Treasury, and the notes are charged up to the 5 per cent. fund of the issuing banks, which are then called upon to make good the payments out of that fund. These redemptions have no connection with the retirement of circulation through the deposit of lawful money by the banks at the Treasury or any Sub-Treasury. Such retirement is limited by law to $3,000,000 per month, because the banknotes are not actually retired, but remain in circulation until in the ordinary course of business they are sent to the Treasury at Washington for current redemption, while the lawful money in circulation is decreased by the amount deposited for retirement of circulation. The banks, however, are at once relieved of taxation upon the circulation retired, and receive back the bonds by which their notes were secured.

The restriction upon the retirement of notes to $3,000,000 per month was made by Congress over twenty years ago to prevent the locking up of lawful money, but might safely be removed now, when the receipts by the Treasury of banknotes for current redemption are nearly $30,000,000 during January, and an average for the year of over $15,000,000 per month.

One very important function of the Independent Treasury is the changing of money, for which no charge is made. This is an especially great convenience to the people of New York. On every business day, early in the morning, there is a procession of drays to the back door of the Sub-Treasury, on Pine Street, carrying the nickels, dimes, and other silver coins received on the previous day by the surface and elevated roads of Greater New York, which are redeemed in bankable funds. Following these come the wagons of the great department stores, which go away loaded with small change that the Sub-Treasury has given in exchange for large notes. Throughout the day messengers from the banks bring United States notes to deposit against the shipment of small change by the Sub-Treasury to their correspondents.

At this time of the year currency is coming into the banks from all quarters, most of it in small notes, and nearly all of it is so dirty and otherwise mutilated as to be unfit for further circulation. This currency is sent by the banks to the Sub-Treasury every morning. In exchange for it they receive certificates of deposit, which may be counted as part of their reserve, and may be redeemed in any desired denomination of notes.

The greatest service performed by the Independent Treasury is in facilitating the movement of the crops and in enabling the New York banks to extend prompt assistance to their correspondents at the interior in time of trouble. Money deposited by a New York bank at the Sub-Treasury to the credit of a correspondent at any other city where there is a Sub-Treasury will be paid to that correspondent upon the telegraphic order of the Treasurer of the United States immediately without other charges than the cost of the telegram and the regular rate for the shipment of an equal amount by express.

The prompt relief that was thus extended last Fall to the institutions that were in temporary trouble at Baltimore and St. Louis averted what might have been serious disasters.

Between San Francisco and New York the only charge for transmitting money through the Sub-Treasury is the cost of the telegraphic service, but there must be a deposit at San Francisco of gold bullion or foreign gold coin and of gold certificates at New York. The reason for this requirement is that a deposit of bullion or foreign coin at San Francisco increases the Treasury stock of gold.

Gold arriving at San Francisco from Australia, Japan, the Klondike, or elsewhere is made available for bank reserve at New York on the next day at a merely nominal cost, and if the remittances are intended for Europe, exchange is bought with the gold, which remains here until it is needed elsewhere.

It thus appears that within less than sixty years the Independent Treasury, that was designed to be a protest against all banks, has become the centre of the banking system of the United States, performing all the functions of a central National bank, except receiving individual deposits, discounting, and dealing in foreign and domestic exchange. It buys gold bullion at a price fixed by law; it sells gold bars at a price that barely covers the cost of making the bars; it gives certificates that circulate as money for gold coin and silver dollars. It does not sell domestic exchange, but gives it away, furnishing for every kind and denomination of currency such other kind and denomination as may be desired, when and where it may be needed, at the cost of transportation or even less, as in the case of transfers between New York and San Francisco.

It would be extremely difficult to devise a plan for a central National bank for the United States that could do the work of the Independent Treasury as it has been developed from 1846 to 1904, and as it may be developed hereafter, so acceptably to banks and to the people.