

Franklin Ford Collection

edited by
Dominique Trudel &
Juliette De Maeyer

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FRANKLIN FORD COLLECTION

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The Country Check

FRANKLIN FORD

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FORDS

68 Broad Street, New York

FRANKLIN FORD, Director

THE COUNTRY CHECK

*IT MEANS A SINGLE BANKING SYSTEM AND A
UNIVERSAL CHECK*

THE TRUE MONEY QUESTION

Action of the New York Banks and its Real Import

From Gold Coin to Bank Check—The Old Order Changes—The Banking System a Self-governing Body under the Control of its Clearing Centers—New York is Main Center and its Clearing House Legislates for the Country in Money Matters—The Express Companies and the Banks—A Single Language for the Money Question—Credit a Commodity and Money the Instrument of Transfer—The Bill of Exchange has Universalized in the Bank Check, but is Needing Regulation—The Check Book to be Certified—A Kiting Check the New Wildcat Money—The Clearing House Certificate a New Legal Tender—Need of Better Credit Reporting—Congress Not in Touch with the New Realities—The Bank as Regulating Organ in the System of Commerce.

New York has in hand a "country" check problem just as fifty years ago it had to deal with "Michigan," "Wisconsin" and "Indiana" money. The unregulated check is the wildcat money of to-day.

The deposits in the banks of the United States outran their note circulation about 1855, and in due course the bank-check came to be the usual medium for paying balances between traders in given localities. After 1885 a change set in. After long use of checks in a local way, traders began sending them to remote towns, and finally anybody who had a bank account anywhere insisted upon sending his check everywhere. The movement went on without attempt at correction until recently when New York bankers found themselves in daily receipt of some twelve million dollars of "country" checks. Checks are received at New York from Pacific coast points for less than a dollar. In the early practice of the Bank of England checks below ten pounds were not permitted.

Out of this has come the transference of the cost of domestic exchange from the remitter (where it properly belongs, as payment for service to him) to the banks and merchants at main centers. When a country bank receives for clearing or collection a check on itself, it makes an average deduction of one-tenth of one per cent, showing the charge which the local bank takes for clearing, or paying, checks drawn on itself. Gradually this expense came to be saddled on the banks at main centers, and it is this charge which the New York banks are putting back on their depositors.

Through exacting a commission for collecting checks on themselves, the country banks have been trying to hold on to their old revenue from the sale of domestic exchange. On account of the growing use of personal checks, the country banks no longer charge their depositors for drafts on New York or Chicago, and so the remitter has mostly got rid of paying exchange on his remittances. In fact, the country bank encourages the use of personal checks for remote points as it is able to exact a commission when asked to remit. It is altogether a question of revenue, and has resulted in a scramble among the banks to get from receivers of checks a change for collecting.

It is sure paper all the way through. The country debtor remits his personal check, and when it is returned the bank on which it is drawn sends in payment its own draft on New York, Chicago or other center.

The action of the New York Clearing House¹ shows the real condition of banking in America. It ordered that from April 3 the country should be divided into two parts, and that all checks on points north of the two Virginias and Kentucky, inclusive, and east of the Mississippi River, inclusive of Missouri, should be charged one-tenth

¹ [Founded in 1886, the Credit Clearing House was a mercantile agency specialized in textiles. Ford's role in the Credit Clearing House seems in some respect similar to the one he had at Bradstreet's in the 1880s, as he was publishing arti-

of one per cent by the collecting banks. Checks on points further west or south must pay one-fourth of one per cent. It was ordered at the same time that charging should be discretionary for checks on Boston, Providence, Albany, Troy, Jersey City, Bayonne, Hoboken, Newark, Philadelphia and Baltimore, the upshot of this being that items on the points named, and including New York, are cleared without cost to depositors.

As finally amended the rules fix a minimum charge of ten cents on single checks, and this while permitting all small items deposited at one time from either group of states indicated to be added together and treated as one. This discriminates in favor of the large receivers of small checks, giving them a rate of exchange hardly more than nominal when comparison is made with the cost of small postal or express orders. So that under the plan of the New York Clearing House small checks, in quantities, on the remotest points in the United States are current in New York at a rate of exchange varying from one-tenth to one-fourth per cent.

UNITY OF THE BANKING SYSTEM

By the recent ruling a number of startling facts have official attestation. In the first place, the entire banking connection in America is now to be seen as a single, undivided system with the New York Clearing House as the main governing center. New York has legislated concerning charges for domestic exchange everywhere. This moves away from the inherited notion that the banking business is regulated from Washington, or from such local centers as Albany or Harrisburg. By the terms of the order, "national," "state" and "private" banks are put upon a level. They are all the same at the Clearing House, and the whole system appears as a self-regulating body controlled by its clearing centers.

That New York is main center in a system has been plain for a long time. This is proved by a comparison of its weekly bank clearings with those of the whole country. The bank transactions of the nation are told over again in the New York movement. All the checks all over the country have to be swapped, or cleared in one way or another. Some are cleared locally, but the wide movement of checks only gets clearance through a center common to all. The check is a bill of exchange and follows trade and communication, centering at New York. The metropolis as the main clearing center is thus the growth of the country's necessities, and her banks must answer as effective instrument. Any shortcoming at the center throws the trade of the country into disorder.

cles promoting and theorizing the work of the agencies. The exact nature and duration of Ford's association with the company remains unclear as Ford was involved with many credit agencies after his return to New York in 1897, including his own Credit Office. For a detailed discussion of the work of the Credit Clearing House, see *Better Credit Reporting*.]

What New York does, instantly affects every corner. Everybody remembers the action of the New York Clearing House in 1893 when the prompt issuing of Clearing House Certificates steadied the country. The chief bank center and the outlying banks as a whole are held together under such pressure of mutual interest that the entire bank business of the nation stands revealed as an inter-related system, with its goal in an organized body working under general rules from its Clearing Houses or governing centers. It is the National Banking System in fact, answering to Alexander Hamilton's early dream of a single bank. The banks are to furnish "a national currency" through the check book. Progress in bank regulation can only be gained through perceiving the growing unity of the system. It is not possible by any other means to get command of the facts.

Authoritative action at New York is permitted now to an extent which would not have been tolerated by the banks of the country until recently, and things which have become commonplace can now be seen as steps in a development. For instance, New York receives each week by telegraph the bank clearings at more than ninety centers, extending from Halifax and Jacksonville to San Francisco, Portland and Los Angeles. Further, the summing up at the main center is furnished simultaneously to all outside centers in order that the summary may give operation to the whole country. It is by such means that the system is passing under a common direction. The Clearing House is public authority in money matters.

And, the rise of the American Bankers' Association as an organ of national regulation is in point. Most of the states now have bankers' organizations, delegates from these are admitted under definite rules to the central body, or American Association. It is a growth in representation. At the other end, the banks in many states have come together in local groups with some half dozen counties in each group. By means of the telephone the bankers of a dozen countries are enabled to confer together, so that the experience of each is any time at the service of all the rest.

A UNIVERSAL CHECK

It next appears that the bill of exchange, whose handiest form is the bank-check, has come to universal use in the United States. This fact has to be grasped before the attempt of the New York Clearing House to regulate the check movement can be understood, and this advance is one with perceiving that the check is moving freely through the centers of a single system. Until the new fact indicated is perceived and understood by the New York bankers, they must necessarily fall short in their methods of dealing with the country check.

Progress to the readiest money has everywhere tallied with the spread of the bank-check. In the beginning the check was a mere order for the payment of money, but it has moved steadily toward its own universal as absolute instrument for transferring values. The bank-check has come to its farthest use owing to the ease with which debts are paid by set-off.

The preferred currency is the volume of bank-checks and, to practical men, the "currency question" of the hour is how best to regulate the use of the check. The handy check is so active, the people sending it everywhere, that the banker is troubled in managing it.

The kiting check marks the reappearance of the old wildcat money² in the developed banking system, and some way must be found to get rid of it. The depositor does not want to be bothered with a local check; he wants one that will go through all the banks and that nobody will question anywhere. The people don't want personal checks if they can get better ones. That's why they buy post-office and express checks. The demand can only be met by a universal check and it must be furnished by the banks.

To effect this the bank authority must be added to all checks and so get entirely rid of the merely personal check. In short, the check-book has to be certified. The check must be laid hold of and made a bank instrument, and this has to be done before a universal charge can be made for its use. Rightly understood, the fees for clearing or collecting checks are charges for their use, but the method employed is lacking in system. Before there was a Clearing House at New York, local checks were "collected" between city banks. To control the check, while at the same time charging for its use, it must be universalized by uniting in one instrument the credit of the depositor and that of the bank. It is only by adding the bank authority to all checks that the new currency with wildcat money or kiting checks can be remedied. The post-office and express banks have no wildcat money because they control the issuing of checks by certifying them. People make their own bank-checks now, but to get post-office and express checks they've got to buy them. The bank must get its revenue from the man who buys the check, as the post-office and express banks do. Wildcat money can only be cured by not allowing it to start, and so the banker must himself issue all checks. The only safe and absolutely self-regulating check is the certified check.

The plan exists to-day in the banker's circular letter of credit, which amounts to the certification of the checkbook. The express companies have adopted it by selling their checks in quantities, which in turn certifies the check-book. No charge is made by the banks for clearing express checks since payment was exacted at the point of issue. The express check is a New York check, and that is a world check.

² ["Wildcat money" refers to currency issued by poorly-capitalized banks between 1836 and 1865, a period during which there was no national banking system.]

It appears then that the problem of regulating the use of bank checks and the necessity of maintaining a revenue for the banks from the domestic exchange movement are one and the same thing. The bankers have a complete example as to what must be done in the action of the express companies. Express drafts are sold in quantities to all comers, and the charge for their use is uniform throughout the world. They treat the world as one. The express companies are opening deposit accounts as men like to deal where they can get the handiest check. To-day the bankers are clearing all express drafts at any point without charge while demanding a fee for handling bank drafts of precisely the same character drawn by their fellow bankers. Such an anomaly cannot endure. The express draft is no longer "collected," but is paid by set-off at the clearing centers; it is a paper certificate of value, which is everywhere good.

The way out for the banks is through the introduction of an authorized check for use at all offices in the system. All signs point to the advent of the American Check along with world-wide acceptance for it. To make the check universally good, it must be certified from the main center of the system, New York.

THE NEED OF REVENUE

The need of revenue is driving the banks forward to this action. The interest rate has been declining and a further decrease is foreshadowed. It is imperative therefore, that a proper charge be made for the use of the check, and to this end it must be made in fact, as it is in reality, a banking instrument. The banks are doing more work and they must get more pay. Certain of them are beginning to exact fees for the keeping of small accounts, and this may be extended gradually to all depositors. The interest charge is for maintaining the system, and as the interest return declines other sources of revenue must be found. The activity of the banking system has outrun its regulation and adequate remedies have to be provided. The plan for a universal check has already been broached at meetings of the American Bankers' Association.

The banking system is moving forward to its largest utility in the interest of depositors and people alike. The banks are clearing postal and express drafts as low as twenty-five cents. The American post-office order or draft would break down were it not permitted to clear at the centers of the banking system. When the post-office order was introduced in 1864, the aim was to keep the system entirely distinct from the banking movement; postmasters were "prohibited from depositing money order funds in any bank." So late as 1890, Postmaster General Wanamaker spoke of the order as "a means

of remitting small sums without interfering with vested banking interests." Yet the post-office has of late been compelled to give the order the form and character of a banker's draft. The daily receipt of postal orders at New York is now about \$50,000, one half of which is paid by set-off through the Clearing House. At all leading centers the post-office now pays its orders through the local Clearing House, and the movement is extending. These facts are cited to show the growing dependence on the clearing privilege.

Certify the check-book, and the banking system proper, would of necessity, occupy the whole field of exchange. The exchange systems of the post-office and the express companies were but anticipations and the business in its entirety is to pass to the banks. With the banks handling post-office and express drafts in all denominations, it is but a step, however important, to the sale of small money orders on their own account. Even now the Canadian banks have introduced a small draft system as means of competing directly with the post-office and express companies.

It is apparent from all this that the move of the New York Clearing House in dealing with the country check question is a step in the right direction, but other steps will follow. The end will be reached when all depositors at all offices of the banking system are charged for the use of the check; the domestic rate of exchange will be the price paid for a check-book. Any attempt to prescribe rates for exchange on the main center affects every bank that clears through it, and they must be treated alike for the protection of all interests. The country check involves the entire movement of domestic exchange, and it must be dealt with so as to touch the country equally at all points. So universal is the check movement that one might as well talk of a country postage stamp as of a country check. When a check gets to New York it may be defective owing to a lack of bank authority or certification, but it is not a "country" check, if we look at it from the side of its movement instead of its mere starting point.

The success of the New York move can only be partial, but clear direction will result. The New York Clearing House must legislate for the banking system as a whole and not for its home banks and a few near-by points. Were the move to succeed, the charges for domestic exchange would be loaded upon merchants at main centers, instead of being put back upon the remitter where they properly belong. Through the main center's acting for itself in a narrow sense, by clearing free for the home banks and a few favored towns outside, New York is set over against all other centers in the system, with each of them trying to prescribe a rate of exchange on all points. The crudity of permitting special free points in the clearing system is like proposing that certain places in the exchange systems of the

post-office and express companies be made "free" points. The true remedy must unite in its support the country banks and the banks and merchants at main centers.

THE BOSTON PLAN

Happily, the thought of a general free clearing for country checks has not taken hold at New York. The state of bank revenues, as I have indicated does not permit of free clearing, even were it practicable on other accounts. The plan of the Boston banks is to erect a single clearing center for New England checks and to compel the local banker to remit at par, which if carried out, would destroy the country banker's revenue from the sale of exchange. In England, all country checks are cleared through London, so that there exists there no charge for exchange to bank depositors, which amounts to the same thing as the Boston plan. In both cases the area is covered one night's mail. In the United States, conflicting areas are presented, as a check drawn on a bank in Maine may be sent to a town in Florida. The check is flying everywhere.

The difficulty with which the bankers of the nation have to deal has resulted from the overcoming of distance; postage is the same to all points. Yet the New York plan of correction allows distance to complicate and hinder. A check drawn on a bank in Rock Island pays one-tenth of one per cent, while a Davenport check across the river has to pay one-fourth of one per cent. It was doubtless found necessary to add Missouri to the one-tenth of one per cent zone, because St. Louis is in that State. It is not yet a fact to the New York banker that the system is driving forward to a working unity. He has divided the country into two parts as though distance intervened to erect a wall, and at the same time is compelled by natural law of the centering movement of his business to answer to it as a whole, but hindered by the unnatural division which he has made. The scheme of regulation can no more take account of parts or distance than is now the case with the exchange systems of the post-office and express companies.

THE NEED OF A SINGLE LANGUAGE

The discovery that the entire banking connection in America is a single system compels the adoption of a single language as means to classifying and ordering the facts. Men are disputing over the money or banking question owing to the absence of a scientific basis for handling bank news. To effect this, it is necessary to hark back to the beginnings of money and credit. Men had first to conceive clearly of debt and credit before the need of instruments for transferring them.

The function of the banks in commerce is to conduct the system of payments. Their efficiency turns upon the degree of integrity or certainty of payment which is attained, upon the mobility or ease of payment, and upon the wisdom displayed in regulating or governing the system. But for the presence of an exact standard of payment in the gold unit, the Clearing House returns could not be added together, while the modern banking system is possible owing to the ease of payment by set-off or clearing. The problem of bank regulation or government is encountered whenever area or extension has to be provided for.

CREDIT, MONEY, AND THE BANK

In defining credit, money, and the bank or clearing center, each has to be placed in exact relation to the other two. Credit is the thing dealt in by the banks; it is their commodity. A loan is an advance of credit, to be made good whenever called upon or on a day named. The bookkeeper's language is always scientific here; he has no illusion concerning the nature of a credit and does not confound it with a loan. Credit is organized in markets. Money, whatever the form it may take, is the instrument for transferring credit. When money is telegraphed a credit fact is transmitted. The business of the banker is to register and certify credits—of corporations, of trading firms, of single individuals. A credit is immediately available means. The English courts decided a number of years ago that a bank deposit, subject to check, is "ready money." The bank or clearing-house is the regulating center in the credit system. It is there that the debts and credits of the people find adjustment. A bank determines credit alike when certifying a check and when marking it N. G.

SECRETARY GAGE ON CREDIT

In a late address Secretary-of-the Treasury Gage³ made a statement that "credit, with its multiform instruments, is the real money of commerce." "It is created as transfers of goods and wares take place." Had the necessity of distinguishing money as the instrument of transfer occurred to Mr. Gage, he might have separated completely the tangle of banking literature, while introducing to the Credit System, which is the monetary or accounting division of commerce, embracing in its circle of action the remotest bookkeeper. The Credit System comprises all the agencies directly engaged in registering or certifying credits and in adjusting payments. Men of business pay their debts with their credits, since no other means of payment exist. Every purchase or sale involves the transfer of a debt or credit, the accounting thereof being in terms of money—the universal language of value and bargaining.

³ [Lyman J. Gage (1836–1927) was an American financier who served as Secretary of Treasury under William McKinley and Theodore Roosevelt. He is known for his role in securing passage for the Gold Standard Act in 1900, which established gold as the only standard for redeeming paper money.]

Money has to be defined with direct reference to its function, which has not changed since gold was first coined at Aegina. In the progress of commerce gold came to be, after subjection to trustworthy coinage, a universal certificate of credit; a gold coin conveys a credit fact. The only possible use of a gold coin, as such, is either to open or close an account.

A primitive certificate of credit is seen in the "store order" given by a farmer to his workman; it is good at one place only. In it the farm hand possesses a credit, and the farmer has discharged a debt, while the order functions as money just so far as it is transferable. Progress from this to the gold coin, which is good at all stores, everywhere, was a change in degree but not in kind, as the gold coin is still a "store order."

The owner of a gold coin, or a bank deposit, is a creditor of the entire community; either certifies that he has rendered a service to some one of its members. The books of the New York savings banks show an indebtedness of society to their depositors; the savings banks aid in keeping the score; they are one agency of the Credit System.

With the introduction of secure means of certification, such as gold and silver coin, exchangeable credits began to accumulate at trading centers in the hands of individuals, and in time men made a business of dealing in credit or of lending money. The traffic in credit rose in importance and dignity with the extension of trade and the growing necessity of a distinct system for effecting commercial payments. Some men accumulate titles to lands and houses, while others serve the community by storing up credits. The process has continued until now, when, under more perfect communication, the bank emerges as center of registration for the credits of the whole community. The direction of the Credit System is the banker's division of labor in the State; he functions as accounting center of the moving commerce. The credit of each individual in the community is registered and determined at the banking center. The bank registers credits, just as land titles are recorded at the Register of Deeds office. The credits of the people are stored at the banks. The tendency is constant for everything to get into and through the banks.

The arrival of a single standard in the gold unit is the central fact in the growth of integrity or certainty of payment. The use of gold moved parallel with the conquest of distance, becoming a necessity as transportation grew and extended itself, until with the incoming of the bill of exchange and the bank, the need of gold began to lessen. It was thus that the way was prepared for the adoption of a given weight of gold as unit of calculation for the entire system of payment, whatever the instrument of transfer.

PAYING DEBTS WITH CREDITS

Mobility or ease of payment scored a great advance when the sale or transfer of debts became a legal right. The advance had its grounding in the systematic bookkeeping which was given to commerce by the Romans. The recording of debts assured, creditors conceived of selling their claims, as against their debtors, and in time the paying of debts with other debts or credits became customary; at the outset, the consent of the debtor had to be secured. The principle of compensation or set-off, so commonplace now, was only legalized after a struggle. It was a tortuous road, therefore, to the present deposit-and-check development in banking, which stands for the largest freedom in the sale and transfer of debts.

BANK REGULATION

There remains the supreme question of bank regulation, which is seen in a new light under American conditions. Modern banking is the organic development of credit and of clearing. The difficulty of bank regulation from Washington has increased just in proportion as the deposit-and-check system has obtained, until with more rapid growth in deposits bank government from Washington has become impossible. The deposit-and-check system is so inter-woven with the acts of the individual that its government must be part and parcel of the movement itself; at this point commerce provides new centers of control. Since proprietary control, as exemplified in the Bank of France, is impossible here, the alternative is self-regulation through the Clearing Houses.

The possession of the clearing privilege in the banking system is power. As one hand cannot get to the other save through the brain center, so one bank can only compass the trading circle through the clearing house. The bank at Harlem touches the National City Bank through the clearing center in Cedar Street. By means of the clearing system, the banks of the country are in organic relation with each other, which means that each center is connected at once with all other centers. The accession of power on the side of the Bank Clearing House is constant.

THE CLEARING HOUSE CERTIFICATE

The issuing of Clearing House Loan Certificates at important junctures from 1860 to 1893 is the signal illustration of self-regulation through the clearing-house. When forbidden by the statutes to continue discounting, the banks have kept on under authority from the Clearing House, which speaks for the system. A new governing

unity intervened. It is extremely important that the country should be brought to understand the real meaning of the Clearing House Certificate. In it a new legality is presented. The action is in no way different, in point of principle, from the day by day business of all the banks. Men take to the banks their gold, their greenbacks or bank-notes, their own notes and those of their customers, their drafts on traders pinned to bills of lading, their stocks and their bonds. The gold may be underweight and so subject to a discount, while various judgments have to be passed on the value of the securities presented, but the end is to have the bank determine the amount of credit to be awarded. When the banks, acting singly, found that to continue certifying credits, or discounting the notes of their customers, they must do so in defiance of the statutes, resort was had to the authority of the Clearing House. The procedure amounts to re-discounting the notes of customers by a pledge of stocks, bonds and commercial paper at the Clearing House or central office of the system.

It has been proposed to "legalize" the Clearing House Certificate by means of a statute from Washington, but this is not necessary since the action carries its own justification. A true legality is something against which it is impossible to legislate. In the face of decaying statutes a doubt arose as to what was good money and the New York Clearing House presented a new legal tender. The growth of the deposit-and-check system has been such that a new universal is required. At one time the National Treasury stood for the largest fiscal unity and therefore had the say through the outgivings of Congress as to what is good money, but gradually the sovereignty has passed to the Bank Clearing House. Commerce, the transforming agent, is carrying forward our ideas of law to new issues and new legal concepts.

THE IDEA OF LEGAL TENDER

To universalize the check by attaching to it the bank authority is but to extend the principle of the Clearing House Certificate. The legal tender idea is of modern development. It began with the king's edicts fixing the ratio between gold and silver during the progress to the gold standard. In these edicts the king certified what was good money. When the universal check is brought in, under the authority of the banking system, a new legal tender will have occupied the field. The incoming American Check will have back of it the organized credit of the nation; it will be legal because customary and everywhere good; the legality will follow upon the fact. Under old-time notions it is thought that only the "Government at Washington" can speak for the whole in money matters, but in the face of a unified banking system this idea has now to be given up.

The gold standard will continue because, as things are, commerce can no more get rid of the gold unit than it can dispense with the multiplication table. In all such matters parliaments have only registered the decrees of commerce. It is a natural thing at this time for gold to find its way into bank reserves, and were all the statutes relating to the matter to be repealed, the situation would not be essentially altered. Since the artificial rules as to bank reserves remain in the statutes to cause distrust and panic, it is important that the presence of a new legal tender, namely, the Clearing House Certificate, be published to all the world. A way must be found to get rid of the uncertainty.

SOUND BANKING TO FOLLOW

The certification of the check will act as the final unification of the banking system. The change will be of such a character that each banking office will become responsible to all the banks for right conduct. The highest co-operation is presented. Sound banking will be assured on all sides as each clearing center will see to it that every bank in its district pays for its checks, which each sub-center will be held responsible to the main center. The method is already at work successfully in the exchange systems of the post-office and express companies. The final organization of the banking system, under the certified check, presents a free trading relation throughout all its parts under an administrative unity. An example is presented in the post-office, which is a completed unity. The banking system can but obey the law of commerce, which moves everywhere toward to highest quality, the lowest price and the widest distribution of product. There can be but one system of credit and exchange.

With the certified check in universal use, the money of the country will be furnished by all the depositors in all the banks. The money supply will then, in fact, be equal to the volume of trade. The currency question will be settled permanently and the issuing of money will be the privilege of everybody who can command a bank account. Then as always the regulation of the money system will be a "function of government," save that the centers of control will be the Bank Clearing Houses. But every member of the community will have a hand in the work of regulation through his daily acts. The individual is to issue the money of the world, and the long discussion is ended.

A profound change is pending in our ways of thinking concerning these matters. Under the increasing registration of the credits of the people, the place of so-called private capital in banking operations is constantly lessening. The capital account of the Clearing House banks of New York is now some ten millions less than in 1860. In

each of the last two decades the deposits in the New York banks have doubled, and they are now promising to double again. The "capital" of the banks is coming to be seen as the first deposits. Here and there throughout the country the tendency is to reduce the capital account in banking in order to escape hurtful taxation, but the real condition of such banks does not alter as the "capital" remains in the shape of deposits. It is only a change in bookkeeping.

WASHINGTON NOT IN IT

The notion that the banks can only be regulated from Washington belongs with the idea of a single centered State, which is bound up in the pages of Blackstone. Under old-time conditions, when a week was required for carrying the mails between Philadelphia and Pittsburg [*sic*], "the Government" was the one regulating organization having a common extension over a given area, whereas now, under full communication, a number of governing organs whose extension in each case equals that of "the State" have come in. The State becomes an object in space and time, and the business of government is a division of labor therein. As one among other regulating organs the Bank occupies a central position, as it has directly to do with every division of commerce. All men may not eat wheaten bread, but every man is compelled in some way to possess credits and money for transferring them. It is of the first importance, therefore, to raise up this idea of the bank as REGULATING ORGAN IN THE SYSTEM OF COMMERCE, in order to dispel the notion of the banker as a usurious money lender, who is supposed to act under merely arbitrary rules. Besides, it is important to bring the true work of the banker to recognition in order that bankers may themselves be freed from a false dependence on the legislatures and Congress.

The banker is an agent whose work is to register and certify the credits of the people. One can see this in the county banking center, which is connected by telephone with all local points in order that the debts and credits of the county may clear freely against each other.

The regulation of the system will proceed under the largest publicity. Self-government for the banking system through the Clearing Houses cannot be divorced from right in any case; the act must be paralleled by the fact. Never before was government so responsible.

The bank is a place for setting off credits against debts. Any debt is cleared when a credit is set against it. The bank is itself a clearing-house and the Clearing House proper only a larger bank. The movement of the certified check through the centers of the clearing system may now be seen in the express check. The twelve express companies

act as a unity, any one of them clearing for all the others. When an express order is once cleared or paid, it is extinguished as in the case of the Bank of England note, which is never reissued. At London, all clearing-house balances are paid in checks on the Bank of England. A universal paper instrument has to intervene in the United States, which will be cleared or extinguished when it gets home, and which will pay a debt at every turn or transfer. The chief clearing centers are now marked out in the reserve cities.

A number of ideas once thought to be visionary are coming to reality in the certified check. The dream of mutual banking is brought to the fact, while the "labor value check" is an everyday affair. The notion that the Washington authorities, who are thought to be the sole representatives of the general interest, should issue the money of the country is met by the discovery that the individual is supplying the currency with his checkbook, through the bank as regulating center. Whatever the modifications in the use of the check, the direction is with the banks.

It is the natural course of things that the deposit-and-check system should come to a universal through the Clearing House Certificate and its reduction in the certified check. The banker's circular letter is now preferable to gold for transferring credit to remote points, yet at one time gold was the only available letter of credit when among strangers. At one time England had numerous local mints which were brought to a unity in the national mint. There never will be a universal coinage. The commercial world is now coming to its unity with the paper certificate of credit as the universal money. When men take gold to a bank and receive for it a mere entry in a pass-book, it becomes plain that the office of the mint in marking the coin is the same as the bookkeeper in making the entry.

CREDIT REPORTING

The test of sound banking is the safety of all the transactions. The bank can register and certify only such credits as are based on fact; the bank cannot certify beyond the fact. A forward stride in sound banking is, therefore, dependent upon a clear advance in credit reporting. The business of credit reporting is to-day fifty years behind the present means of communication. A crude method has been everywhere extended, but that is all. The clearing principle has to be introduced at all points in this important field of news. The check clearing has to be paralleled by a clearance of fact. The banks have to clear the facts in their possession as to transactions in commercial paper, so that the information held by each may be distributed for the benefit of all. The facts are centering at the banks. Already the banks

at one or two centers are doing something toward clearing their own credit news. Apart from the banks, certain steps have been taken to provide a clearing system for the facts as to merchandise credits, but free play for the principle has yet to be gained. To become universal the method must be public in all ways through inviting publicity to itself. The institution that would clear credit news must first clear itself. A necessity exists for subjecting all credit reporting organs to the fullest publicity, as means to promoting the needed reform. The banking system has itself come under a searching publicity which has now to be extended to the business of supplying credit news. The responsibility of bankers is increased owing to the rise of industrial securities, which in turn is demanding better credit reporting. The lower rates of interest necessitate increased watchfulness, and always the key is advance possession of the fact. The situation is in the hands of the banks, and it lies in their power to compel reform.

THE REAL CURRENCY QUESTION

The advance of the banking system to its farthest utility rests with the bankers themselves. They are confronted with the fact of their own great success. I have shown that the need of regulation and the revenue necessity both point to the certification of the check. But more is to be said. There is a currency question of the most pressing character, and its solution turns upon bringing the check to universal use by adding to it the bank authority. On this point no help can be had from Washington. The remedy is to facilitate the shipping of bank credit "to move the crops." The instrument is the certified check. Rightly understood, Congress has no authority in the premises, it cannot get into touch with the new realities. Congress meets once a year, the Clearing House every day. There can be no further legislation of any moment from Washington concerning the currency question. Owing to radical changes in conditions, the question has been withdrawn never to be returned. Gradually one thing after another has been removed from the gaze of parliament. At one time the English parliament tried to direct the making of pins. The swift moving action constantly outruns the slow work of Congress. The plans of all the currency reformers look to emitting bills through the banks, but wherever the bank goes, there goes the check as preferred instrument. The notion of branch banks is right enough, but each bank is appearing as an office of the system. Every deposit-and-check bank is now a bank of issue through the power of certification. The dislike of banks and the demagoguery which fosters it cannot be removed by publishing primers for farmers' reading or anything of the sort. The prejudice can only be overcome by carrying forward

the banking system to its utmost usefulness. Such statutes as relate to a state of things which has passed away will have to be ignored. It may be that another crisis like that of 1893, and a further improvising of currency by means of the certified check, will be necessary to compel the full and systematic application of the principle, but in any case the masters of banking will be brought face to face with the responsibility under which they are resting.