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# FORDS

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## THE EXPRESS COMPANIES AND THE BANKS.

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The trouble at main centers over the flood of country checks, the growing use of express "orders," and the effect on the money market of currency shipments to "move the crops," are incidental to the further development of the deposit system, and a still wider use of the check as the preferred instrument in transferring bank credit.

The deposits in the banks of the United States outran their note circulation about 1855. Since then the check has been steadily coming into general acceptance, along with a corresponding neglect of the bank bill. Between 1855 and 1885, a period of thirty years, the check came to be the customary and usual medium for paying balances between traders in a given locality. During this period, when making remittances between centers, and especially when arranging to pay debts at the metropolis, the rule was to buy exchange on New York, or, in exceptional cases, on some leading provincial center. In other words, the country trader down to about 1885 bought his New York exchange from the local bank, and of course paid for it the customary charges. It is said that country banks in those times were frequently able to make ordinary expenses from the sale of domestic exchange.

After 1885 a far-reaching change began to come in. Having grown accustomed to the use of checks for meeting all local demands, the single individual or trading firm took to sending them to remote towns. The movement gradually extended itself, until it has come to pass that everybody who has a bank account anywhere is insisting upon sending his check everywhere.

It is nearly ten years since New York bankers woke up to find themselves in daily receipt of a huge volume of country checks. The movement has increased until now, when some twelve million dollars or more of checks drawn on local banks throughout the country are daily deposited by the merchants of New York in their respective banks. The causes which have led to this are still operating, and the receipt of merely personal checks is certain to increase until an adequate remedy is provided.

One effect has been to transfer the cost of domestic exchange, so far as the habit indicated is followed, from the remitters (where it properly belongs) to the banks and merchants at the main centers. When a country bank receives for collection a check on itself, which has been sent to New York or some other center by one of its depositors, an average deduction of one-tenth of one per cent. is made; in other words, the local banks exact a charge for the payment of checks drawn on themselves. The banks at main centers have sought to make the receivers of country checks meet the cost of collection, but, in spite of all efforts, more than three-fourths of the expense is now borne by the banks.

It is a shipment of paper throughout. The country debtor remits his personal check, and when it is returned for collection the bank on

which it is drawn sends in payment its draft on New York, Chicago, or other center. The movement as a whole suggests a further development in the use of the paper instrument for transferring bank credit, which, as things stand, is only partially attained.

The personal check is sent to New York or Chicago, only to come back over the same path with a demand for payment in another paper instrument, namely, a bank draft on New York or Chicago. This double movement is required before actual payment is held to have been made.

Against this the express companies have introduced a plan whereby payment at remote points is effected in one movement, and a single paper instrument, which the remitter is enabled to issue from his own office when wanted, just as he does his personal check. In short, the express people are certifying the check-books of traders through the sale of their money orders in bulk, the users signing as agent.

The American Express Company, in particular, is now selling its orders throughout its field for the use of commission merchants and others who have frequent need of certified checks. The American Express people have in this way brought bank credit and that of the individual together in a single check; the action amounts to systematizing the use of the cashier's check. Each express office so acting is in effect a bank of issue. Commission merchants in Detroit and other cities keep accounts at the American Express bank because of the convenience it affords them through being able to get from it certified checks in quantities, to be issued at convenience from their own offices, just as personal checks or bank bills are issued. The understanding is that the orders are sold in quantities to merchants at one-third off from regular rates.

The express companies must be regarded as banks, so far as their work has to do with the sale and movement of exchange. Moreover, they are beginning to receive deposits, being compelled to do this by the sale of orders in bulk. They are an integral part of the banking system.

The general problem that is demanding solution looks to finding the most convenient and inexpensive manner of shipping bank credit. The example of the express companies in selling their orders in quantities, to be signed and issued at the pleasure of the buyers, suggests, at least, the incoming of a universal paper certificate of value. The express people solve the collection of personal checks by meeting the demand for a universal check.

The notion of collecting an express order has now quite left it; they are paid by set-off through the clearing centers of the banking system. About \$150,000 of express orders are now passed daily through the New York Clearing House. The average size of these orders is not far from ten dollars, so that 15,000 pieces of express paper are handled each day at the Clearing House. The bank clearing houses of the country pay the universal express draft, but the banks proper are without such draft of their own. The banks pay the express companies for shipping currency, but make no charge for handling their orders at the clearing centers.

The local or personal check when received at main centers is sent to the point of origin as quickly as possible in order to hasten collection, but the very contrary is true of the express draft. Until a local check is paid, the forwarding bank is not in possession of actual value on account thereof. The force of the express order is not hurt or lessened by the time element; each order is in effect so much New York exchange; the longer it remains out, the greater the number of debts that will be paid by it.

The twelve express companies of the country, inclusive of the Canadian lines, act as a unity with reference to dealing in exchange through

the sale of express orders. Any one of them stands ready to pay the orders of all the others at the Clearing Houses of the banking system. Telegraphic transfers of credit are made by and between the twenty-five thousand offices which the express system of the country maintains.

Through the sale of orders in quantities, to be used in the manner indicated, the express people meet the demands of merchants who have need to use certified checks widely. By supplying a universal draft at low cost they lessen the movement of personal checks. The "travellers check" has been introduced, and is sold to merchants for the use of their salesmen when moving from town to town remote from headquarters.

There is no record of any successful attempt at raising an express order.

Nothing has been done by the express companies to bring either the order or the traveller's check to bear upon the problem of shipping bank credit to "move the crops," yet the check-books of the crop-movers are as much in need of certification as those of the commission merchants. As indicated, the express order, the country check, and the disturbances due to currency shipments, are all phases of one problem.

The express companies have struck out an advance in the organization of the Credit System. Their work abounds in lessons for the masters of banking. It is worth noting that the American Express Company is successfully marketing their travellers check for use in all parts of the commercial world, foreshadowing in this way universal recognition for the American Check.

The express order has a signal advantage over the post-office order, owing to the fact that the latter is only negotiable at the town or post-office on which it is drawn. The express order is equally good when presented at any center, and is everywhere regarded as New York exchange.

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 people have been compelled during recent years to give it the form and character of a banker's draft; and to-day the postal order would be shorn of its vitality were it not to have free movement through the bank clearing houses.

The daily receipt of postal orders at New York is \$50,000. Of these, one-half are paid by set-off through the Clearing House, the Chase National Bank acting as clearing agent. Of the remainder, \$15,000 are paid by check to a few large receivers of orders, so that only \$10,000 are paid by tellers at the post-office, and the latter item is constantly decreasing. At all leading centers the post-office pays its orders through the local clearing house, and the movement is extending; just recently at Toledo the local post-office became a member of the clearing house. The New York banks handle postal orders as low as twenty-five cents in value.

These facts are cited to show the growing dependence of all sellers of exchange on the clearing privilege. In 1897 the total sales of postal orders were \$175,000,000, the average value for the year being \$6.93. At last accounts the total sales of express orders and travellers checks were something like one-half those of the post-office.

It appears that in the progress of the clearing principle the post-office and express orders for the payment of "money" have themselves come to function as money, or instruments for the direct transfer of credit, being paid by set-off at the clearing centers; in other words, the

daily claims against the express companies at the New York Clearing House are met by them with checks on their respective banks. A profound change is indicated. Payment by set-off has now progressed so far that it is to be seen as the typical action in banking, giving to the bank its definition. Banks register and certify credits, and conduct the payments of commerce through set-off or clearing. Any bank, therefore, is itself a clearing house, through which debts are paid with credits. The New York Clearing House acts as a main center for numerous lesser banks or clearing centers, and, in fact, for the whole country. The Cedar Street institution in New York is the National Clearing House.

With the deposits in the New York banks doubling every ten years, it is not possible to hold longer to a narrow view of the banking function. At one time it was thought to be "a liberal expansion" for a bank "to loan two-and-a-half times the amount of its capital." Owing to the rapid advances in registering credits, the shareholders of a bank are coming to be seen simply as its first depositors. To-day the individual depositor, in place of buying a bill from the bank, is everywhere insisting upon making his personal check serve as a bill of exchange. The action is already so far-reaching that the union of bank credit and that of the individual in one check is presented as one solution of the problem. Here is the American Express Company advertising that its travellers check "is practically a certified check, payable to one's own order," and that the checks "are virtually a universal currency."

As bearing on the solution demanded, the work of the Georgia banks in providing what they call a "circular check" is in point, and will repay investigation.

The right solution of the country check problem cannot fail at the same time to correct the disturbances in the money market resulting from shipping currency to "move the crops." While the depositors in country banks are sending their personal checks to the main centers to the extent of millions of dollars each day, the banks are compelled to ship currency to the interior.

Progress is constant toward increasing ease of payment, and the appearance of the country check in great numbers at main centers bears every indication that an advance in banking organization is not far away. The effect of improved facilities of communication has outrun bank regulation.

A demand has arisen for special clearing centers, through which the country checks can be paid. It is based on the fact that paper of this order does not move at par. There is no demand for special clearing machinery in the case of the post-office and express orders, and for the reason that they both move at par through the clearing centers already in existence.

The right solution of these important matters is bound up with the question of bank revenues. As things stand, the banks are paid in the shape of interest for making advances of credit through discounts or loans, but not, save infrequently, for credit certifications. Owing to the larger and larger registration of credit, the rate of interest is everywhere declining, thus forcing the revenue problem to the fore. Now, the post-office and the express companies are receiving pay for CERTIFYING credit; they sell credit certificates, which go everywhere at par. At one time, as already noted, the country banks derived considerable revenue through the sale of exchange, or credit certifications, but this has in the main been taken from them.

It remains to be asked whether the banks as a class are not now compelled to get pay for their primary work of registering and certifying

credit. The general bookkeeping of commerce is in the hands of the banks, but for this service they are not paid.

The personal check is the quickest means of transferring bank credit, and is therefore the readiest money. The possession of a check-book is quasi evidence that one has a bank account, but the bank's certificate has to be added before the evidence is conclusive. When the bank credit and that of the individual are united in one instrument, the result is a valid order for goods—that is to say, it is money. The personal check by itself simply is no more than a debt, subject to collection; it does not carry the authority of the bank.

From this it appears that the first need in dealing with the country check problem is to distinguish the checks clearly as debts. Bank credit in all its forms moves freely through the clearing centers, and is paid by set-off when reaching the point of origin. Personal checks are taken at par in the localities where drawn. The determining influence is the time element.

In England the country check is cleared through supplementary machinery at the London Clearing House, because all the English banks, barring a few remote exceptions, are within one night's mail of London. Each bank has a clearing agent at London, and the entire area is cared for in a single movement. It is a matter of twenty-four hours or less, instead of one or two hours, as in the case of local checks.

It has been proposed to divide the area over which the American banking system extends into districts for the clearing of country checks; but the difficulty here is that checks drawn in one district may be sent to all other districts, and especially to the main centers. The difficulty is extreme, owing to the variation in the time element.

A radical solution is compelled by the increasing need of economy in bank management. The initiative on one side has passed to the individuals who are in possession of bank accounts and check-books, and who are insisting upon making transfers, however remote the point of payment, by direct issues from their own offices.

The remedy lies between a chain of district clearing houses for country checks, where checks from main centers would be sent for collection, and a refusal of all recognition at main centers for country checks, save so far as they are authorized by the home bank, which means the certification of the check-book, as the express companies are already doing. In either case, the outlook is toward a more commanding unity, a further reach in self-regulation, for the American banking system.

To sum up: At one time remittances to remote points were of necessity made in gold, as under early conditions nothing else would have had recognition among strangers. Afterwards gold and silver coins came to be deposited in bank, and certificates issued therefor were used in making payments over wide areas. At a later date bank bills, which were issued without direct reference to deposits of gold and silver, found shipment here and there as a means of effecting commercial payments. Subsequently, the bank check rose and grew into the customary medium of payment between local centers. Until now, for the most part, the personal check and the banker's draft have been used separately. But it now appears, as already shown, that the express companies, both in their "money order" and the "travellers check," are uniting bank credit and that of the individual in a single instrument. Moreover, they are doing this on so large a scale that it is of importance for the masters of banking to take strict account of the movement.

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