

CERTIFICATES AIDED BANKS IN FORMER CRISES

First Use on Wide Scale Was in Period Before Civil War.

This is the second of three stories on what people have used for money in times of bank trouble.

BY HARRY ELMER BARNES  
The old adage that it never rains unless it pours never was more true than with respect to banking and currency panics. In normal times, a vast volume of transactions is carried out by use of checks, with very little transfer of cash. Exchange is, to a considerable degree, merely a matter of residual bookkeeping. Such currency as is withdrawn from banks is for the most part in circulation. There is no incentive to put it in safe-deposit vault or to hide it in sock or mattress.

Along comes a panic and trouble rolls up like a snowball. Lack of confidence sends depositors in droves to the banks to withdraw their cash. These runs close banks. When banks close, checks can not be collected and their use evaporates.

**Cash Is Hoarded**  
At the same time, fear of losing hoarded cash keeps it securely in the hands of owners who use it sparingly. Both checks and currency thus are depleted in volume and immediate utility, and a serious stringency arises relative to media of exchange. At a time when cash is needed specially, it remains in hiding.

Therefore, it is of interest to examine into what has been done in the past in such emergencies. The most widely used expedient in preserving the cash reserves of banks in the past has been the issuance of clearing house loan certificates. These can be used to balance the accounts between banks in the clearing house association without the transfer of any cash.

**Used in 1860**  
They first were widely used in 1860 to deal with the crisis provoked by the prospect of the Civil War. The clearing house association of New York provided that member banks might deposit with a select committee of approved commercial banks, stock of the United States and of the states, treasury notes and the like.

In return, they could obtain loan certificates—certificates of deposit—up to 75 per cent of the value of the paper deposited. These certificates were used in denominations of \$5,000 and \$10,000. They called for interest of 7 per cent per annum and could be used to settle the balances between the banks in the clearing house association for any time up to thirty days from the date of issuance.

The great advantage of this arrangement was that it saved the banks from the necessity of digging into their limited specie reserves to even up their daily accounts in the clearing house balancing process.

**Pool Their Specie**  
Still further to protect themselves, the New York banks pooled their supply of specie, so that the weaker banks could pull through. About \$7,000,000 of these loan certificates were issued. While specie payment was suspended temporarily as between banks, there was no suspension so far as the public was concerned.

PANIC OF 1907 SUDDEN, BRIEF

Morgan and His Satellites Helped to Stem Flood



Theodore Roosevelt

Forrest Davis today presents the first of a series describing the background of present unsettled banking conditions. In this first article Mr. Davis writes of the panic of 1907, which bears numerous parallels to today's financial dilemma.

The panic occurred, as it is in 1933, during a period of depression; it was caused by a lack of currency; the stress was relieved by the issuance of clearing house certificates, the same remedy that is now being employed.

**BY FOREST DAVIS**  
The preposterous Morgan, chewing a vast cigar, played patience grimly by night in the study of his marble library at Madison avenue and Thirty-sixth street.

From time to time, lesser bankers, conferring in an adjoining chamber, communicated to him their hopes and resolves. Outside trust companies in Harlem, Brooklyn and Wall street other vigils were kept—alarmed depositors waiting for the sun to rise and the banks to open.

**NEW YORK** and the country suffered acutely then, as now, under a profound mistrust. That, too, was a currency panic. A Roosevelt sat then, as now, in the White House, directing relief measures. But that parallel is not so exact as the broad statement. For Wall Street, spurred by the tenacious Edward H. Harriman, clamorously blamed Teddy for the collapse of faith.

Bryan, Carnegie and a host of others, joined by Teddy himself, strenuously denied the charge, but Wall Street itself showed nothing like the eagerness to accept his leadership that the financial community in 1933 displays toward his cousin and successor.

The government, represented by George B. Cortelyou, secretary of the treasury, did spring, however, to the help of the New York banks. Cortelyou hurried during the fearful



George B. Cortelyou

week from Washington with \$25,000,000 in public moneys and the pledge of more.

And on Oct. 25, another Black Friday, the New York Clearing House Association voted unanimously to issue clearing house certificates based on the "frozen assets"—to supplement the inadequate reserves of legal tender.

But the country assuredly shook from its jitters and, in many respects, conditions were more precarious than today. Certainly more banks suspended, many more were demonstrated to be insolvent; and, but for the resolute co-operation of Cortelyou and the solid bankers, under the captaincy of the first J. Pierpont Morgan, no one doubted, immediately thereafter, that only the strongest banks would have survived.

**IN 1907**, Wall Street narrowly avoided a complete breakdown of its whole skeletal structure—the banks. The point is that it did escape "reaping the whirlwind."

The resemblances between October 1907 and March, 1933, need not be pressed too far. But it is interesting, at least to note that then also a Roosevelt, as President, expressed grave misgivings about the conduct of certain business and financial interests; that talk of war with Japan ran on intermittently and our fleet recently had been ordered to the Pacific.

Likewise, the 1907 currency panic occurred in a time of industrial depression; a condition which, no doubt, in both cases contributed to the fearfulness of the people. But dissimilarities also appear. The business depression which af-

"Under Control," a cartoon by W. A. Rogers from the New York Herald for October 27, 1907.

flicted the country in 1907 had neither lasted so long nor reached the depths of the present one.

And in the earlier year Wall Street, dominated by the sturdy figures of Morgan, Harriman, the elder George F. Baker, the soft-spoken first James S. Stillman, John D. Rockefeller Sr. and the Standard Oil magnates, exhibited a surefooted boldness in grasping leadership that is unmatched today.

The sway of Morgan and his associates was absolute. They were Titans amongst their contemporaries. Moreover, the device of a bank holiday was not applied in 1907. The banks were required in those individualistic times to stand up and take it, with whatever help the formidable Morgan and the United States treasury were able to pump into their vaults.

They were forced to withstand ruin for days. The weaker fell; the more liquid, or better managed, paid out staggering sums.

**PERHAPS** the most striking likeness between 1907 and now lies in the prompt recourse to clearing house certificates.

The Knickerbocker Trust Co., a favored depository of wealthy women, collapsed suddenly on Tuesday, Oct. 22. The night before its directors wrestled with the problem of fortifying their vaults in an upper room at Sherry's.

Morgan and a committee of bankers tarried in another room, receiving advices and transmitted counsel to the harassed directors.

Unfortunately for the Knickerbocker, the choice of a conference place advertised its difficulties. The Day and Night bank, a forgotten institution serving the needs of theater, café, and lobster palace in that period, cashed numerous checks drawn on the Knickerbocker that night and next morning it had a messenger, a portfolio of checks chained to his wrist, among the frightened lineup at the bronze doors of the trust company.

That was Tuesday. By Friday the clearing house had authorized \$11,250,000 in certificates.

Confidence returned over the week-end and on Tuesday morning the New York World could report a reversal.

The money panic, as distinguished from the stock market crisis and industrial depression, had been confined within the limits of one week. The remedial measures set in motion by Morgan—albeit arbitrary in his banking house by day, the library by night—and the clearing house certificates suppressed panic

and preserved the credit structure in 1907.

A similar action holds the same potency now, the money stringency would be over by the end of this week.

**INCIDENTALLY**, although certificates have been resorted to seven times previously, never before has the expedient borne presidential sanction and hence been applied nationally.

The practice was initiated by New York banks in 1890, immediately after Abraham Lincoln's first selection to the presidency. The certainty of war between the sections created a wave of apprehension.

Citizens, subjected to the mass emotion which gripped the country last week, abruptly showed a preference for their deposited money over bank balances or checks.

The phenomenon, since grown familiar to every generation, swiftly overtaken the banks' hand-to-hand money reserves. So they created their own currency.

That happened three years later, and in 1873, in 1884, in 1890, in 1899 and, as we have seen, in 1907. With the erection of the federal reserve system in 1907 its advocates were positive that the need for clearing house currency never would occur again.

It mistakenly was believed that the federal reserve's elastic note-issuing provisions would meet any sudden popular demand for legal tender.

All in all, the New York Clearing House Association issued \$101,060,000 in certificates during the interval between Oct. 26 and the date of final redemption, March 23, 1908.

On one day, Dec. 16, the total in circulation reached \$88,420,000. That was the high point.

**THE** maximum sum of such money throughout the country—Chicago, Philadelphia, Boston and other large cities having followed New York—reached \$330,000,000 during the troubled weeks.

So, in the panic week of 1907 the spontaneous hoarding movement swiftly was dissipated.

The menacing lines of depositors vanished from bank entrances. Cortelyou returned to Washington, and Morgan gave up his library sessions.

Presently the banks were back on an even keel and the country had forgotten its alarm.

Next, Forrest Davis will review the causes of 1907's panic week, again seeking precedents for the present situation.

BANKS OF CITY WAIT FOR NEXT FEDERAL MOVE

Issuance of Scrip Deferred Until Government Action Is Decided.

(Continued From Page One)

master Leslie D. Clancy announced. Except for brief intervals, there were no lines waiting at the money order and postal savings windows. Withdrawals of postal savings Tuesday amounted to more than \$40,000, and money orders cashed totaled nearly \$12,000, Clancy said. Postal savings deposits Tuesday were slightly less than withdrawals.

Checks are being accepted by the postoffice for stamped paper and for mail matter mailed without stamps, known as permit matter. Clancy said firms giving checks for this are required to submit a sworn statement that all checks given in this manner do not exceed limitations governing withdrawals.

**Cashes U. S. Checks**  
At least one Indianapolis bank today was cashing all government checks drawn on the United States treasury and not on a bank, but was uncertain how long this would be continued.

The banks have received instructions permitting them to receive scaled packages of money for safekeeping, during the bank holiday, and to return the sealed package upon demand, bankers said. The banks, however, may not accept money for deposit.

The Merchants Association of Indianapolis has outlined no policy for downtown stores in dealing with handling of pay checks, government warrants, or credit during the present bank holiday.

Each downtown store, or merchants affiliated with the association, will be permitted to handle finances and conduct credit business as they see fit.

**Refuses to Take Checks**  
Where one department store declared it was cashing all pay checks, another store refused to accept checks in payment of accounts.

The association would not comment on the individual methods which stores advertised regarding their handling of credit accounts and checks.

It was possible, however, for a man to get his teeth fixed, a new tire on his car, his trousers patched, a meal, and even lodging at some hotel, on credit or a pay check.

Stores as well as citizens followed the attitude of city banks in waiting for new developments and congressional action.

**Insurance Men Meet**  
Liberality, as business will permit, will be the keynote of life insurance companies in Indianapolis to aid policy-holders, it was decided Tuesday at meeting of local representatives of the companies.

Harry R. Wilson, vice-president of the American Central Life Insurance Company, and chairman of the meeting, said plans of carrying on business under the bank holiday, with possibility of the use of "scrip" money, was discussed.

He said life insurance companies would accept checks to prevent policy lapses in some cases, on condition collection could be made. Every effort, he said, would be

MONTE MUNN DIES



Mont Lee (Monte) Munn  
Mont Lee Munn, 1509 East Maple road, died suddenly today of heart trouble. He was a former star athlete at the University of Nebraska. Story on Page 1.

made to prevent loss of policies due to the stringency of banking conditions.

How to meet pay rolls Saturday remained an enigma today with most business firms.

**Pay Roll Problem Faced**  
Some firms already have made arrangements whereby they will trade their own services for coupon books, redeemable at groceries or other merchandising firms.

Other firms are planning to pay employees with checks on "frozen" accounts, or with paper acknowledging indebtedness, in the form of an "I. O. U." which might be accepted by merchants.

Many firms receiving large sums in cash in the course of business operations are planning to pay all or part of their employees' salaries in cash. One downtown department store paid its employees in cash Wednesday.

Because of reduced business volume caused by the financial situation, a number of stores and factories are working their employees only part time and will pay them on a part-time basis.

Several factories were reported to have halted operations temporarily because frozen bank accounts prevent them from purchasing raw materials.

**Reality Boards to Meet**  
Effect of the situation on property will be discussed at a meeting of the Indianapolis Real Estate Board Thursday noon in the Washington. The session will be open for general debate on methods of meeting the problem, Larry Holmes, secretary, said.

Certified checks will not be required with bids on supplies for the city until further notice, it was announced today by Albert Losche, city purchasing agent.

The city will waive its right to demand that bids be accompanied by certified checks equal to 2½ per cent of the amount bid, Losche said.

Approximately \$15,000 worth of requisition for material awaits receipt of bids from stone, gravel and oil contractors.

**Checks Taken by Cab Firms**  
Some taxicab companies announced acceptance of personal checks for transportation books until normal banking routine is resumed.

The books will be issued by the Red Cab, Checker Cab and Yellow Cab Companies, all affiliated, in amounts from \$2.50 to \$5.

Any one having a checking account in an Indianapolis bank may take advantage of the offer.

NATION TO GET CURRENCY; DROP PLAN FOR SCRIP

Woodin Announces System for Relief in Banks Emergency.

(Continued From Page One)

when business was heavy. Then as they turn back the money with the shrinkage of commercial transactions the currency is allowed to contract.

That is a rough illustration and the actual process is infinitely more complicated.

Officials are determined throughout to prevent payment of gold or gold certificates.

Behind the sudden decision to abandon scrip lie three major considerations.

1. Local scrip would be of such variety as to cause vast confusion in actual business transactions.

2. It would amount to a form of printing press money.

3. Banks still are hoarding huge sums of cash or assets which may be converted into cash through the federal reserve system.

**Pay Roll Funds Affected**  
Developments of the day included:

1. A flow of pay roll funds into the hands of workers began under regulations issued by the treasury department.

2. Plans for state-wide scrip in New York and other states were rushed through, pending the possibility of creating a national emergency currency. Former Governor Alfred E. Smith of New York was appointed head of a corporation to manage the scrip issue in his state.

3. Further confidence was marked upon indication that President Roosevelt would ask congress Thursday to put a limited federal guarantee back of all bank deposits.

4. Congressional action confirming the embargo on gold was expected to be the first act of the new congress.

**Hoarders to Be Penalized**  
5. Penalizing of gold hoarders, through taxation or other drastic measures, was in prospect. Names of large holders of gold were known to authorities.

6. Food and commodity prices, fluctuating widely, showed a tendency upward.

7. Savings banks and institutions holding "thrift funds" planned to invoke the 60-day and 30-day restrictions on withdrawals permitted them by law, upon resumption of general banking.

8. Federal revenue agencies announced they would receive checks in payment of income taxes, but that if these checks were not collected within a reasonable time, the signer would be called upon to make good the amount.

Woodin's statements clearly indicated that the Roosevelt administration is definitely once and for all, pledged to the program laid down in President Roosevelt's inaugural address, when he said "There must be a sound, but adequate currency."

One of the major questions still left undecided was whether resumption of checking privileges would be permitted against old accounts. New accounts accepted since the holiday began are subject, so far as the federal government is concerned, to full checking privileges.

ORDER DICTATOR FOR AUSTRIANS

Press Freedom Limited in Political Crisis of Country.

**VIENNA**, March 8.—The Austrian cabinet Tuesday night approved a proclamation establishing what amounts to a semi-dictatorship. It forbids parades and mass meetings and limits the freedom of the press.

President Wilhelm Miklas has refused to accept the resignation of the cabinet, tendered at the end of the session which approved the decree.

The political crisis necessitating the proclamation arose over resignation of the president and vice-president of the parliament.

**MILK SESSION CALLED**  
Health Board to Meet, Take Over Flower Mission Work.

Special meeting of the health board was to be held at today to make arrangements for distribution of free milk to indigent tuberculosis patients, Dr. Herman G. Morgan, secretary, announced.

The board plans to take over the distribution, costing approximately \$250 monthly, during March, April and May. At the end of May it is expected that funds will be available for the Flower Mission to continue the work.

Several days ago the mission appealed to the board for a continuation of the work, explaining funds were exhausted.

Lyric Theater Will Close in Dispute Over Wage Cut

Musicians, Stage Hands and Operators Refuse to Meet Demands.

The Lyric theater will close its doors after the last performance Thursday night for "an indefinite period" following the failure of the musicians, stage hands and movie machine operators to meet the demands for a reduction in wages, George A. Sine, manager stated this afternoon.

"I regret the fact," Sine said in his statement, that I find it necessary to close the Lyric Thursday night in lieu of the fact we have exhausted every effort to keep sixty-three employees working.

"My demands to stage hands, musicians and operators were for a 25 per cent reduction for a period of time.

"Inasmuch as all other union crafts have gone so far as to take voluntary reductions, we felt that a reduction of 25 per cent on help would mean but very little to these crafts.

We have been paying the following scale: Operators, four men at \$40.50 each; stage, six men at \$38.50 each, and two men at \$36.25 each; musicians, one man at \$100.80 and six men at \$72 each."

It is reported that the musicians offered a 20 per cent cut and the other two crafts 10 per cent.

Union officials said that the scale paid since last September was a 10 per cent reduction from the last scale.

**Slaying Suspect Is Held**  
Local authorities will send to Dayton today to return Louis Collins, Negro, alias James Wofford, to Indianapolis in connection with the slaying of Jodie Jumper, Negro, in May, 1932.

Rent your vacant rooms with low cost Times rooms ads. They cost only 2 cents a word. Ten per cent discount on all cash ads. Call RI-5551 or bring your ad to Times want ad headquarters, 214 West Maryland street.

LIVESTOCK FLOODS NATION'S MARKETS

Sudden Increase Brings on Sharp Price Slump.

**CHICAGO**, March 8.—Stockmen poured livestock in the nation's packing centers today, eager to take advantage of the spurt in prices, with the result that hog, cattle and sheep prices were driven sharply lower.

Western markets received 77,800 hogs, some 10,000 more than last Wednesday and the price sagged. At Chicago, the reaction was 15 to 25 cents. The slump was not so marked at points farther east but the East St. Louis hog price was 35 cents lower than Tuesday.

Cattle prices were down 25 to 35 cents, except on choice grades. Trade in sheep was light at most markets, with prices about 50 cents lower. Increased supplies were responsible in those instances also.

**GOVERNOR TO FUNERAL**  
McNutt May Attend Cermak Rites If He Has Time.

Governor Paul V. McNutt will attend the funeral of Mayor Anton Cermak at Chicago late Friday if state affairs, including the executive action on bills passed at the close of the legislature, will permit, he said today.

Governor Henry Horner of Illinois has promised to make arrangements and wire him details, McNutt said.

**SPECIAL Painless 50c**  
**HANNING BROS.**  
Wash. & Penn.—201 Kresge Bldg.

**FOUNTAIN PENS**  
REPAIRED BY FACTORY  
TRAINED WORKMEN  
**THE H. LIEBER CO**  
24 WEST WASHINGTON ST.

STRAUSS SAYS WHAT TO DO ABOUT IT!

**Scrip**—(when and if issued) accepted the same as cash on your account or on your purchases.

**Pay Checks** (current)—or checks on liquid funds, certificates, money orders, or what have you—(no corn cobs)—are candidates to be honored.

**Your Charge Account** remains of course completely liquid. Use it as you have always done. We have supreme faith in our customers—sublime confidence in the stability and integrity of Indianapolis—and the U. S. A.

**So Why Worry**—You can accomplish a lot with these pleasant substitutes—You'd be surprised.

**L. Strauss & Company**