

## 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 de-  
gree, 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withdrawn from banks is for the  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-de-  
posit vault or to hide it in socks 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 cur-  
rency then are depleted in volume  
and immediate utility, and a seri-  
ous 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 ex-  
amine into what has been done in  
the past in such emergencies. The  
most widely used expedient in pre-  
serving 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.

### Issued 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 select  
committees approved commercial  
paper, 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 certi-  
ficates were issued 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 ar-  
rangement 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 be-  
tween banks, there was no suspen-  
sion so far as the public was con-  
cerned.

The clearing house loan certi-  
ficates were issued again in 1864 and  
1873. The crisis of 1873 was es-  
pecially important in this respect, for  
the practice spread from New York  
to the other important financial  
centers of the country.

The crisis of 1833 was in some  
ways even more serious with regard  
to circulating media. The resort to  
clearing house loan certificates came  
again on June 21, 1893, and be-  
came rather universal in all cities  
which had clearing houses.

### Exchange Is Preserved

Where there were none, the New York  
banks pooled their community banking  
certificates. These were temporary loans  
made by the banks, which were  
pledged to their redemption.

They were issued in \$1-5-10-20 de-  
nominations. These did much to  
preserve orderly exchange during  
the crisis in the lesser cities of the  
land.

Our experience down to 1907 thus  
produced a co-operative measure  
among banks in the large cities  
which enabled them to continue  
specific payment to the general pub-  
lic by suspending it among them-  
selves.

In other words, they permitted  
sound bookkeeping ingenuity to be  
a substitute for cash.

### STUDIES BANK EVIDENCE

Petition to Recover \$200 Taken Under  
Advice of Cox.

Circuit Judge Earl R. Cox today  
took under advisement a petition of  
Wilbur Dammeyer of Indianapolis,  
to recover \$200 from the receiver of  
the State Savings and Trust Com-  
pany. The money is said to have  
been deposited in the bank a few  
minutes prior to its closing on  
April 25, 1930.

Question involved is whether  
state bank examiners, who took  
charge of the institution on its  
closing, acted legally in permitting  
indorsement and cashing of a check  
given by Dammeyer in the sum of  
\$200.

Paul Rhoads, attorney for  
Dammeyer, contends that the ex-  
aminers permitted the check cashed  
after the bank had closed, and it  
was placed in a special deposit  
cash assets of the bank. Homer  
Elliott is receiver.

### ARGUMENTS PREPARED

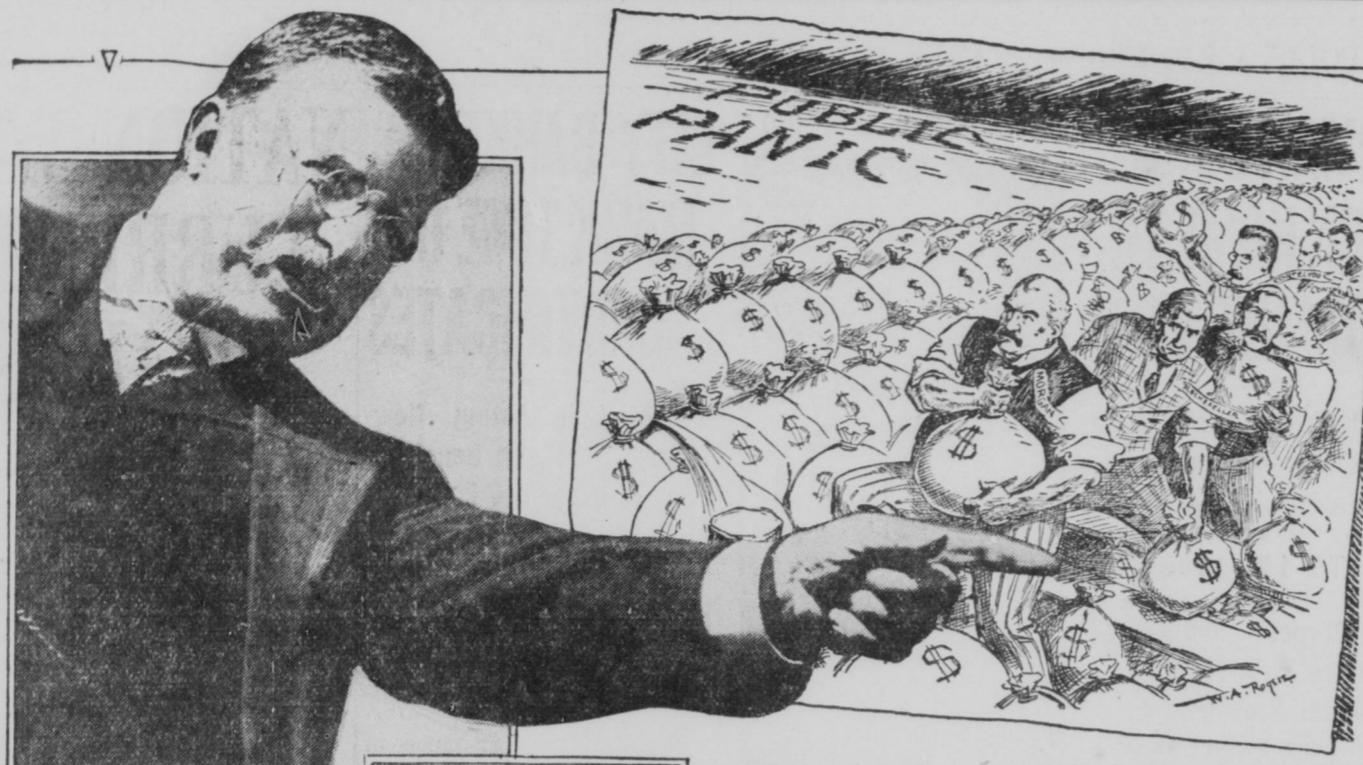
Judge Baker to Hear Plea for  
Quashing of Indictments.

Frank P. Baker, criminal court  
judge, Thursday will hear argu-  
ments on a motion to quash indict-  
ments charging two officials of the  
J. C. Scanlan Auto Sales Company,  
1404 West Washington street, with  
conspiracy to commit a felony and  
false pretenses.

Hearing will be on indictments re-  
turned last week by the grand jury.  
Both officials were indicted and  
face trial on charges brought last  
fall. Defendants are J. C. Scanlan,  
owner, and William L. Bruce, gen-  
eral manager.

## PANIC OF 1907 SUDDEN, BRIEF

Morgan and His Satellites Helped to Stem Flood



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



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 of 1907 began in 1903,  
during a period of depression; it was  
caused by a lack of currency, and the  
stress was relieved by the issuance of  
clearance house certificates, the same  
remedy that is now being employed.

### BY FOREST DAVIS

THE preponent Morgan, chewing  
a vast cigar, played patience  
grindy by night in the study of his  
marble library at Madison avenue and  
Thirty-sixth street.

From time to time, lesser bankers,  
confering in an adjoining  
chamber, communicated to him  
their hopes and resolves. Outside  
the room, in Harlem, Brooklyn  
and Wall street, other vigil  
keepers kept—alarmed depositors wait-  
ing for the sun to rise and the  
banks to open.

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

But the country assuredly shook  
from its jitters and, in many re-  
spects, conditions were more pre-  
carious than today. Certainly more  
banks suspended, many more were  
demonstrated to be insolvent; and  
for the resolute co-operation of  
Cortelyou, the captain of the first J.  
Pierpont Morgan, no one doubted,  
immediately thereafter, that only the  
strongest banks would have sur-  
vived.

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

The resemblances between Octo-  
ber, 1907, and March, 1933, need not  
be pressed too far. But it is in-  
teresting, at least, to note that then  
as the broad statement. For Wall  
Street, spurred by the tenacious Ed-  
ward H. Harriman, clamorously  
blamed Teddy for the collapse of  
fifth.

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 lead-  
ership 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 fateful

week from Washington with \$25,-  
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