The University of Chicago
FOUNDED BY JOHN D. ROCKEFELLER

Office of the President

Memorandum:-

Possibly you have not noted from the carbons attached to Mr. Lindbergh's letter that Dr. Burton enclosed with his acknowledgment a copy of the suggestions made by Mr. Wildman.

-I. E. L.

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NORTHWESTERN UNIVERSITY

THE NATIONAL CITIZENS' LEAGUE
FOR THE PROMOTION OF A SOUND BANKING SYSTEM
223 WEST JACKSON BOULEVARD
CHICAGO, ILL.

August 3, 1911.

President H. P. Judson,
University of Chicago.

My dear Mr. Judson:

When Professor Laughlin went East, he asked me to write a reply to Mr. Lindbergh's letter to you of July nineteenth, which you would transfer to a University letter-head and mail to him.

I accordingly submit the inclosed letter, with considerable hesitancy, and I should be glad to make any changes or write another if this should not meet your approval.

Yours cordially,

M. S. Wildman

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THE OFFICERS AND OTHERS FROM EACH
OF THE STATES AND TERRITORIES

THE NATIONAL CITIZENS' LEAGUE
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~~August 3, 1911.~~

Honorable C. A. Lindbergh,
House of Representatives,
Washington, D. C.

Dear Sir:,

~~In reply to your letter of July nineteenth,~~ referring to your comments on the proposed reform in our banking system, I find myself in accord with some of the general principles set forth, but, in certain applications of these principles, I could not agree with you, if I understand your position.

The technical details of the organization of the proposed Reserve Association of America I prefer not to discuss, for doubtless here is room for wide diversity of opinion. Even experts may disagree as to the mechanical devices which may best be used to accomplish a given end.

I agree that economy and progress require that the ~~best~~ largest possible use be made of credit. The exchange of goods and labor against goods and labor, without the intervention of gold or any other form of money, is desirable. For instance, a farmer "buys" a machine against the hope of a harvest while the grain is still standing. He later gathers and delivers that grain, receiving a bank check, which he, in turn, passes to the maker of the machine and discharges his debt. The several transactions have all been completed without the use of any money. The bank check was a form of credit that differed from his personal note only in one respect--it had a wider circulation and was payable on demand.

The service of a bank in a community is essentially to give homogeneity and the circulating quality to the individual credits of that community. By buying the notes of A, B, C, and others, payable at definite future dates, and giving its own obligation in notes or a deposit credit payable on demand, the bank does for credit what the mint does for metal--enables it to circulate.

The only use for gold here is to serve as a general standard, giving uniformity of value to the credits expressed in terms of dollars. As you say, gold is a commodity, and any other commodity might be used as well, if it ~~was~~ were known to have an equal degree of stability of value. But, since gold is so generally used and has so long been used, the burden of argument would lie heavily upon those who would substitute any other single commodity.

Returning, now, to the service of the banks and the purpose of the Reserve Association of America--

The single bank is a clearing house for individual credits; and the more completely it is equipped to receive and convert these credits into circulating form, the more perfectly it discharges its function in the business community.

But trade to-day is not local; it is national and international in scope. It follows that the single bank is restricted in the discharge of its function, unless there can be a free flow of credits between banks over a region as large as that covered by trade. We need an organization to do for all bank credits what the single bank does for individuals' credits in a local community.

This, I take it, is the reason for such an organization of banks as is proposed. I fail to see how it favors the money power or threatens the merchants or farmers. It is proposed to deny it profit beyond the cost of operation and a small return on the capital; its rate of discount must be uniform throughout the country; the great private banking houses cannot even buy stock nor can they have dealings with it. It is certainly an advantage to a merchant or farmer whose home bank is limted in its operations to feel that, through his home bank, however small, he has access to the whole fund of credit in the entire country.

Moreover, through the power to buy and sell bills abroad, a continuous flow of credit is established throughout the world. Since loanable capital is more abundant abroad than here, the result should be lower discount rates in the United States.

If the alternative which you propose could be operated, I do not see how the beneficial effects you ~~promise~~ forecast could flow from it. Labor would continue to be paid in proportion to its efficiency; goods would exchange in the ratio of their values,

and these values would vary as the supply and demand for each separate commodity varied; those values would still be compared, and the comparison stated in terms of some well-known valuable commodity, and, from the force of long custom, that would most certainly be gold.

You say that the government would guarantee all money and keep it on an equality. This can only mean either that a thing would be made equal to itself--which requires no government guaranty--or be made equal in value to something else--a standard. To guarantee the notes always equal to a standard--as gold--the government must be ready to give gold in exchange for them, holding a reserve and operating as a great bank.

You say that "Instead of hypothecating credit, the actual property would be hypothecated." I do not see the distinction that you have in mind, since true credit to-day arises out of the hypothecation of property. A man who gets credit or purchasing power on any other basis deceives his creditor and imposes on the public. Your government bank could only lend its notes to a man in an amount somewhat less than the value of his property. This any bank will do, provided the demand upon its resources be not too great. If it, in turn, can call upon the joint resources of a great association such as is proposed, there need never be a time when a man cannot discount his secured paper. At least, that is the case in Europe, and certainly it is possible to construct such an association of banks here.

As for the system of storage houses, we already have it whenever practicable--that is, whenever the commodity to be stored is durable, homogeneous, and capable of exact description--it would be necessary, of course, to see a detailed statement of your plan before commenting upon it with assurance; but, in so far as it is described in your speech, your plan is that of an association like the one proposed by Mr. Aldrich, with government officials financially irresponsible substituted for expert bankers with knowledge of men and values--officers who place their own capital in jeopardy to guarantee the public against loss, and are allowed to receive therefor a very small return.

Yours very respectfully,

H. P. J.

C. A. LINDBERGH,
6TH DIST. MINN.

HOUSE OF REPRESENTATIVES

WASHINGTON

July 19th,1911.

Mr.Harry Pratt Judson,
C/o Chicago University,
Chicago, Ills.

Dear Sir:

At the request of Mr.R.H.Ferguson I am forwarding you a speech delivered in the House on the 13th of June. I think what he wishes to call your attention to particularly are the comments in that speech on the Aldrich plan, which begin on page 3. I realize that this is a very important subject and I shall be very pleased to have any suggestions that you may wish to make, as the matter will be before the country for some little time.

Very truly yours,

C. A. Lindbergh

Chicago, August 4, 1911

Dear Mr. Lindbergh:-

President Harry Pratt Judson is in Europe. Because he was leaving immediately he requested Mr. Murray S. Wildman to express to you an opinion upon your plan. Mr. Wildman is a gentleman in whose opinion President Judson has great confidence. I hope that his comments will be of some value to you. President Judson will deeply regret that he was unable himself to express an opinion concerning your scheme before departing for Europe.

Sincerely yours,

Secretary to the President

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The National Citizens' League,
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(Signed) MURRAY S. WILDMAN

Ph.D. U of C.

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P.S. No.