CERTIFICATE DAYS IN SAN FRANCISCO

TRAGEDIES AND COMEDIES OF THE SEASON OF "BLUE-BACKS" AS SEEN FROM THE INSIDE OF A BANK

By Russell Lowry

AFTER the French revolution some one asked the Abbe Sieyes what part he played in that justly celebrated disturbance.

"I lived," was the good abbe's sententious reply.

The San Francisco banker, as he emerged from his storm cellar after the financial cyclone of 1907, tightly clutching in his hand the bag of gold which was his stay and comfort in the period of trouble, might have made similar reply if questioned as to his actions.

And when you consider the violence of the tempest and the suddenness and merciless quality of it, there is really some ground for pride in having merely lived through it. A good many people are wondering yet what brought on the panic, and what chased it way, and whether it is really over. The bankers are cheerfully proclaiming that normal times have been restored and predicting an early return of the high tide and heyday of prosperity.

The real causes assigned for the financial uproar are as numerous as the writers who discuss them, and there is much grave discourse about asset currency and a central bank and the need of more circulation and less speculation. Wall street says President Roosevelt is the kettle which bubbled over and started all the fuss. The president retorts that Wall street is nothing but an old black pot, anyhow. And the people, watching with interest the great kettle pot controversy, yell "Sic 'em, Teddy!"

So far as the trouble in San Francisco is concerned, it goes back to the event from which all subsequent events are dated—the earthquake and fire. Before that time the big seaport by the Golden gate was just an ordinary American city, enjoying a little more than ordinary prosperity, making a good deal of money and spending a little less, taking life very much as it came and having little to worry about. The disaster of April 18, 1906, threw all plans and calculations awry. Property worth a third of a billion dollars was blotted out of existence in a few hours and thousands of people were thrown upon the world's charity for food and clothing and shelter. Some who had lost everything and the means of replacing gave up the struggle and went away. Others of a more courageous mold set bravely to work to mend their broken fortunes. A large number took neither course, but wandered sad eyed among the "damndest finest ruins," asking dolefully if it would ever be possible to restore the city.

Golden Insurance Stream

The beginning of the insurance settlements changed everything. In a few months there was poured into the city upward of $175,000,000 in good, hard cash. Money was as plentiful as fleas, and much easier to get hold of. The temporary stores in Van Ness avenue and Fillmore street were thronged with customers, who bought lavishly of silk fabrics and lace parasols and grand pianos and bronze statuary. The avenue blazed nightly with incandescents, and the theaters and cafes were crowded. Losses of the fire were forgotten. Men who found themselves possessed of more money than they had ever owned before in their lives regarded the funds as they would an inheritance, heedless of the fact that it represented the liquidation of their business enterprises at a heavy discount.

Bankers shared in the general enthusiasm. Their vaults were flooded with gold, deposits swelled to unexpected measures, and their crude, hastily erected offices were filled daily with men who detailed gigantic schemes for the rehabilitation of the city. Credit was liberally extended, new enterprises were started every minute, and each new high water mark of deposits or bank clearings was greeted with a howl of enthusiasm.

Prices moved steadily upward; rents, labor, building materials, provisions, all took a hop, skip and jump. But who cared? The city must be rebuilt, there was the money to do it, and what did a few hundred dollars more or less matter, anyway? So, gradually the broken bricks and ashes were hauled away, the pile drivers came and the donkey engines snorted, and the clatter of the steel riveters voiced the glad chorus of reconstruction. Thus, slowly, the liquid assets of the community hardened into solid forms of steel and stone and plate glass, into rolltop desks and typewriters and printing presses and a thousand other things that were sorely needed. But the change was so gradual that those who moved in the fools' paradise were scarcely aware of it.

The realization came in the spring of 1907. The depression in Wall street—the "rich men's panic" it was called—set the bankers and businessmen to thinking a little. Not that they feared any trouble for themselves. Oh, no. They just wondered, that's all. And because they thought and wondered they became a little more chary of credit and began to make insinuating remarks to borrowers concerning loans that were about due. Then came the strike of streetcar employes. It was the first real ugly labor controversy since the fire. The other disputes between labor and employers had been conducted on lines similar to the arguments between Black Bart and the stage drivers up Calaveras way before Bart was retired without a pension. But the streetcar strike was a struggle in earnest and both sides adopted the plan of making it so unpleasant for the public that the public would arise in its might and force a settlement.

The public did not arise with any startling degree of might. Instead, it walked or stayed at home, and the consequence was that the patronage of the stores was vastly diminished. Clerks were discharged, orders for new goods were canceled and merchants began to prepare for trouble. Consumers were tempted daily with "startling cuts" and "slaughter sales" in all lines of merchandise, but the public did not respond. One reason was that the public, having paused in its spending long enough to count its change, found itself very nearly broke, and suddenly awoke from its long spree to feel the pangs of a first class katzenjammer.

The deposits in the banks began to show a decided falling off. By the end of August they had diminished no less than $14,000,000 from the top notch of the previous winter. Yet so gradually had this been accomplished that none was made to feel the pinch very seriously and no commercial failures were reported. Credit was granted more cautiously, however, and borrowers were required to explain with much circumstance their grounds for seeking loans.

Unpleasant as the recession was, it was wholesome, and San Francisco for the first time faced the magnitude of its task and set about it in sober earnest. The first step necessary was the political house cleaning, and this was achieved with neatness and dispatch. The assurance of two years, at least, of decent government removed one large obstacle to rehabilitation. The political revolution was the corollary to a moral regeneration which had been going on for months, being materially manifest in the so called "graft prosecutions."

Attempts to get financial aid from the east were almost wholly without result. The east was having its own troubles. The whole country, it appeared, had been going through an experience similar to that of San Francisco—much prosperity, money making and money spending run mad, then the inevitable slowing down, and the danger of stopping with a bump. No interest rates could be offered tempting enough to attract capital to the Pacific coast, and the fact was gradually impressed upon the people that San Francisco must depend, as it had always depended, upon its own resources for restoring its facilities and conveniences.

Such was the situation in the middle of October. The brakes had been successfully applied, conservatism had taken the place of rampant optimism and the banks were calmly sitting on the lid of credit and compelling businessmen to go slow, whether they liked it or not. On the other hand, crops were abundant in California, prices good and sales plentiful, and the returns were confidently expeced to provide plenty of money, though not a plethora. There was a comfortable feeling that any avenues or alleys through which trouble might come had been discovered and fenced up.

Then came the fireworks in Wall street. The failure of the Heinze brothers to support their pool in United Copper, and the consequent embarassment of the Mercantile national bank, was the fuse that started the rockets. There was a spluttering of torpedoes and nigger chasers, and then the roar of a big cannon cracker when the Knickerbocker trust company suspended after paying out $8,000,000 cash in a few hours. This touched off the whole magazine and New York was one grand panorama of pyrotechnics. Bankers on the Pacific coast watched the turmoil with a kind of detached interest, but at first gave little concern to a reflection of it here. Their serenity was somewhat disturbed when a few banks in Nevada closed their doors, while others sought and obtained assistance in San Francisco against possible panic.

Our First Certificates

When the New York banks went on a clearing house basis, for the first time since 1893, and the action was quickly followed in Chicago, St. Louis and a score of other large cities, the San Francisco clearing house association confronted a difficult problem. Never had the banks of this city resorted to such a measure, which, though innocuous enough in itself, invariably spells panic in the mind of the public. Most powerful in its influence was the intimation of the New York banks that they would pay out no more currency until conditions became more settled. This meant that all the banks of the west, unable to obtain coin or currency from their eastern correspondents, would draw on their San Francisco balances for supplies of money and thus quickly absorb the gold reserves, which could not be replenished by importations from the east. Furthermore, the sale and shipment of California products had created large credit balances in the east and in foreign centers, and it was practically certain that difficulty or delay would be experienced in realizing on these balances. With these facts in mind it was deemed best to make use of loan certificates in clearing house settlements between the banks and to discourage the use of coin by customers as much as possible.

The announcement in the newspapers on the morning of October 29 that the banks would go on a clearing house basis and would "make no payments in coin except for the reasonable and clearly legitimate demands of business" sent a cold chill down San Francisco's spine. Up to that time the average citizen had looked upon the financial trouble as something remote and unrelated to his own interests and affairs—something concerning Wall street only and of no special interest elsewhere. For the first time the fear of panic became a sinister reality. The sense of vague but impending calamity was changed to acute alarm the next afternoon, the 30th, when the California safe deposit and trust company refused to pay checks and closed its doors. Most opportunely, Governor Gillett that night announced a legal holiday for the following day, yielding to the request of bankers in San Francisco and elsewhere. The holidays were continued from day to day until December 21. Although the governor was reluctant to declare holidays, and did so only at the insistance of leading bankers who have since poohpoohed the idea that holidays ever were necessary, "except to protect the country banks, you know"—which had the least need of protection—there is little doubt that the effect was beneficial. The holidays enabled the banks to refuse with impunity any unreasonable demands upon their resources, and such demands were by no means few. Depositors became accustomed to the idea that they could not get everything they asked for, and long before the holidays ended the urgent imaginary necessities had ceased to exist. Thus the banks were safeguarded against the frenzied raids of their own depositors, whose interests would have suffered most from such raids. The wisdom of Governor Gillett's action can hardly be questioned, and neither he nor the bankers who petitioned him have any cause for apology.

The first day of the holiday series was to bankers the most trying of the entire panic period. By common understanding all the banks were open for business as usual, but urged their customers whenever possible to use certified checks, payable through the clearing house, instead of coin or currency. Withdrawals were unusually heavy and fear and suspicion were written upon the faces of scores of depositors. Still, there was nothing that could by any stretch of fancy be termed a run and the banks came through the long day, on the whole, better than they had expected.

During the remainder of the week, however, there was so strong a current of withdrawals and so many evidences of the hoarding of gold that the banks resolved to issue asset currency, based upon their loan certificates, which in turn were based upon the assets of the clearing house banks. The savings banks began to enforce the rule requiring notice of withdrawals and the safe deposit companies agreed among themselves to rent no more safe deposit boxes.

People Accepted Readily

On Monday, November 4, the first issue of asset currency was made, in denominations of $5, $10 and $20. The people were persuaded without much difficulty to accept them and the banks were able to keep their gold supply intact, paying out coin only when actually required for customs duties or similar purposes where only legal money would serve. In a few days, however, it was found that many persons were systematically using the certificates to gather silver for hoarding, and the supply of small change was in a fair way of depletion. To meet this evil the clearing house association began to issue certificates in denominations of $1 and $2 and these were soon widely distributed. Specie payments were practically discontinued everywhere.

Now, the people of San Francisco do not like currency of any sort, no matter how well secured, or if all the governments in the world back it up. They argue that gold is much cleaner, easier to handle and less likely to be counterfeited. Paper money has never circulated in this city longer than the time necessary for the receiver of it to get to the bank. Paying tellers keep few greenbacks or bank notes in their cages because there is no demand for them.

This antipathy, being understood, the situation was not without its humorous aspect when San Francisco was, without warning and without choice in the matter, placed upon a paper basis. And with no familiar green government money at that, but with a flood of extralegal currency, strange in appearance and in essence.

The first clearing house certificates looked like checks, being engraved in simple script upon blue bond paper. Consequently it occurred to many people that indorsements were necessary. The indorsements grew and multiplied as the paper passed from hand to hand, until it came to the receiving window looking like a page from an anti-Smoot petition. In some instances certificates were used in lieu of memorandum books. "Ten yards birdseye, hygeia bottle, safety pins" was the inscription on one certificate, which evidently had gone a-shopping.

The exact status of the certificates as a substitute for money has puzzled a good many people. As a matter of fact, they had no legal status at all, but the question received little consideration from law offices because of the obviously temporary character of the certificates and the patent fact that they were not designed to compete with national bank notes.

As to their security, they were as sound as the city of San Francisco itself, being based upon the combined assets of all the clearing house banks. These assets, which were deposited with the clearing house by the different banks in proportion to the certificates they took out, consisted in part of the stocks and bonds of prosperous corporations, but mainly of the promissory notes held by the banks in exchange for money loaned in the ordinary course of business. These notes bore the signatures of the most powerful (financially) corporations, firms and individuals in the city, so that in reality the certificates were backed by the combined wealth of the business community of San Francisco. Only the wholesale failure of all the banks and business houses in town could have rendered them worthless.

The certificates met an emergency, filed a gap in circulating medium which urgently needed to be filled, and as soon as their purpose was served they were automatically retired. By the middle of January, 1908, fully two-thirds of the total $7,000,000 issue had been taken from circulation and canceled, and the banks instead of paying them out were urging customers to bring in the scrip for redemption.

Postponing the Taxes

Before the stringency had reached its full tide, when the banks were still paying gold—very reluctantly and with much argument, but yet paying—the most persistent and ingenious efforts were made to get money. The payroll was the favorite pretext. It was really marvelous how the payrolls of San Francisco grew and expanded in those early days of November. The asset currency solved this problem and reduced the payrolls to normal volume. Then came a universal and well nigh uncontrollable desire to pay taxes. It appeared that many citizens could not sleep well of nights until they had settled with the tax collector and put away their receipts. The California law requires tax payments to be made in actual money, and exacts 15 per cent additional for settlements deferred until after November 25. The bankers could not get around this obstacle by any devious clearing house ways, so they hurdled it. The governor was persuaded to call the legislature together in special session, and the time for paying the taxes was extended 60 days. Thus another raid on the gold was averted.

Those who showed evidence of wanting money for hoarding were turned away empty handed in most cases. One of the timid crew came to bank and insistently demanded his entire balance—a couple of thousand or so—in gold coin. The cashier tried to talk him out of the notion, but the man was obdurate. He said he wanted to put the money in a safe deposit box where he could be sure of it.

"Now, see here," said the cashier, "you know that a certified check is just as good as money, don't you?"

"Why, yes, of course," answered the customer, a little doubtfully.

"Well," said the cashier, lowering his voice to a confidential whisper. "I'll tell you what we'll do. You've always been a good friend of ours, and of course we want to favor you all we can. You write a check for $2,000, payable to yourself. We will certify the check and you can put it away in a safe deposit box, where you can always be perfectly sure of it."

"Fine," exclaimed the customer, "that's mighty kind of you."

And the certified check was carefully laid away in the box.

At one of the Oakland banks a woman came to the paying window and presented a check, requesting coin. The paying teller explained that no coin was being paid. Said the woman:

"You wouldn't like to see me drop dead right here, wouuld you? Well, my doctor says I have heart trouble and any shock or disappointment is likely to prove fatal. If I don't get gold for this check I shall be both shocked and disappointed, and it wouldn't surprise me a bit if I fell dead before your eyes."

But the paying teller declined to go into the life saving business.

These incidents were typical of many that came to the notice of the bank people.

Before November was many days old gold from Europe began arriving in large quantities in New York, and the stringency was in part removed. Within two months the total importations of the standard metal had reached the enormous sum of $110,000,000. Most of this money came from London, though in the face of the Bank of England's rising discount rate. The rate of exchange, which ordinarily governs the movements of gold, was of no effect in view of the premium on money as compared with bank checks. At one time the premium rose as high as 4 per cent and there was an active traffic in money. The secretary of the treasury sought to relieve the situation by depositing customs receipts in the banks and by the issue of Panama bonds, which could be used by the national banks as the basis of additional circulation. But the premium persisted until after the January disbursements of bond interest and industrial dividends, when it disappeared completely.

The existence of this premium made it impossible for the banks to get cash except at a considerable loss. Many of them faced this loss as cheerfully as possible, and it is a matter of record that about $18,000,000 of gold was received in San Francisco during the two months of the financial trouble. Most of this was shipped to the interior banks having balances in the reserve city, some went to pay taxes and customs duties and the rest swelled the reserves of the banks. On December 3, when the comptroller of the currency called for a statement from the national banks, the nine national banks in San Francisco held reserves in legal money equal to 34 per cent of their deposits—the legal requirement being but 25 per cent. The state banks, a few weeks later, made an equally strong showing. In the Atlantic coast states, almost without exception, the banks had less than the legal measure of reserve money. These banks accuse the western institutions of hoarding and thereby contributing to the very condition which they ought to have been trying to relieve; maintaining that the purpose of having reserves at all is for use in emergency and not to hide behind. The western banks, on the other hand, pat themselves on the back for their ability to hang on to what they had during the whirlwind, and attribute it to superior strength and endurance. The public can take its choice of the two arguments.

"No Money Loaned"

At the first intimation of trouble the San Francisco banks stopped loaning money and endeavored to offset their losses in deposits by reducing existing loans. It was noticeable, however, in the reports to the comptroller, that the reduction of loans was far from keeping pace with the reduction in deposits. The fact was recognized that to force borrowers into liquidation at such a time would cause widespread distress and in some cases lead to bankruptcy. Furthermore, the legal holidays were two edged in their effect. As the banks were temporarily released from the necessity of paying depositors, in like manner debtors were released from paying loans to the banks, and the operations of the courts were suspended. This may account in part for the leniency of the banks in pressing collections.

There was one feature of the banking situation, however, which made it peculiarly difficult to realize quickly on bills receivable. This was the permanent character—not ostensible, but actually—of many commercial loans. It is one of the evils which has always existed to an extent, but which was emphasized and increased in the boom days following the fire. A large number of "demand" loans are demand loans in name only.

"I can call spirits from the vasty deep," says Glendower, in "Henry IV."

"Ay," retorts Hotspur, "so can I, and so can any man, but will they come?"

Just so with the call loans of the banks. The banker can go out and call till he is hoarse, but nothing happens. Here is an example of the way in which the evil began. A manufacturer lost in the fire a building and plant valued at $100,000. He received $50,000 insurance, which was just about money enough to replace the building. The bank then loaned him $25,000, payable on demand, so that he could buy machinery and resume operations. Obviously the money has gone into permanent capital, and there is little chance of its being repaid until the earnings of the plant have created a surplus fund, or new capital has been provided. Such loans are contrary to the policy of all commercial banks, of course, but not a few of them were made in order to hasten the restoration of San Francisco's industrial facilities.

Although taken unawares, and with little time for special preparation, the banks of the state came through the crisis with surprising strength. Nine state banks and one national bank in California closed their doors at some period of the trouble, but it was noticeable that in most if not all of these institutions there was inherent weakness which the panic did not create but merely revealed. The largest failure, that of the California safe deposit and trust company, appears to have been due to wretched mismanagement and dishonesty for many years. It carried down with it four smaller banks which had come under its baneful influence. The one national bank which closed was subsequently reopened, and some of the state banks may be allowed to do so. Receivers have been appointed or recommended for five of them, and the precise losses to depositors will not be determined for some time.

The other banks in the state which did not fail—some 600 or 700 of them—are giving theselves airs in consequence, and even venture to call attention in a modest and dignified way, of course, to the wisdom and calmness and strength with which they handled the situation. But when all the facts are reviewed it will be seen that in reality their chief concern and their most notable achievement was to emulate the worthy Abbe Sieyes.

They lived.

"NOW, THE PEOPLE OF SAN FRANCISCO DO NOT LIKE CURRENCY OF ANY SORT ..."

"CAFES WERE CROWDED."