TABLE OF CONTENTS

EDMUND PLATT. ADDRESSES, SPEECHES, ETC. ON BRANCH BANKING 1913-1933.

THE FEDERAL RESERVE BILL

The Aldrich Plan Disguised with Central Reserve Association Divided Into Twelve Parts—Weakness of the Division—Bank Notes Masquerade as Government Notes—Compulsory Feature Unfair to Country Banks.

SPEECH

OF

HON. EDMUND PLATT

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SPEECH

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HON. EDMUND PLATT.

The House in Committee of the Whole House on the state of the Union had under consideration the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, for furnishing an elastic currency, affording means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States, and for other purposes.

Mr. PLATT. Mr. Chairman, I hardly expected to come in so soon after the gentleman with whom I so violently agree and disagree, the gentleman from Georgia [Mr. HARDWICK], but I want to congratulate the gentleman on his loyalty to his party in spite of his opposition to the bill. I am afraid I shall have to disagree in part with some things that have been said by some of my colleagues on this side of the House in regard to the long-continued secret-caucus process to which this bill has been subjected. If I belonged to a party which included so many men who believe in fiat money, in coining cucumbers and corn tassels, in chasing bogie men, and in other forms of idiocy, I should be in favor of getting the bunch together in secret caucus and in administering chloroform and discipline, too. And, furthermore, in spite of the fact that I have been roasting here in Washington all summer waiting for an opportunity to do some work with the members of the Banking and Currency Committee, I feel like congratulating the gentleman from Virginia upon the success of the chloroform and discipline which he has administered.

On the 23d of June the President of the United States came into this House and delivered a message on the currency question, which, boiled down and stripped of its rhetorical setting, was, in substance, as follows:

> This tariff bill, which you are about to pass in fulfillment of the pledges of the Democratic platform, is likely to cause trouble, and therefore it is necessary to pass as soon as possible a currency bill to relieve the situation.

In pursuance of the recommendations of that message we are now considering a currency bill.

Mr. Chairman, I congratulate the gentleman from Virginia [Mr. GLASS] and the Democratic majority in this House on having annexed so much of the Hon. Nelson W. Aldrich. This banking and currency bill before us is none other than the much-discussed "Aldrich plan" in disguise, so disguised as to make it seem to harmonize with the Democratic platform and with the financial ideas of the distinguished Secretary of State, who has won his present exalted position by being always wrong on all currency questions that have come before the people up to this time. The disguise is pretty thin in some places, a sort of X-ray disguise, so thin that you can see right through it to the motive back of it without spectacles. Thus what are really in effect bank notes "purport on their faces" to be greenbacks; that was the language of the bill as it was first introduced, but "purport on their faces" was a little too much of a joke and was stricken out. In its place we find the statement that "the said notes shall be the obligations of the United States"; yet they are in fact made the obligations of the Federal reserve banks, which are required to keep a reserve of 33⅓ per cent against them and to mortgage all their assets for their security. The explanation of this contradiction lies in the fact that the Democratic platform and Mr. Bryan have declared that "all money must be issued by the Government," and Mr. Bryan regards bank notes as money.

The Democratic platform and Mr. Bryan also declared in no uncertain tones against a central bank and against the Aldrich plan, yet this bill creates a central bank just the same. You can not see it easily—it is disguised so as to fool the good people who believe in Mr. Bryan and in the Democratic platform—but it is there just the same. The central reserve association of the Aldrich plan has been split up into not less than 12 regional or Federal reserve banks in order to get votes and to disguise the fact that their main features are borrowed from a wicked Republican measure; but, horrible as it may seem, the central bank peeps through the cracks, the spaces made by splitting up the central reserve bank into regional banks. It is a Government-controlled central bank, to be sure, and confined to the rediscounting of notes and the issue of paper currency, but no less a central bank—a bank within or behind a group of banks.

A careful comparison of this bill with the bill introduced by the National Monetary Commission—the Aldrich commission—will show that more than half of the former is taken from the latter. All the main outline ideas of the bill come from the Aldrich plan—the idea of organizing for the pooling of reserves, to be available for aiding individual banks through rediscounting their short-time commercial paper; the idea of obtaining capital for the banker's bank or banks by subscriptions from the national banks themselves; the 20 per cent subscription idea, with 10 per cent to be paid in and the other 10 per cent to be subject to call; the idea of having the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency serve as an organization committee and also serve on the board of control—all these and many minor ideas are borrowed from the Aldrich plan.

This bill obtains much of its strength and some of its weakness from the Aldrich plan. Some ideas that were good if applied to a single central reserve association are sources of weakness as applied to a series of comparatively small Federal banks, with a capital no greater than $5,000,000. Doubtless $5,000,000 looks like a good deal to many of us. It did to me until I reflected that there are in every one of the large cities of the United States single buildings that are worth as much or more than that, and in some cities a great many such buildings. Now, a $5,000,000 institution in a city which has a revenue from taxation of $150,000,000 would not seem like a very large or a very imposing or even a very substantial institution. In such a city many business firms and corporations, and doubtless some banks, would have far larger capital than the minimum capital of the Federal reserve bank. I do not suppose there will be more than one Federal reserve bank in the city of

New York and the surrounding metropolitan district, but under the terms of this bill there might be three or four of them there, as the capital of the national banks alone of the city of New York is about $120,000,000. You would need to add only a few of the great State banks to bring it up to $150,000,000. Even one Federal reserve bank with a capital of $15,000,000 in New York City would be overtopped by five national banks of the great city, and a $20,000,000 Federal reserve bank would be overtopped by three of them.

This points to one of the weaknesses of this adaptation of the Aldrich plan to the Democratic platform. It was all well and good to obtain capital for a central reserve association by subscription from member banks, with the provision that increases or decreases should be in proportion to increases or decreases of capitalization of member banks, but with the central reserve association split up into not less than 12 Federal reserve banks this plan of raising capital becomes a source of weakness.

The failure of a member bank decreases automatically the capital of the Federal reserve bank of the district and might impair its capital just when its assistance would be most needed. The National City and the Bank of Commerce of New York City alone will own $5,000,000 of the capital in the New York City Federal reserve bank, or one-third of it, supposing that the Federal reserve bank will have $15,000,000 of capital, or one-fourth if a $20,000,000 capital. Now, what would happen to the Federal reserve bank of New York if those two national banks should fail? Perhaps you will say they can not fail. Well, then, they are safer banks to-day in which to keep country reserves than the New York Federál reserve bank will be. What would happen if one of them should fail? Would the Federal reserve bank be able to extend any help to the other banks of the city? It would not; and its inability to help would cause other failures and the suspension of specie payments in New York and probably all over the country. There are at least 10 other banks in New York whose failure would cause serious embarrassment to a local Federal reserve bank in that city.

Now, let us look at this weakness of the split-up Aldrich plan in another light. The New York City national banks combined have a capital of $120,200,000 and the banks of New York State a capital of $171,600,000. Add the capital of the New England banks, $105,776,000, and you have $277,376,000, or about one-fourth of the capitalization of the banks of the whole United States. Add the capitalization of the banks of Pennsylvania, $118,034,000, and you have $395,410,000, or considerably more than one-third of the capitalization of the whole United States. Your Federal reserve banks in New York, New England, and Pennsylvania then will have a capitalization of $39,541,000, out of a total of about $105,000,000, without counting any State bank or trust company capitalization. Call it $40,000,000 for convenience of figuring, or $45,000,000 with New Jersey, Delaware, Maryland, and the District of Columbia figured in. Now, you have only $60,000,000 left for all the rest of the country. Suppose three Federal reserve banks to be organized for this territory and nine for the rest of the country. Those nine would have an average capital of less than $7,000,000 each, and as the Chicago Federal reserve bank would certainly have a capital of $15,000,000 all the others would be held down pretty close to the minimum; there would be scarcely $6,000,000 left for each of them, and as St. Louis, a central reserve city, would probably have a bank of $10,000,000, most of the rest would be $5,000,000 banks and of no great strength.

In all probability neither the banks nor the people would have any great confidence in these numerous reserve banks—at least not until they had demonstrated their soundness and usefulness. If even a small number of the national banks in some of these districts should elect to take out State charters, and if none of the State banks should choose to come in, some of the districts could not organize Federal reserve banks at all.

All that were organized would be greatly overtopped by the Federal reserve bank in New York City; and in case of a serious financial disturbance we should probably have a recurrence of the breakdown of the check-collection machinery that we saw in 1907, for each individual Federal reserve bank would be under the same inducements to strengthen its own reserves at the expense of the Federal reserve banks of other districts, as the individual, National, and State banks have to-day in a crisis. In the end there might even be a resort to the great clearing-house associations for help, and clearing-house certificates might have to be issued despite the prohibition on page 36, line 7.

It will be noted that the bill provides that not less than 12 Federal reserve districts shall be created. There may be as many more as can obtain a capital of $5,000,000, the apparent purpose being to create as many as possible of these Federal reserve banks and make them as small and as weak as possible. It has been stated that Mr. Bryan wanted to create as many as 50 of them and that a well-known Senator wanted one for every State.

The effort in this bill to compel national banks to contribute to the capital of the Federal reserve banks follows as a necessary corollary to the effort to organize as many as possible of the reserve banks. The Aldrich plan provided for voluntary subscriptions from the banks, as, obviously, sufficient capital could be obtained in that way to start a single strong central reserve association; but without compulsion certainly sufficient capital can not possibly be obtained for 12 or more Federal reserve banks. I believe this effort at compulsion is, nevertheless, one of the most inexcusable and most dangerous features of the bill. It may disrupt our national banking system and is, in my judgment, entirely unnecessary to the carrying out of the general scheme of the bill. Enough capital to organize two or three strong Federal reserve banks can undoubtedly be obtained without compulsion, and the system would develop naturally and gradually without the compulsory feature and without the provision for not less than 12.

The framers of the bill seem to think that if they take out the "not less than 12" provision the result will be a single central bank, because bankers generally favor that plan. I think they have not reckoned upon the force of local pride and enterprise. Certainly each of the present central reserve cities will want a Federal reserve bank. San Francisco and other large centers will not be far behind in their demands if they can raise the capital. Doubtless there is some politics in the plan of having not less than 12. It is expected to obtain votes and local faver, and the same force would operate to create more than one bank by voluntary subscriptions. It would furthermore be easy to insert a provision that there should be not less than 4.

I believe the single reserve association provided for in the Aldrich plan would be very much superior to the plan of this bill, but I should have no serious objection to a division of the country into five or six Federal reserve districts. In fact, the latter plan has some advantages, especially in facilitating the redemption or recall of Federal reserve notes or currency issued. I regard the provision on page 31 that no Federal reserve bank can pay out the Federal reserve notes of another Federal reserve bank as one of the most valuable features in the bill. It is, of course, borrowed from the Canadian banking system, and should work to produce real elasticity in the issues of Federal reserve notes, if such issues ever amount to anything. It would be difficult, if not impossible, to arrange such a system with a single central reserve association with branches, and the scheme of taxing the issues provided in the Aldrich plan, borrowed from the German Reichsbank, is distinctly inferior.

On the other hand, the central association with branches would provide for more nearly uniform interest rates throughout the country, even if the rediscount rate were not fixed by law at a uniform rate. The Democratic Party, by breaking down the old United States Bank, and by persistent opposition to a really national system of banking, has condemned the South and West to the payment of much higher rates of interest than they should be paying.

Mr. CALLAWAY. Will the gentleman yield for a question?

Mr. PLATT. Yes.

Mr. CALLAWAY. The gentleman spoke of the Democratic Party breaking down the national banks——

Mr. PLATT. The old United States Bank.

Mr. CALLAWAY. Did not the Southwest get along all right until the Republican Party passed this banking act? We never suffered from 1836 to 1860.

Mr. PLATT. The gentleman can answer that question as well as I can.

Mr. CALLAWAY. But have not I answered it better?

Mr. PLATT. That is for the gentleman to judge, or the House. I shall have a further answer later.

We have really no national banking system in this country. Our national banks are local institutions. Doubtless there are great advantages in our free banking plan, as it has been called, as there are also great disadvantages, particularly for rapidly developing sections like the West and South. We have no safe, easy means of loaning the money which accumulates in the reservoirs of capital in the East, where it is often most in demand in the West and South, as Canada has.

I was very much surprised to find that a small country bank in my district, a bank with only $25,000 capital, located in a little village of about 2,000 people, was loaning a considerable part of its deposits to cotton planters in the South. This bank, like many other country banks in the long-settled portions of the country, has much larger deposits than it can possibly loan at home. It is making its loans to cotton planters, however, not directly, but through middlemen; that is, by purchasing guaranteed notes through note brokers and guaranty associations, who, of course, make a profit. The cotton planters pay 7 per cent or 8 per cent for their money, and the bank gets 6 per cent. Inasmuch as considerable of the money in my district is still loaned at 5 per cent, the transactions are profitable to the bank, but if we had some safe way of loaning directly in the West or South the borrowers would pay a lower rate through elimination of the middleman.

If you should go through North Dakota or Montana, you would find people paying 8 per cent on perfectly well secured notes, though right over the border in Canada people are borrowing at 6 and 7 per cent from the great Canadian banks.

The Bank of Montreal, the Dominion Bank, the Canadian Bank of Commerce, and other Canadian banks collect the money which accumulates in the East and loan it through their own branches where their greatest demand for it is in the West, and the differences in rate between Montreal and Manitoba or Saskatchewan are, I am told, seldom more than 1 per cent.

Mr. WINGO. Would it disturb my friend for me to ask him a question?

Mr. PLATT. Not at all.

Mr. WINGO. The gentleman mentioned a few moments ago that he was surprised to learn that a small bank in a small village in his State was loaning its deposits indirectly to the cotton planters of the South. Has the gentleman any data to show the size of the notes which this bank handles?

Mr. PLATT. No; I have not. That is something——

Mr. WINGO. They were to the large cotton planters, were they not?

Mr. PLATT. I suppose they were, because they came from guaranty associations that would not be likely to guarantee notes unless they were the notes of large planters.

Mr. WINGO. What per cent did they get?

Mr. PLATT. The bank got 6 per cent.

Mr. WINGO. Has the gentleman in his experience found any banks in New York State that loan to the small farmers of the South at 7 per cent?

Mr. PLATT. Directly?

Mr. WINGO. Directly or indirectly.

Mr. PLATT. Not excepting in that once instance, in which I understood the cotton planters paid 7 per cent. They may have paid more. I do not know exactly what the rate of interest was.

Mr. WINGO. That is the extent, is it, of the gentleman's information as to the rate of interest that the small farmers of the South pay?

Mr. PLATT. I think they were large farmers.

Mr. WINGO. They were land notes, were they not?

Mr. PLATT. They were loans that were made on the cotton crop. They purchased the notes in the early spring, and they were paid off in the fall, I think in November.

Mr. WINGO. The gentleman will recognize that there is quite a difference between the problem that confronts the small farmer who makes only 8 or 10 bales of cotton a year and the large plantation that produces 10,000 bales. The gentleman recognizes the difference that confronts them, does he not?

Mr. PLATT. Yes; and those conditions ought to be taken care of by local associations, something of the kind that was spoken of by the gentleman from Indiana [Mr. Moss] last night. There should be farm credit associations all over this country that would loan directly to the farmers and that would have control, so that they would know that they are loaning safely. There are something like 50 granges in my district, where the farmers are largely dairymen. They all know each other and they know what every man is worth, but for some reason or other they have not formed such a credit association yet. They are talking about it, but so far they have not got busy.

Our individual banking system, with its multitude of small local units, is better for the East, which gets a very low rate, but unfortunate for the West and South, where the rates are sometimes double those that prevail in New England and New York. The banks in most eastern cities, small and large, at times have deposits much larger than are needed at home, and this is particularly true of the country banks in neighborhoods that are attractive as places of residence, as in my district. Nearly all such eastern banks invest their funds largely in bonds, railroad bonds, municipal bonds, State bonds, and so forth. This they do partly to obtain liquid assets, to be considered a secondary reserve, and bankers in my district have told me that they consider it good banking to invest about one-third of their deposits in bonds; but as these bonds never yield more than 5 per cent, and often do not yield as much as 4 per cent, such investments would not be made if there were a steady demand for their funds on the security of good commercial paper at home. Of course they purchase such commercial paper as comes into the market from time to time through the note brokers, but here again the middle man intervenes and gets part of the profit.

In my own city, a city of about 30,000 inhabitants, the deposits in the banks—four national banks, a trust company, and a savings bank—amount to about $25,000,000, the savings bank alone having on deposit about $15,000,000. Naturally no such enormous sum can be profitably employed at home and the savings bank has made a great many of its loans in New York City on mortgages bearing as low as 4 per cent interest. Our national banks all have large investments in bonds.

I might say that their statements show that nearly all of them have their capital and surplus invested in bonds. The average bank of this kind, when it wants help, does not take commercial notes for rediscount, but the method is to take some bonds down to New York and get money on collateral in that way at a low rate of interest. The same thing is true of a great many other eastern communities, and the most notable example I know of is to be found within 75 miles of Washington, at the little city of Frederick, Md., a city of scarcely over 12,000 people. One of the four national banks in that city, a bank with a capital of $100,000, has deposits amounting to $3,300,000 and owns bonds to the amount of $1,300,000.

Now, the point I am getting at is that if President Andrew Jackson and the Democrats of his day had been wise enough to know how to reform the old United States bank, instead of destroying it, even if they had not been willing to give it national competition by allowing the great eastern banks to establish branches in other States, much of this wealth that accumulates in eastern centers could easily and naturally be spread throughout the country, without the intervention of middleman, at lower rates than those which have prevailed and are now prevailing throughout the West and South.

I think there are some valid objections to the provision in the Aldrich plan for uniform rediscount rates, regardless of local conditions, but they are objections which appeal more to the student of banking than to the people at large, and I should think the Democratic Party would have pretty hard work defending them among people who are paying from 8 to 10 per cent on good paper. Even without the legal provision that the rediscounting rates should be uniform, a single central reserve bank or association would undoubtedly automatically operate toward greater uniformity and toward lower rates for the West and South than can possibly be the case with the scheme provided in this bill of not less than 12 Federal reserve banks.

Mr. HARDY. Mr. Chairman, will the gentleman submit to one question?

The CHAIRMAN. Does the gentleman yield?

Mr. PLATT. Yes.

Mr. HARDY. If this central and branch bank system is so clearly the right thing, why in the world has not the Republican Party put that system into operation during the 60 years of its reign?

Mr. PLATT. I will say to the gentleman that the same prejudices that built up the opposition in the Democratic Party have prevailed to a certain extent in the Republican Party and have only recently been cleared away a little.

Mr. HARDY. The gentleman thinks his party is tarred with the same feather?

Mr. PLATT. I think if the people understood that you could go over to Canada and borrow money for 2 per cent less than it can be had on this side of the line they would know that there is something wrong about the present system. It is because now you can not spread the capital that accumulates in the East over the West safely.

Mr. HARDY. I understood the gentleman to criticize the Democratic Party for not providing a remedy for the conditions he speaks of, and yet there has been a delay of 60 years under the Republican administration to bring about these reforms.

Mr. PLATT. Really the Republicans led to the views expressed in the bill that is before us.

NOTE ISSUES.

I have said that the currency provided for in this bill is really bank currency, though on its face it appears to be United States Government currency. I have also said that the Federal reserve board, which is to issue it through and to the banks, has been constituted practically a central bank of issue under Government control. You will notice on page 32, lines 7 to 10, that the Federal reserve board is given discretion with regard to the issues of Federal reserve notes to applying Federal reserve banks, and you will also notice on the same page that the Federal reserve board or the local

Federal reserve agent is authorized to charge "such rate of interest on said amount as may be established by the Federal reserve board, which rate shall not be less than one-half of 1 per cent per annum."

This, of course, is said to be merely the equivalent of the present tax of one-half of 1 per cent upon bank notes, but it is not called a tax but a "rate of interest," and may be fixed at any point above one-half of 1 per cent which the board shall determine. The word "interest" is apparently used with malice prepense. In other words, the board is given full powers of a bank except the receiving of deposits. It issues notes on collateral security, practically rediscounting the once rediscounted notes of the Federal reserve banks applying to it.

Now, apart from the question of the advisability of issuing these notes as Government notes, and apart from the danger of allowing them to be redeemed in lawful money—greenbacks—it is certainly a clumsy means of getting notes into circulation in response to the demand, almost as clumsy in fact as that provided in the Vreeland-Aldrich emergency currency plan, and there is clearly the possibility that politics or favoritism to some particular locality for political effect may at some time become a factor.

It may be said also that if the Government, or a board appointed by the President, is going to be given full discretionary powers of note issue on collateral security, it should also be given the right to receive deposits. In other words, the Federal reserve board might as well become in every respect a central bank with full power as to be merely a bank of issue half concealed behind the reserve banks, over which it is already given so much control as to make them little more than branches.

I agree fully with what has been said by my colleague from California about the folly of issuing these notes as Government obligations. They should be bank notes, pure and simple, dependent wholly upon good banking and a sufficient reserve for their security.

It seems to be particularly difficult, as has already been said, to make many people understand that a bank note is not money any more than a certified check is money. A bank note, like a check, is merely a promise to pay on demand. To make it read on its face as the obligation of the United States, like a greenback or a Treasury note, is to be guilty of practicing a certain amount of deception, and may lead to defeating in time to come one of the chief purposes of this bill, the establishment of an elastic currency. Checks provide an elastic currency so far as they go. They are issued when wanted, and come back to the bank for cancellation naturally when they have fulfilled their mission of transferring credit from one person to another. Bank notes ought to come back in a similar fashion after fulfilling their mission in order to be elastic. Being issued for uniform small amounts, they naturally pass through more hands than a check drawn to pay only a particular account, but they are none the less instruments of credit and not money. Nor is there any considerable increase in profit to a bank from issuing notes which regularly come back to it, as in Canada through the clearing houses, than there is from giving credit on the books of the bank upon which to draw checks or drafts. The difference in profit is mostly caused by the greater bookkeeping involved in collecting the checks and transferring the credits on the books.

In other words, the much-discussed note-issue privilege is not a privilege, as banking goes to-day, of any great value to a bank. It does not give the bank the right or privilege of controlling the money of the country, nor does it give to private individuals the right of "coning paper," as it is said by so many cranks.

UNFAIR TO COUNTRY BANKS.

This bill though improved in its sections applying to reserves is still unfair, in my opinion, to the country banks, and in spite of some efforts to create a contrary impression it is the country banks which are the real objectors to the bill rather than the big city banks. Every Member of this House whose constituency lies in a country-bank district knows this from the letters he has received. Scarcely a single country bank can be found that is in favor of the plan. Most of them resent particularly the effort to force them to subscribe to the capital of the Federal reserve banks on pain of forfeiture of their charters, and some have declared flatly that if this provision is retained they will give up their charters as national banks and reorganize as State banks. In my own city all but one of the four national banks were formerly State banks, organized before the national banking act passed, and they are still known by the same names they took as State banks. They would lose little or nothing in prestige by going out of the national system, and two of them would lose little through the sale of the bonds they hold to secure circulation.

Mr. MURDOCK. Will the gentleman yield?

Mr. PLATT. Yes.

Mr. MURDOCK. When those four banks reorganized as national banks, did they include in their names the word "national"?

Mr. PLATT. Yes; but here is a strange thing: You will find in nearly every old town a First National Bank, and that First National Bank is generally the bank that was organized last. The first national banking act, passed in 1863, did not allow the State banks to organize with their old names, and they would not come in. They did not want to give up their old names. They thought the new system was something of an experiment. Consequently in every town a group of men got together and organized the First National Bank, which, of course, was a younger organization than any of those already in existence. So the First National Bank in my town is the last bank that was organized in that town.

In 1865 the law was amended so that State banks could come in with their old names, and the Merchants' Bank reorganized as a national bank and was called the Merchants' National Bank, and the Farmers' Bank was reorganized as the Farmers' National Bank, but in popular language the word "National" is not used except with regard to the First National Bank.

Mr. MURDOCK. In ordinary banking circles what is the advantage that a national bank has over a State bank?

Mr. PLATT. I think to-day it is very little. Of course originally, when Government bonds bore 6 or 7 per cent interest, there was quite a profit in the note circulation, but to-day, with 2 per cent bonds, there is very little. One of our banks has 3 per cent bonds, and the cashier of that bank told me: "We can get out of this system and not lose a cent on our bonds." To-day there is practically no profit in circulation, except when the needs for currency are a great deal more than any ordinary demand.

Mr. YOUNG of North Dakota. I understand the gentleman to say that he believes that most of the country banks are opposed to this measure.

Mr. PLATT. That is true in my district, and so far as I have heard in many other districts.

Mr. YOUNG of North Dakota. Does not the gentleman think that it is confined very largely to banks where the demand for money is not as great as the deposits and other resources, to banks where the deposits are very large, and where the local demand for money is not sufficient to take up or utilize all their deposits?

Mr. PLATT. I hardly think so. Of course that is true of my district and of many of the country bankers with whom I have talked. I have talked with the country bankers in parts of Maryland, more or less, and I know they feel just as our bankers do at home. I should like to ask the gentleman whether his country bankers, in his district in North Dakota, are in favor of the bill or against it?

Mr. YOUNG of North Dakota. The majority of them are in favor of it, and that leads me to believe that where the demand for money is greater than the supply, where the deposits are not sufficient to take care of the needs of the locality, the banks are in favor of this Glass measure.

Mr. PLATT. In other words, some of them have an idea that this measure is going to draw money out of New York and deposit it where they can get at it, I suppose?

Mr. YOUNG of North Dakota. No.

Mr. PLATT. I am afraid they are going to be disappointed.

Mr. LINDBERGH. The gentleman said that formerly the banks made more money on their circulation than they now do. Is it not a fact that formerly they had to pay such a high premium on the bonds that they did not like to take out circulation?

Mr. PLATT. When they first went into it that was hardly true.

Mr. LINDBERGH. You mean formerly, under the State banking law.

Mr. PLATT. When the State banks were reorganized as national banks there was quite a profit. They bought bonds with greenbacks and got them below par, sometimes.

Mr. LINDBERGH. I did not understand that that was what the gentleman meant at first.

Mr. PLATT. Then there is a special injustice in requiring a 20 per cent subscription, of which 10 per cent is to be paid in, for a 5 per cent stock, from country banks as compared with city banks, because it represents from country banks generally a larger percentage of their actual working capital than from city banks. It should be remembered that surplus and undivided profits are a part of the working capital of all banks. Now, the 37 national banks of New York City have a surplus larger than their capital, and the same is true of the Philadelphia banks and of the banks of several eastern reserve cities, like

Albany. In Boston the bank surplus is more than two-thirds of the capital, but outside of New England, New York, New Jersey, and Pennsylvania the surplus item in bank statements generally shows less than one-half the capital. In only two States, Pennsylvania and New Jersey, is surplus greater than capital. In 12 others, including the District of Columbia, it is more than one-half the capital. In Iowa, a typical agricultural State, the national-bank surplus is less than one-third of the capital, in Oklahoma it is only a little more than one-fourth, and in Florida and North Dakota just over one-third. Obviously the banks of Iowa, Oklahoma, Florida, and North Dakota must contribute a considerably greater proportion of their resources to the capital of the Federal reserve banks than the banks of Pennsylvania and New Jersey or New York City. The New York City, New Jersey, and Pennsylvania banks are called upon for a paid subscription of less than 5 per cent, while the Iowa, Oklahoma, Florida, and North Dakota banks must pay from 7 to 10 per cent of their working capital. Some of the big New York City banks have surplus funds much larger than their capital, and will subscribe considerably less than 5 per cent, one of them, the Hanover National, less than 2 per cent of its working capital. Country banks generally have smaller surplus funds than city banks, and this is particularly true of the West and South. The forced subscription of 20 per cent, with 10 per cent paid in, is particularly unjust to recently organized banks, which have had no opportunity to accumulate any surplus.

Mr. AUSTIN. Has the gentleman any figures with relation to Tennessee or the Southern States upon this point that he is just upon?

Mr. PLATT. The gentleman will find them in the report of the Banking and Currency Committee, on page 92, I think.

Mr. YOUNG of North Dakota. Will the gentleman yield?

Mr. PLATT. I will.

Mr. YOUNG of North Dakota. I would like to ask the gentleman whether any bankers from the large reserve centers have made any complaint along the lines he mentions respecting the basis upon which the banks come in; that is to say, the percentage of their capital which must be paid in toward the capital of the regional reserve banks?

Mr. PLATT. I think the complaint of the large city banks has been exaggerated. They do not like some sections of the bill, but I think the chief complaint is from the country banks. The New York City banks will not suffer as much as the country banks from the terms of the bill.

Mr. GLASS. Will my colleague yield?

Mr. PLATT. I will.

Mr. GLASS. Can the gentleman account for the fact that the American Banking Association, without a dissenting vote, swallowed whole, without a grimace, the Aldrich bill, which required precisely the same thing in the way of capitalization?

Mr. PLATT. I have said that this provision was copied from the Aldrich bill.

Mr. GLASS. Yes; but that does not explain why they were willing to go in under the provisions of the Aldrich bill and are not willing to go in under the same provision in this bill.

Mr. PLATT. I think the gentleman must admit that the Aldrich bill was voluntary.

Mr. GLASS That does not explain why they were willing to come in under precisely the same conditions, indorsing that provision of the Aldrich bill and bitterly complaining against the same provision in this bill.

Mr. PLATT. You mean contending against having to pay 10 per cent?

Mr. GLASS. Yes.

Mr. PLATT. I can not reconcile those views. I do not think the present opposition of the big banks to that feature of the bill is of any great account.

Mr. YOUNG of North Dakota. Is it not a fact that the small country banks have not in the past or up to this time, to any extent, been represented in the American Banking Association? Is it not a fact that the association is composed largely of men from the stronger banks, either from the great cities or the larger banks in the rural communities?

Mr. PLATT. I presume that is a fact.

Mr. GLASS. The smaller banks are largely represented in the association. I will agree that the larger banks speak for the smaller banks.

Mr. YOUNG of North Dakota. I do not think the country banks have been heard from, at least not officially before the committees. The large, powerful bankers have assumed to speak for them.

Mr. PLATT. If the gentleman has received as many letters as I have, he has heard from them.

Mr. YOUNG of North Dakota. Yes; I have heard from them, and most of them in my district are in favor of this bill. Some of them are opposed to the bill in toto, and some of them would like to see certain amendments made. They would like to have the Federal reserve board made nonpartisan, and they realize that they will be required to pay in more than their share of the capital of the regional reserve banks, because the percentage of 10 per cent is figured only on the capital. The item of surplus is not considered. In the country banks the surplus is usually much smaller in proportion to capital than the large city banks, as the gentleman from New York [Mr. PLATT] has already pointed out.

And if the courteous gentleman from New York will yield for a couple of minutes longer, I will say that I have also heard from a large number of my constituents, and almost all of them who have written to me are in favor of this bill; but many of them are much more interested in the establishment of a system of rural credits, and some of them have criticized the present leaders of Congress for delaying the consideration of the establishment of a system of rural credits or rural banks designed to lighten the burdensome rates of interest which the farmers now pay.

Mr. PLATT. Then the compulsory terms of this bill are unjust, because forcing country banks to give up relations with their city correspondents, which, generally speaking, have been profitable and pleasant. If your constituency is one in which there are only country banks, as is the case with mine, I will venture the assertion that you have rarely heard of any complaints on the part of those banks of their treatment at the hands of their correspondents in the reserve and central reserve cities. They have generally been very well treated. For my part I think it exceedingly unwise to attempt to break up these relations, and I should so amend the bill as to allow at least 2 per cent of the reserve of the country banks to be deposited with their present correspondents, or would cut down the reserve requirement of country banks to a flat 10 per cent, which is high enough for safety if the new Federal reserve system proves at all successful.

Now, the gentleman from Ohio [Mr. BULKLEY] showed that the central reserve city banks would have to rediscount in order to comply with the reserve requirements of this bill. The reserve city banks are accustomed to rediscount and the country banks are not. I talked with one banker in my district who said he had not rediscounted a note in 12 years and he did not intend to. He considered it a source of weakness. You have got to break up the whole trend of American banking customs to make this bill work. The city banks, through the clearing houses, are accustomed to rediscounts, and will fall into the thing easily, because they think they are likely to get some benefits from it.

Mr. Chairman, if it is the expectation of those who framed this bill that they are going to drain New York of money and so prevent loans upon stock-exchange collateral, I fear they are doomed to disappointment. You can not prevent capital from seeking the best and safest investments, wherever they offer themselves, any more than you can prevent water from flowing downhill. Stock-exchange loans are the safest and, generally speaking, the most liquid that can be made. The Canadian banks have something like $150,000,000 on call in Wall Street for that very reason. Such loans, however, because they are the safest, are made at low rates, and if higher rates on equally safe collateral can be obtained in the West and South some of the funds now loaned in Wall Street will be drawn away. A central reserve bank would do this by providing greater facilities for loaning at points of greatest demand, but I am afraid the divided regional scheme of this bill will have just the opposite effect.

I have here an item from a New York newspaper which I cut out, showing the money conditions in New York yesterday. It is as follows:

> Time money was inactive and steady. Rates were 4 to 4¼ per cent for 60 days, 4½ to 4¾ per cent for 90 days, 5 to 5¼ per cent for 4, 5, and 6 months.

That looks as though money was at a pretty low rate in New York. A central-reserve bank, in my opinion, would tend to spread these low rates all over the country.

Mr. CONNELLY of Kansas. In speaking of the safety of loans on stock-exchange collateral the gentleman mentions that that is the safest form and the most liquid. As a matter of fact, in time of great stress and financial flurry, does not the gentleman think that a bank, for instance, like a State savings bank in the Middle West would have a large portion of its money on land?

The CHAIRMAN. The time of the gentleman from New York has expired.

Mr. HAYES. Mr. Chairman, I yield 10 minutes more to the gentleman.

Mr. CONNELLY of Kansas. As a large part of their money is invested in farm lands on the basis of 50 per cent of the actual value of the land, is not that a better form of security or just as good security as when stock fluctuates from 10 to 20 and 30 points a day?

Mr. PLATT. I should doubt that. That may be true of farm mortgages in Iowa, where lands are quickly salable; but, as a matter of fact, fluctuations on the stock exchange are not very large. They go up and down some, and in the case of panic they go up and down a good deal. I do not see any material difference between loaning money on divided property like stocks and bonds—which mean simply divided ownership—than on loaning money on whole property. Most of us can not go out and buy a bank or a factory or a railroad, and the best that we can do is to raise a little money and buy a part of one. We can go to the bank and borrow part of the money. I will say this, that as a basis for issuing notes commercial paper is better than bonds. Commercial notes are supposed to be based on actual goods on the way to market, goods which will pay the notes at maturity. As a matter of fact, they do not pay themselves off. They are frequently renewed. This idea of commercial paper is largely based on the old-fashioned idea that when people buy goods they give notes for the goods. That is not done to-day nearly as much as formerly. We pay nowadays by discounting our own notes and pay the bills in 10 days to obtain a reduction or discount. The notes so made are on their faces accommodation paper. Whether they are negotiable under this bill or not I can not say. It is doubtful. The use of that class of paper is increasing all of the time, and the old class of paper where people gave three months' notes to those from whom they bought goods is going out of use.

Mr. Chairman, I shall not touch upon the possible effect of the initial contraction and final expansion and inflation probable under this bill, as others will cover those points, but shall conclude my remarks by saying that if this bill could be amended to take out the compulsory feature and to make the note issues distinctly bank notes, I believe I should vote for it. Without those amendments I must vote against it, for I do not believe there is any reason for rushing through an imperfect bill of this kind at this time even though it does contain many good features. [Applause.]

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ADVANTAGES OF BRANCH BANKING

Branch banking means larger stronger country banks through removal of the restrictions that prevent their consolidation over a territory large enough to afford diversification.

Banking is like insurance. Who would insure a house in a company that had all its risks in one town? Safety for depositors and adequate service depends upon diversification, with banking corporations operating in a number of towns and serving a number of industries.

Branch banking by providing larger country banks in each state would enable each state to finance at home many large local industries which must now go to New York for their funds. It would thus tend to decentralize credit.

Branch banking stopped bank failures in England. In Canada the last bank failure occurred almost ten years ago. Since that failure there have been nearly ten thousand in the United States.

We have tried every conceivable remedy for bank failures in the United States, except the remedy which has been successful in other countries - branch banking.

Banks have a common law right to establish branches, which in the early years of American banking was generally recognized, and generally exercised. The eastern banks, those of the financial centers - the Wall Street banks - were the first to give up branch banking, which continued in most of the Southern and Western states down to the Civil War, or (in Ohio and Indiana) until state bank notes were taxed out of existence in 1866.

Virginia never had a bank failure before the Civil War. There were five or six large banks with the smaller places served through branches.

Under the Glass Bill branches would be permitted only where found by the Comptroller or the Federal Reserve Board to be in the public interest. Branches would be obtained only through consolidation with existing banks except where there are now no banking facilities. Many counties are now entirely without banks.

As Senator Glass has said hundreds, perhaps thousands, of small banks are today in danger. Their depositors can be saved from loss and their stockholders can be saved from assessment by branch banking. At this time it is impossible for them to raise new capital to take care of impairment, but they can be taken over by stronger banks.

EDMUND PLATT.

Speech delivered at annual dinner of Washington Society of Engineers, Dec 3, 1924

I am glad to have an opportunity to speak to a body of trained professional men who are not bankers. I meet bankers rather too often and have not enough contacts with the men who are planning the enterprises that call the money of the bankers into use and circulation. I am not a banker myself and never was a banker, and though I have owed bankers a good deal at various times, both in money and in experience, and am now in a position giving me some supervision over bankers I do not always look at banking from the banker's point of view.

As engineers are practical men planning for the future I have wondered somewhat whether you have asked me to speak this evening under the belief that members of the Federal Reserve Board are endowed with an insight into the future - the gift of prophesy - with especial reference to the stock market and the revival of business. I want to assure you that we have no such gift. We don't know, or at least I do not know, how much higher stocks are going to go, nor whether the boom in stocks foreshadows a continued and still greater boom in industry. We can only judge the future from the past. History has a way of repeating itself. Economics is called a science by economists, but it is not a science in the mathematical sense. It has its laws and its formulas, but they have by no means the exactness that characterizes the physical sciences. Their working is often obscured, and interfered with by forces not fully understood or by political movements or legislation.

There has been a revival of confidence and a revival of business following a period of several months of depression. I doubt whether the business world fully appreciates how considerable the slump of the early part of this year was. The charts of production, of employment, of prices, etc. make a showing that would have been regarded almost as a crisis before the war. The decline in production amounted to about 22 per cent and the decline in prices to about 9 per cent. The curves of employment and of factory pay rolls both show an abrupt drop from about February to the middle of July. At that time the decline ended and a month or so later revival began. The curves have been sharply upward since early September. Business, Manufacturing particularly, has come up out of a valley but production has not yet reached the position occupied last year at this time. The improvement is by no means all due to improved sentiment or to cheap money. The position of agriculture is notably better than last year or at any time since 1920. A large cotton crop is bringing very satisfactory returns to a great producing section of the country and at the same time selling at a price low enough to give encouragement to the great textile industries on which another section depends. A fairly large wheat crop because of foreign conditions is bringing high prices and renewed hope and confidence to another great section, without so far causing any very serious increase in the cost of food to the great mass of consumers in the cities. The picture would be better if the corn crop had been more satisfactory, and if the live stock industry had been able to make greater progress towards recovery - but on the whole it is very much better than we had reason to expect in the spring and early summer. It forms a substantial basis, apart from the improvement of sentiment, and the low money rates, for a substantial recovery. In a few spots recovery was retarded by unfortunate conditions, such as the drouths in New Mexico and on the Pacific Coast, and there have been some brakes on the wheels of progress that may be mentioned. Since the beginning of the present year almost 700 banks have failed, nearly all small institutions serving agricultural communities in the West, and failures of several such institutions are still reported every week. These are an aftermath of agricultural depression, but that doesn't in my opinion tell the whole story.

They are due in large measure to a bad banking system - to a multiplication beyond all reason of small, weak often badly managed institutions. Bankers will tell you that our American banking system is the best in the world. If efficiency and safety and service to all classes of customers in small as well as in large communities at reasonable rates are requisites of a good banking system our American system instead of being the best in the world is not far from the worst. In no other great commerical nation is there so great a contrast between rates for loans in the financial centres and rates for loans in the agricultural sections. We have 2 per cent money in Wall Street and 10 or 12 per cent money in the Dakotas. The little country bank - Senator Glass has called some of them toll gates - is nevertheless regarded as a sacred American institution, little less sacred than the little red schoolhouse. It can fail in great numbers just at the time when everything else is recovering yet no one thinks of questioning the institution itself or of suggesting that a better system of serving small communities could be devised - that is no one except a few economists and theorists who don't count. Bankers are all for increasing the number of banks, and they have a bill before Congress now that will permit the organization of smaller national banks in the large cities. A good system of banking for small communities should provide banks large enough to afford good management, and serving a territory wide enough to include a variety of crops and industries, so that the safety of a bank would not be put in jeopardy by depression in any one industry or by a mere local calamity. This means larger banks, and less banks and would probably make necessary the extension of banking facilities to some of the smaller communities by means of branches. Branch banking comes under the condemnation of the American Bankers Association every year, but it is the system of every other great commercial country, and in spite of various efforts to suppress it has made considerable progress in the banking systems of about a third of our states.

You are all familiar with the fact that money rates, in the financial centres, have been abnormally low during much of the present year. They have been lower than at any time during the past ten years. Doubtless you are familiar also with the chief causes for the low rates - the enormous imports of gold and the slackening of demand, the open market investments of the Federal reserve banks. The banks of the larger cities, members of the Federal Reserve System, at first used their increased funds - the result of gold imports - to pay their indebtedness at the Federal reserve banks until they brought the total loans of the Reserve banks down to their lowest point since the summer of 1917 - about $220,000,000. Having no further indebtedness to pay, continued gold receipts were used as a basis for expanding loans, investments and deposits, until the total loans and investments of these reporting member banks has now reached a point $1,000,000,000 higher than at the peak of expansion in 1920. The growth, however, has been mostly in investments, as since the high point of 1920 the commercial loans of these banks have decreased roughly $1,500,000,000, while loans on stocks and bonds have increased about $500,000,000. Commercial loans have, however, begun to pick up with the revival of business and have increased since the first of September about $375,000,000.

Gold imports have been so enormous in amount, $290,000,000 in the first ten months of 1924 - $40,000,000 larger than in the same period last year, though the amounts received in September and October were greatly less than in earlier months - that European economists have expected they would force a considerable increase in the price level here - so-called gold inflation. Mr. J. M. Keynes and some other English writers have pretty frankly said that it wasn't necessary for England to make any further efforts towards restoring the pound sterling to par, as a rise in prices in the United States due to the inflow of gold would of itself restore parity. When they found that no such rise of prices was taking place - in fact that prices during the months when the imports of gold were largest were falling they declared the Federal Reserve Board was locking up the gold and preventing it from having its natural effect.

More recently there have been criticisms of a directly opposite character. Mr. Anderson, of the Chase National Bank of New York, followed by some of the writers for financial journals have accused the Federal reserve banks with contributing money to an already saturated market by investing some $500,000,000 in short term government securities. Were the English economists right, and can the Federal Reserve System prevent inflation by locking up gold? What the foreign critics failed to understand, I think, is the fact that the Federal reserve banks are not run for profit. Profits are sometimes forced on them and then taken away from them in taxes - the so-called franchise tax - but they are under no necessity or temptation to keep their funds invested as a commercial bank must do. The resources of the Federal reserve banks are much greater now than they were in 1920. The reserve deposits of member banks did not reach two billion dollars at the peak in 1920 - now they are about two billion, one hundred and fifty million ($2,150,000,000) but the loans of the System to member banks are only about one tenth of the loans at the peak in November 1920. The Reserve banks could have invested their idle funds in government securities and in acceptances so as to earn large profits, and if they had done so would have forced money rates down to an unprecedented low level. Whether that would have caused general price inflation I think isn't quite proven, but many economists think it would have had that effect.

What the Reserve banks actually did when they found their loans at a low ebb and found themselves out of touch with the market was to buy a moderate amount of open market paper enough to give themselves an income sufficient for bare support, with the idea not so much of obtaining earnings as to have something to sell in case inflationary tendencies should develop. This did have the effect, as

Mr. Anderson of the Chase Bank pointed out, of increasing to some degree the funds in the market and doubtless made rates lower than they would have been if the Reserve banks had gone out of business - but the very low rates also had the effect of slowing up gold imports greatly and of facilitating American investments in foreign securities - thus helping to furnish funds for the purchase abroad of our own exports particularly of agricultural produce, and helping to rehabilitate the war torn nations of Europe. No price inflation resulted and if the very low rates were an encouragement - a factor in the revival of business which has been in progress for the past two months certainly no harm was done. Increasing business demand and probably decreased gold imports should gradually produce interest rates more nearly normal. I can make no predictions for the future - but clearly some of the causes of the depression from which we suffered in the summer have passed.

"BRANCH BANKING AS A MEANS OF PREVENTING BANK FAILURES"

ADDRESS TO BE DELIVERED BY EDMUND PLATT, VICE GOVERNOR OF THE FEDERAL RESERVE BOARD, BEFORE THE ROBERT MORRIS ASSOCIATES, JUNE 9, 1925.

Branch banking has not been in favor among American bankers, as a rule, and when from time to time they have found branches appearing here and there, after periods of financial depression, they have usually denounced them and have sought through their associations to procure the passage of legislation to suppress them, or to limit them to as narrow a territory as possible. Occasionally the argument has assumed considerable heat and has brought forth assertions that branch banking is un-American, and represents merely an effort of the big banks to acquire a monopoly of banking and to gobble up all the country banks.

On the other hand a recent study of branch banking in the United States - the first comprehensive study ever made - has shown that in some sections of the country branch banking has been in existence for a good many years. I think it a fair conclusion that it has been giving satisfactory service and extending itself so slowly as to give rise to no serious apprehensions of monopoly, in spite of the general prejudice of bankers against it. Furthermore this study has shown that the country banks engaging in branch banking far out-number the city banks - 397 banks located in cities of less than 100,000 maintaining branches, as compared with 284 in cities of more than 100,000. The preponderance of country banks in branch banking is much more strikingly shown if we compare only banks which maintain branches outside the city of the home office - the banks against which Section 9 of the recent McFadden Bill was directed. Of the 310 banks which have branches outside the home city 229, or almost seventy-five per cent are located in cities of less than 25,000, and 129, or more than forty per cent are in "cities" of less than 2,500 inhabitants. The study, in fact, appears to me to show that banks in large cities have rarely sought to establish branches in smaller outside towns, save in one state where conditions are exceptional because of its great extent north and south, the great contrasts between its sections in climate, in rainfall and in crops produced.

All this suggests that perhaps some of the prejudice among American bankers, and particularly among country bankers, is unwarranted. The facts seem to show branch banking as it has so far developed in this country to be chiefly a country bank proposition. It is evident that branch banking comes forward after every financial depression, often modestly and unobtrusively so far as the number of banks with branches is concerned, but enough to command some attention, and to suggest that there may be some good reason for it, some reason related to sound economics and safer banking. The panic of 1893 brought a flood of small bank failures and was followed by the establishment of branches by a few institutions still maintaining branches. The panic of 1907 with its attendant bank failures not only brought to a focus the agitation that led to the establishment of the Federal Reserve System, but gave an impetus to branch banking in several states that led to the enactment of several state laws relating to the subject - notably the California Bank Act of 1909 recognizing and regulating state-wide branches, and the New York Act of the same year recognizing and limiting city branch banking. The business depression that followed the great war has brought the question again to the front, with much more general discussion than ever before, so that there is prospect that the discussion may not only lead to further State legislation but to federal legislation in the direction of branch banking for national banks within limited territory.

My subject is "Branch Banking as a Means of Preventing Bank Failures" and I must not get too far afield. I am not going to state the arguments for or against branch banking, excepting as they relate to the matter of bank failures. You are all familiar with the fact that we have had in this country a tremendous number of bank failures during the past few years - more than 2,000 since 1920, and no less than 753 last year, a year of plentiful credit supply and, generally speaking, of business recovery. Furthermore these failures of banks are continuing this year at the rate of eight or ten a week - there were 295 from the first of January down to and including May 29th. The situation is highly discreditable and disgraceful to us as a commercial nation. We have had recurring periods of bank failures ever since the early days of our history, yet have been unable or unwilling to adopt a remedy, though the experience of every other commercial nation clearly shows that there is a remedy. We seem to regard bank failures as something inevitable, an epidemic not to be avoided, and no adequate study of their causes has ever been made. We have, it is true, adopted various palliatives - required reserves, pooling of reserves in Federal reserve banks, legal restrictions of various kinds, particularly with reference to loans, and governmental supervision - but they have not prevented bank failures, they have only made them less excusable.

The Federal Reserve Bulletin for February contained an analysis of the 753 bank failures that occurred last year, 1924, showing that no less than 65 per cent of them were banks with a capital of $25,000 or less, and only 10 per cent of them were banks with a capital of more than $100,000. One of the Federal Reserve Agents, who has been making a study of his own, informs me that only 4 national banks out of about 2,000 with a capital of $250,000 or more have failed since 1920. These figures in themselves present strong prima facie evidence of the greater stability of the larger banks, and it seems to me rather remarkable that more of the larger banks have not been dragged down by the great number of small bank failures. Every bank failure has elements of tragedy for some of the people and frequently for the whole neighborhood where it occurs, and every bank failure locks up a portion of the purchasing power of the people. I think it not too much to say that the bank failures of the past year and of the past five months have been a factor of great importance in preventing the business of the country from responding as it should have responded to the favorable influences that have been evident for the past ten months.

The question will doubtless be asked - doesn't the Federal Reserve System prevent bank failures? Of course it does. It prevents the failure of sound, well managed banks by preventing panics. Without it 20,000 banks instead of 2,000 might have been forced to close their doors since 1920, and a large majority of them would have been sound banks forced to close because of inability to realize on good security in an emergency. But the Federal Reserve System can do little for banks which have no good and eligible security, whether their condition has been the result of bad management or of unavoidable involvement in neighborhood disaster. Even when they have eligible security it is often more than doubtful whether loaning money to an already over extended institution does good or does harm. The Federal reserve banks can't make the loans of the member banks and can't supply good management to banks which are not well managed. Furthermore, of the 753 bank failures of the year 1924 no less than 78-1/2 per cent in numbers and 66-1/2 per cent in capital were non-member state banks. The Federal Reserve System cannot provide a remedy for bank failures in their case. The underlying banking system must be sound in order to give the Federal Reserve System a chance to render adequate service.

Surely if there is a remedy for bank failures the credit men and particularly the Robert Morris Associates should be interested in advocating its adoption. It seems to me that the remedy is clearly suggested by the evidence presented. We must have larger banks, banks large enough to afford good management and large enough to spread their risks over a variety of industries and over a considerable territory. The larger banks have a better chance to weather financial storms because they are able to secure, and generally do secure, good management, and also because they are not under the same temptation to put all their eggs in one basket. The large bank serves, as a rule, a greater variety of industries than a small bank and often spreads its loans so widely that it cannot be vitally affected by disaster to any one industry.

In fact the largest banks of our great cities do a national business in spite of the fact that they are not allowed to have branches. Every large manufacturing industry and every large mercantile establishment wherever located carries an account in New York, and frequently also in Chicago and Boston or Philadelphia. The big business of the big city banks has recently been augmented by the formation of cooperative marketing associations in the great agricultural states - associations so large that they cannot obtain banking accommodation from local banking institutions but must go to the great banks of the great cities.

Little banks cannot go outside their own territory for business in this way. They are neighborhood institutions and frequently are compelled by force of circumstances to make all of their loans not only in a very narrow territory, but to persons dependent upon one industry, or at most to persons depending upon a very few industries. Such banks are seriously affected when the neighborhood industry suffers depression, and if that industry is agriculture it frequently happens that the local bank fails and ties up the farmer's funds just when the industry itself is recovering. That is what happened last year. Agriculture made a notable recovery, but 753 banks failed in the United States, nearly all of them in our agricultural states. With agricultural conditions exactly the same - or if anything not quite so good - Canada had no bank failures.

The large bank has another marked advantage over the small bank - it can rarely be ruined by a defalcation. It is physically impossible for the officers of a very large bank to get their hands on enough of the bank's money to affect its solvency. Fraud isn't a major cause of bank failures today, but it is a rather important cause of the failure of small banks. Too many small banks are one-man banks, the one man having control of cash, securities and even in some cases of the keys to safe deposit boxes. Human nature is human nature and it isn't fair to put too many temptations before the best intentioned persons.

If we must have larger banks in order to afford good management and to give the management a fair chance for success then we must either subject many people living in small communities, or in rather thinly settled agricultural communities, to great inconveniences or we must provide them with banking accommodation through branches - not necessarily on any very large scale as in Canada, but on a scale large enough to serve the people adequately and safely. Probably in many communities branch banking by counties would answer. County branch banking has been in vogue in Louisiana for a considerable number of years and appears to have been reasonably successful. Tennessee has recently adopted it not as an original scheme, but as a limitation. Maine has branch banking in the county of the parent bank "and an adjoining county" which gives more latitude. Several other states permit state-wide branch banking, with results that appear to be satisfactory.

I have recently made a visit to California and am convinced that state-wide branch banking in that state works well, and certainly makes for safety. There have been very few bank failures in California since 1909 and state banks have made a better record in this matter than national banks - something which I think cannot be said of any other state.

Several Southern states have had branch banking for many years and have not sought to restrict it to counties or localities. Most of the Southern branch banking institutions are nevertheless small - averaging less than two branches to a bank. With the exception of a few such institutions as the Citizens and Southern of Savannah, and the Wachovia Banking and Trust Company of Winston-Salem the banks with branches in the South are distinctly country banks - in some cases groups of small banks consolidated under one corporate management. In spite of the comparatively small size of these institutions there have been almost no failures among them - so far as I know only one in 1924. Here again the evidence appears to be that the additional spread of risk and the ability to pay for better management than a small unit bank can afford make for safety.

So much for the fundamental safety of branch banking as compared with small unit banking. There is more than this to be said in favor of "Branch Banking as a Means of Preventing Bank Failures". I have heard a State Superintendent of Banking quoted as declaring that one of the great advantages of branch banking lies in the opportunities it affords for preventing failures through consolidations. Both the Comptroller of the Currency and the State Superintendents frequently advocate the taking over of a weak bank by a strong one in order to prevent a failure, but obviously you can't consolidate two banks located at a distance from each other, as a rule, unless you can keep them both open - one as a branch of the other. A considerable part of the recent growth of branch banking has been due not so much to the desire of certain branch banking institutions to expand, as to the economic pressure of the times - in many cases to the direct request of the banking authorities.

Branch banking, as I have already said, has started to develop after every financial reverse, after 1893, after 1907 and now again after 1920. The establishment of branches is a natural, common law right, where no legal restriction exists. Laws relating to branch banking in the states where they exist were passed after branches had begun to appear, and were passed for the purpose of limiting or regulating the establishment of branches as a rule, or in some cases to prohibit further branches. The prohibitions of branch banking have proven unfortunate and the states which have permitted branches under proper regulation and supervision have fared better than those which have prohibited them - under similar conditions.

I believe it is unfortunate that the National Banking Act has been generally interpreted as not authorizing branch banks. It contains no prohibition of branch banking and in fact specifically authorizes branch banking through conversion of state banks with branches. Historically, it seems to me, the evidence is clear that the Congresses which passed and revised the National Banking Act, from 1863 to 1866, did not intend to prohibit branch banking. They certainly did not intend to prohibit branch banking within city limits, and it appears reasonably clear that they did not intend to prevent National banks from having the same privileges with relation to branches that State banks have.

National banks have made a much better showing than state banks in the matter of failures during the past four years, but that again is in large measure because they are generally larger banks. There were nevertheless 127 National bank failures in 1924, which is altogether too many. The proportion of failures of banks with a capital less than $50,000, was fairly large - 55 out of the total of 127. The National banking system would be much stronger if we could provide that in the future no banks should be chartered with a capital less than $50,000 (as in the National Banking Act before 1900) or better $100,000, which is no more than $50,000 represented in the early days of the National Banking Act. Where smaller banks are necessary to accommodate the people branches should be permitted.

SPEECH DELIVERED NASSAU COUNTY BANKERS ASSOCIATION, MAY 12, 1926.

I have been asked to speak to you this afternoon on "Branch Banking", though I should think the subject might be considered rather academic so far as having any present application to Nassau County is concerned unless you have in mind possible changes in the New York State laws governing the subject. I am a strong believer in branch banking for some sections of the country, particularly for the great agricultural sections where there is little diversification of industry, but I think that the people of each state should determine through their own legislatures whether they want branch banking or not, and if they do want it under what limitations. I believe that national banks should be given the same privileges in the matter of establishing and maintaining branches that are given by the states to state banks, but I do not believe that Congress should undertake to "declare a policy" in this matter through amendment either to the National Banking Act or the Federal Reserve Act with the purpose of influencing state legislation. That has been one of my chief objections to the pending McFadden Bill, particularly in the form in which it passed the House of Representatives. "Several sections of the bill declare a Federal Government policy with reference to branch banking", says the report of the House committee, and although the bill has been greatly modified and in my opinion greatly improved by the Senate amendments, Senator Pepper's report contains a similar phrase.

The branch banking sections of the bill were written to satisfy the American Bankers' Association, which has year after year passed resolutions condemning all branch banking, in what I regard as a useless effort to prevent an inevitable and to some sections of the country a very necessary economic development. The small bankers, particularly from sections where there is no branch banking and where it is most needed, have been rallied against branch banking almost to a man in the American Bankers' Association, and I think all of them believe that the National City Bank of New York or the Illinois Merchants Trust of Chicago would at once gobble them up, if there should be any relaxation in the prohibitions and limitations of present laws.

They ignore entirely, and refuse to give any consideration to the actual facts, first that the big banks of our large cities, banks like the National City, the Bank of Commerce and the Guarantee Trust of New York, the First National of Boston, the Illinois Merchants and the Continental and Commercial of Chicago, already do business all over the United States without the expense of maintaining branches, and second that branch banking as it has so far developed in this country is a country bank, rather than a city bank proposition. Deputy Comptroller Charles W. Collins in his excellent little book on "Branch Banking in the United States" admits that the big city banks did not seek to establish branches outside city limits when they had opportunity, and also admits that the existence of country banks with branches was scarcely known at the time the Comptroller's office made its recommendations in favor of the restrictions and "declaration of policy" that led to the provisions of the McFadden Bill.

He might have added that the banks of at least one big city in a state where there are no restraining laws have not to this day undertaken to establish any outside branches. I refer to Baltimore. Banks in Baltimore have branches within the city, but they have not yet undertaken to "gobble up" any country banks, yet there were in Maryland in 1924, when the Federal Reserve Bulletin (December) published a study of the subject, 15 banks with branches outside the so-called home "city" - all of them country banks, and operating in all 48 branches. One of these country banks, the Eastern Shore Trust Company of Cambridge, has 20 branches, but I doubt if any of you ever have heard of Cambridge as a city in Maryland. One of the branches of this institution is within ten miles of Washington and others are not very much further from Baltimore.

F.R. Bulletin, June, says 1 outside Baltimore branch - non member

California may seem to present pretty strong evidence in another direction but even there, where there has been the most rapid development of branch banking, most of the banks with branches are country banks. In 1924 53 out of the 99 banks with branches were operating only one branch each, and only 13 had more than 5 branches. There has been some change in these figures since 1924, but not enough to change the general picture. It is worthy of note also that state-wide branch banking was not started by any of the big San Francisco banks, but by a comparatively small institution under the leadership of an enterprising man of Italian ancestry, who had spent most of his early life in the provision business. The big San Francisco bankers didn't want to go into branch banking outside of San Francisco themselves and didn't believe that Mr. Giannini could succeed at it. When the Bank of Italy had taken over some of their best correspondents among the larger country banks their opposition to branch banking outside city limits became rather pronounced. When I was in California a year ago I got the impression that the "California League of Independent Bankers," which opposes further extension of branch banking, though ostensibly a country bank organization, is really backed by some of the big bankers of San Francisco who obtain a considerable part of their deposits from country correspondents. These bankers appeared in Senate hearing. I might add that banks like the Hanover and the Park, in New York, to mention only two that make a specialty of country bank accounts, are not, if my information is correct, found among the advocates of branch banking outside of a limited territory. Such banks could not establish outside branches without competing with their own correspondents, and they can probably make more money by loaning their country bank accounts and by making occasional loans to their corresponding banks than they could by going into country banking themselves. You may of course say that New York City banks might easily establish branches in contiguous territory, such as Nassau County, if the law allowed and so they might and probably would. The Ohio law permits contiguous territory branch banking, and both Cleveland and Cincinnati banks have established a few branches in adjoining municipalities outside the city, but I don't believe the New York State Legislature would grant any such extension in this State, if the Nassau and Westchester County bankers were opposed to it. I was somewhat interested in the fact that representatives of Group VI, from Westchester County, appeared before the Banking and Currency Committee of the United States Senate in February to oppose branch banking in contiguous territory. These representatives of Westchester were H. B. Vinson, George S. Edie, and W. F. Bleakley of Yonkers. Just why they should oppose the amendment in the Senate draft of the McFadden bill giving National Banks contiguous territory branch banking where state banks have that privilege I can't quite understand. It won't do Westchester County any good to prevent national banks in Ohio or California from having equal privileges with State banks.

Nor do I see why the Cook County Bankers of Chicago should be taking the lead in opposition to any and every kind of extension of branch banking, or why they should be excited over branch banking in California. The State of California has an enormous extent north and South, a great variety of climates, and of crops maturing at different periods, and undoubtedly presents a more favorable field for State wide branch banking that any other State. To some extent branch banking has been made necessary there by the development of great co-operative marketing associations handling citrus fruits, raisins, prunes, English walnuts, long staple cotton and other products grown mostly under irrigation, from the Imperial Valley in the extreme south to the upper Sacramento Valley in the north. The business of these associations is much too large to be handled by local banks, and the branches of the Bank of Italy of San Francisco and of the Pacific Southwest and other banks of Los Angeles are rendering a service that appears to me to be essential to the prosperity of the great agricultural sections of the State. A study of the statements of these banks with wide-spread branches shows that their profits come not from any marked economies over unit banking - the branch managers often receive higher salaries than are paid the cashiers of unit banks doing the same volume of local business - but from a more continuous use of their funds and from a lower percentage of losses. Local banks have their periods of stress when they have to borrow heavily to meet local demands, followed by periods of glut when their funds pile up in city correspondent banks or are loaned in Wall Street. In order to meet what appears to them to be urgent local demands they frequently borrow too much and if crops fail or prices are low, get themselves in serious trouble. The branch banking organizations rarely have to borrow and they use a surplus of funds in one place to meet a peak demand in another, without the necessity of loaning at rates usually much lower, in Wall Street.

It does not follow, as I have already intimated that state-wide branch banking in other states would be as successful as in California, but it is worthy of note that California in spite of agricultural ups and downs as serious as any in the grain and cotton growing states has had very few bank failures.

My interest in branch banking as a country bank proposition comes from the effort to find some means of preventing bank failures, which are peculiarly an American institution, and an institution of which I am sure none of us are proud. Even in the best years we have always bank failures somewhere - mostly in the West. For the purpose of serving an agricultural community adequately and safely I am convinced that the section of our country between the Mississippi River and the Pacific slope has the worst banking system in the world. The states of this section, and some other states also, have permitted the establishment of banks with a capital as small as $10,000, in a few states $5,000. Charles F. Dunbar declared as long ago as 1892 that this was an effort to diffuse banking accommodations as widely among the people of sparsely settled neighborhoods as other countries did by branch banking. Professor Dunbar seemed to consider these little banks as necessary under our unit system, but declared that these small communities could be much better and more safely served by branches. The experience of the country since that date has several times clearly demonstrated that he was right - but nothing has been done about it in the section where conditions are the worst except to try the experiment of guaranteeing deposits, an experiment which has been abandoned in Oklahoma where it first started, and now has few advocates anywhere.

Bank failures have been so numerous during the past few years, most of them in the grain and cattle sections of the country, that the bankers' magazines have been forced to take notice of them, and articles with some such titles as "Can Banking Be Made Safer" have been frequent. The old American idea that such bank failures as have occurred in the West are a necessary outcome of agricultural depression - a sort of Act of God - for which there is no remedy, has been giving way to more enlightened ideas. The fact that agricultural depression under exactly the same conditions caused no bank failures in Canada has forced itself upon the attention of bankers and state bank superintendents, as well as upon the economists and students of banking. Several state superintendents have contributed to the discussion in the financial journals. Mr. Roy L. Bone, Commissioner of Banking in Kansas said in "Trust Companies" for April "There have been something over 100 bank failures in Kansas since January 1919 and there are <u>few that can be attributed wholly</u> to economic conditions. Most of them have been due to bad banking, lack of knowledge of credits and over-banked conditions." Others have expressed similar opinions, and they are confirmed by officers of the Western and Southern Federal Reserve banks with whom I have talked. ~~XXXXXXXXXXXXXX~~ All Recent writers on the subject declare that there are too many banks in the agricultural West, and that many of them are too small for adequate, safe service and good management. When it comes to recommendations, however, they do not seem to want to go beyond the minimum limit of the National Banking Act as to capital. Most of them declare that no banks should be chartered with a capital less than $25,000 - that people in a town which cannot support a bank with a capital of $25,000 can in these days of Ford cars easily go to the next town. Doubtless that is true of most places, but even with $25,000 as the minimum capitalization there will be some neighborhoods left without banking accommodation which could with reasonable safety be given accommodation through branches. Apparently the state superintendents who have written on the subject of safer banking stop short of recommending $50,000 as a minimum capitalization because they realize that at least some branch banking would then become necessary. They say we must have fewer banks and larger banks, that present small banks in western and southern states should be consolidated, but because of the prejudice against branches they are not willing to advocate the merger of two banks in places ten miles apart with one of the banks becoming a branch of the other. Yet that is, in my judgment, what has got to be done to make any real progress. $25,000 banks are better than $10,000 banks, but they are too small to afford the sort of management that banks ought to have or to give the service that should be given. During the year 1924 191 banks with a capital of $25,000 failed, and 135 more closed their doors in 1925.

Some interesting studies of bank failures have been made during the past year or two including one by Professor O. M. W. Sprague of Harvard for the Federal Reserve Board, and another by Dr. H. Parker Willis, Professor of Banking at Columbia. Dr. Willis presented the results of his study at the hearings in February on the pending McFadden Bill before the Banking and Currency Committee of the United States Senate. A good deal of his information is published in the hearings in tabular form, and covers the years from 1900 to 1925 inclusive. According to his figures there have been 4,167 bank failures in this country during those 25 years - certainly not a creditable showing for a great industrial nation. The smallest number of failures was in 1918 when there were 20 and the greatest in 1924 when there were 613. His figures, taken from R. G. Dunn's Review, are low, according to the Federal Reserve Board's reports. Our figures for 1924 are 777 or 164 more than Dr. Willis's, and for 1925 Dr. Willis's figures are incomplete covering only nine months. According to our figures, as published in the April Federal Reserve Bulletin, there were 612 failures last year, or a total of 1,389 for the two years.

As bearing on the question whether accommodations can safely be given to very small places by means of very small independent banks the Federal Reserve Bulletin shows that 40 per cent of all the bank failures of the past two years were of banks in places of <u>less than 500</u> population, and over 61 per cent in places of less than 1,000 population, while only 20 per cent of the total failures occurred in <u>urban communities</u> as defined by the Census Bureau, i.e., places of 2,500 population or over. 63.4 per cent of all bank suspensions during the two years were banks with a capital of $25,000 and under, and less than 10 per cent were banks with a capital of $100,000 or more. The average capital of suspended banks was $38,243 and the average of their deposits $281,182.

Some of you will say that it is no wonder these banks failed - that it is impossible to make anything in banking with deposits as small as that average. So it is in the East, as a rule, but in the West and South most of the country banks get 8 per cent and 10 per cent interest on their local loans, and in a few states as high as 12 per cent. Even that represents some improvement over earlier days. I have talked with men who remember well when country bank loans in the West and South were generally at 2 per cent a month, and I think there are places today where they manage to get 16 per cent. These high rates are partly justified by the risks taken (though in many cases the risks ought not to be taken at any rate) but are in my opinion largely due to the high overhead and wasteful competition for deposits incident to our system of multitudious small independent unit banks. There are no such great contrasts in rates between the East and the West in Canada as there are in this country, though Canada is a newer and poorer country than the United States. The Canadian banking system is certainly better for the agricultural West than our system but probably not so good for the East. The money deposited in Eastern sections is very readily loaned in the West where the demand is greatest, especially in the fall when the ~~demand is greatest~~ harvesting and crop moving season is on. We do the same thing through our banking system, but not so directly, Our Western banks obtain their money for crop moving largely by borrowing from eastern banks, and before the money reaches the small banks in the Dakotas it sometimes goes through two or three borrowings. The Federal Reserve System has enabled member banks in the West to borrow directly from their regional Reserve banks, but they still have to borrow, and as many of them carry balances in New York they still do a part of their borrowing in New York.

Unit banking works very well in the East and there appears to be no very strong reason for branch banking, so far as the security of depositors is concerned, in any of the eastern states. Most of our eastern country banks have more money on deposit than they have demand for at home, and almost all of them are large holders of bonds, and are also purchasers of commercial paper from brokers. There is so much diversification of industry in the East that few of our country banks are under much temptation to loan an undue proportion of their funds to one industry. They obtain their spread of risk largely in their own territory and partly through purchasing commercial paper and bonds, and through collateral loans. Banks in the great agricultural sections of the country have surplus funds seasonally, but are also seasonally short of funds to an even greater amount. Some of them are almost constant borrowers, and few of them own bonds.

As I have already said it is generally agreed that there are altogether too many small banks in most of the western states. There is one bank to about 7,300 people in New York and New England, while in the six states in which bank failures were most numerous in 1924 and 1925 - Iowa, Missouri, Minnesota, North Dakota, South Dakota and Oklahoma - the average number of people to each bank ranged from about 800 in North Dakota to 2,100 and 2,400 in Missouri and Oklahoma. In the country as a whole the average is one bank for about 4,000 people. The problem, as I see it, is to consolidate the small banks in the West into groups, so as to make larger banks and so as to give them if possible some chance to spread their loans over a variety of industries, or at least over a variety of crops. The South has done something in this direction. State-wide branch banking is permitted in Delaware, Maryland, Virginia, North and South Carolina and Georgia, and there are a few banks with branches in Alabama and Mississippi. Louisiana and Tennessee under present laws have branch banking within county limits.

It may surprise you that branch banking does not run wild in the South. There are some 250 banks with branches outside the town of the parent bank, but they scarcely average two branches each, although two banks, one in Georgia and one in Maryland have 20 branches each, and there are several with from 10 to 15 branches. They are nearly all country banks, and in each state there is a growth of only a few branches each year. The largest bank with branches in the South, and it is one of the largest banks in the South, is the Citizens and Southern of Savannah, which has branches in Atlanta, Augusta, Macon, Athens and Valdosta. It has an application pending for a branch at Albany, but has shown no disposition to go into the smaller towns. The Wachovia Bank and Trust Company of Winston-Salem, North Carolina, is another example of a bank with branches only in the larger towns. Banks with branches in small towns are generally rather small banks - some of them with a capital of not more than $100,000. I think that many of them are too small for the best results, but they have stood up well during the past four years and have demonstrated, I think, that they have some advantages over the small unit banks.

A good deal of the recent growth of branch banking, outside the cities, has been due not so much to desire for expansion on the part of the officers of branch banking organizations, as to pressure for consolidation to prevent failures. A number of the branches of the Bank of Italy and of the Pacific Southwest in California were obtained because they were urged by the Superintendent of Banks, and in one or two cases also by the Comptroller of the Currency, to take over banks in weakened condition. A few such cases have occurred in Arizona, in Georgia and in North and

South Carolina. Such consolidations have been common enough within city limits in the West and many a bad situation has been taken care of in that way. What good reason is there why similar consolidations should not be made when the banks are located in small places twenty-five miles from each other, or even further. Even if no new industries are covered by the extension of loans over a wider area the advantage of larger size and broader outlook appears to be worth while.

The usual arguments against so-called state-wide branch banking - such as lack of interest of branch managers in the locality, or "absentee banking" - do not at all apply to these country branch banking systems in the South. Every branch town or village is represented on the board of directors, and even in systems with ten or fifteen branches, the branches are seldom more than a two hour drive from the head office. One of the best examples of such a bank is the Calcasieu National Bank of Lake Charles, Louisiana, a bank with eight branches, all outside the city of the so-called "parent bank". This bank has a capital of $1,000,000, and no one in the territory served by it will deny that it provides much better service than would be possible for nine little independent banks. This bank was originally, of course, a State bank, but nationalized bringing its branches into the National system a number of years ago under an amendment to the National Banking Act which has been on the Statute books since 1865. The pending McFadden Bill as it passed the House of Representatives would have repealed this provision of the law - without the slightest reason, except to "declare a Federal Government policy" against branch banking. The Senate draft retains the provisions of the Act of 1865 so far as branches in existence at the time of the passage of the bill are concerned, which is better, but will discourage to some little extent the formation in the future of such country branch banking systems.

Another excellent example of a country bank with branches is the Grenada Bank of Grenada, Mississippi, a bank with 12 branches. Mr. J. T. Thomas, President of this bank, has recently published a very interesting pamphlet entitled "Branch Banking, the Best System for Agricultural Countries", which is in large measure a history of his own bank. This bank established its first branch in 1898 and has had all of its present branches since 1906. It is therefore no experiment. Still another southern institution which has been operating branches for more than twenty-five years is the "Tennessee Valley Bank" of Decatur, Alabama, with 15 branches. The Grenada Bank is a member of the Federal Reserve System, but the Tennessee Valley Bank is a non-member. Nearly all of the smaller banks with branches in the South - and the same is true of Maine - are non-members.

The McFadden Bill as it passed the House would have prevented them from ever becoming members of the System unless they gave up their branches outside so-called "city" limits. Such a provision would certainly not attract these little banks, some of which were operating branches long before the Federal Reserve Act was passed, to the System. Its only effect would be to deprive the Federal Reserve System of some very desirable members. If branch banking is an advantage it cannot be discouraged by any such clumsy exhibition of narrowness and prejudice. The Senate draft of this provision would admit these banks to the Reserve System with the branches they now have. That is better, but in all probability its passage will simply become an additional argument against joining the Federal Reserve System, as it will mean surrendering a charter right, which is of value and is in accordance with the best banking principles. Occasionally these non-member banks with branches consolidate with a national bank and make it a branch, to the discomforture of the Comptroller of the Currency. A recent case was the taking over of the First National Bank of Murfreesboro, North Carolona, by the Farmers Atlantic Bank of Ahoskie, North Carolina, in January last. Ahoskie appears to be a city of some 1,500 people and the Farmers Atlantic Bank now has two branches, certainly not a serious menace to the liberties of the American people.

I might go into the question whether branch banking is un-American, a phrase much in use by the Anti-branch banking associations, but will only take time to say that before the Civil War branch banking prevailed in nearly all the western and southern states, but was either very rare or non-existent in the East. In short the sections of the country which pride themselves most on their Americanism were the sections in which branch banking prevailed. Of these old time branch banking institutions the Bank of Indiana, of which Hugh McCulloch was President, was the best example. I think there has always been some branch banking in the South from that day to this - except in so far as the Civil War may have destroyed banking in the South.

In conclusion let me say again that branch banking is a country bank proposition. City branch banking is a matter of convenience, like city branch post offices, but can hardly be said to be of much economic importance. Country branch banking affords a means of providing larger, better managed and generally safer banks to the agricultural sections where banking units have been and still are the smallest and weakest. Where such branch banking is permitted by law it has not run wild but develops slowly, mostly in response to demand for larger organizations and better service. There appears to be no compelling reason, so far as safety is concerned, for branch banking in the eastern states, but branch banking limited to counties would have some advantages and might be tried. Whether you favor or oppose branch banking for Nassau County there is no reason why you or any other eastern bankers should favor the enactment of Federal legislation for the purpose of discouraging the development of a sound system of banking which has been established in other States and is believed by the people of those States to be of advantage to them.

Edmund Platt

ADDRESS TO BE DELIVERED JUNE 19th, 1926

NEW ENGLAND BANKERS' ASSOCIATION

NEW LONDON, CONN.

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Since the decision to publish the so-called "street loans" or broker's loans made in New York as a part of the regular weekly statement of condition of reporting member banks there has not been very much in the functioning of the Federal Reserve System to attract attention. Apart from the revamping of the criticisms of 1920-21 in the Iowa primary campaign the System has been generally free from political attack, and I think may almost be said to be in more danger today from the extravagant encomiums of its friends than from attacks of its enemies. The charters of the Federal reserve banks have been extended 50 years by the McFadden banking bill, almost without opposition - in fact without any expressed opposition at all in the Senate, which was rather surprising.

The decision to publish brokers' loans was the result of mature consideration, and had been discussed informally in the Federal Reserve Board and in the Federal Reserve Bank of New York for more than a year. The New York Reserve bank had been receiving reports from a group of the leading banks of the city showing their loans to brokers on demand and on time, both for their own account and for the account of correspondents. This gave some indication of the amount of credit absorbed by the stock market, and it appeared that most of the banks furnishing these reports were willing to have the totals made public. The governors of the Stock Exchange, when consulted were also favorable to publication and as you know decided to obtain the figures from the borrowing brokers and publish them, so that the public would have the information as coming both from the chief lenders and from the borrowers who are members of the Exchange.

The publication of these loans to brokers was well received, though the size of the fund was evidently a surprise to many people. It isn't the business of the Federal Reserve System to regulate the market for securities, but it is a part of its business to know how and where credit is being used. During the latter part of last year the Federal Reserve Board and the directors of many of the Federal reserve banks looked with some apprehension upon the gathering force of speculation in securities and in real estate. Rates were raised in four of the Reserve districts, as you know, beginning with this district, the Boston district, one half of one percent, followed by an increase in the New York district soon after the first of January. The Boston increase in November was hailed as a turning point by some of the speculators in the Stock Market, and though insignificant in itself was used as a signal for a sharp break in the price of securities. I may say here in New England that the directors of the Boston Federal Reserve Bank voted that increase of one half per cent in September and it might have been better if it had been approved and put into effect then. There was more or less criticism of the delay in the increase of some of these rates, but that criticism, if valid at all, does not hold against the Federal Reserve Bank of Boston.

It appeared that Federal reserve funds were indirectly used in the call loan market and the spread between call loan rates and Federal Reserve rates at 3-1/2 per cent was clearly, in my opinion, too great. The slight increases of rates, however, did not prevent the prices of securities from recovering rapidly and from reaching new high levels early in the year only to be followed some two months later by a severe period of readjustment. Just how much Federal Reserve policies have had to do with all this it is difficult to say, though it has given the financial writers ample opportunity for expressing their opinions and has doubtless stimulated study of the statements of the Reserve banks published from week to week.

It seems now to be the consensus of opinion that the break in securities in March did not foreshadow any very serious decline in the business of the country which has maintained itself at a rather surprisingly high level ever since, while the outstanding volume of Federal Reserve credit has been continuously higher than at the same periods a year ago, and was on June 10th about $64,000,000 more than at the same time last year.

The Federal Reserve Board and the Federal Reserve System have been criticised for many things and have been praised for many things, and I sometimes think that the praise received is likely to do it quite as much harm as the adverse criticism. Foreign economists have credited the Federal Reserve Board with accomplishments little short of miraculous. They have credited us with preventing the great gold importations from producing another inflation of prices and declared that we practically control the destinies of the world in the matter of prices as well as credit.

I do not know how much the rank and file of bankers who are members of such an organization as the New England Bankers Association may have read about the hearings on the bill introduced by Representative Strong of Kansas directing the Federal Reserve banks and Board to use all their powers to promote a stable price level, but from a Federal Reserve point of view these hearings have been rather the most interesting thing that has taken place in Washington during the past session of Congress, much more interesting in fact than the hearings and debates on the McFadden bill and on the branch banking controversy.

The idea of a stable price level is a captivating one which has been given widespread interest by the Stable Money Association at the head of which is Professor Irving Fisher of Yale University. It was in fact Professor Fisher and Mr. Lombard of this Association who seized upon the Strong bill as a means of spreading their ideas that gave the hearings a standing. So far as I know none of these hearings, although they started in March and proceeded through April and for a week or two in May, have yet been printed, but the testimony has been so voluminous that it will probably be a good while before all of it can be revised and published.

In the course of their testimony expounding their theories, Professor Fisher and other economists who hold substantially the same views, declared that the Strong bill merely gave to the Federal Reserve Board and Banks the direction to continue doing what they had already been doing. These economists declared that the Federal Reserve System was and is promoting a stable price level as shown by the comparative stability of prices since 1922, and they cited charts and statements from the reports of the Federal Reserve Board and from the Federal Reserve Bulletins in support of this belief. They called upon the operating officials of the Federal reserve banks, notably Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York, and Mr. Norris of the Federal Reserve Bank of Philadelphia. Governor Strong was kept before the Committee day after day for something like two weeks and the Committee took occasion to question him not only as to the operations of a bank that might perhaps have had an effect upon the price level, but as to every detail of operation. The Committee wanted to know not only all the considerations which move the directors in advancing or lowering discount rates, and the purchase of government securities or acceptances through open market operations, but they wanted to know how acceptances are drawn, just how they finance the movement of goods in import and export and in domestic transactions, how they get into the hands of dealers and how they come into possession of Federal reserve banks.

Governor Strong was flanked by Deputy Governor Harrison, Mr. Burgess and some of the other officials of the Federal Reserve Bank of New York and went very patiently into details of all these operations. He explained fully how the acceptance market was built up, stating that it had to be built up from the bottom and showing that it was necessary to have dealers in the financial centers carrying portfolios of bills to be distributed to member banks or corporations having surplus funds to invest. Such dealers or brokers have for many years existed in London and in fact the Bank of England almost invariably deals with them and not directly with the Joint Stock Banks which carry their reserves in the central bank.

The Federal Reserve Act provides for member banks carrying reserves in the Federal reserve banks and provides that member banks only may rediscount their paper with Federal reserve banks, but it also gives Federal reserve banks the authority to make contracts and authorizes the purchase of government securities, drafts and bills of exchange in the open market. Under this authority the Federal Reserve Bank of New York and occasionally other Federal reserve banks take short term government securities and acceptances from dealers on repurchase agreements at times when money rates make it impossible for the dealers to carry their portfolios on call money without serious loss. Governor Strong and others who have studied the bill market carefully consider this service absolutely essential to the continued operations of the dealers and the dealers themselves are, of course, essential to the building up in this country of an acceptance or bill market. Some of the members of the House Banking and Currency Committee questioned the legality of these operations but appeared to be satisfied as the hearings progressed that they are not only essential but legal. It would seem that it could not have been the intention of Congress to prohibit operations with the dealers in bills of exchange and acceptances which are the very backbone of such central bank operations as have been carried on by the Bank of England for generations.

I may say in passing that the questions asked of Governor Strong and other representatives of the Federal Reserve Bank of New York amounted almost to a searching investigation not only of its operations but of its expenses in every direction, and Governor Strong submitted charts showing the organization of the Bank and the functioning of every department together with much of the detail of its expenses. When these things are published they may be of interest to some of you. Those of us who have watched its operations from week to week, from month to month and from year to year are satisfied that the Federal Reserve Bank of New York as well as the Federal Reserve Bank of Boston and the other banks in the System are well organized and officered by men of high type, who conduct them with an eye single to the public welfare.

Besides Governor Norris and Governor Strong Mr. Adolph C. Miller, Member of the Federal Reserve Board, has testified at considerable length before the House Committee with relation to the Strong bill and has explained by means of charts and otherwise the technique built up by the Federal Reserve Board to enable it to form some judgment with relation to credit and business conditions, and the desirability from time to time of changes in policy whether in rates or in open market matters. The open market operations of the Federal Reserve Board were first explained in some detail in the Board's annual report of 1923, a report which attracted an unusual amount of attention from economists and financial writers. Some of them jumped to the conclusion that open market operations were of far more importance than discount rates and that here lay the secret of the Board's success in maintaining, as some of them believed, a fairly stable price level. I think it may be said, nevertheless, that the open market policy of the Board was not instituted with any idea of promoting a stable price level though price indexes are of course among the evidences of business conditions consulted.

Federal reserve banks on their own initiative in 1921 and 1922 began to purchase short term government securities with the idea of maintaining their earning assets at a time when their rediscounts were rapidly running off. The Federal Reserve Board at first contented itself by pointing out to them that by purchasing these short term governments in considerable amounts they were not really adding to their earning assets but were merely transferring them from rediscount to investments as they were actually furnishing the money to the market with which the rediscounts were paid off. The total volume of these government securities held by the Federal reserve banks approached $600,000,000 in the summer of 1922 and it seemed time to call a halt, as the Reserve banks were absorbing so large a volume of these securities as to give them an artificial market. The fund was then gradually liquidated in large measure and in April 1923 an Open Market Committee was formed under supervision of the Federal Reserve Board with the statement that its operations were to be governed with primary regard "to the accommodation of commerce and business and to the effect of such purchases in the general credit situation."

In general I think it may be said that this expressed purpose has been well carried out. Several meetings of the Open Market Committee are held every year and with particular regard to the effect of purchase and sales of securities in connection with the quarterly Treasury operations that come at the time income taxes are paid. At these periods the operations of the Open Market Committee have certainly served to prevent extreme fluctuations of money rates in the leading financial markets. How this is done was well explained in the Federal Reserve Bulletin for April last with reference to the March 15th Treasury operations. On that date the Treasury was called upon to pay out over $700,000,000 for the redemption of maturing security issues and for interest on the public debt, and during the following week it purchased over $100,000,000 of Third Liberty bonds for account of the sinking fund. At the same time the Treasury received more than $400,000,000 in income taxes and about $500,000,000 in the proceeds of the new refunding issue of United States Bonds.

Doubtless many of you remember the extreme fluctuations in call money rates that used to take place around these tax payment dates. The Treasury would disburse a large amount of money on the 15th of the month but the checks in payment of income taxes could not all be collected promptly on that date and consequently money rates for a few days would be extremely easy followed by a gradual tightening up. The Treasury has obtained its funds for payments on the 15th of each month in part from overdrafts at the Federal reserve banks covered by the sale tothe Federal reserve banks of special certificates of indebtedness. In New York on the 15th of last March it amounted to $190,000,000 with $19,000,000 additional to the Federal Reserve Bank of Chicago. These certificates were cut down each day following as the proceeds from income tax payments were brought in and the last portion was taken up by the Treasury on March 19th. Treasury outlays exceeded receipts for a day or so by about $130,000,000 and to offset this in part the New York Reserve Bank on March 13th and 15th sold government securities under repurchase agreements to the banks in the city, thus preventing any violent fluctuations in money rates.

Undoubtedly this is a valuable service, as such fluctuations in the money rates are always misunderstood by some people and may cause them to make commitments which they otherwise would not make. This is a simple case of the use of open market facilities in steadying short time interest rates. Something can be done and has been done along the same line over longer periods but it is easy to exaggerate the effects of such operations and it is not easy always to bring into the picture other contributing factors which those who are watching the thing from day to day cannot in fact always see until afterwards. That the open market operations of the Federal reserve banks have had some effect in the direction of steadying the general price level is probably true, but to infer from this that interest rates can be so manipulated through open market operations as to promote continuously a stable price level is an inference which seems to me unwarranted.

The theory itself upon which the proposal for Federal Reserve action to stabilize prices is based is not by any means universally accepted, and among the economists who were called before the Banking and Currency Committee Professor O. M. W. Sprague of Harvard and Dr. Walter W. Stewart, who for several years was Chief of the Division of Analysis and Research of the Federal Reserve Board, called it seriously into question. Professor Sprague, I suppose, will be generally admitted to be the leading authority on the economics of banking in the United States. He said in his testimony before the Committee "I am very certain in my own mind that it is not possible to handle the ordinary oscillations of prices effectively by means of Reserve bank operations". He stated that he thought a marked inflation developing into a seller's market could be checked in some measure by Federal Reserve operations, but he did not believe that moderate variations in price "such as we find at the present time" could be directly attacked by Federal Reserve policies to any advantage. Citing the fact that there had been a decline in the general price level of about 7 points in the last few months he asked how anyone could tell what would be the effect of injecting arbitrarily additional credit into the situation. Open market operations he stated would merely put additional money in/to the New York market and there was no good reason for supposing, for instance, that this would have the effect of advancing the prices of the commodities that are lowest. It would be more likely, if it had any effect upon prices, to advance the prices of the commodities that had at the time the strongest tone in the market. "No central bank" said he "so far as I know has ever assumed the responsibility for the stabilization of prices."

Both Professor Sprague and Dr. Stewart attacked the statements of Professor Fisher and other economists who had declared the comparative stability of the price level from 1922 to the present time was due to the policies of the Federal Reserve System. Professor Sprague said "I do not believe that that degree of stability is to be in the main attributed to the management of the Federal reserve banks. I consider it primarily due to the attitude of the business community which continued to recall the losses which it had experienced in 1920-21. The business community has been in the state of mind ready to take in sail at very short notice indeed." He disagreed strongly with the opinion which had been expressed to the effect that the upward movement of prices which culminated in the spring of 1923 was checked primarily by Federal Reserve policies and declared that agricultural prices were at that time out of line with industrial prices and stated that he knew "of no instance of a decided inflationary condition developing which did not start with a fairly sound situation as regards prices between agriculture and industry, and a fairly complete liquidation in agricultural regions of the wreckage from the previous period of inflation."

Dr. Stewart referred in more detail to the situation in the spring of 1923. Prominent economists at a meeting in Chicago toward the closing of the year 1923 had declared that there would be an increase of prices during 1923 amounting to something like 25 per cent. When this predicted increase did not take place they declared it was due to the action of the Federal Reserve Bank of New York in increasing its discount rate and in reducing open market holdings. Dr. Stewart declared that "with Europe out of the picture in 1923 so far as being an active purchaser of goods in this market was concerned, the foreign buying power being at a very low level, we did not have a business situation which could have given rise to any marked inflation no matter how abundant the volume of credit was", and he expressed the opinion that the turn of commodity prices in 1923 was not due to a change in credit conditions but to the fact that the level of output in industry "had been carried to a point where it was not possible to sell at the prevailing level of prices", and he called attention to the fact that after prices had begun to recede the volume of credit continued to increase. Dr. Stewart showed that for the periods of which he had made particular study an increase in the volume of credit did not precede price increases. The order was, first, production, then prices, then credit. When prices were advancing and when prices were declining in 1924 the order was the same. Increased credit frequently is granted to take care of inflated inventories which result from declining prices. This would seem to a layman to be a reversal of the procedure indicated by the theory that prices are always stimulated by increase of credit.

Now to turn to another subject. Just before I left Washington word came that the Conferees had agreed on the McFadden bill and it seemed likely to pass in substantially the form in which it was passed in the Senate, i.e., with the so-called Hull amendments eliminated. I do not know how largely New England bankers allowed themselves to be used in support of these Hull amendments, but it seemed to me that they were utterly illogical and probably would not have done anything towards accomplishing what their proponents professed to expect. It is a little hard to understand anyway why the storm center of opposition to any kind of branch banking should be centered in the city of Chicago. New York and Boston and Philadelphia and Baltimore and Buffalo and Cleveland and Detroit and New Orleans and Atlanta all have a certain amount of branch banking. In most of these cities it is confined to city limits, though in Cleveland it extends to immediately contiguous territory. This branch banking is wholly the result of state laws and if Illinois does not want branch banking it is the glorious privilege of her bankers to prevent it through the Illinois Legislature. There would appear to be no good reason why they should seek to control the matter through Federal legislation or why they should seek to influence State legislation by Federal legislation. The Hull amendments, as you remember, provided that if states where branch banking is not now permitted should change their laws so as to permit state banks to have branches national banks should not be given the same privilege. The theory was that national banks and state banks would not then have an inducement to go to the state legislatures and ask for a change in state laws. This theory ignores entirely the fact that the present branch banking situation has been brought about by state laws passed at the instance of state banks without any cooperation from national banks. It would certainly appear that one of the chief motives of the present state laws in states which favor branch banking was to give state banks a certain advantage over national banks. The branch banking features of the McFadden bill were drawn to correct this situation, but they would repeat it in the states which do not at present permit branch banking. Inasmuch as state banks outnumber national banks considerably more than 2 to 1 it would appear that with the Hull amendments in force the inducement to obtain an advantage in the matter of branches over national banks in these states would be very strong. What standing would national banks have before state legislatures in opposition to bills granting privileges to state banks? They would be told, I should think, to obtain their relief from Washington. The advantages state banks could obtain are obvious. If Missouri, for example, should change its laws in favor of branch banking while Congress was not in session state banks desiring to establish branches could obtain all the best sites in St. Louis before Congress so much as had a chance to act for the national banks.

Some of the bankers who advocate the Hull amendments seem to have no idea what they are, judging from the letters they write to Members of Congress. Senator Carter Glass paid his respects to this class of letter writers in no uncertain terms in his recent address to the stockholders of the Federal Reserve Bank of Richmond. He declared that the man who drew the Hull amendments "a little stockyards banker out in Illinois" was asked by the Senate Committee to justify the proposition, but "never came within a thousand miles of justifying it." "I have failed to find an American banker who says it is a sound proposition," said Senator Glass, and he added emphatically that the Senate will not accept the bill containing it. Now Senator Glass knows what he is talking about and unless the Hull amendments go out the bill will fail of passage. It comes up again in the Houst next Tuesday, I understand.

As I have said on several occasions I consider branch banking a country bank proposition rather than a city bank proposition, and I consider it a proposition for the agricultural West rather than for the industrial East. Unit banking works very well in the East. We have none of the very small banks that are so numerous in the West and even our smallest banks are nearly all situated in territory where they have more funds at their disposal than they can loan at home and where they are not under any serious temptation to loan an undue proportion of their funds to one industry. We have had a tremendous number of bank failures in this country during the past few years, so many as to constitute it seems to me a disgrace to a great nation so strong as we are in financial matters. In 1924 there were 777 failures, in 1925 there were 612, and in this year down to the 1st of June there were 183. A study of the bank failures of 1924 and 1925 made by the Federal Reserve Board shows that the great majority of these failures were in the section between the Mississippi River and the Pacific slope, a section which in my opinion, for the purpose of serving an agricultural community adequately and safely, has the worst banking system in the world. 40 per cent of all the bank failures during the past two years were in places of less than 500 population, and over 61 per cent were in places of less than 1,000 population, while only 20 per cent of the total failures occurred in towns that are defined by the Census Bureau as <u>urban communities</u>, i. e., places of 2,500 population or over. 63.4 per cent of all bank suspensions during the past two years were banks with a capital of $25,000 and under, and less than 10 per cent were banks with a capital of $100,000 and over. The average capital of suspended banks was $38,243.00 and their average deposits $281,182.00. Thousands of western banks have a capital of less than $25,000. The conclusion is inevitable, it seems to me, that they are too small to afford good management, and operate in too narrow a territory. The resources of very many of them are too small to take care of their home demands in peak seasons and they frequently have to borrow heavily. I can see no reason at all why they should not be consolidated into little systems of some size with the smaller places served by branches. It is not at all necessary to build up big systems, and if big systems are feared it might be a good plan to prohibit banks in reserve cities from having branches outside their limits, or it might even be provided that no cities of more than 25,000 or 50,000 inhabitants should be allowed to have branches outside. As outside branch banking has so far developed in this country most of it proceeds from cities of less than 10,000 inhabitants and the banks scarcely average 2 branches to a bank. Such little systems are very common in the South and appear to have done something to strengthen the banking situation.

The McFadden bill discriminates against these little country branch banking institutions most of which are not members of the Federal Reserve System. Their branches are as a rule all outside of so-called city limits for the very good reason that they are not in cities and have nothing to do with cities. The largest of them, in number of branches, is the Eastern Shore Trust Company of Cambridge, Maryland. I wonder if any of you ever heard of this Cambridge. Another, almost as large, has its headquarters at Decatur, Alabama, and another at Grenada, Mississippi. The McFadden bill, as it passed the House, would have barred these little country branch banking institutions from the Federal Reserve System. In the Senate form it will admit them with their present branches. They take on new branches only occasionally, but they seem to value the branch banking privilege, and now and then they prevent bank failures by consolidations that could not be made without the branch banking privilege. There appears to be no reason whatever for refusing them admission to the Reserve System with the privileges given them under State laws, and my belief is that they will in time demand the removal of the discrimination against them. The McFadden bill does not settle the branch banking controversy. It can only be settled by giving to national banks the same privileges with respect to branches that are given to State banks, thus leaving the matter of branches wholly to the States.

"THE HISTORY AND DEVELOPMENT OF BRANCH AND GROUP BANKING"

AN ADDRESS TO BE DELIVERED BY

HONORABLE EDMUND PLATT

VICE PRESIDENT, MARINE MIDLAND CORPORATION AND FORMERLY
VICE GOVERNOR OF THE FEDERAL RESERVE BOARD

BEFORE THE

THE INSTITUTE OF STATESMANSHIP, ROLLINS COLLEGE

AT WINTER PARK, FLORIDA   JANUARY 9, 1930.

In 1892 there was a good deal of agitation in the West and South - the agricultural states - in favor of the repeal of the tax of 10 per cent on state bank notes, a tax which had been in effect since 1866 and had resulted in a uniform well secured national bank currency. This agitation was the popular form for the time of "farm relief," and there was much said about the stress of low prices of agricultural products. It was one of the recurring phases of the cheap money idea that had previously manifested itself as greenbackism, and finally lost out a few years later when the free coinage of silver was defeated. We may find it a little difficult to believe at the present time that this state bank note agitation was regarded as at all serious but a generation had passed since the days of heterogeneous state bank note currency and its tremendous disadvantages had been largely forgotten. At any rate a considerable list of bills repealing the 10 per cent tax had been introduced in Congress, and the pages of the Congressional Record have preserved a good deal of oratory on the subject.

This agitation gave rise to a paper by Professor Charles F. Dunbar of Harvard on "The Bank Note Question," published in the Quarterly Journal of Economics of October 1892. The rapid increase of state banks, particularly in the West, was cited as an effort to diffuse or distribute banking facilities as widely as possible. The minimum of capital allowed at that time in the national banking system was $50,000, but state systems in some cases set a minimum of $25,000, as in New York and Iowa; in others as low as $10,000, as in Missouri; and in some cases even as low as $5,000, as in Nebraska, Kansas and the Dakotas. "No doubt," said Professor Dunbar, "many of the banks thus established are below the minimum of safety. With their trifling resources, it is impossible that they should command for their service such experience and capacity as their operations, although on a small scale, really require in the interest of the community."

Professor Dunbar does not deprecate "the obvious tendency to carry banking facilities further and further from the great centres and to open the way for their more general use by the community at large," but points out that there is a much better way to do it. He says "the greatest possible diffusion of banking facilities, under an admirably guarded system, might be secured if establishment of branches were encouraged and facilitated by law." He suggests that this should be done through amendment to the National Banking Act and recognizes the fact that they would probably have to contend with some local jealousies, but adds, "It is obvious, also, that, if the multiplication of branches were once fairly recognized again in the United States as the natural method, as it has been in the past," it would be as available for banks under state systems as for national banks.

In reading this essay, which is included in Dunbar's Economic Essays, edited by Professor O. M. W. Sprague and published in 1904, I was especially attracted by the word "again" and by the words "as it has been in the past," and began studying the early history of American banking with the idea of finding out how generally branch banking was recognized in the past "as the natural method" of extending banking service to the smaller communities and in agricultural states. I found that many of the earliest American banks had branches, including the two early national banks, the first and second Banks of the United States, and that the charters of a considerable number of early American banks required them to establish branches. I also found that branch banking had pretty generally fallen into disfavor in the northern and eastern commercial states soon after the War of 1812, for two reasons: first, branches were difficult to manage and in the days when there were not only no railroads and no telegraph or telephones but when the wagon roads themselves to interior towns were frequently impassable for days at a time because of floods, washouts and windfalls; and, second, because the big banks of the financial centres were finding that they could do better as correspondents of country banks than by competing with them through branches. Philadelphia was the financial centre of the country until several years after the War of 1812. I have seen no record to show whether the Bank of North America, established under the Articles of Confederation before the Constitution of the United States was adopted had branches or not but two of the early Philadelphia banks, the Bank of Pennsylvania chartered in 1793, and the Philadelphia Bank, chartered in 1804 were specifically authorized to establish branches and did establish a few. Such towns as Harrisburgh, Scranton and Washington had their first banking service through branches. These branches, however, gave a lot of trouble. The business of the branches of the Philadelphia Bank "exceeded that of the parent institution and gave it much concern." They incurred too many losses and by 1817 arrangements were made to dispose of them, mostly by reorganization under independent charters. There appears to be no evidence that any bank in the city of New York ever tried to establish outside branches except the Bank of the Manhattan Company, which had branches in Poughkeepsie and in Utica, [redacted]. The records of the Bank of the Manhattan Company [redacted] show that these branches were established in 1809 and closed in 1819. Meanwhile in 1811 the Middle District Bank was chartered in Poughkeepsie with a branch in Kingston. It was in 1811 that the first bank of the United States went out of existence, Congress having failed by a very close vote to pass the recharter bill. With its restraint upon the issue of state bank notes removed there was in every state a considerable increase in country bank charters. The new country banks in many cases appear to have purchased the business of the branches of city banks, the latter finding it more profitable to act as their correspondents. In New England I have found no evidence that the Boston banks ever attempted to establish branches outside of the city but at a little later period some of the country banks opened agencies or branches in Boston and received deposits and discounted notes there. The Boston banks objected to this and legislation was passed to put a stop to it. In New York as country banks were from time to time chartered by the Legislature some of them established branches. The Middle District Bank, for instance, maintained its branch in Kingston from 1811 until 1829. The Bank of Newburgh maintained for nearly twenty years a branch in Ithaca. One of the Utica banks had a branch in Canandaigua and there were doubtless others that went unrecorded in the lists of banks published from time to time by the Bankers' Magazine. There appears to have been no particular prejudice against branch banking as such but there was evidently a feeling in the towns served by branches that they should have independent banks of their own as soon as they became large enough. There was also a general feeling that the chartering of banks by special acts of the legislatures conferred something akin to monopoly or special privilege upon a few people, and there was an occasional bank charter, even as early as 1811, which provided that the bank must confine its business to the place where it was organized. This seems to have been more an effort to prevent the "shaving" of notes, however, than to prevent branch banking.

In 1838 this agitation against monopoly and special privilege in banking resulted in the passage of the free banking act by the Legislature of the State of New York, and there gradually grew up the idea that every little town large enough to require any kind of banking service must have a separately incorporated independent bank of its own. This idea, however, was not firmly established until many years later and in the meantime, although branch banking almost died out in the East, it took firm root in nearly all the newly organized western states and in the South where it continued until the days of the Civil War.

The Bankers' Magazine for February 1848 has a list of "Banks of the United States" from which we find that in Ohio out of 48 banks, 29 were branches of the Ohio State Bank. Indiana lists 17 branches of the State Bank of Indiana and no independent banks Missouri had one bank and five branches, Kentucky 3 banks and 13 branches, Tenessee 3 banks and 17 branches, Virginia 6 banks and 30 branches, North Carolina 4 banks and 14 branches, South Carolina 12 banks and 2 branches, Georgia 13 banks and 7 branches, Delaware 5 banks and 3 branches and Alabama 2 banks and 4 branches. Illinois, Iowa, Mississippi, Florida and Arkansas came under a special heading as "States and Territories Without Banks," while Wisconsin had one bank and Michigan four. It may therefore be said that so far as banking had developed in the West branch banking was the rule, and was general also in the South. The only branches listed in the Eastern states are two in the State of New York, one of them the branch of the Bank of Utica at Canandaigua, already mentioned, and two in New Jersey. Two or three branches were also listed in Maryland and Delaware. The Federal Reserve Board has obtained a list of all banks with branches and as nearly as possible has ascertained the dates of the establishment of the branches, and I was particularly interested in noting that three branches have survived from the very early days of American banking until the present time. One of these branches was established as early as 1807 at Georgetown, Delaware, and another at New Castle in 1813, both of them branches of the Farmers Bank of Dover, Delaware. They apparently have been in continuous existence from that time to this, the New Castle branch having been moved to Wilmington. The third is a branch of the Camden National Bank and Trust Company of Camden, New Jersey, established in Philadelphia in 1813. The Camden National Bank and Trust Company was originally a state institution in which the state had a large interest as a stockholder. Among its early activities was the financing of southern New Jersey farmers whose produce was marketed in Philadelphia, and the branch in Philadelphia was established for the purpose of financing this movement of crops. Apparently the State of Pennsylvania never made any objection to the business of the branch, and Mr. Austin, of the Federal Reserve Bank of Philadelphia, tells me that the branch has been located almost in the same spot from the early days of the State bank until the present. When this bank became a national bank, not very long after the National Banking Act was passed, it retained its branch under the authority of the amendment to the Banking Act in 1865, which permitted any state bank to nationalize and bring its branches into the National System. This amendment was evidently adopted in 1865 to afford an opportunity for the western branch banking systems to come into the National Banking System and retain their branches. The Camden, New Jersey, bank already mentioned took early advantage of this opportunity, but the western banks, with the exception of the Bank of California which nationalized much later, did not. One of the chief reasons why the Western branch banking systems did not take advantage of this amendment appears to have been the fact that they more nearly resembled what we now call group banking systems than branch banking systems. The branches, in other words, were so nearly independent that they could very easily be converted into independent banks.

In the early days of American banking particularly in the West and South the states themselves frequently became stockholders in banks and sometimes established and controlled them. Dr. Dewey in his "State Banking Before the Civil War," draws a distinction in motive between the state ownership of bank stock in the East, and in the West and South. In the East, states frequently reserved for themselves stock in the banks they were chartering as an investment while in the West and South where capital was scarce the states generally took a part in raising capital for new banks, frequently by selling bonds, and the banks so established were frequently state owned and controlled. The Farmers Bank of Dover, Delaware, is still controlled by the state of Delaware, which owns, I understand, 56 per cent of its stock. Inasmuch as this bank has been in existence since 1807 I presume the stock has been a profitable investment for the state. All or nearly all of the banks established with state funds and with state ownership either established branches or were authorized to establish them, and in some states the charters provided that branches should be opened in stated towns or counties, the object being to distribute bank notes or currency throughout the state. It was not always possible to establish all these branches as the Legislatures located some of them in counties or towns that existed only on paper and sometimes in places which did not grow enough to require banking service for many years. Not all of the state owned banks were successful. In Illinois and Alabama they were disastrous failures, due to too much politics in their management and to efforts to promote various enterprises and public improvements long before they were needed or in places where they could not be made to pay. The Bank of Indiana and Bank of Kentucky were eminently successful, particularly the Bank of Indiana which was called by Mr. A. B. Hepburn, in his "History of the Currency of the United States," a model branch banking institution, well illustrating the advantages to be obtained by branch banking.

I have already said that some of these early organizations of state banks with branches more nearly resembled what we today call group banking than what we call branch banking. The branches of the Bank of Indiana had separate stockholders who elected the branch directors, with the exception of three who were appointed by the central organization, and the stockholders of each branch were entitled to most of the earnings of that branch. Originally the central organization was a board of directors with a bookkeeping office and not a bank. It was not a holding company in the modern sense, but the central board exercised a certain amount of control and supervision over the branches. The history of the Bank of Indiana comprises two or three organizations, due to changes in the charter or to recharter, the last of which, chartered in 1855, was known as the Bank of the State of Indiana and was presided over by Hugh McCulloch, who became the first Comptroller of the Currency after the National Banking Act was passed.

This bank weathered the Panic of 1857 successfully and continued in existence until its notes were taxed out of existence in 1866, when its branches were reorganized to become individual national banks. The Bank of Ohio which was called a branch banking organization was purely a group organization of indepedent banks, each required to be liable for the notes of every other bank in the group and each contributing a percentage to a common fund used to pay the notes of any bank in the group that might fail. It was modeled after the New York Safety Fund banking system but was organized more compactly and under sounder legislative requirements. This bank also continued until its notes were taxed out of existence in 1866.

I have never very carefully studied the early southern branch banking systems with relation to their structure, but am under the impression that in most of them the branches were not nearly so independent as in the two northern institutions mentioned. The Bank of Richmond chartered in 1792 was authorized to establish branches and branch banking in Virginia continued until the Civil War. In 1848 there were six banks in Virginia with 30 branches. North Carolina has been a branch banking state from the date of its first bank charters. In 1860 there were 16 banks with 26 branches in different parts of the state and at the end of the year 1929 there were 66 branches operated by 34 of the 370 banks of the state. The southern banks were practically all put out of existence by the Civil War, but when banking revived in the South branch banking gradually came back, and there are branch banks today in pretty nearly every one of the southern states except Texas, though Alabama, Florida and Georgia have prohibited the further extension of branches, the Georgia statute to that effect having been passed about the time of the McFadden Act in 1927. The largest branch banking establishment in the South (in capital and resources but not in number of branches) is the Citizens and Southern of Savannah, now a national bank. This is I believe the second largest bank in the South, and, according to the Federal Reserve Board's records, one of its branches, that at Augusta, dates from 1865.

Every financial panic has been attended by numerous failures of small banks, by economists and sometimes by Comptrollers of the Currency. Two Comptrollers in succession, Mr. Eckles and Mr. Charles G. Dawes, recommended amendment to the National Banking Act to permit banking service by branches in the smaller towns, after the Panic of 1893. Congress did not respond but the dates of the establishment of branches by state banks in the branch banking states appear to have some relation to these recommendations. Six of the fifteen branches of the Tennessee Valley Bank of Decatur, Alabama, were established in 1892 and the seventh in 1900. Two more were established in 1901 and another in 1902. This institution, therefore, has been continuously in branch banking for more than thirty years. Several of the twelve branches of the Grenada Bank of Grenada, Mississippi, were established before 1900, and two at least of the branch banks in Rhode Island have been in existence for thirty years or more. The same is true of at least one in North Carolina and of one Arizona branch bank. Four of the twenty branches of the Eastern Shore Trust Company of Cambridge, Maryland, were established in 1901, 1902, 1903 and 1904, and a considerable number of branches were established in nearly every branch banking state before 1907. Maine banks established ten branches in 1906 and 1907. The number of banks with branches increased from 28 in 1900 to 110 in 1907 and the number of branches from 50 to 228. The small branch banks in the southern states and in Maine were all branches of country banks and were scarcely known until the Federal Reserve Board began looking the subject up at about the time of the agitation for the passage of the McFadden Act. The principal recent development of branch banking in the United States may perhaps be said to date from the passage of the California Bank Act of 1909.

The epidemic of bank failures following the Panic of 1907 led to the adoption of laws guaranteeing deposits in several middle western states, but California happily resisted this papular fallacy and determined upon branch banking instead. California is a state peculiarly adapted to state-wide branch banking. Its north and south extension, its differences of climate and its great area make in England and Scotland and most European countries. Unit banks in California had often had unhappy experiences by getting too much involved in the fortunes of local crops, particularly fruit crops, and as the various crops come to maturity at different dates it is possible in that state through branch banking not only to obtain a wide diversification but to finance the needs of one neighborhood after the needs of another neighborhood have passed their peak. California had long been somewhat familiar with the idea of branch banking through the old Bank of California which had and still has its headquarters in San Francisco, dating from the days of the gold excitement before 1850. This bank has branches in Portland, Oregon, and in Tacoma and Seattle, Washington, and once had a branch in Nevada. There had also been established in San Francisco a branch of the Canadian Bank of Commerce which is still active, and there were a few branches of local banks in existence before 1909. The first development after that date was principally from Los Angeles banks, but it was not long before Mr. A. P. Giannini saw the possibilities of the new law and began to organize his wide-spread system which became known as the Bank of Italy, and finally through a series of consolidations in 1930 is now known as the Bank of America National Trust and Savings Association with about 438 offices, including the head offices in San Francisco and Los Angeles.

The development of branch banking in California did not attract much general attention until after the business depression of 1920-21. In the Middle West and South this serious depression started an epidemic of bank failures which, accentuated by such economic changes as the growth of chain stores and the increased use of the automobile, has continued from that time to the present - with the greatest number of failures up to 1930 occurring in 1926, a year of comparatively satisfactory business conditions for the country as a whole. California met the situation through bank consolidations and a rapid increase in branches, the Bank of Italy in San Francisco and the Pacific Southwest Trust and Savings and the Security Trust in Los Angeles being leaders in the movement.

Economic necessity was as much the cause of this expansion as the ambition of some of the chief bankers, and an appreciable number of the country banks taken over and converted into branches of big banks of San Francisco and Los Angeles were taken over to prevent their failure. As a result, although agricultural distress was as severe in California as elsewhere the record of the state in bank failures has been exceptionally good. From 1920 until 1923 the number of branch banks in the United States increased from 947 to 1740 and a very large part of the increase, particularly of branches outside of the home office city, was in California. Between December 31, 1922, and December 31, 1923, the number of branches in California increased from 417 to 528.

It was the very rapid development of state wide branches in California that alarmed the unit bankers of the American Bankers' Association and led to the agitation which first resulted in the passage of a resolution November 7, 1923, by the Federal Reserve Board for the purpose of curbing the increase of branches by State member banks beyond the limits of the city or town of the parent bank and contiguous territory; and finally in the passage of the McFadden Act in February 1927, which prohibited the establishment of any further branches by banks belonging to the Federal Reserve System "beyond the limits of the city, town or village in which the parent bank is situated." Until 1923 the Federal Reserve Board had given some encouragement to branch banking. In its second annual report, that for the year 1915 - the first report after a full year of operation of the System - the Board recommended branch banking for large banks within city limits and for smaller banks within county limits, and in August 1916 a bill embodying its recommendations was passed by the Senate, but was lost in conference with the House of Representatives. These recommendations in substantially the same form were repeated in the Board's reports for 1918 and 1919. The 1922 report recommended an amendment to the National Banking Act allowing national banks the same branch banking privileges given to State banks. In May, 1923, however, there was a considerable change in the membership of the Federal Reserve Board, Mr. Henry M. Dawes of Chicago, a strong opponent of branch banking, became Comptroller of the Currency and an ex-officio member of the Reserve Board; Mr. Crissinger, previously Comptroller, became Governor of the Board; Mr. George R. James of Tennessee succeeded Mr. Mitchell of Minneapolis and Mr. Cunningham succeeded Mr. Campbell who had actually served only one week. The result was a change of sentiment on the part of the Board, and the passing of the resolutions of November 7th above referred to - the resolutions to become effective as Board policy on February 1, 1924. Comptroller Dawes was the leader in this movement, his purpose being to hold the situation in statu quo until Congress could act. Meanwhile his office prepared the bill which was introduced by Mr. McFadden, Chairman of the House Committee on Banking and Currency, February 11, 1924. The California branch bankers vigorously protested the resolutions of the Federal Reserve Board, declaring that the Board had no right to impose limitations and conditions on them in contravention of their charter rights which were guaranteed them under an amendment to the Federal Reserve Act passed June 21, 1917, and they also vigorously fought the McFadden Bill. A series of hearings was held in the spring of 1924 and the bill made rather slow progress, largely because the American Bankers Association fought - through the Hull amendments - the legalization of National Bank branches within city limits in States which permitted State banks to establish branches. Finally in 1926 the bill passed both houses, the American Bankers' Association withdrew its support of the Hull amendments, the Senate and House came to agreement and the bill became a law February 25, 1927.

The McFadden Act, in my opinion, was a most unfortunate step backward. It is true that it legalized the establishment of branches by national banks within the limits of sizeable cities where state banks were allowed to establish branches, but the act discriminated against branch banking by country banks where it was most needed. Outside of California, most of the banks with branches beyond the limits of the town or city of the parent bank were country banks with their head offices in comparatively small places, and the law instead of prohibiting the further extension of such branches within the Federal Reserve System should have encouraged it, so as to promote consolidations of small banks into branch banking systems grouped about county seats or other key towns. There was slowly developing a tendency of this kind which was abruptly checked by the McFadden Act, although in a few states, notably South Carolina, banks have withdrawn from the Federal Reserve System, since the passage of the McFadden Act, in order to establish branches or to become branches of larger non-member banks. Meanwhile, the failures of small banks particularly in agricultural states which had been distressingly large in all the years from 1920 to '27, continued. As Comptroller Pole said in his report for 1929, comprehensive study of the banking situation clearly indicated that the system of banking in rural communities had "broken down through causes beyond the control of the individual banker or the local community." Many bankers felt that some way would have to be devised of bringing the country banks particularly in agricultural neighborhoods under some sort of central grouping or management, hence the development of what has recently been called group banking. Chains of banks owned by individuals or by groups of individuals, or controlled through interlocking directors or in one case by contract, had been in existence for a good many years and there were not wanting a few instances of holding company control, but group banking as defined by the Comptroller, each group centered around a city or metropolitan bank through means of a holding company "thereby creating a system more or less integrated with the central bank of the group", is a very recent development. The chief difference between the chains and the recent groups is in the integration with a large bank around which the group centres. Chains were usually strings of small banks, without any central institution. They were not always controlled by bankers. A. F. Banks who controlled through an insurance company a chain of small banks that were closed recently in Arkansas, is a lumber man. On the other hand some of the chains were managed by bankers and sometimes well managed. They were most frequent in states where branch banking was prohibited and undoubtedly developed as a substitute for instance in Texas a chain of banks was organized to take the place of a branch banking system, the branches having been declared illegal. The territory tributary to the Twin Cities, St. Paul and Minneapolis and the middle Western states to the southward proved a most fertile field, and chain banking in the Northwest began to develop about 1890 and spread rapidly without arousing much opposition. Miss Hartsough who made a study of the subject about 1924 for the University of Minnesota states that the earliest instances were in North Dakota, "a purely agricultural district which was just being settled where banking facilities were scantily distributed and where the capital to increase them was mostly in the hands of a few men." Beginning about 1900 corporations began to be formed for the main purpose of holding stock in country banks, and as these corporations developed some of them bore considerable resemblance to the recent group banking idea. They generally supervised to some extent the banks they controlled and functioned in various degrees as management corporations, but in no case was there a really large central bank at the head of and integrated in management with the chains of small banks. The largest chain of banks in number of banks was the Withem chain, the headquarters of which were in Atlanta, Georgia. Its central institution, known as the Bankers Trust Company escaped supervision on the ground that it did no banking business. This institution was unique in that its banks were controlled by contract and not by stock ownership and hence varied somewhat in numbers from year to year. Its banks were mostly in Georgia, Alabama and Florida but it extended into other states including New York. For twenty years or more under Mr. Withem's management it appears to have been very successful and is said to have had at one time as many as 300 banks under contract. Its failure in July 1926 was due to criminal mismanagement for which some of its officers were convicted and imprisoned.

The Federal Reserve Board first began to collect information about chain banking through reports from Federal Reserve Agents in 1922, but did not publish anything until December 1929, as it was difficult first to determine upon a definitinn and second to obtain information of sufficient accuracy about the control of small banks. The Board published its first study of branch banking in the United States in the Federal Reserve Bulletin of December 1924, the second in June 1926, and the third in May 1927, the fourth in February 1929. Meanwhile interest in chain and group banking had greatly increased and the information assembled was approaching sufficient accuracy for publication, and was given to the public in the December 1929, Bulletin under the title "Branch and Chain Banking Developments, 1929." This was followed by similar articles in April and finally in December 1930. The 1930 articles for the first time make use of the word "group" in the titles - "Branch, Chain and Group Banking," implying some distinction between chain and group banking, but with the explanation: "The word 'group' is used in the text of this article to include chains as well. Three types of chain or group systems have been reported with reference to the controlling agency as follows.

(1) Instances where control is exercised by a holding corporation, which has usually been formed by interests connected with one or more of the principal banks belonging to the system.

(2) Instances where control is exercised by the principal bank of the system, either through direct ownership of stock by the bank, or through ownership by the stockholders or directors of the bank.

(3) Instances of ownership of controlling or substantial interest in a number of banks by an individual, family or group of individuals."

The Comptroller's definition of "group banking" included only the first type. It should be noted, however, that the second type is not uncommon as in several states banks or trust companies are permitted to purchase banks stocks even to the extent of controlling other banks. This is true, for instance, in Pennsylvania and Virginia where several groups of that kind have been started.

Using the definition of group banking adopted by the Comptroller of the Currency which emphasizes the creation through a holding company managed by bankers of a system of banks "more or less integrated in management with the central bank of the group," a definition which seems in substantial agreement with those of Mr. Wakefield, Mr. Rand and other leading group bankers, it may be said I think that the formation of groups began within a year after the passage of the McFadden Act and took definite form in the last six months of 1928. Formal corporate organization may be said to date from the filing of the articles of incorporation of the Northwest Bancorporation of Minneapolis on January 24, 1929. The First Bank Stock Corporation, also of Minneapolis, was organized somewhat later. The Guardian-Detroit Group was incorporated May 10, 1929, and the Marine Midland in September 1929. Most of the other nationally known groups were incorporated during the last six months of 1929, with some additions in 1930. It is true that the banks comprised in some of these groups had been closely affiliated and were sometimes controlled by the organizers of the groups or by investment corporations for a number of years.

The Old National Corporation of Spokane, for instance, was preceded by the Union Securities Company, organized in 1909, which built up a chain or group of 25 banks, and somewhat similar organizations preceded the formal launching of some of the other widely known groups.

The Federal Reserve Bulletin for December 1930, assembling figures for all chains and groups, says "While chain and group banking developments have not been generally restricted by provisions in State banking codes, the area within which these developments have been relatively more considerable in extent is composed largely of States which have prohibted the establishment of branch banking offices

offices - as, for example in Minnesota, North Dakota, Kansas, Iowa, Illinois, Oklahoma and Texas." The Bulletin gave the nmeber of chains or groups at the end of December, 1929, as 287, embracing 2,065 banks with total loans and investments in excess of 11 billion dollars or "approximately one-fifth of total loans and investments of all banks in the country." Banks operating in chain or group systems on this date included 802 national, 136 State member, and 1,165 nonmember banks. The number of banks that were members of group or chain systems increased between

June 1929, and June 1930, from 1,802 to 2,144. It should be stated here that the Federal Reserve System bases its figures on the association of three or more banks in chains or groups. There are other compilations which include groups of two banks, which, of course, greatly increases the number. Using three as a basis, the chains and groups were classified as of December 1, 1929, with relation to the number of banks included, as follows:

	Number of Systems
3 banks	64
4 banks	56
5 banks	39
6 to 9 banks	86
10 to 19 banks	32
20 or more banks	10
Total	287

The December 1930, Bulletin says: "Forty-four important groups, none with less than six banks, had among them 902 of the total number of 2,144 banks associated with groups in the country as a whole. In addition, the members of these large groups had 1,037 branches in all, 621 in the home-office city and 416 outside the home-office city. One large group in the Northwest had as many as 108 bank members, another in the Northwest 100, while an important group with its head office in New York City, operating chiefly in that city and in California, reported 22 bank members having 475 branches."

The last reference is, of course, to the Trans-America Corporation, which controls the largest branch banking system in California and also controls banks in New York City. This corporation, however, stands by itself, is in large measure an investment trust and does not conform to the definition of "group banking" adopted by the Comptroller and agreed to by most of the bankers of the large groups. Just how much group banking has grown during the whole year, 1930, will not be known until the Federal Reserve Board publishes its next study, probably in February. Up to about the first of December, however, 16 new groups had been reported, of which, only 7 comprised more than 3 banks each and only three had as many as eight. The most important of these was the Melbank Corporation of Pittsburgh which included a group of 8 banks in the territory tributary to Pittsburgh.

Whether group banking is or is not to be regarded as a transitional stage to be superceded by branch banking is a matter upon which group bankers are not agreed. Some of them, particularly in the Minneapolis territory claim advantages for group banking over branch banking, so far at least as the larger banks are concerned. They assert that most of the banking problems of their territory could be solved, if they were permitted to establish branches within county limits from their larger banks. The Comptroller, however, says: "These holding companies are attempting to do under the sanction of existing laws, which are crudely adapted to the purpose, what should be made possible in a simpler manner by new legislation. If branch banking were permitted to be extended from the adequately capitalized large city bank to the outlying communities within the economic zone of operations of such banks there would be no logical reason for the existence of the local holding company and it would give way to a system of branches operated directly by the central bank of the group."

It will be generally agreed, I think, that group banking has been subjected to a severe test during the trying year, 1930, and has demonstrated its essential soundness and usefulness. Nearly all of the nationally known groups were organized during the last few months of the period of speculation preceding the crash of October-November, 1929, and some of them did not complete their organization until after the panic. That they have proven a steadying and stabilizing influence since that time cannot be doubted. The two leading Minneapolis groups and the Wisconsin Bank Share Corporation each added more than 20 banks to their system in 1930. The so-called groups or chains operating in Tennessee, Kentucky and Arkansas have collapsed, but they were known to be involved in the highly speculative enterprises of an investment house which failed early in November. This regrettable affair could probably have been avoided had the Comptroller of the Currency and the state banking superintendents been given authority to examine holding companies as well as the banks controlled by them. Legal safeguards ought to be extended to group banking, including authority for examining, but it should be said that in New York the State

"WOULD FURTHER LEGISLATION ASSIST IN REDUCING THE NUMBER OF BANK FAILURES."

Address by

HONORABLE EDMUND PLATT

VICE PRESIDENT, MARINE MIDLAND CORPORATION

Before

CHAMBER OF COMMERCE OF THE UNITED STATES

Atlantic City, April 30, 1931.

The average newspaper comment on bank failures, and this comment is frequently to be found also in banking publications and in publications making a specialty of economic questions is that we need more restrictive legislation and better supervision. In my opinion, neither of these things would accomplish much. We need more than anything else to undo some of the legislative restrictions already placed upon banking. So far as supervision is concerned it can't be fairly maintained I think that the supervising authorities do not as a rule discover the weak spots. They generally know long in advance of a failure that a bank is in a weakened condition. The public seems to have an idea that all you have to do is to discover that something is wrong in order to right it, but the problem of the supervising authorities is not so much of discovery but what to do about it when discovery has been made. A great many banks have undoubtedly been pulled through and saved because of the efforts of the supervising authorities. The Comptroller of the Currency has made some definite statements with relation to the banks saved and has said that more of them could have been saved if he had had authority to make certain corrections, such as the removal of officers and directors who have been mismanaging their banks. The only actual penalty the Comptroller can assess is to bring action for the forfeiture of a charter, and generally speaking that is the only penalty which can be applied by state banking supervisors. The penalty is too drastic and the threat of its exercise is not always effective. The Federal Reserve Board may expel a recalcitrant member from the System. This penalty is curiously enough sometimes too drastic and sometimes not effective at all. A few cases are on record where member banks have been expelled at their own request because they did not want to wait for the expiration of the six months that used to be required before a recent amendment to the law, for voluntary withdrawal. On the whole supervision accomplishes about all that can reasonably be expected unless we are willing to give supervisory authorities further disciplinary powers.

It is perhaps unfortunate that the national banking system has not been maintained as it used to be before the passage of the Federal Reserve Act, i. e., primarily as a commercial banking system without authority to take savings deposits or to make loans on real estate, and with no distinction so far as reserves are concerned between time and demand deposits. Mr. Owen D. Young has voiced this sentiment - but the authority to take savings deposits was granted more than seventeen years ago in the Federal Reserve Act, together with some authority to make loans on real estate and this authority to make loans on real estate was extended by the McFadden Act of February 1927. These changes were possibly, as I have said, unfortunate, but I am not quite clear that they ought now to be undone. It seems to me that banking functions which are necessary and which may be performed by banks under state charters need not necessarily be prohibited to banks under federal charters. I think that such safeguards as are thrown about the genuine savings deposits of the smaller depositors by the best of the state banking systems, should probably be incorporated in the national banking act if the authority to receive such deposits subject to notice which may prevent their withdrawl for 30 or 60 days is to be retained. Such legislation, however, I do not believe would have any very marked effect in preventing bank failures. Segregation of savings accounts is, of course, only important in case of a failure, and is important then not so much because of the segregation or because of investment in a particular class of assets but because it gives the savings depositors a preference in case of liquidation.

Business men it seems to me should take more interest in banking legislation and should come more clearly to realization of the fact that bank failures are peculiar to America. That is to some extent an over-statement because there are occasionally failures in other countries. We have recently read of a very serious failure in Australia, due however not so much to bad banking as to lack of confidence in the State government, which had threatened default of its obligations.

As the Comptroller of the Currency has several times pointed out, we have in our big cities generally strong, well managed institutions, doing a widely diversified business, a business extending throughout the United States and so far as some of the large institutions in New York are concerned throughout the world. We do not prevent a New York bank from taking accounts from other sections or from making loans in other sections of the United States, but we do prevent the banks of our large cities from offering the convenience of local offices in other sections. The effect of this is to permit big business and people of wealth to transact their banking business with the strong institutions of our largest cities but to prevent small business and the smaller class of depositors from having any access to them. This is peculiarly American. In England or in Canada a farmer whose business is sufficient to warrant a bank account may carry his account with the largest bank of London, Montreal or Toronto. Many of our bankers assembled from time to time in their banking associations have declared that the smaller depositors do not receive the same attention from the big banks in those countries that our people do from the small banks in their own communities. Parliamentary investigations seem to show pretty clearly that there is not much truth in this accusation and even if to some extent true it would seem to me to be clearly more than offset by the fact that their banks do not fail. In every time of depression Canada comes off a little better than the United States, and conditions in Canada today are rather better than they are here, in spite of the fact that the low price of agricultural staples like wheat is of much more importance in Canada than in the United States.

I am not advocating the Canadian banking system but I am strongly convinced that we need a relaxation of the legislative restrictions which prevent our country banks from combining and from uniting through combination with strong banks in the cities - not necessarily the largest cities. It should be understood that banks have a common law right to establish branches and that branch banking in the early history of the United States was not at all uncommon, particularly in the South and West. Several eminently successful state branch banking systems within states went out of existence with the Civil War or with the establishment of the national banking system and the prohibitive tax on state bank notes. Banking got its start in the United States mostly from state charters and perhaps would not have developed on nation-wide lines even if the laws had favored it, but it cannot be doubted that the smaller places would generally have been served by branches within state lines or possibly within something like trade areas if it had not been for restrictive legislation. It is a curious fact that a few branches established in the very early days of the Republic are still in existence - two of them in Delaware, established in 1807 and 1813, and another in Philadelphia, established in 1813. The last mentioned branch is interesting as it is a branch of a national bank located in Camden, New Jersey. This Camden bank, of course, was originally a state institution, and among its early activities was the financing of southern New Jersey farmers whose produce was marketed in Philadelphia. The branch was established for the purpose of financing this movement of crops. Apparently the state of Pennsylvania never made any objection to the business of this branch and it was an interesting demonstration of the fact that branch banking could extend across state lines even when there was no national authority for branches, where such extension served the purposes of commerce. Generally speaking, today we would not need to establish de novo branches. We probably have enough banking offices and nearly all necessary branches could be obtained by consolidation with existing institutions which would simply be kept open as a part of and with the support of and prestige of strong institutions. The restrictions of the law have been so oppressive in some neighborhoods that group banking has been devised as a means of accomplishing somewhat the same purpose as branch banking and it is clearly evident that in some sections of the country group banking has performed splendid service. It does not, however, quite take the place of branch banking, has not quite the same responsibility and does not take care generally speaking of the smaller places. Just what areas branch banking should be limited to I am not prepared to say, but the areas should not be so restricted as to prevent necessary diversification. The recommendations of the Comptroller are sound. No bank or banking system should have its operations limited to any one industry or any one set of allied industries, nor should a bank be forced to buy commercial paper in order to obtain diversification in normal times, or to have the greater part of its portfolio in bonds. It should have an opportunity to so diversify its loans among its own depositors that the failure of one crop or one industry or even the depression of a whole industry, such as agriculture, would not ruin the bank and cause tremendous additional losses on top of the losses due to depressed prices in that industry.

It is not necessary for me to repeat the figures showing the tremendous number of bank failures we have had in the last ten years. There were 1,345 of them, according to the Federal Reserve Bulletin, in the year 1930, and there were 370 in the first three months of the present year. One thing I want to emphasize, however, is that these failures even though some of the banks are reopened again cause a tremendous locking up of purchasing power. According to the Federal Reserve Bulletin, the deposits in the banks that closed during 1929 and '30 alone, were $1,099,000,000, of which $865,000,000 were in the year 1930. This was on top of a tie-up of $1,500,000,000 in round numbers for the years 1921 to '28, inclusive, or a total of more than $2,500,000,000 for the ten years. Some of the banks which closed were reopened and not all the funds tied up were lost by any means, but the stoppage of purchasing power must have been a much greater factor in my opinion than has generally been recognized in bringing about the business condition in which we find ourselves today.

It is a disgrace to us as a nation that we do not find a remedy, and especially disgraceful it seems to me that we do not bring ourselves to give a fair and full trial to the remedy which has been successful in other countries, having tried at some time or other every other ~~remedy~~ imaginable remedy without success.

EXTRACTS

from remarks of

Senator Glass

in the

U. S. SENATE

on the

BRANCH BANKING SECTION

of the

GLASS BILL

Congressional Record

May 10, 1932

By

EDMUND PLATT, Vice-President,
Marine Midland Corporation,
Formerly Vice Governor,
Federal Reserve Board.

Form No. 1

"****After studious, if not prayerful, consideration of the problem during the period which has elapsed since the adoption of the Federal Reserve system, I have very reluctantly come to the conclusion that we ought to authorize state-wide branch banking by member banks of the system. I know very plausible objections are urged to the contrary, but in my view they are only plausible; they were that when used by me in opposition to the system years ago; they are that now.****

"One objection is that to authorize branch banking would be an invasion of the sovereign rights of the States. I do not think the Interstate Commerce Commission and the Supreme Court of the United States have left the States with any sovereign rights; but it seems to me, Mr. President, rather an untenable argument to insist that the Congress may authorize the establishment of a national banking system in all the States, but that it would be an invasion of the sovereign rights of the States to authorize such banks to establish branches and to conduct their business in various parts of the States rather than in one place.

"The Congress, sustained by a decision of the Supreme Court of the United States, completely swept away the rights of the States in matters relating to the banking business when it imposed on State bank circulation a 10 per cent tax, which was prohibitory, and under existing law, as confirmed by the courts, no State bank may issue its notes; only national banks and Federal reserve banks have the power of issuance except under prohibitive taxation. Therefore, I have come to the conclusion that it is no invasion of the rights of the States for Congress to authorize a national bank to establish branches; certainly it is no greater invasion of the rights of the States than the 10 per cent tax on State bank issues or than the original authorization for the establishment of a national bank. Only by sanction of Congress may a State tax a national bank.

"Moreover, Mr. President, when we take the practical view of branch banking and the problems involved, the system appeals to the common sense of some of us who have thoroughly investigated the question; and so I am thoroughly convinced not only of the equity and feasibility of branch banking but of the real necessity for it in order to save the situation that now confronts the country.***

"Mr. President, I have been now for nearly 32 years a member of the Banking and Currency Committees of the other branch of Congress and of the Senate. I have been an intent listener and observer to all measures of importance that have been considered; and **I assert here that never in the whole period has any merchant or business man having relationship with banks ever protested against branch banking.** No man who has wanted credit, no man who wanted to borrow funds with which to conduct his business has ever in that whole period raised his voice against branch banking. It has only been done by the bank which wanted a monopoly of credit in its community.****

"Mr. President, the committee's study of the banking situation showed us conclusively that the system of banking in the rural communities had broken down largely through causes beyond the control of individual bankers or of the community interests. These causes are of a basic nature and have many ramifications, brought about through economic and social changes which have occurred in the United States since 1914; and in a large part the economic movement of a large number of independent local utility and industrial operating units toward a stronger and more centralized form of operation in the large cities has curtailed the opportunities of the country bank for diversity and extension of business, while broadening these opportunities for the large city banks.

"Senators know that we have in this country hundreds of one-crop banks, so to speak. The diversity of their business is inappreciable; and if that one crop fails, the bank fails. That would not so actually apply to a branch banking system. A large bank in the cotton territory would be very much more apt to have a diversity of business than a weak bank in a small community of that territory; so that when the cotton crop in the far South, or the tobacco crop in Virginia, the Carolinas, Tennessee, and Kentucky fails, it does not necessarily follow that the bank in the larger community, with greater resources, would fail, as so often now occurs with the small banks in small communities.

"Two fundamental causes are at the root of the small bank failures—lack of diversity and necessarily lack of earning power. Most of the small banks are what may be termed, as I have stated, one-crop or one-enterprise banks. Where the loans of a bank are made to the community which depends upon cotton, and cotton prices are low, or a crop fails, the bank is unable to stand the shock, and the amount of losses can not be absorbed, due to the lack of earnings, and it eventually fails. And so if it is in a tobacco community; so if it is in a coal-mining section.

"Many of the banks in the coal-mining section of the country have failed because coal mining has been tremendously arrested, and people who own coal-mining stocks have been literally impoverished. They no longer are getting any dividends. My own small town of 45,000 inhabitants has many million dollars invested in coal stocks, and not one of them is now paying a dividend; and if the banks of that community had to depend upon the coal-mining business they would all fail.

"We have thousands of communities in this country now that are absolutely destitute of banking facilities.

"If we had branch-bank authorization, the strong banks that have survived this catastrophe could open up their branches in those communities and afford them not sparse but ample credit facilities—banks sound, expertly managed, with the full responsibility of stockholders' liability. As it is these communities are without banking facilities, and they are unable to raise sufficient capital in the communities to organize unit banks.****

"Moreover, the Comptroller of the Currency points out that there are hundreds, if not thousands, of communities in the United States where banks have become so weakened by this frightful depression as to make it improbable that they can much longer stand alone. Under the branch banking system provided by this bill, hundreds if not thousands of these weak banks **might be taken over by strong banks,** and their activities and usefulness continued as branches of the strong banks. Who that desires credit, who that needs and is seeking bank accommodations objects to that? I have never known a business man or a merchant to raise an objection. Only the little banker who wants a monopoly of his territory objects.

"There is interposed here the suggestion that a bank having a branch in a distant community of its State can not altogether sympathize with the requirements of that community and would not so readily respond to the commercial and industrial demands upon it. Why would it be there, what would it have a branch there for except to do business, and to do all the business that its resources would permit it to do? I grant you that it might be that the sound and sensible man or men in charge of a branch would not be so eager to grant favors and privileges arising out of personal contact and friendly association; but that would be to the credit of the management rather than to the detriment of the community. How many banks have failed utterly because of that sort of favoritism, and because of unbusinesslike loans made for the accommodation of bank officials themselves, or their personal friends?

"There is no argument against a sound system of branch banking. The comptroller assures me that hundreds of banks might have been saved in this exigency—and that is a mild statement of the case—might have been saved and taken over by the stronger banks if we had had a branch-banking system."

BRANCH BANKING HISTORICALLY AN AMERICAN INSTITUTION

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By

EDMUND PLATT, Vice-President,
Marine Midland Corporation,
Formerly Vice Governor,
Federal Reserve Board.

Form No. 3

BRANCH BANKING HISTORICALLY AN AMERICAN INSTITUTION

THE United States is the only country in which separately incorporated or "unit" banks are found in the villages and smaller towns. Banking with us is usually regarded as a local business. In other commercial countries it is usually regarded as a national business. We restrict banking offices by Federal law and by many of our state laws to one place or city. We do not prevent banks in one place from receiving accounts from and making loans to persons or industries in another place, and some of our great city banks do a national business in spite of the theory and the restrictions as to offices.

Banks in smaller cities, however, are compelled to do a local business and are prevented from combining with banks in other places so as to serve a wider range of territory and a larger number of industries.

Branch banking may therefore be said to be un-American or at least not the usual American practice, while it is the usual foreign practice at the present time.

But it was not always so. The records of early American banking show that branch banking was for many years—

down to the Civil War—not only a common American practice, but the usual banking practice in many states. In 1848 (*Bankers Magazine,* February) Ohio had 48 banking offices, 29 of which were branches of the Ohio State Bank; Indiana had one bank with 17 branches, Missouri one bank with 5 branches, Kentucky three banks with 13 branches, Tennessee 3 banks with 17 branches, Virginia 6 banks with 30 branches, North Carolina 4 banks with 14 branches, South Carolina 12 banks and two branches, Georgia 13 banks and 7 branches, Delaware 5 banks and 3 branches, Alabama 2 banks and 4 branches. A few branches were listed also in New York and New Jersey and Maryland. In most of the southern and western states branch banking continued until the Civil War or the tax on state bank notes drove them out of existence.

Branch banking was not then considered "foreign" or un-American, and in fact a few branches have continued in existence to this day—more than 100 years.

Furthermore, there are now (December 31, 1931 Federal Reserve records) 753 banks in the United States operating 3,451 branches, of which 1178 are outside the home city or town.

EDMUND PLATT,
Vice President, Marine Midland Corporation, Formerly Vice Governor, Federal Reserve Board.

BRANCH BANKING
and
BANK EMPLOYMENT

WE have in the United States many more incorporated banks than we should have for safe and adequate service particularly to the smaller communities,—**but we have not nearly enough banking offices for proper and convenient banking service to our people.**

Branch banking as provided for in the Glass Bill would give employment to several thousand more men and women than are now employed in banking. Not only could branches be opened in many places now deprived of banking service because of bank failures, but many places that never have had banks because unable to support separately incorporated institutions could be and would be served by branches.

This is not pure assumption. It is supported by the facts in branch banking countries. Canada has a population of about 10,000,000 and about 4,000 banking offices, or one banking office to every 2,500 people. In the United States we have about 20,000 banks and 3,500 branches for 120,000,000 people, or one banking office for every 5,000.

On the same basis we could maintain twice as many banking offices as we now have. A conservative estimate would give the United States if the Glass Bill becomes law at least half as many additional banking offices as we now have or 11,500. These could give additional employment to at least 34,500 people, allowing an average of only three persons in each new branch, and this estimate is doubtless far too low, for many branches have full banking staffs.

The enactment of the Glass Bill by preventing bank failures would prevent more bank officers and clerks from losing their positions, would restore their jobs to many men and women now out of work because of bank failures, and would give employment to many men and women who never have had banking positions.

EDMUND PLATT, *Vice President*
Marine Midland Corporation,
Formerly Vice Governor,
Federal Reserve Board.

Form No. 5

Branch Banking and The Borrower

By
EDMUND PLATT, Vice-President,
Marine Midland Corporation,
Formerly Vice Governor,
Federal Reserve Board.

Form No. 8

ONE of the stock arguments against branch banking is that a branch bank manager in a small town would have no interest in his community and would seek only to obtain as much money as possible from it in order to send it off to some distant city for investment. This argument implies, first, that bankers are so foolish as to prefer to loan money where the rates are lowest, and, second, that a branch could be successful without rendering adequate service. Inquiry of the managers of any of the branch banking systems whether in this country or Canada brings out at once the fact that there are many branches where **more money is loaned than the total amount of deposits** received in those places. In Canada there are many branches in the west where this is almost continuously true. The deposits come from the comparatively wealthy eastern provinces, principally from Ontario, and are loaned where the demands are greatest, viz.: in the prairie provinces. Seasonally when the crops are good there is a surplus in the prairie provinces just as there is in our own western states which flows eastward for temporary investment just as it does in this country, but the Canadian system undoubtedly serves the west on balance better than our system and at lower rates.

Another point constantly raised by opponents of branch banking is that it is **absentee banking,** that all the larger loans must be referred to a distant head office where there is nobody who would know anything about the conditions or the demands of the country towns. It should be obvious that this argument can not possibly apply to branches limited to the boundaries of states or even to trade areas. Statewide branch banking corporations have on their boards of directors representatives from every section of the state in which they have branches and have men at their head offices who are intimately acquainted with every part of the territory. Furthermore, except in such large states as California and Texas, every point is overnight or within a few hours of the head office. The argument was pretty good half a century ago but ignores entirely the fact that we have railroads, automobiles, airplanes, the telegraph and telephones.

If the opponents of branch banking would so much as look at the list of directors of great Canadian banks they would find that even there with branches hundreds and thousands of miles away from the head office there are representatives of almost every section on the boards. Furthermore, at the head offices of Canadian banks there are always men who have served in the branches who know the requirements of each section and who know many of the people personally. Certainly that would be more true of branch banking limited to states. Anyone who has ever attended a state bankers' association convention knows that the bankers generally know each other's problems, and that many of the larger bankers know something about the conditions in every county of the state. Under branch banking it would be their business to become intimately acquainted with every county.

By
EDMUND PLATT, Vice-President,
Marine Midland Corporation,
Formerly Vice Governor,
Federal Reserve Board.

ADVANTAGES
of
BRANCH BANKING

By

EDMUND PLATT, Vice-President
Marine Midland Corporation
Formerly Vice Governor
Federal Reserve Board

Form No. 9

ADVANTAGES *of* BRANCH BANKING

Branch banking means larger, stronger country banks through removal of the restrictions that prevent their consolidation over a territory large enough to afford diversification.

Banking is like insurance. Who would insure a house in a company that had all its risks in one town? Safety for depositors and adequate service depends upon diversification, with banking corporations operating in a number of towns and serving a number of industries.

Branch banking by providing larger country banks in each state would enable each state to finance at home many large local industries which must now go to New York for their funds. It would thus tend to decentralize credit.

Branch banking stopped bank failures in England. In Canada the last bank failure occurred almost ten years ago. Since that failure there have been nearly ten thousand in the United States.

We have tried every conceivable remedy for bank failures in the United States, except the remedy which has been successful in other countries—branch banking.

Banks have a common law right to establish branches, which in the early years of American banking was generally recognized, and generally exercised. The eastern banks, those of the financial centers—the Wall Street banks—were the first to give up branch banking, which continued in most of the Southern and Western states down to the Civil War, or (in Ohio and Indiana) until state bank notes were taxed out of existence in 1866.

Virginia never had a bank failure before the Civil War. There were five or six large banks with the smaller places served through branches.

Under the Glass Bill branches would be permitted only where found by the Comptroller or the Federal Reserve Board to be in the public interest. Branches would be obtained only through consolidation with existing banks except where there are now no banking facilities. Many counties are now entirely without banks.

As Senator Glass has said hundreds, perhaps thousands, of small banks are today in danger. Their depositors can be saved from loss and their stockholders can be saved from assessment by branch banking. At this time it is impossible for them to raise new capital to take care of impairment, but they can be taken over by stronger banks.

EDMUND PLATT, Vice-President
Marine Midland Corporation
Formerly Vice Governor
Federal Reserve Board

The CANADIAN BRANCH BANKING SYSTEM

« »

INTERESTING QUOTATIONS FROM TESTIMONY BEFORE COMMITTEE OF HOUSE OF COMMONS, OTTAWA, 1928, AND FROM DEBATES, 1931

and

EXCERPTS AT RANDOM

« »

EDITED

By

EDMUND PLATT, Vice-President,

Marine Midland Corporation,

Formerly Vice Governor,

Federal Reserve Board.

[1932]

Form No. 11

The following quotations from hearings or debates in the House of Commons at Ottawa, and from reports by officers of the Canadian Bankers' Association constitute first hand information with relation to the Canadian branch banking system. The Canadian bank act comes up automatically for revision every ten years and their system has therefore been subject to more searching inquiry and discussion than any other banking system in the world. Naturally there have been advocates of local banks, and at times even of small "unit" banks, at these hearings but the superiority of the branch banking system has always been successfully demonstrated.

It should perhaps be kept in mind that there are many other differences between the Canadian banking system and our system (or lack of system) than the matter of branches. Canada has no Federal Reserve Bank, or central note issuing bank. All of her chartered banks issue notes, under careful regulation, and they appear to get along very well without a central bank. Real estate loans are made by mortgage banks and savings banks and not by the chartered banks, which do a business almost exclusively commercial. Trust companies are also separate institutions, chartered by the provinces. Finally the Canadian Bankers' Association is recognized by law and is given important duties to perform in the line of supervision. Bank examinations by government officials were not made until after the failure of the Home Bank in 1923, and are not now nearly as important as in our system. On the other hand bank directors are held to a strict sense of responsibility.

The Canadian banking system is much more flexible than our system and acts much more quickly in developing new territory. Branches can be opened almost at the beginning of a new mining or other development, and if not successful can be closed without any painful process of liquidation. Such branches are sometimes opened in tents, or in temporary log buildings. Churchill on Hudson's Bay, at the end of the new Hudson's Bay Railway, has already several branches, although not yet fully established as a shipping port.

The Canadian system enables funds to be loaned where they are most needed, regardless of the deposits of the neighborhood, and the Canadian banks have frequently loaned and are loaning today more money in the western agricultural provinces than the total deposits received in those provinces. While the number of the chartered banks has been reduced through the years by consolidation to ten, there are 4,000 banking offices or branches, about twice as many banking offices per capita as we have in the United States.

* * *

EDMUND PLATT,
Vice President, Marine Midland Corporation, Formerly Vice Governor, Federal Reserve Board.

(1) INTERESTING QUOTATIONS FROM TESTIMONY BEFORE COMMITTEE OF HOUSE OF COMMONS OF OFFICERS OF THE CANADIAN BANKERS ASSOCIATION AND OTHERS. OTTAWA, 1928.

MR. CHARLES E. S. TOMPKINS— INSPECTOR GENERAL OF BANKS.

In answer to a question referring to the vast size of the country and the fact that inasmuch as nearly all loans must be submitted to headquarters the concerns near at hand might thereby receive more consideration than concerns which were more remote from headquarters, Mr. Tompkins said that the supervisors of the banks in the different districts or provinces have very substantial loaning limits within which they may grant credit without reference to the head office, which, in his opinion, tended to meet the situation adequately. He further stated that there is a tendency to place more responsibility upon local managers during recent years and that the amount that the local manager could loan on his own responsibility varied according to the individual.

He said further that there was no control to the interest rates in general but that they found their own level, and that competition was much keener in the banking field than ever before.

When asked if he thought it would be wise to have a similar institution to the Federal Reserve System having control of price of money in Canada, Mr. Tompkins answered that he did not believe it was necessary under their system. He said that he believed it a very necessary thing in the United States where there was a multitude of small banks and no coordination in financing. He said that the competition in the United States in banking was not necessarily greater than in Canada regardless of the fact that they had more banks because these banks were largely local affairs with a very, very narrow scope. Mr. Ernst, one of the members of the Banking and Commerce Committee, interrupted here to say, "and monopolistic in their area."

MR. A. E. PHIPPS, PRESIDENT, CANADIAN BANKERS' ASSOCIATION.

Mr. Phipps in a statement to the Committee said:

> "The centers of population must supply banking capital for the outposts—hence branches."

In discussing the feasibility of establishing independent banks in Canada supported by a national central bank, Mr. Phipps made the following statement:

> "The record in recent years of small banks in the United States in agricultural communities is one of disaster. In the first place the banks with the small capitalization rarely, if ever, have securities which measure up to the rediscount requirements of the Federal Reserve System, so they cannot take advantage of the system. Between the years 1921 and 1926 inclusive, 2,687 State banks failed in the United States, the most of these in agricultural communities with conditions comparable to those in the prairie Provinces."

In referring to this subject, Mr. Phipps quoted Edmund Platt, Vice Governor of the Federal Reserve Board, Washington, from an article in the Trust Companies Publication of June 19, 1925, as follows:

> "It seems to me that the remedy is clearly suggested by the evidence presented. We must have larger banks, banks large enough to afford good management and large enough to spread their risks over a variety of industries and over a considerable territory. The larger banks have a better chance to weather financial storms because they are able to secure, and generally do secure, good management, and also because they are not under the same temptation to put all their eggs in one basket. The large bank serves, as a rule, a greater variety of industries than a small bank and often spreads its loans so widely that it cannot be vitally affected by disaster to any one industry.
>
> "BRANCH BANKING AND SAFEGUARD.—If we must have larger banks in order to afford good management and to give the management a fair chance for success then we must either subject many people living in small communities, or in rather thinly settled agricultural communities to great inconveniences or we must provide them with banking accomodation through branches—not necessarily on any very large scale as in Canada—but on a scale large enough to serve the people adequately and safely."

MR. HENRY T. ROSS, SECRETARY, CANADIAN BANKERS' ASSOCIATION.

Mr. Ross stated that the banks are competing, as never before, for a good class of business; that the solvent concerns, in a liquid shape, can get all the money they desire, or reasonably desire, for legitimate purposes; and that all the business that is solvent can be financed. In answer to the question, "The fact that the local branch manager has absolute authority over small loans and must not refer them to headquarters, you think does not mean a discrimination against localities at a distance?" Mr. Ross replied as follows:

> "I do not think so. There might be an individual manager who has very bad judgment. It is impossible that all of the four thousand managers over the country are perfect in their judgment. One manager might turn down quite legitimate loans, but if his head office or his management knew he was turning down legitimate loans he would be reprimanded. Banks are anxious to make legitimate loans, legitimate loans that will be repaid in the ordinary course."

In reply to the question, "You do not think the fact that the head office is so far away puts it out of touch with the local needs?" He said, "I do not think so. They have superintendents travelling about the areas who are in constant touch with local conditions."

* * *

(2) EXCERPTS AT RANDOM

From

"BANKS AND BANKING,"

issued by the Canadian Bankers' Association, 1923.

"Under the Act banking facilities have been extended to the uttermost parts of the Dominion. About forty-five hundred banks cater to the public, affording in every city and town and in many villages the same facilities as are enjoyed in the largest commercial community. No loss can now be sustained by the holder of a Canadian bank note, and only in remote contingency by a depositor, under the existing law."

"The Canadian banks have loaned in the three Western Provinces more than the sum total of the deposits received in these provinces. They have taken money deposited in Eastern Canada, and lent it out in Western Canada, but there is a limit even to the resources of banks, and in view of recent experiences in North Dakota it should not be asked of our local banks to pursue the policy which proved calamitous in that state."

"One assertion can be definitely made, namely, that money advanced by banks is cheaper to the farmers in Southern Saskatchewan than it is to the farmers in Western North Dakota."

"But, broadly speaking, the American is a unit system, the Canadian a multiple system, and the superior merit of the latter has been amply demonstrated by events. Indeed, it is only the jealousy and influence of the small State banks in the country to the south that prevents adoption of the Canadian plan.

"The principle argument employed in support of unit or local banks is that they can better serve their community, have deeper sympathy with its aspirations, fuller knowledge of its wants, and especially that the local bank lends in its locality all the deposits there derived. Fact controverts the essentials of this argument. There is more money loaned by Canadian banks in the three Prairie Provinces than the amount of the local deposits. That statement is made upon authority. What, then, is the inference? Clearly that if unit or local banks supplanted in the Western provinces the present chartered banks, there would actually be a contraction of loans. The loaning resources of banks are derived from deposits, and a system that enables the surplus deposits of one part of Canada to be loaned to another obviously gives advantages to the latter community which merely local banks are incapable of extending.

"The small local U. S. Bank must of necessity be in most cases a one-man concern and it corresponds very closely to the Canadian Private Banker of thirty years ago.

* * * *

"The branch bank system does more than permit of the transfer of money from where it is not required to where it is most needed. That system becomes a reservoir for the loanable liquid capital of the country, and by the facility of transfer *tends to equalize the rates of interest.* That system permits of the extension of banking facilities to hundreds of places where capital is too meagre to permit of the establishment of a local bank. There is scarcely a village, certainly not a town in all Canada without its branch bank. Moreover, the Canadian system creates strength. One parent bank with, say, 250 branches, is more solid than 250 small institutions with exclusively local operations. The old fable of the bundle of faggots illustrates that statement. A small-town failure ruinous to a local bank of limited resources does not disturb an institution of large resources and widely extended operations."

"A long experience has clearly demonstrated that the branch bank system is the one best suited to the needs of this country."

From "The Washington Evening Star," issue of April 3, 1932.

"By Robert P. Webber.

"TORONTO.—The stability of Canadian banks in a period of world depression is an economic fact, attracting continent-wide attention.

"In the financial stress following the market crash of 1929 thousands of United States banks have failed, millions in deposits have been wiped away, and many more millions have been withdrawn from the sound banks in the United States and hidden away because of unfounded fear, by depositors, of the solvency of these institutions.

"No Canadian banks have failed since the beginning of the depression, or for many years before; no bank scares have occurred, and no bank has had serious difficulties.

"Annual reports of the 10 Canadian banks in January were scrutinized with interest on both sides of the boundary line. They disclosed that banking in Canada was not as profitable now as in the years immediately preceding the market crash, and bank shareholders had to be satisfied with only regular dividends in 1931, without the bonus usual at the end of the banking year.

"From the viewpoint of the depositor, however, the banks stand as strong and sound as ever."

"In a system of independent units as in the United States, each bank depends entirely upon its own resources and the prosperity of its section of the country. If the community served is engaged chiefly in one occupation the stability of the bank depends upon the stability of this industry. For this reason there were frequent bank failures in the United States even when the country generally was prosperous.

"The Canadian system eliminates this. A bank with branches covering many thousand square miles is not disastrously affected by crop or industrial failure in one section. Losses in scattered sections are absorbed by the whole without the interests of the depositors of the unfortunate section or any other section being injured.

"While small depositors in the United States may worry about the solvency of the independent banking unit in which they are interested, the Canadian depositor in the small community realizes that the assets of the whole huge banking system lie behind his deposits. Back of the little one-story bank in a cross-road Canadian town bulks the head office of the Bank of Montreal at Montreal. Behind the bank in a tent in a mining camp towers the 32-story head office of the Bank of Commerce at Toronto."

From "The Times Trade and Engineering Supplement," June 29, 1929.

"Branch Banks.

"The Canadian banks followed from the earliest times the branch banking system, which owes its origin to Scotland. A branch banking system is particularly suitable for a large sparsely populated country, as it enables branches to be opened in small towns, which could not possibly support the overhead charges of a unit bank. For the same reason, branches of competing banks can be opened, giving even a small community the advantages of competition. Perhaps an even more important fact is that these branches are parts of a large and powerful institution, with offices spread all over the country, and consequently the bank is not subject to the fortunes of any one district of industry. Canada's southern neighbors in the United States of America have developed on entirely different lines, and in that country there are some thousands of separate banks in existence.

"The Canadian banking system has enabled the banks to follow closely the ever-advancing frontier of settlement, and so to supply the needs of newly developed territory from the surplus of the older parts. In this way, the deposits of Eastern Canada have assisted materially in the subduing of the Western Prairies."

(3) EXTRACTS FROM DEBATES IN THE CANADIAN HOUSE OF COMMONS ON THE CANADIAN BANKING SYSTEM, MAY 13, 1931.

RIGHT HON. R. B. BENNETT (PRIME MINISTER)

"We have a banking system in this country of which I think we may be fairly proud. That banking system is predicated upon the assumption that the amount of money borrowed from the people—who are the depositors—by the banks will enable the banks to so use it as to have it safe for the depositors when they require it and furnish a maximum of service to the people who are served by the banks. Can anyone say that in a broad and general way that is not the Canadian experience? I think not. In other words, the chartered banks of Canada, deriving their corporate existence from this parliament, and exercising the functions conferred upon them by law, are borrowing money day by day from those who deposit their money with them at their several branches, and that money is in turn being loaned to those who are able to satisfy the banks that there is a likelihood of their paying the money they borrow back to the banks that lend it. I need hardly point out that sometimes there has been a tendency to induce people to believe that banks should lend money regardless of security. How can banks lend money without regard for security if what they lend is only what they borrow?—for the capital of the banks is utilized almost entirely in the legal tenders which they acquire under the statutes and in bank premises. It therefore follows that if Canadian banks were to lend money under such circumstances as would place the loan in jeopardy, or under such conditions as would ensure that the loan would not be repaid, the credit would be frozen and the bank would not be able to meet the demands of its depositors and would fail."

*   *   *   *

Referring further to frozen loans he said: "Do we want that condition in this country, or do we not? That is the real question at the very threshold of any inquiry we may make, and all this complicated discussion which sometimes takes place with respect to banks and their place in the community in my judgment must always resolve itself in the end into this simple, single inquiry:

Has the bank, through its management, had due regard in lending money to the fact that it may be called upon to repay that money to the source from which it was borrowed?"

* * * *

"That is the problem, Mr. Speaker, and the whole science of banking is the maintenance of an equilibrium between time deposits and time loans on the one hand and demand loans and demand deposits on the other, and if for a single moment you disturb that equilibrium to the point that you over-loan on the demand side, it is obvious that you cannot meet the demands of the depositors. It is equally obvious that if you make loans for longer periods of time than the life of the deposits you will find yourself in a similar position. Our banking system has defects; no one will deny that. If you are hypercritical you may be able to say that our system has not done all that we would like it to do, yet our system of branch banks, with the mobility that is possible in the movement of credit from one portion of the country to the other, makes possible loans being made on a large scale by a branch with very indifferent deposits, insured by the easy mobility of credits from a point where there may be an excess of deposits and very limited loans to the point where there is a demand for loans with limited deposits. That is the strength of our branch bank system."

* * * *

"There is no lack of supervision of the operations of banks in this country. The inspector general would report to the minister anything out of the ordinary, and the minister, sensible of his responsibility, would take immediate action if it was disclosed that there was such a condition in a particular bank as to cause apprehension on the part of those whose fortunes were linked up with it, namely, the depositors. Most hon. members of this house will realize that neither the inspector general nor the auditors are greatly concerned with the shareholders; that is not a matter of great public concern, which is purely a question of safeguarding the interests of the depositors.

* * * *

"All I can say to my Hon. friend and the house is this; that without stating for a single minute that the system is perfect, I claim for it the following: First, that for a population of ten million people we enjoy the privileges of a banking system that gives as great security to depositors as it is reasonably possible to have—and unless you have security for depositors, you have no banking system at all and there is no development of the country; that is clear—secondly, that the use to which the banks may put the securities required for the protection of depositors ensures such an expansion of credit as enables our banks to meet every demand that has been made upon them."

* * * *

"I am not, however, closing the door to convictions which may come to my mind with respect to the matter. I want the hon. member for Macleod and the house generally to realize that. I am conscious of the fact that for the last one hundred years the great desire of people on the American continent has been to secure a stable and safe banking system. Think what this means to a country! Think what has happened to the United States in that regard! No theorists' lectures on credits will get away from the simple, single fact that we have had a more stable and safe banking system than most other peoples in the world and the tribute to it which I have just read to the house should convince us we have some reasons for the faith within us with respect to the present system."

BRANCH BANKING

EXTRACTS FROM A REPORT UPON

Banking Legislation

AS RECENTLY PRESENTED BY THE

Committee on Banking

Chamber of Commerce

OF THE

United States *of* America

☆

Pamphlet prepared by
EDMUND PLATT, Vice-President,
Marine Midland Corporation,
Formerly Vice Governor,
Federal Reserve Board.

[May 1932]

Form No. 12

Personnel of Committee

It is understood that the Committee on Banking, Chamber of Commerce of the United States, as presented below, is composed of one business man and one banker from each of the twelve districts, covering the United States, which compose the Federal Reserve System:

HARRY A. WHEELER, *Chairman*
First National Bank Building,
Chicago, Illinois.

NATHAN ADAMS, President,
American Exchange National Bank,
Dallas, Texas.

W. M. BALDWIN, President
The Union Trust Company,
Cleveland, Ohio.

WALTER S. BUCKLIN, President,
The National Shawmut Bank,
Boston, Massachusetts.

J. PAUL CLAYTON, Vice President,
Middle West Utilities Company,
Chicago, Illinois.

WALTON L. CROCKER, President
John Hancock Mutual Life Insurance Co.,
Boston, Massachusetts.

J. J. CULBERTSON, Vice President,
Southland Cotton Oil Company,
Paris, Texas.

WILLIAM J. DEAN, President,
Nicols, Dean & Gregg,
St. Paul, Minnesota.

E. W. DECKER, President,
Northwestern Bancorporation,
Minneapolis, Minnesota.

PAUL DILLARD, President,
Dillard & Coffin Company,
Memphis, Tennessee.

JUNIUS P. FISHBURN, President,
Times-World Corporation,
Roanoke, Virginia.

DAVID M. GOODRICH, Chairman of Board,
The B. F. Goodrich Company,
New York, New York.

ALBA B. JOHNSON,
Packard Building,
Philadelphia, Pennsylvania.

PERCY H. JOHNSTON, President,
Chemical Bank & Trust Company,
New York, New York.

GEORGE T. LADD, President,
United Engineering & Foundry Co.,
Pittsburgh, Pennsylvania.

J. B. LEVISON, President,
Firemen's Fund Insurance Co.,
San Francisco, California.

HOWARD A. LOEB, Chairman,
Tradesmen's National Bank & Trust Co.,
Philadelphia, Pennsylvania.

JOHN G. LONSDALE, President,
Mercantile-Commerce Bank & Trust Co.,
St. Louis, Missouri.

OLIVER G. LUCAS, President,
Canal Bank & Trust Company,
New Orleans, Louisiana.

JOHN M. MILLER, JR., President,
First & Merchants National Bank,
Richmond, Virginia.

W. S. MCLUCAS, Chairman of Board,
Commerce Trust Company,
Kansas City, Missouri.

FELIX M. MCWHIRTER, President,
The People's State Bank,
Indianapolis, Indiana.

W. L. PETRIKIN, Chairman,
The Great Western Sugar Company,
Denver, Colorado.

HENRY M. ROBINSON, Chairman,
Security-First National Bank,
Los Angeles, California.

P. G. SHOOK, President,
Shook & Fletcher Supply Co., Inc.,
Birmingham, Alabama.

JOHN J. O'CONNOR, Secretary,
Manager, Finance Department,
Chamber of Commerce of the United States,
Washington, D. C.

EXTRACTS FROM REPORT*

COMMITTEE ON BANKING

CHAMBER *of* COMMERCE

OF THE

UNITED STATES *of* AMERICA

MAY, 1932

GENERAL CONSIDERATIONS

The grave and complex economic derangements of recent years have been responsible for the emergence of many of the present problems in the banking field, although some of them are aftermaths of deep-rooted conditions of long standing.

The regrettable record of the past ten years† of the suspension of 9,166 banks in the United States, 4,315 of these suspensions having occurred since the beginning of the acute depression, clearly indicates the persistence of the need of providing better protection for depositors' funds. The gravity of this problem is reflected in numerous ways. The actual losses to depositors and others, the disturbing distrust of banks and the resultant contraction of credit have produced far-reaching injuries. Strong depositaries are an imperative need. This necessity has been foremost in the Committee's considerations.

No selfish interest of stockholder or bank officer, no narrow view of what constitutes the credit requirements of business, and no popular prejudice must be permitted to delay such adjustments in our banking structure and methods as will protect the savings and other deposits of our people. Effective means must be found of fostering the general development of more strong institutions under the supervision of men of proved integrity and ability.

Banking fundamentals and not surface symptoms or superficialities are the true key to improvement. Legislation alone will not insure good banking. It may curtail some undesirable practices or open the way to improvements. Neither law nor public supervision can be depended upon to correct all abuses in banking, prevent bank failures, or save the community from personal or business mishaps. Good banks are mainly the products of properly equipped, far-seeing men of high professional standards with a keen sense of public interest.

The human element in banking is a principal factor. Capacity for good management and improved efficiency of bank executives cannot be supplied by law. Indeed, rigid prescription

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* The Report of the Committee on Banking, Chamber of Commerce of the United States, which was published in June, 1932, deals with a number of important proposals for banking legislation which have been pending in Congress. The report, comprising some thirty printed pages, should be considered as a whole (including reservations and a minority statement) if the reader desires to ascertain the points of view of the Committee members concerning the legislative proposals. While these extracts from the report do not contain all the references to the subject of branch banking that are made in the report, it is believed that they fairly reflect the major conclusions of the Committee members upon that subject.

It is understood that the report, which is printed for the information of the members of the Chamber of Commerce of the United States, has as yet no binding effect upon that organization. It remains to be determined whether or not a referendum, based upon the report, will be submitted to the Chamber's membership for determination of its policy.

† April 1, 1922, to March 30, 1932, inclusive.

of statutes that would seek to insure automatic safeguards presents the danger that bankers may be encouraged to feel that practices not definitely prohibited are to be defended solely because they are legally permissible. The regulation of banking upon the assumption that the lowest standards of practice may prevail can cause injuries as surely as failure to discountenance practices admittedly bad.

The business of banking is far too important to be subjected to partisan strife or longer to be an open field of adventure for the poorly equipped. The development of sound management of banks is more a charge upon business and professional associations, and upon conservative banking and business leaders, than it is upon legislative or administrative agencies.

BRANCH BANKING

It is proposed * that national banks having capital stock of $500,000 or more should be permitted with the approval of the Federal Reserve Board to establish and operate new branches at any point within the state of the location of the parent bank. If by reason of proximity of the parent bank to state boundary lines, its ordinary and usual business should be found to extend into an adjacent state, the Federal Reserve Board could permit it to establish branches in the adjacent state to a limit of fifty miles. A national bank with less than $500,000 capital would be permitted, under certain conditions, to establish branches within the city of its location.

Under the proposal it would be required, moreover, that the aggregate capital of the national bank and its branches should at no time be less than the aggregate minimum capital required for the establishment of an equal number of national banks situated in the various places where the bank and its branches are located.

* Section 19, Glass Bill, as reported to the Senate, April 18, 1932.

It is also proposed ** that nothing in federal law should prevent a state member bank from establishing and operating branches on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks.

In the same measure it is proposed that no national bank could be organized with less capital than $100,000 except it be located in a place with a population of 6,000 or less, in which event it would be permitted to have capital of not less than $50,000. It is also provided that no state bank applicant for membership in the Federal Reserve System could be admitted unless it possesses an unimpaired capital sufficient to entitle it to become a national bank in the place where it is situated. If located in a city with a population of more than 50,000, capital of not less than $200,000 would be required. Except that in the outlying districts of such a city, where state laws permit the organization of state banks with a capital of $100,000 or less, national banks now organized or heretofore established could, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000.

This proposed grant of right to a national bank to establish, under limitation, statewide branches anywhere within the state of its location, even though the state banks of the state may not be permitted so to do by state law, is viewed with favor by this committee, which at the same time supports protection of the undoubted merits of our strong unit banks.

Unit banking has made notable contributions to the economic development of the country. Unit banking which continues to develop credit facilities in step with the growth of commerce and agriculture, is certain to maintain an im-

** Section 15, Glass Bill, reported to the Senate, April 18, 1932.

portant place in our banking system. The country, however, is rightly critical of the weaknesses that have been developed in our banking situation, as evidenced by the suspension of 9,166 banks, with deposits of $4,332,000,000 during the past ten years. This record, in which all kinds of banks—member and non-member banks of the Reserve system, unit banks as well as branch banks—have been involved, points to the imperative need of a stronger banking structure to safeguard the interests of depositors and of general business.

Notwithstanding the problem of overcoming deep-seated prejudices in favor of the exclusive development of unit banking, your committee believes that one road to improvement of our banking situation is the carefully regulated development of branch banking. The loss of the independent status of some banks not now in a position to protect fully the safety of the bank depositor, to whose welfare all too little attention has been paid, or to furnish adequate banking facilities to their communities, would produce benefit if these banks should be converted into branches of strong banks. It has also become generally recognized that there must be careful avoidance of the creation of unnecessary institutions whether they be unit or branch banks. These observations upon the failures of banks have been made with full recognition of the fact that unprecedented business conditions, and some lessening of public confidence, are in large measure responsible for the severity of the tests to which many banks have been subjected.

Considerable hardship has been experienced by some communities because of the partial or complete break-down of their banking facilities. In instances it is difficult, if not impossible, for local interests to assume the entire burden of re-establishing needed banks or to protect adequately the capital structure and deposits of existing banks. In a regrettable number of cases, also, weak national and state banks continue because no available means, in the absence of branch banking offer to affiliate them with strong institutions. Branch banking would provide a solution to many of these problems through enabling strong, well-managed institutions to invite existing banks to combine with them and strengthen the facilities offered the public, including the establishment of such offices as might be required in outlying towns and villages.

The committee has reviewed studies of branch banking made here and abroad, and concludes that doubts as to its broader applicability to our requirements are unwarranted and must yield to the needs of the present situation. It believes, moreover, that branch banking, if it is to be effective, must be so devised that each branching area shall include business centers possessing adequate financial strength and shall embrace a reasonable diversity of agricultural, business and industrial enterprises. While the most desirable diversification may not be secured in all instances, the committee believes that state-wide branch banking will greatly strengthen the general situation and will provide in a great many states the means of sufficient banking stability. It is also of the opinion that a financial center located near a state line should be permitted to provide branch banking service in the nearby communities of an adjoining state in the relatively few instances where such communities and the center really comprise a single financial and business area.

It must be noted that branch banking has developed practically under the diverse laws and regulations of our national and forty-eight state banking systems. At the present time, nine states and the District of Columbia permit branch banking to the limits of their geographical areas. Sixteen states permit branch banking within areas restricted to a single city or county, and the remaining twenty-three states either prohibit or have no provisions regarding branch banking. National banks, with certain limitations as to population, are now permitted to establish branches within the city of their location provided state chartered institutions in the same state may do so, while state banks which are members of the Federal Reserve System are subject to the branch banking limitations imposed upon national banks.

Because of the prohibitions upon branch banking, outside of restricted areas, by national and state member banks of the Federal Reserve System, which furnish about sixty per cent of the banking resources of the country, and the fact that either insufficient or no branching privileges are permitted state banks in many states where relief is needed, it is imperative in the interest of early general improvement that branch banking legislation proceed from the Congress of the United States. It is to be hoped that states early would see fit to amend their laws so as to give branching powers to their state-chartered banks similar to the powers that it is proposed be granted by Congress to national banks. Although there is need for early action it is to be presumed that states not now permitting state-wide branch banking would be allowed a definite period of time to amend their laws before the national banks of those states would be permitted to establish state-wide branches.

The Committee recommends that:

> A national bank should be permitted, subject to carefully devised administrative regulations but unlimited by restrictions of state law, to establish state-wide branches; federal legislation should not deny similar powers to state member banks.*

While it is believed that bankers generally would proceed with caution in the creation of branch systems, the committee concludes from its studies of branch banking that certain checks looking to the long-term aspects of the problem should be imposed. In particular, it is of high importance that the properly operated unit bank which is adequately serving the financial interests of its community must not be subjected to unnecessary or uneconomical competition from new branch banks established by outside interests. Sound banking requires also that branch systems should not be built by reckless competitive bidding for the shares of existing banks. If the "over-banked" condition which exists in some localities is to be avoided elsewhere, there should be a curb upon any unbridled race for supremacy in both the number

* Mr. McWhirter dissents from this recommendation in his minority report.

Mr. Lonsdale is opposed to the recommendation that a national bank be granted the power to establish, under limitations state-wide branch banks in those states in which state banks are not permitted to do so under state laws. He takes this position for the reason, among others, that since we have a dual state and national banking system the autonomy of the states should be respected to the extent that national banks competing with state banks should not be given powers prohibited under state laws to state banks. He states that in recognition of this autonomy Congress in the past has limited the rights of national banks to such as are permitted to competing state banks operating under state legislation. He mentions as examples the enactment of section 11-k of the Federal Reserve Act, in which it is provided that trust powers shall not be exercised by national banks where such powers will contravene the state laws relative to competing state banks and trust companies, and section 9 of the act which permits rather than compels membership of state banks in the Federal Reserve System and allows such state banks to become members even though they are operating branches to an extent not permitted national banks.

Mr. McLucas would have preferred that the Committee's report follow the resolution on branch banking, adopted by the Executive Council of the American Bankers Association April 26, 1932, to the effect that unit banking laws should be modified only so as to permit, where economically justified, community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts. In every respect, however, he believes the autonomy of the laws of the separate states governing branch banking should be preserved. Mr. McLucas suggests further that if state-wide branch banking powers are granted by Congress to national banks, the federal law should not become operative in states now prohibiting branch banking, or in states which do not allow state-wide branch banking, until a future date which would give sufficient time for the legislatures of those states to consider the desirability of enacting laws permitting their state banks to engage in branch banking.

Mr. Adams concurs with the reservations of Mr. McLucas.

and extent of banking offices and upon those forms of competition which compel a bank to enter reluctantly upon branch banking in order to protect its correspondent banking business or to maintain its position in the financial structure.

The committee feels, moreover, that the strength now inherent in our banking system, coupled with the best efforts that management can give, will prove far more valuable in solving our banking problem than legislatively imposed corrections that do not provide sufficient scope for the exercise of the proved managerial ability that can be identified. It would be fruitless, therefore, to propose branch banking as a strengthening measure without requiring that there be demonstrated capacity of management to cope with the problems confronting it before any bank is allowed to engage in branch banking.

No less important is the requirement that a bank engaging in the operation of branches should have unimpaired capital funds adequate to serve the needs of the communities in which it does business. In requiring the possession of adequate capital, the committee recognizes also that an effective check would automatically be placed upon undesirable development of branch banking.

While favor is found for the proposal that the capital of a branch system should not be less than the aggregate capital that would be required if each branch of the parent bank were an independent national bank, the Committee believes that the additional branch banking powers should be devised with special attention to servicing the requirements of rural communities and of small cities. Some limited grant of discretion should be given to administrative authorities to permit the establishment of branches in such communities if, for instance, the parent bank can meet the capital requirements of state law for independent state banks in such particular locations.

After its canvass of the situation, the committee has concluded that the only effective manner in which the above recommendations could be properly carried into effect, excepting those regarding capital requirements, would be to vest broad discretionary powers in responsible supervisory officials to grant or withhold permission to engage in branch banking. In order that there may be uniformity in the development of branch banking within the confines of the Federal Reserve system, it is proposed that so far as federal legislation is concerned, the authority to prescribe regulations affecting branches of a national bank be vested in the Comptroller of the Currency, and the authority to prescribe regulation affecting branches of a state member bank be vested in the Federal Reserve bank, subject in both instances to the review and concurrence of the Federal Reserve Board.

The Committee recommends, therefore, that:

In Federal legislation statutory permission to national and state member banks to establish branches should be conditioned upon approval of administrative authorities, subject, however, to definite statutory requirements that the capital of the branch system shall not be less than the aggregate of the capital that would be required if each banking office in the branch system, including the parent bank, were an independent national bank.

Administrative authorities should be able to require a showing in case of the application for a branch that the general condition of the branch system, as well as the conditions under which the branch would operate, indicate the probability of its successful maintenance.

The power to establish a branch in any given location within the branch area should be granted only after administrative finding that another bank, with or without branches, is not adequately servicing the banking requirements of the district of the proposed branch.

In order to avoid complications that would result from rapid or competitive extension of branch banking, there should be legislative grant of discretion to the administrative authorities to require a suitable period of notice of intention to establish a *de novo* branch or to acquire branches by merger, as well as of discretion to withhold final approval for a reasonable period of time.

To provide uniformity in the development of branch banking within the Federal Reserve System, authority should be vested in the Comptroller of the Currency to prescribe regulations with respect to the granting of branch banking privileges for national banks and in the Federal Reserve banks to prescribe regulations with respect to state member banks, subject in each instance, however, to the review and concurrence of the Federal Reserve Board.

THE ROLE OF BANKING IN RECOVERY

Address by

HONORABLE EDMUND PLATT

VICE PRESIDENT, MARINE MIDLAND CORPORATION

AND FORMERLY VICE GOVERNOR, FEDERAL RESERVE BOARD

before the

INSTITUTE OF PUBLIC AFFAIRS

UNIVERSITY OF VIRGINIA

Tuesday morning, July 12, 1932.

I have undertaken in this address first to show that we must not expect miracles from any banking system, second that our own system needs some reform before it can do its best work and third that our leading banks and our banking system as a whole having weathered the storm will stand ready when industry has recovered confidence to do its part in assisting recovery - but that banks by themselves cannot force recovery.

I am assuming that in assigning to me the subject "The Role of Banking In Recovery" the word "banking" was understood to mean commercial banking or banking conducted by incorporated institutions operating chiefly through deposits and subject to national and state banking laws, and that the word does not include what we call "investment bankers" or private bankers, operating largely with their own capital. In current discussions of banking, in Congress for instance, there is often some confusion of thought on this subject. People often talk as if bankers could promote enterprises by direct investment, losing track of the fact that commercial banks operate not with their own capital but with deposits generally payable on demand.

Economists tell us that banks create credit, that deposits are created by loans and some of them seem to assume that banks can arbitrarily and on their own initiative continue to create credit to the full limit allowed by the reserve requirements. The late Dr. Walter Leaf, who was Chairman for many years of the Westminster Bank, Ltd., London, declared in his excellent little book on "Banking" that a "banker is essentially a broker whose business is to link up money needing temporary investment with borrowers needing temporary loans." He declared that bankers are not "creators of credit." "The banks," he said, "can lend no more than they can borrow - in fact not nearly so much. If any one in the deposit banking system can be called a creator of credit it is the depositor; for the banks are strictly limited in their lending operations by the amount the depositor sees fit to leave with them."

In a broad sense as applying to all the banks of a country or of any financial center Dr. Leaf was wrong. Clearing house or combined bank statements usually show that deposits and loans go up and down together. Deposits are created when loans are made and are reduced when loans are paid off, but there is, nevertheless, more than a grain of truth in Dr. Leaf's statement that "if anyone in the deposit banking system can be called a creator of credit it is the depositor" and that the banks are "strictly limited in their lending operations by the amount the depositor sees fit to leave with them." This does not mean, however, that the depositor generally brings in cash to leave with them but simply that the depositor is a necessary party to the creation of credit. He must have confidence not only in his bank but in his government and in his own ability to make profitable use of funds if he borrows. It is his borrowing that creates credit just as much as it is the bank's lending. Many economists, it seems to me, leave the depositor out entirely and talk as if banks could force credit upon the public and arbitrarily increase deposits and the circulation of credit both in the form of checks and of currency.

We have had ample proof during the last few months of the operation of the Federal Reserve System that you can't force an increase of credit - that confidence in the banks, in the government and in the business situation are absolutely essential. Dr. A. C. Miller of the Federal Reserve Board expressed this idea in recent testimony before the Senate Committee on Banking and Currency when he said "It takes two to issue currency from the Federal Reserve. The Federal Reserve cannot do it alone" and again when he said "Business makes credit far more than credit makes business."

In short, miracles must not be expected of the banking system of any country, least of all of the heterogeneous banking system in the United States. Our leading banks are in a strong position and ready to serve, but the whole country has gone through a terrific strain starting with the train of events which began in Europe a little more than a year ago with the failure of the Creditanstalt in Austria and culminating in the suspension of gold payments by the Bank of England in September. During the spring and early summer of 1931 largely because of the easy money policy of the Federal Reserve System, and in the absence of commercial demand or of the desire of depositors to create credit, many of our banks bought bonds which they had been taught to consider a good secondary reserve. When the storm broke in September and October, however, these bonds depreciated very greatly in value and together with the unprecedented loss of gold following the suspension of gold payments by the Bank of England were the cause of a new era of bank failures, this time extending to eastern banks as well as western. You are familiar with the emergency measures taken to check these bank failures, first, in October, the formation of the National Credit Corporation and afterwards, January 21st, the Reconstruction Finance Corporation and still later, February 27th, the passage of the Glass-Steagall Act which broadened the eligibility provisions of the Federal Reserve Act. Each of these measures was helpful and the wave of bank failures was checked, but none of them go to the root of the matter. With conditions, so far as business is concerned, just as bad in England and in Canada, there have been no bank failures and no lack of confidence in banks. Obviously our banking system itself must be largely at fault and the depression has been greatly deepened in this country because of unnecessary distress and drastic restrictions of credit in many communities where banks have closed. The efficiency of American banking in promoting recovery will depend largely upon whether bank failures have been permanently checked and I regret exceedingly that Senator Glass's Banking Reform bill could not have been passed at the present session of Congress. While several sections of it, particularly those calculated to prevent another era of wild speculation like that of 1928-29, would have been at present inoperative other sections are vitally constructive and necessary, particularly the sections designed to prevent bank failures by providing for branch banking through the consolidation of the smaller banks, and the sections providing for regulation and examination of group banking and of affiliates.

Assuming, however, that bank failures have been almost entirely stopped and that confidence in the fundamental soundness of American institutions is returning, what can banking do to promote recovery? As I have said, miracles must not be expected either of our commercial banks or of the Federal Reserve System. It seems to me that no one thing has done much more harm in this depression than the persistence of belief that by some manipulation of credit or currency by the banking system the price level could be brought back to that of 1926 or of 1929. The House of Representatives on May 2nd passed a bill, the Goldsborough bill, declaring it "to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929 inclusive, shall be restored and maintained by the control of the volume of credit and currency." Senator Glass very happily succeeded in squelching this bill in the Senate, though in doing so he had to put forward a proposition for additional bond secured national bank circulation, which to my mind, and I think to his own, is almost as objectionable. What the Goldsborough bill sought to accomplish is I believe impossible of accomplishment by any sane banking means.

The price level of 1921-29 is gone past recovery and many of the necessary adjustments to a lower level have already been made. Others in my opinion must be made before we can proceed far on the road to recovery. Yet this idea of restoring the price plateau of 1921-29 has received the encouragement not only of foreign economists, like Keynes of England, Cassel of Sweden and even of Sir Arthur Salter whose recent book "Recovery, the Second Effort" is exceedingly interesting and valuable, but of several well known economists in our own country, and has considerably influenced the administration in Washington. These theorists believe that the chief cause of the debacle of 1929, and of the great decline in the price level during the past three years was monetary - a shortage of gold, maldistribution of gold or restriction of credit. It is not my province to discuss these matters but I cannot refrain from stating that there is no evidence of a shortage of gold. The central banks of the world gained some $450,000,000 in gold during the year 1931, according to the recently published report of the Federal Reserve Board - while prices the world over were steadily declining. The production of gold is increasing as always has been the case in times of depression and of lowered mining costs, and some $275,000,-000 of gold has unexpectedly reappeared from the hords mostly of India. Furthermore, less of the new production goes into the arts or into industry in such times and more into monetary stock. So far as our own country is concerned we gained gold during the first part of 1931 until September when we had over $5,000,000,000 - more than enough to pay off in gold all of our paper money in circulation. Then, following the suspension of specie payments in England, we exported some $750,000,000 of gold in six weeks. During the nine months from September to June we exported or earmarked for foreign account the stupendous sum of $1,547,000,000, of which $1,213,000,000 went to Europe, principally to France, Holland and Switzerland. During the same period, however, we imported $434,000,000 of gold principally from Japan, China and Latin America - so the net reduction of our monetary gold stock was $1,113,000,000. A very large decrease - but we still have as much gold as we had in 1923 when prices were at least 30 per cent higher than they are now and nearly a billion dollars more than we had in 1921, and some two billion dollars more than we had in 1914. In short we have nearly twice as much gold now as we had in 1914 but the price level is lower now than it was then!

To discuss the much talked of maldistribution of gold would lead me still further afield, into the matter of reparations, war debts and tariffs. I may say, however, that these in my opinion have played a much larger part in the reduction of prices than volume of gold, or volume of currency in circulation, or restriction of credit. Here another citation from the recent annual report of the Federal Reserve Board seems pertinent. From the autumn of 1929 to the end of 1931 there was an unprecedented deflation of bank credit, amounting to $8,750,000,000 but the total volume of bank credit (total loans and investments) of all banks in the United States at the end of 1931 was still $50,100,000,000 or about the same as in the autumn of 1925. Prices in 1925 were higher than they were in 1929 or in 1926 (the year chosen as 100 by the Bureau of Labor, the Federal Reserve Board, Professor Fisher and other index makers).

The price level as represented by these indexes fell something like 35 per cent between the autumn of 1925 and the end of 1931 yet the volume of bank credit outstanding was substantially the same. That is something for the monetary theorists to explain. They appear to believe that prices are absolutely controlled by the volume of credit and currency, and that these can be arbitrarily controlled by the banking system, through the manipulation of a group of men sitting in Washington. As I have already indicated, they lose track entirely of the part the depositor or borrower plays in the creation of credit. The theory that credit can be pumped into the country through security purchases by central banks has recently been expounded and defended by the Midland Bank of London in its monthly review. Mr. McKenna appears to believe that the chief purpose of the unprecedented purchase of government securities by the Reserve banks since February 24th was the raising of prices and admits that it has been unsuccessful - but this purpose has fortunately never been declared by those responsible for the operation of the Reserve System, and there was reason enough for the policy in the necessity of easing the strain upon the member banks occasioned by the heavy borrowing of last fall due to the great demand for currency and the unprecedented gold exports. The Reserve policy, particularly the stepping up of the purchase of government securities to $100,000,000 a week from April 6th to May 24th, had the effect of accelerating gold exports, and I am not sure that this was not one of its purposes. We appear to be at last rid of what Dr. Benjamin M. Anderson has called the "nervous money" that came to us between June 1928 and September 1931.

Certainly, if the purpose of the Federal Reserve System in purchasing governments in tremendous volume was the increase of prices it has failed so far to accomplish anything - but if its main purpose was to aid in the restoration of confidence and to relieve the member banks so far as possible of debt so that they could feel free to extend credit when a real demand for credit appears than I think it has accomplished something. The restoration of confidence must come first, depositors must be willing to borrow and must see opportunity for profitable investment before they will do their part in creating further - deposits. Sound banking is essential to recovery, but "increased bank credit is the result, not the cause of a revival in general business conditions," as Dr. George E. Edwards recently declared. Increased circulation of currency is also the result of increased business, and currency arbitrarily put into circulation as proposed by the recent soldiers bonus bills, would not stay in circulation, but would almost immediately find its way to the Federal reserve banks, displacing an equivalent amount of Federal reserve currency or of gold, or piling up idle reserves for the member banks. This would also be true of the proposed increase of national bank circulation. Dr. Goldenweiser ably pointed this out at the hearings on the bonus bills. Such an issue of currency would have little, if any, affect on prices, and might have an adverse affect through further undermining confidence.

With the restoration of confidence and the cessation of liquidation some increase of prices will doubtless take place. Distress selling has dictated the prices both of securities and commodities for much of the past year. Banks have had a large part in the distress selling, many of them through necessity of obtaining funds to satisfy frightened depositors and some of them through the natural desire to be as liquid as possible. Not all of the deflation of loans and deposits, however, has been due to pressure from the banks. Depositors have not only ceased to create more deposits by borrowing - they have also voluntarily cut down deposits by paying what they already owed, believing that in such times one can make no better investment than to pay his debts. The reduction of bank credit during the past three years and particularly during the past year has been greater than in any other period of our history. It still continues though at a much slackened pace. Much of it has been due to the inherent weakness of our unit banking system in rural and outlying communities as recently demonstrated in Chicago. How much longer it can continue no one can say. Several times there have seemed to be indications that it had about run its course, and I think there are such indications today. Our leading banks in the financial centers are in exceptionally strong liquid position. The great majority of all of our banks have weathered the storm. The open market policy of the Reserve system has offset the gold exports and the hoarding of currency, has put nearly all of the larger banks out of debt and has provided excess reserves in the financial centers on which a considerable expansion of credit could take place. When confidence is fully restored, when the business community is ready to make use of that credit - when the depositor is ready to his part in the "creation of credit" the banks will be eager to do their part. Banks don't make money for their stockholders by restricting credit. Their profits come from extending credit, from "creating" credit with the cooperation of their depositors.

Branch banking 1933?

The Senators who have spoken in opposition to branch banking have made many assertions but have presented no facts. They are long on theory but ~~very~~ short on figures.

Branch banking, they declare promotes monopoly — but they have not shown that anything approaching monopoly of banking or credit facilities exists in Canada or in England or in other commercial countries where branch banking is general. It is true that there are now only ten chartered banks in Canada, but in how many American cities of medium size do more than ten banks compete with each other? And how many American towns are there in which there is only one bank? It should not be forgotten that branch banking ~~makes possible~~ affords much greater extension of banking facilities among the people than unit banking. Canada has about twice as many (

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banking offices per capita as we have in the United States. They have about 4,000 offices or branches for 10,000,000 people or one for every 2500 people. With our great number of failures and ~~with some~~ consolidations it is difficult to tell just how many banks and banking offices ~~there~~ are in the United States, but the latest figures seem to indicate perhaps 19,000 banks and 3,400 branches - a total of 22,400 offices or one banking office to every 5000 people. Branch banking would clearly make it possible to employ many more men and women in banking, perhaps forty or fifty thousand more.

So much for the charge that branch banking causes monopoly. Another and similar charge is that branch banking causes concentration of ~~the~~ wealth and of credit in the large cities. This seems plausible but it is pure theory. No one has presented any facts ~~to su~~ or figures to support it!

Let us look first at some of the

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most recent facts with relation to concentration of wealth in our own country under unit banking:

During the year, 1932 the banks of the United States as a whole suffered a shrinkage of deposits of about 20%, according to the Review of Deposits published in the Financial Age of January 14th, If you exclude from the totals 195 large banks which carry 47% of the total deposits the remaining 18,800 show a decrease of deposits of 31%, but -and here is the most significant fact. The 18 reporting member banks of New York city not only show no shrinkage of deposits during the year but show an increase of about 10 per cent. Let us look at the figures in reverse order

New York City banks increase 10%

195 big banks including New York - loss of 1½%

All banks in the country big & little - loss of 20%

All banks except the 195 big ones - loss of 31%

Deposits that show concentration of wealth and of credit resources in the large cities and particularly in New York? The interior states, ~~the East and the South~~ lose funds and New York gains. Relatively ~~of~~ the large cities where the large banks are located all gain and the smaller places, the ~~agricultural states in~~ banking centres in the agricultural state lose.

For the record I should state that ~~th~~ the 18 New York ~~&~~ City banks gained about $600,000,000 of deposits during 1932, of which about $550,000,000 was ~~in the~~ item "due to banks," or the deposits of ~~country~~ correspondent banks in the city banks. ~~This is~~

Some such concentration always takes place in times of depressed business under our system. But about $50,000,000 of the New York increase appears to represent a shift of in-

5/ ~~Draw~~ 460

dividual deposits from interior banks to New York, perhaps for greater safety. A similar shift to the larger banks of Chicago appears also to be indicated ~~and they~~ ~~are~~ It is clear ~~therefore~~ ~~that~~ ~~the~~ interior smaller ~~towns~~ ~~are~~ have been losing banking resources, thus ~~depriving~~ ~~their~~ ~~people~~ ~~of~~ reducing the available funds of those places, while money has been concentrating in the large cities and particularly in New York where a large part of it lies idle.

That is under our independent unit bank system.

There has been a shrinkage of deposits in Canada (Nov 30, 31 to Nov 30 '32) of only about 8.1%.

There has been no lack of confidence in banks there.

Furthermore the comparatively slight decline in deposits does not mean that funds have piled up in Montreal and ~~Ce~~ Toronto to the deprivation of the rest of the Dominion. The

6/

reduction of available funds is ~~the same~~ in the same proportion in ~~a~~ Toronto and Montreal as in the small prairie towns of Alberta and Saskatchewan.

So much for the argument ~~that~~ branch banking causes concentration in ~~the~~ cities ~~while unit banking~~ by comparison with unit banking. The very opposite has certainly been true during the past years. Furthermore the Canadian Banks claim to be loaning more money in the western provinces than the total deposits of those provinces. This is hard to believe. ~~But their figures~~ I have seen no recent figures showing the location of loans except as to loans in Canada and loans outside - but the Canadian Bankers Association has at times published ~~such~~ figures ~~which support their statements~~ showing the location of loans in Canada and they seem to support the

~~contention~~ statement. Furthermore the Canadian banks state that it is natural that the loans should be larger than the deposits where the demand is greater. They declare that deposits naturally originate in the eastern provinces where money is relatively plentiful and cheap and are loaned in the West where it is greatly in demand and at profitable rates.

The Senator from Wisconsin has declared that Canadian banks have ~~not failed~~ had few failures compared with our banks (none at all during the present depression or since 1923) not because of branch banking but because of certain other superior features in the Canadian banking laws and practices — notably the fact that they are not

8/

allowed to make loans on real estate. Doubtless the fact that commercial banking and investment banking are separated in Canada is of importance. Real estate loans are made by Mortgage banks, by savings banks, and perhaps by some extent by trust companies. The chartered banks, the banks with branches throughout the dominion, are commercial. They do not loan on real estate and they do not invest largely in bonds, except government bonds - dominion, provincial and municipal. Some 68% of their total loans and investments are loans. In ~~our~~ the banks of the United States only 57% of total loans and investments is loans, with 43% in investments.

However, National Banks in the United States were not permitted to make real estate loans until 1913, and were not permitted to loan on

9/

city real estate until 1927 — but we had a ~~considerable~~ number of national bank failures following the Panic of 1893 and again in 1907. The Senator from Wisconsin did not propose to forbid real estate loans to our national banks, and it is evident that such a prohibition while it might help would not alone be effective.

Opponents of branch banking have ~~a~~ admitted that we have chartered too many small banks. They have admitted that ~~the~~ ~~one~~ an overwhelmingly large proportion of our many failures have been small banks. But they do not ~~point~~ ~~or~~ indicate just where they would draw the line. If $50,000 were the minimum capitalization of banks, as proposed in ~~the~~ ~~House~~ Senate bill No 4412 and in the Steagall bill which has passed the House, then many small places would certainly be deprived of banking facilities unless you permit branches. ~~There are~~

There are still in existence, in spite of some 10,000 failures thousands of banks ~~national~~ and state with a capital less than \$50,000. ~~Many~~ No one knows how many of them are in precarious position. Why not permit them to consolidate so as to form larger, ~~banks~~ stronger banks. This does not imply branches radiating from New York or Chicago, but a grouping of banks together ~~in the~~ around the larger country towns or the lesser cities.

There does not appear to me to be a single sound logical argument against ~~removing the re~~ such a policy – while every logical argument is in its favor.

Author(s):

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THE GLASS BANKING REFORM BILL

AND BRANCH BANKING

An Address to be Delivered by

Honorable Edmund Platt

Vice President, Marine Midland Corporation and Formerly
Vice Governor of the Federal Reserve Board

Before the

SHRINE CLUB - BUFFALO, N. Y.

February 10, 1933

The Glass banking reform bill despite the long filibuster conducted by Senator Huey Long, aided by Senator Wheeler of Montana and Senator Thomas of Oklahoma, nevertheless passed the United States Senate with a surprisingly small vote against it. Perhaps the collapse of the opposition was partly due to the fact that the senseless character of the filibuster outraged public sentiment and caused a flood of protest and a strong trend of sentiment in favor of the bill. It looks as if there might have to be further unmistakable evidence of public sentiment in order to get it loose and through the House of Representatives at this session. Of course, there is plenty of time to pass the bill in the House if the Banking and Currency Committee of the House will promptly take it up and report it and if the leaders get behind it. Some of the leaders on both the Democratic and Republican sides have expressed themselves as favorable, and I know that a considerable number of the members of the Banking and Currency Committee are in favor of the bill so it seems to me that its passage is certainly not impossible and still quite within probabilities. Filibusters cannot hold up bills in the House of Representatives for any considerable time if the leaders want them passed. They can be put through in an hour's time by special rule, and some very important legislation has been enacted under such rules as late as the first of March.

The Glass bill has in it a good many elements of popular appeal if properly handled. Its chief purpose is to require a gradual change in the direction of more commercial banking on the part of banks that are members of the Federal Reserve System and less investment banking. All the drastic features of the bill as originally introduced, the features which aroused the ire of the American Bankers Association, have been either eiliminated or much modified. The original bill required that security affiliates were to be cut off immediately from the banks which controlled them. The bill as finally passed gives them five years, and the investment section which aroused a good deal of opposition is not to go into effect for five years. Mr. Francis H. Sisson, President of the American Bankers Association, in the February issue of the American

Bankers Association Journal, declares that,

> "Every bond department in the country belonging to a member bank would have to be abolished on the day of the bill's enactment into law. No longer could any commercial bank with membership in the Federal Reserve System accept participation in any bond issue, except to take up bonds for its own account."

This statement was written, of course, before the bill was finally passed in the Senate and, as I have said, the section does not go into effect until five years after the enactment of the bill so there will be every opportunity to affect necessary changes gradually. In the main it seems to me that the separation of commercial banking from investment banking is sound, though I doubt if the separation can be quite as complete as some of the theorists believe.

The sections of the bill which require supervision of security affiliates prior to their separation and other similar sections requiring supervision of holding companies, etc., seem to me to be entirely good, and I should think it not impossible that the supervision and examination of security affiliates might prove within five years that they should be given a longer term and possibly even that they should be continued.

The filibuster in the Senate was ostensibly directed chiefly against the branch banking section but it is generally believe that at least some of the backers of the filibuster were in favor of defeat of other sections and that they merely centered on the branch banking feature because they thought it was probably the most unpopular section of the bill. Apparently they found as the filibuster proceeded that the branch banking feature was not as unpopular as they thought it was and that their attacks were winning it supporters. The section to be sure was considerably modified by the so-called Bratton amendment which provides for branch banking only in accordance with state laws. Wearied with the long fight Senator Glass did not resist this amendment, and the parliamentary situation was such that it had to be voted on before the section as a whole could be voted on. The final vote and the expressions on the bill seemed to show very clearly that the branch banking provision would have been carried as it originally stood if it had been brought to a vote.

The logic of events since the bill was under discussion in the Senate last May and even during its discussion this winter have all served to strengthen and increase the sentiment in favor of branch banking which after all merely means the repeal of restrictions preventing the consolidation of banks unless they happen to be located within the same city limits. That the closing of many small banks could be prevented by consolidation with larger banks,is, of course, admitted even by the opponents of branch banking. Soon after the Glass bill had been laid aside last summer an epidemic of bank failures broke out in and near the city of Chicago which had previously been the center of opposition to branch banking. So many of the outlying banks in Cook County were closed that confidence was impaired even in some of the large downtown or Loop banks, and Mr. Charles G. Dawes had to resign his position as President of the Reconstruction Finance Corporation, and go to Chicago to help his bank, the Central Republic Bank & Trust Company. You doubtless remember the criticism that ensued when it was learned that the Reconstruction Finance Corporation had authorized a loan of $90,000,000 to this bank in July. President Hoover told the story of the rescue of this bank in a speech at St. Paul, Minnesota, during the latter part of the election campaign. Among other things he stated that 755 country banks were among the depositors in the Dawes bank, many of them small state banks which carried their reserve with the Central Republic Bank and Trust Company. He implied that the closing of the Central Republic might have resulted in the closing of many if not all of the 755 country banks. This brings forcefully to mind that our correspondance banking system has the chief defect of branch banking without its advantages or responsibilities. It is undoubtedly true that the closing of a large bank in a large city causes the closing of many small outlying banks. This has happened over and over again and happened in 1931 in Pennsylvania. The R. F. C. must if possible save the so-called key banks if they get in trouble just as the War Finance Corporation did in 1921-22. These so-called key banks are not necessarily always in the largest cities for in the West and South where there are very many small banks with capital often of less than $25,000, the key banks may be in cities of not over 100,000 population. It is simply a question of how many small banks are carrying their reserves with them.

Since the Chicago episode of last summer and while the Glass banking bill was under discussion in the Senate in January a similar epidemic of outlying bank failures has occurred in St. Louis. That all of these outlying banks could have been saved by branch banking is perhaps too much to claim but that most of them could have been saved is certain. Only a few days ago Mr. C. C. Teague, President of the California Fruit Growers Exchange, declared in an interview in Washington, that, "If state-wide branch banking had been permitted during the past ten year, under the regulations contemplated by the Glass banking bill, hundreds of failed banks in the United States would be in business today." Mr. Teague comes from a branch banking state and incidentally tells how he and the directors of the bank XXXXXXXXXX of which he was president, the First National Bank of Santa Paula, California, initiated negotiations with the Security First National Bank of Los Angeles, "looking toward a merger of our bank with this branch banking system." He adds, "This merger took place some ten years ago and was not entered into through fear of any immediate embarrassment in our bank, but because we became convinced we could perform a better service to our community. After ten years of operation under the branch banking system, we are satisfied that our decision was a wise one and we now know that we have been able to perform a better service to our community than would have been the case under the old unit system." That is certainly competent testimony from a very high source.

Perhaps you would like to have me state some of the principal objections to branch banking and answer them. Generally speaking the opponents of branch banking are long on theory and short on facts. They allege, first, that branch banking would lead to monopoly of credit, but with something like 19,000 individual banks in the country they have to admit that anything approaching monopoly would be a long way off and they have failed to show that branch banking has led to monopoly in England or Canada or in other branch banking countries. Branch banking developed over a long series of years and through many consolidations greatly lessens the number of banking corporations in operation, but taking Canada as the nearest instance with only some ten or eleven commercial banking corporations in existence we find that in any town of any size there are still about as many banks competing with each other as would be the case if the branches in those towns were each organized as separate corporations, and, furthermore, the competition is more effective. The resources of these large banks are just as available in the smallest branches as they are at the head offices in Montreal or Totonto.

Some of the opponents of branch banking declare that Canadian "don't fail because they don't make any loans." Practically that statement was made by Senator Blaine of Wisconsin, in opposing the branch banking section of the Glass bill and it has been reiterated from various sources. That, however, is pure theory. The people who make such statements apparently never have looked at the statements of Canadian banks. Actually a greater percentage of their total loans and investments is in loans than is the case with American banks. They do not buy bonds excepting Government securities, i. e., Dominion, Provincial and Municipal securities, and they are much more nearly commercial banks than are our banks. It is true that they are not allowed to make loans on real estate but real estate loans in Canada are made by separate corporations, mortgage banks and savings banks. There is, in other words, in Canada, the same kind of separation of investment banking from commercial banking that is one of the aims of the Glass bill.

The opponents of branch banking sometimes declare that branch banking sweeps all the money out of the country districts onto the cities. There again the opponents are long on theory and short on facts. The Canadian banks have many branches where they continuously loan more money than they take in in deposits, and during a good deal of the time they loan in the prairie provinces of the west more then the total deposits received in the prairie provinces.of This when you come to think of it is rather natural for the deposits originate in the wealthy eastern provinces and are loaned in large part where the demand is greatest and where the rates are highest, in the west. One result of this is that though interest rates are somewhat higher in the western provinces than they are in the east there is not as much difference as there is between rates in our eastern states and rates in our western states which frequently run to 8 and 10 per sent.

One of the stock argusments against branch banking is that while we have many failures of small banks during every time of depression the failure of a single large bank with branches would be much more disastrous than the failure of a large number of small banks. This is a valid argument, but as I have already shown in connection with the story of the rescue of the Dawes bank in Chicago, the failure of a single large bank under our so-called unit banking system with its network of correspondent relationships necessarily drags down a lot of small country banks with it. Small banks can fail it is true in considerable numbers without very much affecting the big banks, but the thing does not work the other way reound. Under our system the big banks have no legal responsibilities with relation to the safety of their smaller correspondents, while under branch banking if the correspondent banks were actually branches of the city banks the city banks would have just the same responsibilities with relation to the smallest branches as they have at their head offices in the cities. They would all be parts of one large corporation. a branch of a branch banking organization can't fail by itself.

One of the wild arguments made by some of the oppoments of branch banking and this also was repeated by Senator Blaine of Wisconsin during the recent debate on the Glass bill, is that Canada has practically the same resources as the United States and would have a much larger population if it were not for branch banking. Apparently some of these people think that Chicago would be located on Hudson's Bay and New York on the St. Lawrence if it were not for branch banking. I take it that one of the principal obstacles to the rapid development of Canada has been the fact that her eastern seaports with the exception of Halifax are none of them ice free, and it seems utterly absurd to maintain that the resources of Canada are equal to those of the United States. Doubtless there are hidden resources that may some time in the distant future be developed in the far frozen north. The present effort to develop a seaport on Hudson's Bay is interesting and may amount to something but the fact that Hudson's Bay route to Europe is open only three or four months of the year is certainly a very serious handicap.

There are, furthermore, some direct facts with relation to the development which are interesting. Montreal and Toronto, although large cities are not as large as many cities in the eastern United States, and Winnipeg is not as large as Minneapolis or St. Paul but going a little further west we find that Calgary and Edmonton are both larger than any cities in the Dakotas, Montana or Idaho although there are no independent banks in either of those cities. Both are served by branches of banks whose head offices are in the East. There is certainly no evidence that they have been retarded in development. On the other hadn, I think it is clear that the evidence is quite the other way. The Canadian banks are always ahead of us in pioneering. They open branches in log cabins and even in tents in new territory long before it is possible to organize independent institutions. They did this in the Yukon territory when the gold rush was on. They have repeatedly gone ahead of the "end of steel" when new railway lines were being built with their branches and they had branches in Churchill on Hudson's Bay before the railroad was open for traffic.

It is admitted that branch banking prevents bank failures even by the opponents of branch banking, and even though the opponents have not yet admitted it they will be forced in time to agree that the evidence is unmistakable that branch banking furnishes not only safer but better sevice in the smaller communities than is possible with unit banking. Senator Glass during the recent debate had read as a part of his speech a quotation from an address made by Woodrow Wilson to the American Bankers Association in Denver in 1908, in which Mr. Wilson took the ground that branch banking means not a concentration or monopoly of credit but a diffusion of credit to the smaller places, making availabe to them opportunities which they could not otherwise enjoy.

To sum up - there is not a single argument against branch banking that has not been answered or that can't be answered by reference to the actual facts as branch banking operates in other countries. It has not produced monopoly of credit. On the other hand as proposed in the Glass bill it would certainly do something towards decentralization of credit. It makes available in the smaller places the same resources that are available in the cities, and in branch banking countries, like Canada, it is clearly proven that a larger proportion of the banking resources of the country are actually loaned in the smaller places than is the case with our banking system. It makes for sounder banking and for less favoritism in banking. It may be true that in branch banking countries loans are not made quite so freely in speculative boom towns as they are under our system, but by the same token in times of depression the people who have less debts to pay are better off. Nothing can possibly restrict credit in any community so drastically and disastrously as a bank failure, and the lack of confidence in banks has been a larger factor in deepening the depression in this country than any other one thing. With confidence fully restored more than a billion dollars would flow back into the banks where it would become available to the owners of accounts and also available for loaning to other people. Such a complete restoration of confidence would, in my opinion, give the needed impetus to recovery and make unnecessary many schemes, some of them decidedly harmful, now under discussion in Congress and elsewhere.

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Author(s): Edmund Platt

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THE FIGHT FOR BRANCH BANKING LEGISLATION

An Address to be Delivered by

Honorable Edmund Platt

Vice President, Marine Midland Corporation and Formerly

Vice Governor of the Federal Reserve Board

Before the

BANKERS FORUM MEETING - PHILADELPHIA

February 15, 1933.

It seems a little singular in a country where education is universal and which certainly contains a fair proportion of intelligent citizens that it should be so difficult to obtain the enactment of legislation which has almost the unanimous approval of those who are best qualified to judge of its necessity. That our American banking system is seriously defective particularly with relation to the safety and adequacy of service in the agricultural west and smaller towns has been clearly evident ever since 1921, more or less evident ever since 1893 and very painfully evident for the past three years. We have floundered around with every sort of imaginable remedy excepting the one remedy which has been successful in other countries, viz: the extension of banking facilities in the smaller places and in the sparsely settled agricultural neighborhoods by branches of strong institutions rather than by very small separately incorporated banks standing alone. During the past ten years more than ten thousand banks have closed their doors. The President of the American Bankers Association, Mr. Francis H. Sisson, President of the Guaranty Trust Company, has made several addresses and written several articles which seem to imply that these failures have strengthened the general banking system and have on the whole been a rather good thing because they have eliminated weak, unnecessary banking units. If he means that banking service was unnecessary in the great majority of places where banks have closed, I disagree with him. fully. I believe that most of those places were entitled to banking service, and the difficulties have been wholly caused by the fact that we have insisted upon letting them shift for themselves, giving them service only by small weak units. It is a general American theory, a theory that is supported by your fellow Pennsylvanian, Mr. Charles F. Zimmerman, that these small banking units were all organized by local people who have taken great pride in them as local institutions and who have been well served by them, but if you go into their history you will find that the great majority of them were organized by promoters who, in the west, frequently "salted" them just as wild-cat mining ventures used to be salted by eastern deposits attracted by high rates of interest and then sold out or unloaded on the people of the localities. That is not to say, however, that they did not serve a need. The promoters were pretty shrewd in determining where banks could be put in and sometimes the seed as in the parable of old fell on good ground, grew up and multiplied many fold. Too often, however, it fell upon ground which was good only in prosperous times and a crop of failures was the result.

Last October I attended a meeting of the American Bankers Association in Los Angeles and on my way back stopped off at San Francisco and drove up to the Yosemite which I had never seen. On the way out, the next day, going over the wonderful highway known as the "Big Oak Flat Road," a good part of which is in the National Park or National Forest and controlled by rangers, I stopped for a while and talked with the ranger at the outer border, an interesting young fellow who told me he was born in Canada. The conversation turned to banks and he told me that some of his friends had had serious losses through failure of small banks somewhere in this country. He thought the Canadian system much superior to ours, and said to me, "Why is it when one country has a banking system which is certainly better than that of the adjoining country and the adjoining country does not adopt it?" It was a hard question to answer in a few words. Really the only thing to say was that there isn't any answer, excepting an unreasonable attachment to an antiquated system. In a recent interview, printed in the Philadelphia Ledger, Mr. C. C. Teague of Santa Paula, California, and President of the California Fruit Gowers Exchange, declared, "Hundreds of failed banks in America would today be open for business and serving their communities, if state-wide branch banking had been permitted during the past ten years, along the lines contemplated by Section 19 of the Glass Bill." Mr. Teague has had plenty of experience, both with unit banking as president of a small bank in his home town and as a branch banker after his bank had been consolidated with the Security First National of Los Angeles and became a branch. As President of the California Fruit Growers Exchange which is a large borrower, he has had experience also on the borrowing side. He tells why his bank was consolidated with the big Los Angeles institution - "We came to realize," he said, "that a branch bank which drew its resources from large areas with diversified products, and from city deposits of large urban communities, would be much better able to transfer these resources into communities where the greatest need occurred and, therefore, would be in position to offer a wider and better banking service, and maintain a sounder and safer bank for its depositors." The meger which he described took place some ten years ago "and was not entered into through fear of any immediate embarrassment in our bank, but because we became convinced we could perform a better service to our community. After ten years of operation under the branch banking system, we are satisfied that our decision was a wise one and we now know that we have been able to perform a better service to our community than would havebeen the case under the old unit system. Since that time our community, of course, in common with other communities, has suffered by the general depression which began in 1929. Our agricultural products that had had a stable value prior to that time, since then have been considerably depressed, and we are now convinced that, had we not merged our bank into a branch system, we would have had great difficulty in taking care of the needs of our community."

Certainly this is competent testimony as to branch banking in our own country. There is not so much need for branch banking in the great eastern states, like New York and Pennsylvania with their great diversification of industries, as there is in the agricultural west. You never had I think in Pennsylvania the very small banks that used to be so common in the Middle West, banks with a capitalization of less than $25,000, too small to be eligible for admission to the Federal Reserve System. Pennsylvania seems to have been the storm center of opposition to branch banking since Chicago was forced to abdicate its position by the flurry of bank failures in that city last June and July, and Mr. Zimmerman of Huntingdon, and Mr. McDowell of Sharon, have been among the leaders. ~~but~~ These gentlemen, perhaps naturally enough, envision the small bank as a bank like their own. Now, the First

National Bank of Huntingdon is not a small bank in the sense in which the term is used in the Middle West. It has a capital of $150,000 and a surplus of $500,000, and is a strong institution, fully capable I think of standing by itself as long as it wants to and also fully capable of establishing branches of its own. There is no reason so far as his own interest or interests of similar communities in Pennsylvania are concerned why these Pennsylvania bankers should oppose branch banking. Furthermore, there are neighborhoods in Pennsylvania where branch banking would be of great service - one industry neighborhoods such as the coal regions where banks have gone down in appreciable numbers just because the industry has failed. In one of his articles on the subject either Mr. Zimmerman or Mr. McDowell declared that these banks had been closed "because the neighborhoods failed the bank." That it seems to me is tantamount to admission that independent banks should not have been established in such neighborhoods. If these neighborhoods had been served by branches when the neighborhood failed the branch the branch could readily have been either closed or moved without the loss of a cent to depositors. Branches are frequently closed in Canada when found not to pay and they are also frequently moved. Furthermore, branches can be established more or less as a matter of experiment in a new or temporary community. The Canadians frequently establish branches in connection with railroad construction or mining camps or large hydro-electric propositions, with the expectation of moving them or closing them when the work is ended and they are no longer needed. That is something we can't do with our system. Some of the arguments used against branch banking have been fantastic in the extreme. It has been declared, for instance, by the spokesmen of the Association of Independent Unit Banks of America of Harrisburg, Pennsylvania, that England was forced off the gold standard because of branch banking. It has also been declared that Canada has resources fully as great as those of the United States and that the only reason her cities are not so large and her population not so great is because of branch banking. The anti-branch bankers have declared also that branch banking sweeps all the money out of the rural districts where there isn't any into the cities where there is too much - in other words that bankers are such fools as to take money away from where it is in demand to loan it where it is not in demand. We have also heard the statement made in the United States Senate that banks don't fail in Canada because they don't loan any money. All these arguments are purely theoretical. There are certainly adequate reasons why Chicago is not located on Hudson's Bay or why New York is not located on the St. Lawrence. At this season of the year one may be pardoned for suspecting that ice is one of the reasons. People who declare as Senator Blaine of Wisconsin did not long ago that Canadian banks never make any loans have never thought of looking at Canadian bank statements. The combined statements of the Canadian banks show that the prportion of loans to total loans and investments is more than 10 per cent greater in Canadian banks than it is in American banks. They are more nearly commercial banks than ours. It is true that they are not allowed to make loans on real estate but real estate loans are nevertheless taken care of. They are made by mortgage companies and by savings banks, which do not obtain their funds from demand deposits.

Opponents of branch banking always allege that branch banking leads to monopoly and control of credit. Woodrow Wilson in an address to the American Bankers Association in 1908, declared that branch banking would lead to a diffusion of credit - making the resources of the cities available to the country districts, and certainly no one can deny that in a branch banking system the same resources and the same protection to depositors are available in the smallest branch as are available at the head office in the city. It may be alleged that the big bank would not loan them in the country but the fact is that the Canadian banks loan more money in the western agricultural provinces than the total deposits of those provinces amount to, and the fact is also that they have many branches which are known as "loaning branches" where the loans are always greater than the deposits. Certainly you cannot borrow any money in neighborhoods where our banks have failed or as somebody has graphically put it, "You can't borrow no money no how where there ain't none." The first requisite is to have funds available, and no one can deny that branch banking at least would do that.

The branch banking feature of the Glass bill as it passed the Senate has been shorn of much of its controversial nature and has been made inoperative in many states unless or until their state legislatures act in favor of branch banking. It will, nevertheless, be of some service and will be operative to some extent in a good many more than the nine states which now permit state-wide branch banking. A considerable number of other states permit branch banking by counties as in Louisiana, or by groups of counties as in Maine, or in territory contiguous to the larger cities as in Ohio. Besides the branch banking feature which there is no longer any reason why anyone should oppose, the Glass bill has many good features. Its main purpose is to prevent banks from becoming too much involved in wild speculation, such as that which preceded the crash in 1929. The Liquidation Corporation would be useful. The bill in fact has a good deal of popular appeal if properly handled, and there ought to be a general demand that it be taken up promptly by the Banking and Currency Committee of the House of Representatives and put on the statute books at this session of Congress.