SPEECH GIVEN BY M. S. ECCLES, Ogden, Utah.

I deem it a privilege to have the opportunity to speak before the members of this Club. At the same time, I am not unmindful of the task of attempting to inform and interest men of your intelligence and broad knowledge. I have not specialized in any particular line of business endeavor, but the last few years I have given more thought and devoted more time to the field of banking than any other. I, therefore, believe I am better able to talk on that subject than on any other. It is a subject which all of you should be more or less interested in because you all have some contact with it and are affected directly or indirectly in numerous ways by its operation and development. I can only attempt in a very general way to cover some of the more important phases of its evolution.

One writer has said: "Banking is both new and old. As a distinct branch of commerce and a separate agent in the advancement of civilization, its history scarcely extends over 300 years, but in a rude and undeveloped sort of way it has existed during many centuries. It began almost with the beginning of society."

In Babylonia about 2000 B. C. laws issuing from the King provided among other things that interest might run as high as 33-1/3%; imprisonment for debt and sale into slavery were legal. In the enduring form of Babylonian clay tablets our archeologists have found deeds, leases on land, wills of personal and other property, accounts, notes, mortgages, receipts for storage, agreements, and various other business forms which must be considered the progenitors of those of today.

The law as related to the Jews provided that interest was not only illegal but was forbidden by the priesthood, yet it was permissible to take it from foreigners. This provision of Old Testament law was of the utmost importance in that it became the basis of the pronouncements of the early Catholic Church against usury.

In early Rome, as in Greece, slavery for debt was permitted under the law. In 450 B.C. the law provided that a debtor might have thirty days in which to pay after a judgment had been rendered against him, but if he failed to settle, his person might be seized by his creditors. We are told by Tacitus, a Roman historian, that the twelve tables limited interest to one-twelfth for the lunar year or ten per cent for the solar year but that this regulation was constantly evaded. In 342 B.C. Roman citizens were forbidden to accept interest at all but they managed to continue their usurious practices by arranging loans through dummies. Vast enterprises in time forced the Romans to look more kindly on the charging of interest. In 88 B. C. interest was legally fixed at one per cent a month and in 50 B.C. this rate was made standard throughout the Empire. With the fall of the Roman Empire the opportunity for enterprise ceased and the value of interest became obscured. The church, reviving the old Jewish law, forbade any interest whatsoever, though, as a matter of fact, certain exceptions were made in practice.

By the Twelfth Century the guild system had become well established and for the next four or five hundred years European industry was organized on that basis. If a tradesman or craftsman needed a little money he could borrow it from his guild and occasionally the guild entered into operations on behalf of all its members.

As commerce gradually increased in the Italian cities and the towns of Germany, capital came more and more into demand because it could be used at a profit; loans at interest once more became common, though they were usually in the form of discount or exchange. Yet it was not until after the discovery of America that interest was legalized in either France or England.

Defining Money: Money is defined as a symbol. It stands for a thing offered or a thing desired. It is a standard of value in convenient form and therefore a medium of exchange. But in the early days when civilization was just beginning to crystallize from barbarism, the things themselves -- cattle, shaped pottery, weapons, woven cloth or whatnot -- still had to be exchanged directly. This was barter. And from the clumsiness and difficulty of barter, a clumsiness and difficulty of which we, with our bills, checks, notes and ever ready change can scarcely conceive, the invention of money naturally and inevitably developed. There are hints of coined money among the records of the Sumerians of the First Babylonian Empire, in India, ind in the half legendary histories of early China. Almost everything, at one time or another, has been used as this commodity -- wampum, or strung shells among our own Indians and the primitive Chinese, tobacco by our early colonists, bottles of trade gin in West Africa, stamped leather among the Carthaginians, iron among the Hittites and the British Picts. In the Indian Epic period (1400 to 800 B. C.) the word "nishka" had definitely come to mean a gold piece; and a silver "karshapana", or coin, is mentioned in various Buddhist works. Somewhat later metal pieces begin to appear, marked to show their weight and hence their value. There were also silver coins in India, oblong or square in shape, and apparently cut from strips of metal. They were without inscription except for the rough outlines of natural objects such as the sun, a man, or a tree, which perhaps sufficed to identify the person who issued them. Thus through the ages and in all countries which developed a civilization, money of a sort struggled into existence. With the development of the art of casting, coinage passed from its primitive form into something similar to that which we use today.

Twenty centuries before the Christian era we find the Babylonians placing their treasure for safe-keeping with trusted men, to whom they paid as much as one-sixtieth of the treasure for that service. The Egyptians had what might be looked upon as treasure houses long before this, and even the Pyramids might be considered safe deposit vaults, for in the belief that the soul would live as long as the mummy remained intact, the wealthy Egyptian planned for the safe-keeping of his mummy with more concern than for the most precious of his possessions. From Greece, however, came the real inspiration for the safe deposit department as we know it today. Unlike Egypt and Babylonia, both blessed with strong central governments, Greece was divided into into many practically independent states and cities which were usually at war with one another or with foreign powers. When not at war they were in a constant state of unrest through the activities of oposing political factions. By sad experience, or perhaps by happy accident, the Greeks discovered in the Temple the only safe depository which the turbulent times afforded, and which usually remained inviolate. The strong religious principles of the educated classes, as well as the superstitions and fears of the unscrupulous and non-believers, combined to create about the Temple an atmosphere of greater security than could have been attained by any mechanical devices then known. To the Temples of Greece, therefore, one may look for the first safe deposit vaults as well as for the beginnings of the functions of our banks of domestic and foreign commerce. For the safeguarding of treasure there were at first no standard charges made by the Temple banks, but records show that the obliging priests received liberal presents for their services. Later when the Temples safeguarded valuables as a matter of business, they made regular and substantial charges and the records indicate that they also lent their own funds at interest. The Greek Temples have been an inspiration in designing many modern bank buildings.

During the period from Ancient Greece up to the time of the French Revolution there were many important historical events in connection with the development and history of banking which time will not permit mention of at this time, as I am sure you will be more interested in the development of banking in our own country and particularly the more recent evolution.

A little more than a century ago there were only 300 banks in the United States, with a total capital of approximately $100,000,000. Today we have 26,213 banks officially reported, with combined capital funds of $8,897,412,000, which means capital stock paid in, surplus and undivided profits, and resources aggregating $71,574,328,000.

I want to refer briefly to some of the early banking history of the United States. The first banking institution in this country was the Pennsylvania Bank of Philadelphia. It was established to act as the fiscal agent of our precarious young government. Robert Morris, Superintendent of Finance for the United States, realizing the need of a National bank to help stabilize the currency, was instrumental in the organization of the Bank of North America in Philadelphia in 1781. After the Revolutionary War an antagonistic state of mind developed toward banks; they were regarded as monopolies and therefore incompatible with democracy. As the necessity for banks grew, the hostility to them seemed to grow. In those days every merchant was a banker of some sort, there being no legal prohibition to restrain any individual from accepting funds on deposit. He could also issue his own notes for circulation. Many people regarded these homely bankers as sufficient. The fate of a bank was dependent upon contending political forces.

The first bank in New York was known as the Bank of New York and it opened its doors in 1784, although it did not get its charter confirmed until 1791 on account of political opposition. Alexander Hamilton, who was the dominant political force of the Federalist Party in New York, was one of the founders of this enterprise, which is still going strong at 48 Wall Street on the site acquired in 1798. Because Hamilton was sponsor, Burr and his allies opposed it bitterly. This bank is notable in our banking history because it was the first banking institution in New York and because of Alexander Hamilton's conspicuous association with it. As directors or Stockholders were the earlier Roosevelts and Vanderbilts.

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The first Bank of the United States came into being in 1791, entirely through the efforts of Alexander Hamilton, who saw the necessity for a great national bank. Its charter failed to be renewed, however, in 1811 because of political attacks added by state banks which had in the meantime risen throughout the country. Stephen Girard, the French immigrant who had landed in Philadelphia penniless and made himself supreme among the merchants and shipping magnates of that time, bought the assets of the first Bank of the United States and organized the now famous Girard Bank of Philadelphia.

In 1816 the second national Bank of the United States was chartered and became the government fiscal agent with branches in 25 states. In 1836, during the term of Andrew Jackson, this bank failed to have its charter renewed. Jackson had an ingrained prejudice against all banks and particularly the Bank of the United States because of its European connections. He withdrew the government's funds and sought to embarrass the institution in every way. Nicholas Biddle, who became the President of the Bank, had been secretary to James Monroe who was then Minister in Great Britain. During this period he established many British connections and was largely instrumental in bringing British capital to this country to help build canals, railroads and finance our states. He had interested British capital in the Bank itself to the extent of 79,000 shares.

An interesting piece of history is that of Aaron Burr's relationship to our early banking. The Federalists were in control of the New York State Legislature with Hamilton in the saddle and under these circumstances it was impossible for the Republicans to get a foothold in the banking game. The Federalists did not reckon with the craft and cunning of Aaron Burr. Next to his political aspirations his greatest ambition was to start a bank in New York City and in this connection fate played into his hands. A severe epidemic of yellow fever swept New York in 1798 and the trouble was traced to the unsanitary condition of the water supply. Aaron Burr became a member of a group of public-spirited citizens whose object it was to obtain a system that would provide wholesome water. Burr was charged with the duty of preparing a charter for the water company, and an application was made to the Legislature. The Federalists who were in power were obliged to grant the charter to what was known as the Manhattan Company as they felt they could not operate against the life of the whole community. Burr had put a joker in the charter -- he had fixed the authorized capital of the Manhattan Company at $2,000,000 and he further inserted a clause which permitted the Company to employ any surplus in the purchase of public or other stock, or in any other money transactions not inconsistent with the laws of the State or of the United States. Burr knew that the Company would not exhaust its capital in providing of its water supply, and he reckoned on a considerable amount leftover, and as soon as it was known the amount of capital available the directors voted to open an office of discount and deposit, using the surplus as provided by the charter. In this way the Bank of Manhattan Company was launched in 1799. It continues its existence and is the oldest bank in the United States operating under its original charter.

In 1803 Alexander Hamilton drew up the Articles of Incorporation of the Merchants Bank of New York City, and it is very interesting to note that 117 years afterwards, or in 1920, it was consolidated with the Bank of Manhattan Company, thus bringing together for a common purpose these two historical banks which had been organized by bitter and unrelenting antagonists.

In the case of the great National City Bank, it is interesting to note that its origin was the outcome of the dissolution of the first Bank of the United States, as it took the place of its New York branch when its charter expired in 1811, and can, therefore, be regarded as the offspring of one of Hamilton's creations.

The Civil War was responsible for two important developments. When it broke out there was no centralized control in banking; note issues went on at top-speed. Salmon P. Chase, Secretary of the Treasury, in his report to Congress in 1861 summed up the situation in this way: "The value of the existing currency depends on the laws of thirty-four states and the character of some sixteen hundred corporations. It is usually furnished in greatest proportion by institutions of least actual capital. Circulation commonly is in inverse ratio to solvency. Well-founded institutions of large and solid capital have in general comparatively little circulation, while weak corporations almost invariably seek to sustain themselves by obtaining from the people the largest possible credit in this form."

The first improvement came with the enactment of the national banking act in 1863. Under this act the present-day national bank was authorized with governmental supervision. The National Banking Acts continued as the most important instruments in our banking system until the enactment of the Federal Reserve Law, which gave to banking a stability and freedom unknown before. Up until the time of the enactment of the Federal Reserve Law this country had to contend with the disastrous effects of severe money panics. The important defects were remedied by the Federal Reserve System; it provided for an elastic currency and the rediscounting of commercial paper, and a reserve bank can now expand its notes when a demand requires and retire them when the need is past. There is no longer seasonal shortage. Instead of going into hiding during pressure, money emerges to do its full work.

The only unifying influence in America prior to 1914 was the National Banking Acts referred to. This, however, did not provide an interrelated mechanism among banks by which they could cooperate along scientific reserve lines to prevent critical financial conditions. They gave national banks exclusive privilege of issuing their own notes, secured by certain issues of government bonds. The volume of national bank circulation brought into existence did not represent the monetary needs of business but merely the face value of the bonds deposited in the Treasury as security, thus creating an inelastic currency.

The National Banking Acts did not create a Central-reserve banking system. It remained for the Federal Reserve Law to accomplish this all important purpose. Central-reserve banking is recognized in all of the leading countries in the world as the only scientific banking system. The Federal Reserve Law instead of establishing a single central Reserve Bank as is the case in Europe, has created twelve reserve banks in as many different sections of the country, each bank acting as central Reserve Bank for banks in its territory. The Federal Reserve system provides that currency in circulation may be expanded by the issuance of Federal Reserve notes when the demand of business requires it. By the opposite process circulation may be retracted when business requirements grow less. The rediscount privilege under the Federal Reserve Law assures to all member banks which have eligible paper in their files a source of relief when demand for money exceeds their resources. The Federal Reserve System is charged with the responsibility of control over the money market. This is accomplished by lowering or raising the discount rate and by the purchase or sale of government securities and bankers acceptances.

The best tribute to the efficiency of the Federal Reserve System is that no panic has developed since its inception. Without it it would have been practically impossible to finance the war and a disastrous panic would have come with the deflation following the post-war boom of 1919 and 1920.

Bigger and better banks were predicted as one of the important consequences of the Federal Reserve System. Since the organization of the Federal Reserve System in 1913 the growth and development of banking in this country has been phenomenal. From 1910 to 1928 the volume of bank business in this country as told by the resources of all banks has increased approximately three-fold.

But we must look to the period since the War to see our most remarkable evolution in banking. This is manifest through the rapid development of chain and branch banking organizations and through numerous bank mergers.

The failure of 4,513 banks in the United States within the period since the war (from 1920 to 1927), a period in which the country has enjoyed great economical progress and commercial expansion, has directed the attention of many bankers to our country banking situation. The tradition method of banking in the United States has been founded on the local community bank. Each town, no matter how small, had one or more banks with local boards and managed by a local cashier. These small banks operated some under state charters and some under national charters, but their principle of operation was the same.

The chief qualifications of a banker was a broad knowledge of human nature, common sense and personal attention to the details of the business.

With the coming of modern methods of transportation and communication by improved railroad service, automobiles, hard roads, telephone, radio and now the flying machine, the requirements of the country bank have greatly changed.

The post-war period can be considered as the beginning of a new era in banking in the United States. Since the beginning of that period the number of unit banks have been reduced from approximately 32,000 to less than 25,000. In the case of the big city banks, even before the war they were growing in importance and were giving serious consideration to questions of bank management. With the close of the war increasing demands were made upon them for financial services growing out of our rapidly expanding industrial and commercial development. They found that banking, to be successful and profitable, must operate in all departments upon scientific principles based upon expert study.

The relationship of the country bank to the city bank has caused the city banks to study the country bank situation with the result that it has been largely conceded that the time is passed when banking can be successfully conducted by the untrained and inexperienced — it takes more than common sense and a business hunch. The country bank should have sufficient capital and surplus to protect its depositors, and it should maintain in addition to its regular reserve a secondary reserve invested in first class marketable securities. This means that a bank should not put out all of the bank's funds in local loans. There should be as wide a diversification as possible in local loans. There should be a proper proportion of investments to loans. Public policy requires that banks be strong and safe, and the stockholders require that business must be carried on at a profit. In other words, it is required that the country bank should operate as a miniature metropolitan bank. Banking is the same in its essence irrespective of size or location and should conform to approved banking standards. The old traditional methods still prevail in many country banks — guess work in place of credit analysis, relying entirely upon crop prospects, etc.

The question is, what can be done and is being done to reform country bank methods and improve their services to the community? Public interest demands that steps be taken to bring the country banks in line with modern banking methods. Every bank failure is a local disaster and an economic setback to the community. In the view of many, the country bank is purely a local institution and must always be small and weak. It is too much to expect its management to acquire the point of view of the city banker. It is felt to rectify this condition that we must follow the course of banking in other countries and of industrial organizations in this country by combining local units into large systems with centralized management and control. This would bring about a standardization of management and in the course of time rural communities would have the same security and banking service as have the large cities.

The movement toward centralization in business organization has been going on in this country with increasing activity for more than 20 years. The public has become accustomed to witness the control of large operating units under a single management in practically every field except banking. It has been the last group of corporations to turn to methods of centralized control over a group of units; this is being accomplished through two methods — branch banking and chain banking.

With branch banking there is only one corporation, that is, the bank itself. It may do business at any number of locations, that is to say, it has a head office with subordinate branches. There is only one board of directors and executive officers.

In the case of chain banking, a number of different independent banks are brought together under a centralized control and management through an operating company, but each unit continues to operate as a separate corporation legally responsible to its local board of directors.

There exists no law today, national or state, which permits a bank to carry on banking operations outside of the city or state in which the bank is located except in the State of California, which permits state-wide branch banking, and a few states which permit branches to be established within the city. Here we have a situation where the economic sanction seems to favor a wider diversification of banking operation under central management and control, whereas the political sanction is apparently opposed to it. In Canada and the European countries, where, in spite of adverse economic conditions as compared with those enjoyed in this country, bank failure is almost unheard of, nation-wide branch banking has been in operation for a great many years.

Branch banking in the United States has been in operation in some form in some localities almost since the beginning of the government. You will recall both the first Bank of the United States and the second Bank of the United States were permitted to have branches in various cities. In 1865 Congress amended the National Banking Acts to permit state branch banking organizations to become national banks and to keep their branches regardless of their location. As a result of this the Bank of California, with headquarters in San Francisco, operates three branches situated in two other states.

The Federal Reserve Law permits national banks to establish branches in foreign countries or dependencies, or in the insular possessions of the United States for the purpose of furthering foreign commerce of the United States and to act as fiscal agents of the government. As a result of this authority, some of the large national banks have established branches in the leading commercial centers of the world. One New York bank has 88 branches in 22 foreign countries. The same bank has 30 branches in operation in greater New York.

The force of economic law is almost invincible and when defeated in one direction will find a way to express itself in another. That is exactly what is happening in the field of banking today. A form of group banking is being developed wherein each bank retains its separate status as a corporation, but the majority of which is owned by a central corporation. This corporation being the majority stockholder in each bank is in a position to take the responsibility for the enforcement of standardized modern banking methods, to control policies and to control indirectly the operations of a bank through its local board of directors and management. Through this plan the operating company is required to set up a central management consisting of able and experienced bankers, through which, in effect, the entire group operate as a branch banking system.

It is felt by many that chain banking is a preliminary step to branch banking, but that such branch banking should not be limited to individual states, that it should extend over a sufficient territory to permit proper diversification of business. Some have suggested that it is confined to the Federal Reserve District in which the Bank is situated. For the full development of this form of banking it will be necessary to bring about a change in our present banking laws. This will be brought about through economic pressure and education of the public and in many cases the bankers themselves.

There is one other form of development which I desire to refer to and that is the revolutionary trend toward bank mergers. During 1928 there were more than 625 bank mergers. During the first quarter of this year it is estimated that there have been approximately 200 mergers. This movement is not confined to any state or section of the country, as consolidations have been noted in every state in the Union and in practically every important city as well as in many country districts. There have been mergers in which many of the largest and strongest banks have been united. Within the current year sixteen mergers have been announced in New York City alone, including such important consolidations as:

Guaranty Trust Company	- National Bank of Commerce
Central Union	- Hanover National Bank
National City Bank	- Farmers Loan & Trust Co.
Chemical National Bank	- U. S. Mortgage & Trust Co.
Bank of U. S.	- Colonial Bank
Manufacturers Trust Co.	- State Bank
Chase National Bank	- Garfield National Bank

There has also been a movement to add additional financial services to old line bank activities as expressed by the union of Blair & Company, an outstanding investment and banking house, with the Bank of America, and the recently announced acquisition of the American Express Company by the Chase National Bank.

The result of this movement has been to decrease the number of banks but to increase their strength and resources. This has been made necessary by the multiplication of demands made upon them for financial services growing out of our rapidly expanding industrial and commercial development here and in foreign countries.

Since the war the public has become acquainted with bigger business operations. To meet the requirements for financial services which these greater corporations demand, bigger and stronger banks become necessary. The effect of a merger on the internal operation of a bank is to enable the bank to improve the quality of its management and at the same time reduce the cost of doing business. The consolidated bank becomes not only able to make larger loans and to handle larger business transactions, but it also becomes a more efficient machine because each department is able to carry on a larger amount of business, which enables it to employ the services of more expert supervising officials.

Many of the larger banks have become investment institutions and their clients look to them for advice and guidance in matters of investments. They maintain a retail securities department and many of them originate security issues. The greater the size of the bank the better it can equip itself for a profitable securities and investment business. A similar situation arises with reference to the trust business of banks. This business has grown by leaps and bounds. It is now necessary for the large city banks to have extensive trust departments capable of administrating immense estates and of acting as trustee for great corporations and in many other important transactions.

In connection with our position as the world financial power, our banks must be large enough and strong enough to command the respect and admiration of the whole world and be comparable in their strength, size and ability to handle world commerce with the great banks of Europe which were engaged in financing world trade when our country was in its financial infancy.

In the past twenty years the resources of our banks have tripled in size from total resources of 22 billion dollars in 1910 to 71 billion dollars at the present time. The greatest growth, however, has been in the last five years. The following tells an impressive story:

"On June 30, 1923, there were 30,178 banks of all kinds in the United States, with total resources of $54,034,911,000 and $6,806,000,000 in capital funds. Today we have 26,213 banks, but with resources of $71,574,328,000 and capital funds aggregating $8,897,412,000. In other words, with 3965 fewer banks, resources have increased by $17,539,417,000 and capital funds by $2,091,412,000. Whereas the theoretical average bank of 1923 had total resources of $1,790,000 and capital funds of $225,500, the theoretical average bank of 1928 had resources of $2,730,000 and capital funds of $339,400. The average bank of 1928, therefore, was larger than the average bank of 1923 by $940,000, or 52 per cent, in point of resources, and by $113,900, or 50 per cent, in the matter of capital funds. The net result is fewer but stronger banks.

We now have in this country several banks whose resources exceed one billion dollars and one recent consolidation in New York brings the totals of the Guarantee Trust Company, now the largest bank in the United States, to approximately two billion dollars. There are many banks on the Pacific Coast whose resources exceed the half billion mark and there are any number of banks in our principal cities with resources all the way from 100 million to 300 million dollars, whereas in 1913, the year before the war, the total resources of the National City Bank of New York, the largest bank in this country, were approximately 240 million; its total resources at the present time are approximately $1,700,000,000. The Chase National Bank fifteen years ago had total resources of approximately 140 million dollars and at the present time it is next to the National City Bank in size with resources of more than one billion dollars.

I could go on indefinitely enumerating many of the revolutionary changes which have and are taking place in the field of banking, but I believe

I have said enough to at least give you a bird's-eye view of the development of this most important business, which today is the foundation on which is being built the great structure of modern civilization.