BANKERS' CONVENTION SECTION

OF THE

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THE CHRONICLE.

THE COMMERCIAL AND FINANCIAL CHRONICLE is a weekly newspaper of 80 to 96 pages, published in time for the earliest mail every Saturday morning, with the latest news by telegraph and cable from its own correspondents relating to the various matters within the scope.

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A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 115 and 116.

THE CONVENTION AND THE ALDRICH BANKING PLAN.

The unanimous endorsement of the Aldrich banking and currency plan by the National Bankers' Convention brings the movement to reform our banking system very definitely before the country. This vote is to be followed, we understand, by an aggressive "campaign of education," through arrangements of public discussions and through circulation of pamphlets, under the auspices of the National Citizens' League for the Promotion of a Sound Banking system—already organized and equipped, with its headquarters at Chicago. It was time for such a movement, when the whole subject is to be turned over to Congress by the Monetary Commission within six weeks; and the vote of the Bankers' Convention was a fitting introduction for the movement.

The discussions, before the delegates at New Orleans, of the various aspects of the Aldrich proposals, were themselves of the highest value, and we particularly commend these speeches to the attention of every one desirous of familiarizing himself with the principles involved. Mr. Aldrich himself opened the debate by a clear and cogent summing-up of the considerations which make such reform of our banking system necessary, and the reasons why a plan on the lines proposed will properl serve the purpose. What, he asks, are the defects of our present system which require reform? They are three in number, as he sees them:

"(1) Our inability to enforce that effective co-operation of banks which is necessary to protect the public interests, as well as their own, in times of stress or crisis;

"(2) The limitations and restrictions imposed by antiquated or obsolete laws with reference to the treatment of reserves, and

"(3) A defective, inelastic, and unscientific system of note-issue."

Next, what does his plan undertake to do, by way of remedying those defects? With the Senator's statement of the case slightly condensed, its purpose, as he sees it, is:

"(1) To insure the maintenance of adequate reserves by the association and its members, with such provisions for discounts and note-issues as shall enable the organization to respond promptly at all times to normal or unusual demands for credit or currency without danger of undue expansion or inflation.

"(2) To provide for concentration of the cash reserves of all the banks to be used for the assistance and support of any.

"(3) To authorize the association to re-discount, through its district branches under local control, commercial paper of a definite character for individual banks to be used in replenishing their reserves.

"(4) To give to individual banks the facilities for an increase of their reserves and loaning power which will enable them to adopt the policy which has been universally effective in other countries of allaying excitement, creating confidence, and preventing panics.

"(5) To grant the power for further note issues to this co-operative association of all the banks, authority which is

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now vested in national banks scattered throughout the country.

"(6) To give authority to the reserve association to fix rates for rediscounts, which must be uniform throughout the country.

"(7) To give to the reserve association power to protect its own reserves, and thus enable it at all times to perform its most important function, that of sustaining the credit of communities and the country."

And Mr. Aldrich adds to this summary of ends which should be achieved, that his plan is designed "to maintain the integrity and independence of existing banks, State and national," that "its organization is of a form and character that will effectually prevent the control of its operations by political influences, local or national," and that "every means has been taken, every safeguard adopted, to prevent beyond question the possibility of its control by any corporation or combination of corporations, banks, or otherwise, by any individual or combination of individuals in Wall Street or elsewhere, for selfish or sinister purposes."

President Schurman, of Cornell University, stated thus the attitude of thoughtful men outside the banking community on the question:

"The Aldrich scheme is now before the country. No one who is acquainted with our present banking and currency system and with the proposed plan can hesitate to pronounce it a great constructive measure. It is quite possible that it may be modified; it is quite possible that it may be improved in details. . . . But one fact must be recognized. Reform is absolutely essential. . . . The present banking law of the United States is a survival of an industrial, economic and financial condition which has passed away. We must follow other great nations in providing an institution for the centralization and co-ordination of our banking power."

Mr. Anderson, of the Bank of California, pointed out that the financing of our great and growing foreign trade can no longer be safely and economically conducted by the money market unless that market is to have the privilege of going to the National Reserve Association in case of need, and the Association cannot perform its functions intelligently or safely unless it can make its rate of discount effective; in other words, unless it is given the power to protect itself by influencing the rates of interest throughout the country." Speaking for the farmer, Mr. Brown, of the Citizens' National Bank of Raleigh declared the great benefit accruing from such a plan as Mr. Aldrich's to be the fact that "adequacy of the supply and facility for borrowing equalizes rates and gives to the sparsely settled and undeveloped regions the same favorable terms that have obtained in the rich and populous sections where desirable collaterals are available. Texas and Wall Street must pay the same rates. It hardly requires the vision of a seer to perceive what this may mean to those sections remote from the centers where interest rates have been almost confiscatory."

Mr. Warburg summed the matter up by saying that "without creating a central bank—for all the far-reaching banking powers have been eliminated which are characteristic of European central banks—and without fundamentally disturbing existing banking methods, merely by a simple device of federating the now scattered reserves into one general reservoir to be jointly administered for the protection of all, our system will be changed from a provincial old-fashioned, wasteful and dangerous one into a national, modern, economic and safe structure."

In short the Convention—very wisely, as we think—confined itself in the main to consideration of the large scope of the plan of banking reform, and left the minor details such as invite legitimate difference of opinion to be settled in the future course of the debate. To such later consideration we shall ourselves leave such matters as the question of using the central institution's notes for reserve money in the individual banks—a question on which the CHRONICLE does not agree with Mr. Warburg's speech or with Mr. Aldrich's plan as amended in October.

There will necessarily arise many points of controversy such as this, and they will be settled in due time. But the vote of the National Bankers' Convention may safely be taken as marking the real beginning of public debate regarding banking reform in general and the Aldrich plan in particular. We have hitherto pointed out many times that Mr. Aldrich's proposals were in no respect final, and their endorsement by the Bankers' Convention does not make them any more so than they were before. Indeed, we imagine that the absence of aggressive debate on the details of the plan, notwithstanding the fact that considerable disagreement on those details was known to exist among the bankers, reflected the feeling of the delegates that the place for such discussion of details was in Congressional committees or in public hearings by Congress.

That Mr. Aldrich's plan will in substance be submitted to Congress by the Monetary Commission in its report of January 8, and that it will form the basis of the bill which the Congressional committees will draft, may safely be assumed. But, on the other hand, it cannot be taken for granted that even the Monetary Commission will report the plan exactly as it stands in Senator Aldrich's drafts. It has not yet been acted upon by the Monetary Commission as a whole, and there is known to be some difference of opinion even in that Commission regarding the minor provisions of the plan. Similar differences on such points of opinion will almost certainly arise in the discussions of the Congressional committees and in the debates on the floor of Congress.

All this, however, is as it should be. The very great service which ex-Senator Aldrich has rendered in the matter has consisted in bringing the discussion to a head, in such a way as to remove what seemed to be irreconcilable prejudices in the community at large, while still holding fast to the one achievement which was primarily essential—the creating of an institution which should give to our banking system the elasticity, the concentrated

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power and the ability to relieve financial crises which have been shown to exist in the great state banks of Europe. Sentiment has been practically unanimous, especially since the not at all creditable incidents in the banking field during the panic period of 1907, that our existing system does not sufficiently safeguard the rapidly-expanding commerce and industry of the country. Even before that impressive object-lesson, all thinking men had been convinced that the system of note issues by individual banks, on the basis of government bonds whose supply was liable to increase or decrease in entire disregard of the movement of general trade, was essentially a dying system, and wholly unadapted to the trade and commerce of the United States of today.

The difficulty confronting people who urged reform, and the difficulty which often seemed insuperable, lay in the fact that opinion as to a practicable remedy varied so widely. No plan that was suggested had been able to surmount the vigorous and sincere opposition which developed in banking and economic circles, and the plans proposed were themselves so vague, in dealing with the minor but still absolutely essential details, that discussion of the subject turned out to be futile. For the first time since the present National Bank law was enacted, Congress will now approach the subject with a distinct and scientific outline of a plan before it, such as will make profitable discussion possible, and will enable the legislators to clear up their own ideas and reach a final conclusion.

THE BRIGHT PROSPECT OF NEW ORLEANS.

By Sol. Wexler, Vice-President Whitney Central National Bank.

Mighty forces are at work in Louisiana, and the State is making history of the big sort. Reclamation of 9,000,000 acres of the richest alluvial land on earth is under way. Natural gas and petroleum from the most extensive deposits on the continent recently discovered are now drawing manufacturers. The State's enormously important system of natural navigable waterways is being augmented by the digging of hundreds of miles of navigable drainage canals, all leading to the world harbor at New Orleans. Development of the cut-over forests of the State is rapidly adding population and valuable agricultural commerce to the State's total.

New Orleans, in preparing for the opening of the Panama Canal, is investing tens of millions of dollars in sewerage, pure water, paved streets, publicly owned wharves and belt railroad facilities, while the federal government has invested about $20,000,000 in obtaining a 35-foot channel to the sea from the harbor of New Orleans for the use of the commerce of the Mississippi Valley.

By Constitutional amendment, the people of Louisiana have exempted real estate mortgage loans from all forms of taxation and have authorized the creation of drainage districts and the issue and sale of district drainage bonds as an economical and safe means of raising the funds necessary to relieve the hugely fertile lowlands around New Orleans of excessive rainfall and in that way make them available to the plow.

Because of the fertility of the soil, and because of the tropical character of the climate, the cultivated lands of Louisiana have kept the people of the State in a prosperous condition during nearly 200 years. But the greater portion of the lands of the State, because of dense and valuable forests on the one hand, and undrained low lands on the other, has only just begun to come within reach of the farmer. Consequently, Louisiana, with 20,000,000 acres of virgin land now being made available for agricultural purposes, contains within its borders the potential assets most needed by the nation, and with its facilities for producing an abundance of food at low cost, it is logical to expect that during the next ten years the population, the wealth and the industries of this State will increase twice as fast as the average for the country as a whole, which must cover the densely settled States, where agricultural expansion cannot be great, the less fertile states, where intensive farming entails great labor and cost, and the colder states, where continuous cultivation is impossible.

Under the circumstances, an estimate of population increase for the State as a whole of 100,000 a year is very conservative, yet such an increase will mean enormously accentuated activity in all lines of endeavor, in which banking and business will share to a marked extent.

It is estimated, in round figures, that as much as $200,000,000 will be required to drain the 9,000,000 acres of low lands which the silt deposits of the Mississippi River built up from the sea, and in the center of which stands New Orleans. This land is all soil, with a nitrogen-bearing covering of humus. It is richer in plant food than is the best artificially fertilized land, more nearly inexhaustible than are the fens of England or the Valley of the Nile, and, when drained, will enjoy better waterway transportation than does Holland, since a navigable non-freezing canal will connect every drained unit with the port and transportation center of New Orleans.

The floating of the bond issues provided for under this great scheme of development will be carried on in such a way as to attract small as well as large investors, which in itself is a most excellent method of creating forceful interest in the progressive welfare of the State. There is not one of all these 9,000,000 acres that is incapable of producing agricultural products per year in excess of $100 under poor methods of cultivation. Modern methods of cultivation only are being applied on these lands as drainage opens them up. Hence, the prospective value of the agricultural commerce to come from these 9,000,000 acres is almost beyond the pale of computation. And New Orleans will control this new commerce, as it must, from its environment, control the import and export commerce of the Mississippi Valley.

Nature in its inscrutable wisdom seems to have formed, all over the world, places ideally and per-

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fectly adapted for the selection of great cities. No more striking example of this can be found than the City of New Orleans, located at the mouth of the great Mississippi River, the Father of waters, the outlet to the sea of every river and creek between the Allegheny and Rocky Mountains, the funnel through which the great foreign commerce of the country must eventually pass.

Between these two ranges of mountains is produced the Cotton, Corn, Wheat, Cattle and subsidiary crops that form the basis of our national wealth, and between them also is the great labor employing industries of the country.

The natural trend of commerce is in the direction of least resistance, and the water-grade railroads to the Gulf, aided by the Mississippi River and its tributaries, make New Orleans the natural out-port for our cotton, our cereals and our manufactured products.

Prior to the Civil War, the port of New Orleans handled as great a percentage of the commerce of the Union as did New York City. This disastrous war destroyed its railroads and steamboats, ruined its farms, discouraged its population and destroyed its commerce, while the ports of the Eastern States, remaining free of embargo, availed themselves of the disturbed conditions in the South and readily diverted the business which it has taken years to recover.

Before the cause of yellow fever was definitely known and its prevention successfully undertaken by the United States Marine Hospital Service, the proximity of New Orleans to Cuba and other fever infected countries made it so liable to infection that from 1878 to 1900 its population was practically at a standstill.

A further cause of the retardment of its prosperity was the constant recurring inundation of the Mississippi River, which stream, receiving its waters from thirty-eight states in the Spring of the year, spread destruction over the fertile fields of corn, cotton and sugar and discouraged immigration. From 1876 to 1900 the residents of the Mississippi Valley taxed themselves to the equivalent of 10 per cent. of the value of their land to build levees to prevent their overflow, until finally an appropriation was made by Congress for that purpose. Since 1893 no destruction has occurred from this source and the effect upon land values has been an enhancement of many millions of dollars.

With all the injurious elements of war, epidemics and overflow removed, and with a new generation of energetic young men willing to grasp the opportunity, New Orleans has again taken its place as a center of commerce, industry and finance, and railroads are all seeking an outlet to the Gulf, all anxious to secure the water grade route free from ice and snow throughout the year.

Complete recovery from the business drains enumerated did not come until the causes thereof were removed. The last of these was disease importation, against which the federal government provided a cure in 1906 by cleaning up Havana and other ports to the Southward, and by establishing an effective system of inspection at the mouth of the river. Meanwhile, the City of New Orleans cooperated by destroying the breeding places of the particular species of mosquito which alone transmits yellow fever.

Close on the heels of the elimination of this last existing handicap on trade and business expansion, New Orleans began sewering and paving the city, supplying an abundance of pure water at very low cost to the consumer, and in other ways preparing for present and prospective needs.

The State of Louisiana, which had assumed control of the harbor front at New Orleans, began the installation of modern wharves and steel warehouses, alongside which the largest ships land.

The City built and equipped a belt railroad, which it now operates in the interest alike of producer and consumer, shipper and receiver, to the end that no man who may desire to carry on trade with or through New Orleans need fear discrimination.

To the student who knows that Louisiana's richest resources are only now becoming available for man' use, New Orleans' activity in preparing for the increased commerce that is bound to come reflects a spirit and a purpose that cannot fail.

THE GROWTH OF NEW ORLEANS IN COMMERCE AND MANUFACTURES.

Its location at the gateway of the mighty Mississippi gave to New Orleans years ago distinct and decided prominence in the affairs of the United States and in the intercourse of the country with the outside world, making it the commercial metropolis of the Gulf region and the natural outlet for the products of a large area of territory, as well as the normal point of ingress for a large volume of foreign merchandise. That prominence it still retains, the aggregate value of the foreign trade of the port (imports and exports combined) being second only to that of New York among the ports of the country. The city's commercial and financial importance is therefore beyond question and it is a fitting tribute thereto that in due course it should have been honored for the third time with the annual meeting of the American Bankers' Association.

In one direction only can there be said to have been any retrograde movement in the affairs of the city, and the loss incurred has been more than made up by expansion in other directions and its total foreign trade continues to expand. The time was when New Orleans was the outlet for much the greater part of all the cotton produced in the States of Arkansas, Tennessee, Mississippi, Alabama, Louisiana and Texas, its receipts and exports of the staple approximating as much as 1½ million bales annually as far back as 1880, with the total crop of the country less than six million bales. But it was inevitable that with the phenomenal extension of cotton cultivation in Texas and the terri-

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tory immediately to the north, and the great increase of railroad and other facilities at Galveston, that that city should get a share of the cotton business. New ports opened in Texas have also served to draw cotton away from the older point, and the decline of production in Louisiana has also been an adverse factor. Still these developments have not served to weaken New Orleans as a leading market for cotton, a position which it shares with Liverpool and New York.

We have intimated that the decreased cotton movement through the port has been more than offset by expansion in other directions so that New Orleans continues second in rank in the aggregate volume of its foreign trade. This becomes clear by reference to the official results for the latest completed fiscal year (that ended June 30, 1911), which shows a total of imports and exports through New Orleans to the value of $239,557,588 (or 51 millions in excess of Boston) compared with 196 millions in 1909-10, and 133 millions for the twelve months ended June 30, 1900. The outward flow of merchandise for 1910-11 covered a value of $172,835,293, or greater than ever before, and contrasting with 140⅓ millions in 1909-10 and 116 millions in 1899-1900. Imports showed an even greater relative increase, standing at $66,722,295 for the latest twelve months' period against 55¾ millions the previous year and 17½ millions in 1899-1900.

While it is hardly necessary to state that cotton continues the largest item in the export movement from New Orleans, a number of other articles make up a goodly share of it. Wood and manufactures, for instance, are shipped quite freely, and breadstuffs, tobacco, oilcake and vegetables are prominent in the yearly aggregates. As indicating the trend of the merchandise shipments from New Orleans it is perhaps interesting to note that about one-third finds lodgment in Great Britain, with France, Germany and Italy following in order. The inward movement of goods, on the contrary, is most largely from contiguous foreign territory—Brazil, Mexico and the West Indies. From the first named the inflow is largely coffee, from Mexico mainly sisal grass, and from the West Indies fruits and sugar, with jute manufactures, nitrate of soda, coal tar products and pig iron other leading articles of general import.

We have noted that wood and manufactures are prominent contributors to New Orleans' volume of exports, and that leads us to refer to a recently issued census bulletin on "Louisiana Lumber and Timber Products" as having a bearing thereon. The bulletin in question covers results for the years 1904 and 1909 and shows important increases in all the various important items. For example, the number of establishments has risen from 471 to 702 during the five year period, the capital invested has advanced from $39,573,185 to $88,973,240, and the value of the product from $38,370,645 to $62,837,912. As against 29,743 employees in 1904 there were 48,883 in 1909, with the compensation thereto $15,078,733 and $23,712,620 respectively. No details of the various descriptions of lumber and timber produced are furnished, but from another bulletin issued quite recently it develops that there has been a considerable augmentation in the output of lumber in Louisiana the last few years, production rising from 2,722,000,000 feet in 1908 to 3,552,000,000 feet in 1909. Without going further into the subject we would merely call attention to the fact that in this industry the ratio of expansion in Louisiana was much greater than in the United States as a whole.

Another industry in which Louisiana has made satisfactory progress, and that therefore not unnaturally is more or less intimately connected with the interests of New Orleans, is the production of sugar from cane. Originally production was carried on in about a dozen States, but gradually the number has decreased until in 1909 it was practically confined to Louisiana and Texas—almost wholly to the former. This becomes manifest when we state that of 192 establishments reporting 188 were located in Louisiana and that their products reached a value of no less than $28,703,000 out of a total of $29,351,000. In 1870 the number of establishments in Louisiana was only three and the value of the product but $643,085.

In the production of rice and in putting it into marketable condition Louisiana also stands preeminent in the United States, but the product is as yet of too limited volume to warrant more than casual reference to the subject. It is reported, however, that a material expansion of rice culture is contemplated in the near future. Still other census bulletins furnish evidence of material advancement in Louisiana of recent years. That devoted to domestic animals, etc., indicates an advance in the value of the holdings in the State from $28,869,506 in 1900 to $44,646,639 in 1910.

We pass finally to the general manufacturing situation of New Orleans and of Louisiana. As regards the city, the Census Bureau preliminary statement indicates that between 1904 and 1909 the number of establishments increased from 690 to 848, though the amount of capital invested was practically unchanged, and the value of the product dropped from $81,411,000 to $78,794,000. The result for the State was an advance in number from 2,091 to 2,516 in the five years, with a concurrent increase in capital from $150,811,000 to $221,806,000, and an augmentation in the number of employees from 61,836 to 84,243. The value of products in 1909 at $223,928,000 was $37,548,000 greater than in 1904.

In matter of population the growth of New Orleans has not been so rapid as a number of Northern municipalities, but it has been steady, and at the last census the city ranked fourteenth among those of the country in number of inhabitants. Settled by the French in 1717, conveyed to the Spaniards in 1762, reconveyed to the French in 1800 and passed to the United States in 1803 as part of the Louisiana purchase, the population then was only 8,000. Seven

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years later, in 1810, it had more than doubled, in 1860 reached 168,675, and 50 years later (in 1910) stood at 339,075, the growth in the latest decennial term having been 51,971, or 18.1 per cent. Old traditions and habits, making for hospitality and good fellowship, retain a firm hold upon the citizens of the South and nowhere more so than in the Crescent City.

STANDING OF THE NEW ORLEANS BANKS.

By C. A. Morgan, Manager of the New Orleans Clearing House Association.

The financial institutions operating in New Orleans have during the last five years prospered, and the statements they have published from year to year show a consistent growth, a healthful increase in deposits, and general conditions which are regarded as being entirely satisfactory.

Conservatism has been the watchword of all our Bank officers during that period, and the comment of those in a position to judge has been such as to commend the general management of the financial institutions and the skill with which they have administered their affairs.

The figures submitted herewith are compiled from the published statements of the Banks of New Orleans, twenty-one (21) in number, showing their condition to June 30th, 1911.

	Cap., Surp., and Undiv. Profits.	Deposits.	Total. Resources.
Bank of Orleans	$168,936	$1,169,744	$1,342,681
Canal-La. Bank & Trust Co.	2,300,000	10,889,784	13,192,003
Citizens' Bank & Trust Co.	513,918	1,961,430	2,490,348
Commercial-National	723,046	3,511,582	4,544,028
Commercial-Germania	1,948,723	11,587,312	13,602,142
Cosmopolitan	253,032	301,291	559,323
German-American	1,680,880	5,303,234	8,223,442
Hibernia	3,321,015	16,316,432	19,717,448
Interstate	1,256,032	6,542,949	8,036,482
Metropolitan	703,305	2,632,637	3,315,943
N. O. National	1,593,551	4,142,520	6,322,282
Teutonia	276,153	1,673,384	2,200,788
Whitney-Central	4,100,000	15,798,319	22,919,319
Bank of St. Bernard	42,000	183,422	242,855
City Bank & T. Co.	193,187	878,097	1,136,825
Morgan State Bank	216,781	1,033,531	1,254,312
Third Dist. S. B. & T. Co.	137,915	430,142	572,215
German Am. Savings B. & T. Co.	323,800	1,516,460	2,304,585
U. S. Safe Dep. & Savings Bank	249,259	1,475,847	1,731,106
New Hibernia Nat. Bank	482,062	891,169	1,863,232
Whitney Central Trust and Savings Bank	220,000	2,451,221	2,835,540
	$20,703,595	$90,690,507	$118,406,891

The following is a record of clearings by years from 1900 to 1910. The figures for ten months of 1911 up to November 1st total up $811,499,057.63:

Yearly Clearings.

1900	$556,690,700.74	1906	$1,023,252,303.19
1901	603,551,123.87	1907	956,154,504.12
1902	672,360,577.12	1908	786,067,575.46
1903	827,710,850.37	1909	904,231,768.82
1904	970,928,984.31	1910	987,491,234.77
1905	962,771,959.56		

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BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

Thirty-Seventh Annual Convention, Held at New Orleans, Nov. 21, 22, 23 and 24, 1911

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The Proposed Monetary Plan.

By Nelson W. Aldrich, Chairman of the National Monetary Commission.

Mr. Chairman and Gentlemen: I thank you for the kind reception. I feel that I must apologize to the members of this Association for what must be a very unsatisfactory treatment of this question, so vast in its main and collateral phases, and I feel also that I must apologize to those who are not bankers who grace this occasion with their presence for what will be necessarily the technical and uninteresting character of my remarks.

Among the important tasks assigned the National Monetary Commission is that of devising a plan by which this great country may, in the interest of all of its people of every class and every section, secure that immunity which, for half a century, has been enjoyed by the people of every other great commercial nation, from the disastrous results of monetary panics and acute monetary disturbances; that of presenting a plan which will protect the rights and afford security to bank depositors, and enable the banks at all times to respond to every legitimate demand for the credit and currency so essential for the development of our industries; that of constructing a monetary system for the United States that shall answer the present and prospective needs and requirements of the economic life of a great people. If we are successful in solving these complex and intricate problems we shall have done much to create and maintain that feeling of confidence in the safety and effectiveness of our banking institutions which is so essential to our uninterrupted national progress.

There is a general agreement among intelligent students of the subject that to accomplish these beneficent results it is necessary to provide a comprehensive reorganization of credit, and a thorough reconstruction of banking systems and methods.

The failures of our monetary system can be attributed in part (1) to our inability to enforce that effective co-operation of banks which is necessary to protect the public interests as well as their own in times of stress or crises; (2) to the limitations and restrictions imposed by antiquated or obsolete laws with reference to the treatment of reserves; and (3) to a defective, inelastic and unscientific system of note-issue.

The appointment of the Monetary Commission was the result of the panic of 1907. I am disposed to say a word to you about the results of that crisis.

As a result of bank suspension we had a suspension of all the productive industry, a shrinkage of all values, a reduction of wages, a lack of employment with irreparable loss to the wage-earners, an arrest of all progress and a loss of prestige to the country. Farmers and other producers were not able to secure the necessary facilities, either for holding or marketing their products. Business men of all classes were unable to meet their current obligations. There was no opportunity for the great mass of the people who suffered these losses, to prepare for the crisis; and the transition from prosperity to depression and panic took place without warning.

It is utterly impossible for any man to measure the extent of the loss and injuries, direct or indirect, to the productive forces of the country which have arisen from our defective monetary system. In the exuberance of youth, nations as well as individuals are likely to be indifferent to the evil results which are sure to follow a profligate waste of vital forces. At such times a feeling seems to exist that the evil results of a continued infraction of natural laws can be safely ignored. Were it not for our unrivaled natural resources, and the characteristic energy of our people, which have given us an unprecedented prosperity and a rapid growth in wealth, in spite of all obstacles, we should have long since found the defects to which I have referred intolerable. Our great and natural advantages have enabled us to go on suffering losses that would have ruined any other country. Any intelligent man who has observed the unsatisfactory character of our banking practices and who has had an appreciation of their destructive results, must have been filled with wonder and amusement that a great people

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should have so long submitted to such crude and expensive methods. It must be apparent that the entire public is vitally interested in everything that pertains to the strength and safety of our financial institutions. They are the principal creditors of the banks, as the number of the depositors in our financial institutions is greater than the number of persons employed in all the useful occupations of this country. In considering the uniformity of the public interests in the case of monetary reform, I am constantly reminded of the striking statement made by Sir Robert Peel in opening the discussion on the English Bank Act of 1844. With reference to that proposition he said:

"There is no contract, public or private, no engagement, national or individual unaffected by it." The enterprise of commerce, the profits of trade, the arrangements made in the domestic relations of life, pecuniary transactions of the highest and the lowest amounts, the command of many of the necessities of our life are all affected by the question submitted for your consideration. The questions which were involved in the provisions of the act of 1844 were small compared to those that confront us today. There was then practically only one question considered—that effecting the character and the extent of the note-issues of the Bank of England. We have to deal with a great variety of questions, all far outweighing in magnitude that involved in the legislation I have referred to.

It has been frequently suggested to me, why have we suffered as a result of these defects for so long without an attempt being made to remedy them? I think you will all remember that we had, from the close of the Civil War down to the passage of the Resumption Act, a long discussion over the resumption of specie payments. We had a controversy covering a large part of that period as to whether the United States could issue in unlimited amounts, United States notes which were to be made legal tender. In other words, we had the greenback question, which took ten years. Before these questions were finally disposed of the question of the free coinage of silver came to the front, and from 1875 to the final adoption of the Gold Standard Act in 1900 that was the main question. The discussion of this question was bitter and acrimonious and unfortunately it became a political question. So that we may fairly say that between the time of the Civil War and the passage of the Gold Standard Act of 1900, questions which were in a sense currency questions, but collateral to the real question which I am now discussing, occupied and distracted public attention.

I realize as fully as any man can that our country above all others should never have lost sight of the evolution—yea, the revolution in the monetary methods and practices which during that period marked the economic history of every other great commercial nation. Not by legislation, not regulated by laws of any kind, each of these great nations evolved systems and methods and practices which resulted in freeing those countries and their industries and their development from the incubus which arose and is fatal with reference to crises and periods of great business disturbances.

I ought to say, perhaps, in this connection, that even following 1900, until we were rudely awakened by the results of 1907, there was no idea on the part of bankers or business men of the real defects of our system. When the Commission was appointed and we undertook this great work, there was little information available for us, either as to our own conditions or as to the methods and practices in various countries. I could count upon the fingers of one hand the gentlemen, the names of many of whom are known to you, who had any accurate knowledge of the real, practical methods and practices by which the banking and monetary systems of Europe were carried on. We have entered upon what was, in effect, a new field of exploration, and I venture to say that it is only within the last two or three years that our people have become thoroughly awakened to the importance of this great question and it is within that time that we have very largely, I think, had a very satisfactory and gratifying consensus of public opinion, not only as to the character of the facts, but as to the general character of the remedies which must be applied.

I propose to discuss briefly some of the salient features of the plan to remedy these defects through the organization of a National Reserve Association. It is proposed to organize the banks of the country into local associations and these into district associations each with distinctive functions and each with local self-governments, and to organize all district associations into the National Reserve Association.

The organization proposed is not a bank, but a co-operative union of all the banks of the country for definite purposes and with very limited and clearly defined functions. It is in effect, an extension of the clearing houses of the country to meet the needs and requirements of its entire people. The plan of organization includes positive provision, first, to maintain the integrity and independence of existing banks, State and National. The new organization is superimposed upon the existing system.

The proposed association, as I have already said, is not a bank, and is not a competitor in any sense for the business of existing banks. In its ownership and domestic business it is confined strictly to banks and the Government.

Second, it provides clearly for the equality of privileges and advantages to all banks, great and small, wherever located.

Third, it provides equality in rates of discount or rediscount to all banks and these rates are to be uniform throughout the country. This, it is believed, will insure steadiness and reasonableness of rates everywhere. I do not expect, of course, that this provision for uniformity of rates will at once make the rates uniform throughout the country as to all classes of business. I do not mean to say that a borrower in a rural community, for a small amount, without security, is to receive the same terms that a man in the City of New Orleans with first-class securities may receive, but it means that so far as the organization is concerned and its advantages and its benefits, that every bank and every section shall be treated precisely alike. The tendency of this must be to an equilization of rates for the same class of securities and paper everywhere throughout the United States. In France for half a century the discount rate has been substantially uniform, varying, I think, but little more than one per cent.—less than one per cent. under ordinary circumstances and not much more than that under extraordinary circumstances. The effect has been that the business of France—the credit of its people—has been administered in a way which gave to all of its people equity of privileges and equity of consideration throughout the entire country.

And I want to say further, that this condition of affairs, involving as it does in France, and as it will surely involve in the United States, steadiness of rates, opportunities for employment, will certainly not result to the disadvantage of the banks of the United States, if we can judge by the experience of the great joint stock business in all of the countries I have mentioned. The banks of France and of England and of Germany, notwithstanding this general equalization of rates for the same conditions, pay dividends that would be considered respectable, at least, in any community in the United States. Why? Because of this steadiness that I have alluded to. Our banks today loan many times at one-half of one per cent., or one per cent., or one and one-half or two per cent. upon collateral, for speculative or other purposes. They may perhaps for a few days loan money at 100 per cent., but there is no banker who hears me today, but what, if he was reasonably certain of being able to invest his funds at a steady rate, much lower in some communities than those which are now used, or imposed, that he would have a more satisfactory condition of his business and he would serve the community in which his bank is located much more satisfactorily than it is done now. The vast benefit of this country with its approaching equalization of conditions —because a man who loans money on mortgage to the west of the Mississippi or the Missouri, or here, does not expect and cannot receive the same rate that he received half a cen-

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tury ago—we are accordingly becoming a homogeneous people in our industries and in our financial operations. I look forward to the time and I hope if this plan is adopted that this regulation that I have suggested will urge it forward—I look forward to the time when the producer or the farmer in your midst or along the Mississippi or Missouri valley, or in the mountains in our mountain States for the same class of securities will be enabled to secure his capital—the capital that is necessary for his business—at as low a rate as is secured by his competitor anywhere else in the east, in New York or any other of our great centres.

Fourth, this organization is of a form and character that will effectually prevent the control of its operations by political influence, local or national. I have taken occasion to say repeatedly from the inception of our investigation, that this plan will never be successful and can never be successful, that this great question can never be successfully solved, unless it is kept out of politics. (Applause.)

We have had too costly an experience in this country in the past by having economic questions made political questions. This is not a political question; it is simply and purely a business question—a business question that not only affects bankers, but to a much greater extent and more vitally, the business man of the country; and not only the business men, but the great people, the farmers and all the people that are engaged from one end of the country to the other in the productive force which makes for the greatness of this country more than any other.

I say then we have to consider and they have to consider, not only these classes of people, but more particularly the wage-earners of the country, because they are the people who are to lose and their loss cannot by any process be recouped. The banker many times, not infrequently perhaps, passes through a crisis with undiminished dividends and unimpaired resources, but the wage-earners of the country, the farmers of the country, the great mass of the people of the country who are so vitally interested in everything which pertains to the distribution of credit and capital, have no way of saving themselves from loss.

Fifth, every means has been taken, every safeguard adopted, to prevent beyond question the possibility of its control by any corporation or combination of corporations, banks or otherwise, by any individual or combination of individuals in Wall Street or elsewhere, for selfish or sinister purposes.

That, of course, is one of the vital things involved in the re-construction of our monetary system. Today the whole financial interests of the country depend upon what is popularly known as "Wall Street." The country banks depend upon their correspondents in reserve cities or central reserve cities. The central reserve cities, the reserve agents through the country banks and individual banks, depend upon the banks of New York. Necessarily, because New York is a great financial centre and she has vast accumulations of capital. What happens if New York, for any reason—like those which resulted in 1907 in suspension—when New York fails to respond to drafts from the country and suspends? The country suspends. If it should be announced from this platform now, at this minute, that there was great excitement and agitation in New York, and that one of our great institutions had suspended—banks or trust companies had suspended—there is not a man in this audience but would realize in an instant that his capital and his organization were in peril, and the chances are that there would be no relief to be found in any direction.

Now, this organization which we propose has for its first and its prime purpose to place the business of the country, through local organization—the banking of the country—in such form that there can be no general suspension of the banking institutions of the country and no general suspension of their credit functions. As your President has said, in the latest revision of the plan of organization, we propose to limit the representation of the districts to four out of 39 of the 39 elected directors. Under that plan New York would be entitled to four representatives, but New York City alone had 20 per cent. of the banking capital and 26 per cent. of the banking resources of the United States. The whole of the Eastern States, including New England, New York, New Jersey and Pennsylvania would have and could have but twelve representatives, or 31 per cent. of the representation. Those States have 50 per cent. of the banking capital of the United States and 60 per cent. of the banking resources of the United States. That great Middle West, which is a very important factor in our economic life, would have four districts undoubtedly—41 per cent. of representation with 25 per cent. of banking resources. The South, which I will take up later and show you is to be the section to receive the greatest benefit from this organization, the entire South would have at least 31 per cent. of representation with 14 per cent. of the banking resources of the country.

I think that this statement must of itself convince you that there can be no local domination; no domination of selfish interests in this organization. It has been my purpose as it has of those with whom I have been associated in the preparation of this plan, that this one subject should be placed beyond dispute, and, if we find growing out of the criticism from any quarter that it is not fully covered in the draft which is now presented, you can be certain that before it leaves the hands of the Monetary Commission that point will be fully covered.

Sixth, the dominating principle is co-operation and not centralization. We are satisfied that we could not adopt or adapt to our use an organization like the central banks of Europe or the Second Bank of the United States.

We have once in a while a man appear who, largely, I think, for personal or political reasons affecting himself, or he may believe affecting the interests of his party, who talks without knowledge about this being a central bank, and who summons the ghost of Andrew Jackson and commences to discourse about the Second Bank of the United States. Well, I am inclined to be charitable and we have welcomed and we do welcome intelligent criticism from every source, because intelligent criticism is the most valuable thing which can be received or secured in a great constructive work such as we are engaged in; but when men—and usually they are men who admit that they have not read the plan, and who obviously have not given it sufficient consideration to have at all comprehended its meaning or its purposes—talk about the Second Bank of the United States or a central bank, you may be certain if you examine that man and his surroundings and his predilections to find a man who is trying to incite prejudices, to arouse passion, not for the purpose of securing the settlement of this question in the interest of all the people of the United States, but on account of certain personal reasons or some political reason he wants to exploit himself. Now, I greatly mistake the character and the intelligence of the American people if those fakirs are to have any important influence in the solution of these problems.

Among the provisions of the plan intended to remedy defects and cure existing evils are:

(1) To insure the maintenance of adequate reserves by the Association and its members, with such provisions for discounts and note-issue as shall enable the organization to respond promptly at all times to normal or unusual demands for credit or currency without danger of undue expansion or inflation.

As I have already stated, one of the principal defects of our banking system grows out of the artificial and unscientific treatment of reserves required by our banking laws. There is universal agreement that a portion of a bank's assets must be kept at all times in liquid form to enable it to meet promptly its demand obligations. With us a certain percentage of its liabilities is required to be kept in actual cash, and another portion on deposit with reserve agents.

In ordinary times withdrawals of balances are equalized by new deposits, but banking institutions must be prepared at all times to meet exceptional demands, and all well-managed financial institutions keep reserves in cash and at bank and also have a secondary reserve of commercial paper or

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other quick investment assets that may be readily convertible into cash.

In this country we have had but little serious discussion with reference to the proper character and extent of bank reserves; but all must agree that the manner of distribution makes them useless when needed. When we consider that the cash reserves of the banks are necessarily divided into 25,000 widely scattered portions, it is not surprising that they should fail of their purpose and prove useless in time of trouble. Instead of being concentrated, as they are in all other countries for the effective protection and benefit of any, they are rendered by this distribution ineffective and useless to all. In other countries reserves are regulated both as to character and extent, by the judgment and custom of managers of banks and not by legislative provisions.

Our trouble arises largely from the absurd limitations prescribed by the National Banking Law—a limitation that has been generally followed by legislation in the States—that not only prevents a bank from giving credit or discounting the paper of its customers, but practically forbids the use of its reserves for the purposes for which they were created whenever and so long as the aggregate of cash and balances falls below the prescribed legal percentage. The effect of this paralysis is disastrous in times of stress. Not only is extension of relief to customers prohibited, but no method is provided for protecting or replenishing the reserves.

In every other commercial nation deposits by joint stock banks in a central institution are held by custom to be equivalent to a cash reserve, and this balance can always be increased upon reasonable demand by the re-discount of commercial paper of a recognized standard. In all other countries in times of distress or anticipated trouble aid is liberally extended to all solvent customers who have the credit or necessary collateral, and the reserves of the bank are freely used, protected and increased in the manner I have described.

You are all familiar with our experience in 1907. Before and during the general suspension individual banks, almost without exception, outside of the great cities took every means to increase the amount of their cash reserves, as they naturally believed this course was necessary for self-preservation. This scramble for an increase in the cash reserves of the banks from the Atlantic to the Pacific accentuated, if it did not create, panicky conditions.

I repeat that it is clear that in times of pressure the scattered cash reserves in the possession of our individual banks are practically useless and ineffective for any of the purposes for which reserves are created.

(2) To provide for concentration of the cash reserves of all the banks to be used for the assistance and support of any, under assured decentralization of control. Scattered reserves have been found useless in times of pressure. Deposit balances in the Reserve Association are to be counted as legal reserves.

(3) To authorize the Association to re-discount, through its district branches under local control, commercial paper of a definite character for individual banks, to be used in replenishing their reserves.

(4) To give to individual banks the facilities for an increase of their reserves and loaning power which will enable them to adopt the policy which has been universally effective in other countries of allaying excitement, creating confidence, and preventing panics, by prompt payment of all demand obligations as presented, and at the same time granting a liberal extension of credit to all deserving customers in times of uncertainty and distrust.

(5) To grant the power for further note-issues to this co-operative Association of all the banks, an authority which is now vested in National banks scattered throughout the country, and by requiring the Association to forward its notes to any subscribing member at once upon application and without charge for transportation.

Prompt redemption of all notes is required at the several branches of the Association.

(6) To give authority to the Reserve Association to fix rates for re-discounts, which must be uniform throughout the country.

(7) To give to the Reserve Association power to protect its own reserve, and thus enable it at all times to perform its most important function, that of sustaining the credit of communities and the country. For this purpose the Association is required to keep its assets always in liquid form, and all its re-discounts and investments must be in short-time paper or securities. To enable the Association to strengthen its own reserves it may, first, attract gold from other countries by an advance in the discount rate. In other countries, whose conditions are perhaps unlike ours, this method of attracting gold and of replenishing the gold supplies of the country has been always found effective. Second, purchase and borrow gold and give security for its loan. It can purchase and borrow gold. It is authorized to buy and sell, either here in the United States of its corresponding banks, or subscribing banks, or in foreign countries through foreign banks or correspondents, or through its own agencies, bills of exchange drawn against American products and payable in any of the great commercial countries. This plan of investing in foreign bills has been, in recent years, especially in Germany and in Austria, deemed the most important agency for protecting gold reserves. It is not necessary for me to explain to you why this is so. It is very evident that there can be no better way of bringing gold to the United States or placing it to the credit of the banking institutions of the United States than in having a portfolio of short-time prime bills constantly becoming due and constantly adding an accretion to the gold supply of the country. We propose to create a wider discount market in this country—and I believe that this is after all the most important provision, or certainly one of the most important provisions in this whole scheme—we propose to authorize the national banks, for of course we have no control in this regard over State institutions, to accept drafts drawn upon them, properly secured; for instance, secured by a pledge or a deposit, or by a bill of lading upon merchandise—upon the great products of the country. For example, on cotton in transit or in warehouse; wheat in transit or in elevators. All the great agricultural products of the country are susceptible under this plan of being given immediate current value, either in national markets or in international markets.

We propose to establish a standard of commercial paper outside of these acceptances—commercial paper which is defined as notes or drafts, issued or drawn for agricultural, commercial and industrial purposes and not for the carrying of stocks and bonds and other stock exchange investments.

The value of the agricultural products of the United States in 1910 was $9,000,000,000. If we add to that the value of the manufactured products, the products of the mines, and of the various other industries of the country we will have a sum represented by the products of this great people which is almost beyond imagination. All of those products, from the first step to the last, from their production to their consumption, requires the greatest amount of credit which is available by the banks and financial institutions of the United States. But it does something more. We exported $2,000,000,000 of our products. We imported $1,500,000,000. We exported last year about $650,000,000 in value of cotton. That cotton was largely financed by 60 or 90 days' bills drawn on Liverpool or London, or Berlin, or Paris. That business was practically all done by foreign banks. Of course, some of the banks here granted temporary loans. Of course, the banks in New York were enabled to collect a commission—not as large as they would liked to have had it, perhaps—but a commission over a great many of these bills in transit. In the final analysis, however, these bills were all financed by foreign bankers.

We are the first country in the world in our financial resources, and we have natural resources that are vastly greater than any country in the world. Ought we not to be ashamed of a financial monetary system that does not permit—and I use that word permit intelligently, I think—the banks

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of the United States to finance the country's products, the products of its farms and its manufactories and its mines. Why? Largely for the reason that these institutions do not dare to buy this kind of paper. In the summer months, and at other times, too, the banks of all of you gentlemen, if you have a surplus, what do you do with it? I am not now talking about reserve moneys or the money deposited with reserve agents. Of course, we do not propose to change that. But if you have any surplus money, what do you do with it? You send it to New York, perhaps through New Orleans or Kansas City or Chicago, but it all ends in New York. What do the New York bankers do with it? What are they obliged to do with it? They loan it out on call on Stock Exchange collateral. There is nothing else that they can do with it. They loan it at the market rate. Thus inducing many times, as they know, as well as we know, dangerous speculation and dangerous conditions. When your banks want that money you may get it and you may not. You may be told that conditions are such that you will have to wait. In times like 1907 you didn't get it at all by any process.

Now, what ought to happen and what would happen under this plan? You gentlemen send your money to New York at two per cent. because there is nothing else that you can do with it. You do not dare to buy bills of the character which I have descibed, first, because you have no knowledge of the responsibility of the parties who made them; and, second, and more important to all, because at the time when you need the money you cannot get it. Now, we propose to erect the machinery, to devise a system, by which instead of investing your money at two per cent. in Wall Street for speculative purposes, you shall invest it in bills representing the industries and the products of the United States. It may be that you will not be able to get the full rate of discount for ordinary commercial loans, but you will get more than two per cent. for your money; you will get three or three and a half per cent. You will have to compete, of course, for that business with foreign banks, but you will get more than two per cent. and you will get paper, created for wise purposes, for necessary purposes, which you can take across the street to the district organization and have it turned into cash at any moment in the whole 365 days.

And what I say about foreign bills is true of domestic bills of the character of the acceptances of your banks. A man who raises cotton in Texas or in Louisiana cannot have his paper sold in the markets of Chicago or New York, because the bankers of Chicago or New York do not know him and have no means of finding out whether he is responsible or not. But when one of your great banks here in New Orleans, knowing the party who makes the draft, whether he is a sugar planter or a rice planter, or a producer of cotton, a man who may have deposited with the bank security on the property either in warehouse or otherwise, when that bank accepts his paper, why, then it goes in any market of the world.

Is it not worth while, gentlemen, to take the financial institutions of the United States out of this condition of congestion, and place them alongside the best banking institutions in the world? There is not a particle of reason why sterling bills should remain the highest form of credit. The United States by virtue of its resources, its intelligence, and the energy of its people, ought to make New York, and New Orleans, and Chicago, financial centers of as great importance as those of Europe. It ought to make a bill, drawn by a producer here in Louisiana, or anywhere in the United States, drawn in dollars and cents instead of in pounds, shillings and pence. Are you willing, gentlemen, to do this? It is largely in your hands. I do not mean to say that the bankers of the United States can do this alone. They are not, as I have already said, the people who have the greatest interest in this matter, but they do reach the great mass of the people of the country, and their influence directly and indirectly will be great in this direction. The organization of the banks in foreign countries assists in the extension of our international trade. The United States has recently entered upon a career as one of the great powers of the world. Nothing can help us in international trade more than for us to have banking connections with these foreign countries, and then extend to them the same care in the production of products for their market that we do to those of our own markets. There are a great many agencies, which I will not stop to recite with reference to the extension of our commercial trade, but one of them certainly is to give us banking connections. And secondly, and vastly more important than that, is to give an international character and currency to American bills of exchange and commercial paper that will make them known and make these financial conditions known in every part of the world.

Think of this great city, the gateway of that new path of commerce to the markets of the world which is soon to be opened: think of the possibilities of this great centre, representing as it does an empire, along the valleys of these great rivers that center here: think of the possibilities with the Panama Canal opened, with direct communication with Central American and South American, and with better communication with the Orient: think of the possibilities of development and growth! I am sure that the bankers of New Orleans and of Louisiana recognize the importance of developing in every possible way the opportunities which will accrue from the opening of the Panama Canal, but unless they have more organization of credit, credit instruments, the confidence which grows out of strong financial institutions, what do the people of South America or of the Orient know about New Orleans as a financial centre. They know little about New York, perhaps less about Chicago. We are in an unfortunate position otherwise. Not only is the American flag rarely seen representing a commercial business in the ports of any country in the world, but our banking institutions are not known and cannot be known. As long as New Orleans pays for the coffee which it buys in Brazil by drafts upon London in sterling exchange, it cannot increase the knowledge of those countries of American financial institutions. I believe that the provisions which we make for building up the credit institutions of these great sections of the country, for the taking care in a reasonable way of the products of the country, for making the United States what it ought to be—the great financial country of the world—I think that these things are the most important features of this plan of reorganization. In my judgment, they must appeal to you men of the South, especially to the men here in Louisiana, who have memories of strong financial institutions existing here, and in but few places elsewhere before the Civil War: to the men who represent fairly the best sentiment of the people of the South. If these propositions do not appeal to them, then I have ceased to have any confidence in human nature.

The dividends of the Association to which stockholders are limited are 5 per cent., and the Association, for the important priveleges granted to it, pays franchise or other taxes which are equivalent to the excess of its net earnings above dividends. It is estimated that the amount to be paid into the Treasury of the United States will increase the revenues of the Government at least fifteen millions of dollars per annum.

Now, we are to be confronted with two classes of opponents to this proposition. First, the gentlemen to whom I have alluded who are trying to exploit themselves for political purposes, and, second, a class of people who honestly believe that the Government of the United States ought to issue its own notes. I see indications all around that that is one of the principal objections that we have to make. There are some people who believe conscientiously that the Government of the United States ought to issue all notes practically without limitation—I never heard them say exactly how they are going to get them out, but they say they ought to be issued any way and that the Government ought not to give this important privilege to the banks. Now I am willing to admit myself—because that is what I believe—that the issuing of notes, of money of any kind, is a function of a sovereign Government; but the experience of the world without exception has shown that the exercise of that authority directly by the Government has invariably

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led to disastrous results. We now give this important privilege to six or seven thousand banks. We propose that it shall be exercised by one organization directly under Government control and supervision, putting about it restrictions and limitations of such a character as will in my judgment make inflation impossible. It requires the Association to facilitate domestic exchanges by transfer of balances from one branch of the Association to another upon application. I think all of you have felt the importance at times of having an institution of this character, which should make these transfers for you easily and practically without cost. I believe that the internal exchanges of the country will be greatly benefited. The great banks of Europe make this kind of transfers for their customers and for the public. We have felt obliged to confine all the business of the Association to the banks, but it is easy for any individuals to secure transfers through the bank in which they keep their account, and I expect that great benefit will accrue, especially in times of excitement and uncertainty, by having one great institution, that by simply transferring a balance upon its books, can transfer the cash from one section of the country to another without delay.

It admits State banks and trust companies to membership in the organization under provisions which co-ordinate the conditions of membership of all banks with reference to the character of their reverses against demand and time deposits, and with reference to the character and number of examinations, and as to the frequency and character of reports of condition. The treatment of time deposits is believed to be equitable to banks of all classes. It is believed that the character of examinations and the enforced publicity of frequent reports will prove an important factor in creating public confidence in solvent institutions.

I do not think it possible to overrate the importance of the provision to which I have just alluded. We are living in an age when publicity with reference to the management and condition of public or quasi public institutions is demanded for imperative reasons. Publicity is not more important anywhere than it is with regard to financial institutions with whom the great mass of the people have to deal at times. We have not undertaken to change the business or the privileges of state banks or of trust companies. We only say that if they come into this organization they shall enjoy equal privileges, the only condition being that they shall keep the same class and amount of reserves that a national bank does under the same conditions and in the same locality. Also, that it shall submit to the same kind of an examination, these examinations to be conducted by local authority in the district, and are to be uniform as to all institutions. I expect that we will be able to work out a plan, certainly it is my intention to do so, which will prevent numerous and expensive duplication of examination. Some of you gentlemen have had to submit to three or four examinations a year, which is not only burdensome, but expensive and unnecessary. We propose to concentrate the examination, so that they will be effective, and recognized as of value by everybody concerned. Then, taken in connection with freqeuent reports of the condition of the institution, I believe that the whole American people will be able to judge of the character and solvency of all financial institutions.

We propose to give the National Banks increased privileges. There has always been a feeling that in the competition for business throughout the country state banks and trust companies, especially in recent years, have had an advantage over national banks. I do not know how much basis there is for that feeling, and it is impossible to tell. But one thing we do know, namely, that the increase in number of the state banks and the trust companies has been far greater than the increase in the number of national banks within the last ten or fifteen years. I believe it is fair to both classes of institutions that so far as we can, by national legislation—and that, of course, is very limited in this respect—we ought to give to state banks and to trust companies and to national banks an equality of privileges and an equality of advantages. We propose that the same rule which we fixed for reserves on time deposits, which have given me personally much more trouble than almost anything else in this bill, to define time deposits, and to find provisions that would be reasonably satisfactory to all of these institutions—we propose that as to time deposits national banks shall have the same privileges that are given to state banks and to trust companies.

We propose to go further—and this is in answer to an insistent demand from this section of the country from here to the Northwest, and especially the Northwest—and give to the national banks the right to have a savings department, and to loan money on real estate, under proper regulations and control. I asked the comptroller of the currency to make an investigation of this question for the purpose of ascertaining what was the wish of the national banks in this direction, and I have just received a copy of the results of his investigations. To me it was most striking, and I must confess surprising. In answer to the question whether the national banks wished to have savings departments, it was ascertained that 51 per cent. of them now have such departments. In answer to the question whether national banks should be permitted to loan money upon a certain part of their deposits, savings deposits or otherwise, to loan the money on real estate, 81 per cent. of the national banks responded in the affirmative, or 5,543 out of a total of 7,000. The other questions, which were rather elaborate in character, were answered approximately along the same lines.

Now I believe, while I have always held the opinion and still hold it that a commercial bank in a large city should not tie up a part of its assets in loans upon real estate, or the obligations of a class of deposits like savings deposits, I am certain that the sentiment of the country, the sentiment of the national banks of the country, is such that it will be impossible to pass any bill establishing a plan which did not allow, under reasonable conditions and restrictions, a national bank to loan some part of its assets upon real estate. That is the practical side of the question, and so long as there is confidence all along between the state banks and the trust companies, I will not say but what they should have it.

This ends my analysis of the main features of this plan. I realize that the subject is so great from every standpoint that it is impossible, as I said at the outset, to do more than merely touch upon some of its salient features. I have tried to explain to you what our purposes were in reference to this organization. I do not mean to say—indeed it would be impossible for any man to say—that I have covered all the points in all of the details. I have not tried to cover the details. I have simply submitted an outline of the plan, and I do not mean to say that it is at all perfect. We expect a continuation of criticism from intelligent men, and we welcome it, having in view the needs and the necessities of this vast country with its varied interests and sectional demands.

Now it remains for you, gentlemen, it remains for the people of this country who are interested in the future development of the country, the people who are interested in the welfare of their children, and of their grandchildren, to study this question carefully; and, after they have studied it, to make up their minds that it is important that it should be enacted into law. Let your representatives in Congress and the men who form public opinion in your community understand that this is a matter of vital interest to the whole people of this country, and sooner or later, the public opinion of all those people will judge of the capacity of the men to represent them by his comprehension of the needs and requirements of this great subject.

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The Relation of the National Reserve Association to the Government.

By A. Piatt Andrew, Assistant Secretary of the United States Treasury.

One of the merits of the proposed plan is that it contemplates the complete withdrawal of the Federal Government from the banking business. Ever since the Government was organized, it has undertaken to carry on banking operations in some form or other; first, as part owner of a great commercial bank; then, when that experiment seemed unsuccessful, and for the last 70 years, as the custodian of its own vast revenues and checking accounts, and, finally, during the last half century, as the exclusive manager of that branch of banking which has to do with the issue of circulating notes. No other important commercial country, at least none of the countries of Western Europe, has attempted for several generations to engage in Government banking in any of these forms, either as owner or partial owner of a commercial bank, or as maintaining a separate depositary for its own funds, or as handling the issue and redemption of bank notes.

Our Government has long since ceased to participate in the shareholdings of commercial banks, and among the multitudes of proposals for banking legislation, sane and insane, with which the country has been flooded during recent years, I have yet to see the first suggestion that it should attempt a repetition of the banking experiments of its early decades. We need not, therefore, devote time to demolishing the idea of a Government owned bank. There is no danger of Congress ever again considering seriously the revival of a United States bank. Our Government still continues, however, to act as its own banker, and still continues to monopolize the note issuing function of our entire banking system, and with regard to each of these conditions I shall say something today.

First, in regard to the effect of the Government to serve as its own banker.

No other Government in the world is so ill adapted as ours to act as its own banker. Under Governments with responsible cabinets, such as exist practically everywhere else, the machinery is provided for a balanced budget and an approximate equivalence of revenue and expenditure. Such Governments are not confronted with alternating and unpredictable surpluses and deficits, and even if their funds were entrusted, as in this country, to an independent treasury, there would result no such haphazard and disturbing withdrawal of money from the banks and from circulation or equally upsetting reinjection of money into the currency as has occurred here from time to time. In our Government system, however, we have neither the machinery to insure a balance between income and outgo, nor even a serious purpose to attain such a balance. Under our peculiar methods of Government, one pair of Congressional Committees prepare the bills for raising money, while another independent and much larger group of committees prepare the bills for spending it, and no individual or committee is seriously charged with the duty of adjusting the balance between them. Moreover, our revenue measures have ordinarily been framed with other considerations than raising revenue in mind, while not infrequently the appropriation bills have reflected little or no regard for the country's income. In certain past years we have been confronted with a deficit amounting to over a hundred million of dollars; in other years with a surplus of like proportions; and the effect of these vagaries in our budget, if the independent treasury had been consistently maintained, would have been a corresponding addition to or deduction from the country's currency without the slightest regard for the demands of business.

In the face of such a situation, with revenues and expenditures seesawing in alternate surpluses and deficits, successive Secretaries of the Treasury during the last decade and a half have seen fit to largely qualify the independent treasury as a depository of the Government's working balance and have adopted instead, as the only possible alternative, the deposit of a considerable proportion of the general funds with particular banks. In pursuing this policy, they are still hampered at every turn by a hodge-podge of outworn laws, but what makes the system really objectionable is the fact that it inherently involves injustice and inequality in the treatment of different banks. To name one instance of the fettering effect of outgrown laws, under present legislation, the Treasury is in the anomalous position of holding large balances with banks in the larger cities where there are sub-treasuries without being able to draw upon these accounts to make expenditures. In fact, though during the last ten years we have held on deposit with such banks anywhere between $10,000,000 and $150,000,000, we have been obliged under existing laws to transfer these funds from the banks to the sub-treasuries before checking against them. The banks, in other words, have enjoyed the full use of the money during the greater period and in most cases still without paying interest, while the Treasury has been obliged to bear the expense of handling it. Another anomaly under the present law is that customs revenue cannot be legally deposited with the banks in any subtreasury city. But even if these anomalous provisions of the law were straightened out, the system would remain objectionable because of the inevitable discrimination and inequality which result from the selection of particular banks as depositories. We have at present 423 regular depositories and 939 so called "temporary depositories" (the latter having been the recipients of substantial sums in the days when the Treasury enjoyed a surplus, but their Treasury balances today being reduced to a nominal holding of $1,000). All of these institutions enjoyed the distinctive privilege of advertising on their doors, in the press and on their circulars and stationery the fact that they have been designated "United States Depositories," thus conveying to the uninstructed the false impression that they have been selected because of the peculiar assurances of safety, or of credit, which they offer. Yet, as all bankers know, the 1,362 institutions selected as United States Depositories are no more worthy of confidence or of distinctive preference by the Government than the 5,969 other institutions under Federal Charter, nor are they so regarded by the Government. Moreover, among the 423 active depositories, the Treasury's authorized balance varies from $25,000 in some institutions to $1,200,000 in others, and these differences, though of considerable financial importance to the banks concerned, as is evidenced by the importunate demand for such balances on the part of bankers and their Congressional representatives, cannot in the very nature of the case be adjusted between the banks upon any basis of equity. The Government balances must be primarily distributed according to the localities in which revenues are collected or disbursed. Try as we will in the Treasury to temper our business requirements with considerations of equal treatment of the banks, inequalities in abundance are bound to persist. Even in the same cities sometimes there are National banks with Government balances of nearly a million, side by side with other National banks of equal size without any Government funds at all. The very system involves unwarranted discrimination between banks which

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are designated as depositories and those which are not, and among the depositories, it involves inequitable distinctions between those which are regular and those which are temporary, and between those with large and those with small balances. It means selection, means unavoidable favoritism, means appeals from Congressmen and Senators, means complaints and criticism. The whole system is wrong.

It is highly important therefore that the monetary plan now before the public proposes a mechanism by which, on the one hand, the Government's haphazard surpluses and deficits can be prevented from affecting any serious alterations in the currency supply, and by which, on the other, the manifold injustices and discriminations as between banks which are inherent in the present system of handling Government funds can for the future be completely eliminated. If the plan is adopted, the Government's general funds and all future revenues will be deposited with the National Reserve Association and the annual disbursements, amounting to a billion or more of dollars, will be made through that institution and its branches. The Government accumulations will thus be kept at the continuous disposal of all the banks and through them in the uninterrupted service of the public, and never again need the Government balance serve as a disturbing factor in business, or as a source of inequitable discrimination between the banks.

Second, in regard to the activities of the Government in the management of note issue and redemption.

Ever since the Civil War, or for nearly half a century, the issue of circulating notes, which, in every other leading country, has been regarded as an essentially banking function, exclusively appropriate to the banks, has in the United States been treated as an exclusive function of the Government. In Great Britain, so far as I am aware, the Government has never issued any notes except the interest bearing exchequer bills, which have never served as means of payment and which can scarcely be classed as circulating notes. In France, the Government has issued no notes since the fateful period of the assignats and the mandats in the eighteenth century. In Germany, the Imperial Government has issued no notes since its establishment, except the very unimportant amount of treasury notes emitted at the foundation of the Empire in redemption of certain obligations of the preceding regime.

The American Government similarly, for three-quarters of a century after its lamentable experiences with Colonial and Revolutionary currency, abstained from further incursions into the credit field and, except for momentary relapses during the War of 1812 and the war with Mexico, issued no fiduciary money. It was the dire extremities of the Union Government during the Civil War which led to a reversal of this policy, and it was the prolonged duration of the war and its consequences which gave the reversal a momentum that has continued to the present day. Both the greenbacks and the so-called National bank circulation were credit devices to provide the government with the means to prosecute the war. Both were, and continue today, the equal obligations of the Government. With the greenbacks, the Government borrowed directly from the people; with the bond-secured so-called bank note currency, the Government borrowed indirectly, the banks lending to the Government in the first instance, then being allowed to borrow an equivalent amount from the people under Government guarantee.

The two systems of currency are alike objectionable, because the conditions of their increase or decrease have only to do with the balance between the Government's revenue and expenditure and have no relation whatever with the needs and qualifications of the country's business for circulating media. In their ultimate analyses, I find little difference in this respect between the system of fiat Government money, represented by the greenbacks, and the so-called bank currency that the Government issues to any bank which offers Government bonds as collateral. It means, in either case, that the currency increases when the Government has to borrow and decreases when the Government repays its debts. In either case, it opens a tempting and precarious way, by which a weak Government can enter upon undertakings for which it is not financially prepared at the risk of inflating the currency and undermining business credit.

It is doubtless upon some such accounts as these that the great European countries have long since abandoned the Government issue of notes and have, without exception, avoided the American system of indirectly issuing Government notes by allowing their issue in substitution for deposited Government bonds.

The circulating notes, like the circulating ledger balances or deposit accounts, ought to be part and parcel of the credit machinery of a country; they are not essentially or even naturally related to Government finance. The amount of circulating notes which is needed and which can be safely issued is not a multiple or co-efficient of the Government's need for revenue, but depends upon the general character and trend of business, upon the quantity of standard or lawful money available as a basis for credit and upon the extent to which credit in other forms is already in existence. Of all these factors in their various relations at any given moment, neither Congress nor any executive department of the Government is likely to offer the most expert judgment. They are factors requiring for their just appraisal the most experienced and the most disinterested financial opinion based upon the widest relations with banks and business throughout the entire country. And it is to such expert determination, rather than to the Government or to the individual bankers, that the extension or diminution of the note credit of the country ought to be entrusted.

Now, it is to just such authority that the control of note issue is relegated in the suggested plan. The Government is to be taken out of the business of note issue, at least insofar as the greater part of the fiduciary issues, the bank notes, are concerned; and these issues are to be permanently divorced from their present illegitimate relations with the Government bonds.

I shall not attempt to treat here of the details of the plan of this divorce. You doubtless all know how the National Reserve Association is to take over the note issue and the bonds from the National banks, how the Government is to refund the two per cent. bonds into three's, and how the Reserve Association is to pay a sort of alimony for fifty years after the divorce has been effected. The net result of all these arrangements is this: That the country will get forever rid of the unscientific, unresponsive and dangerous Government bond-secured currency; that the note-circulation will once more become an integral part of the credit machinery under carefully framed legislative safeguards and under the most expert and most disinterested management which the banking community can provide; that the banks will be able to dispose of their artifically valued bonds at par; that the Reserve Association will hold these bonds on such a refunded investment basis that it will be able to dispose of them from time to time without probable loss; and, finally, that the Government will, without additional expense, be able to refund $700,000,000 of its debt for fifty years at a net interest charge of only one and one-half per cent. per annum. Can anyone expect more comprehensive and desirable results from any proposed plan than these?

So, two of the important activities of the Federal Treasury will be transferred under the suggested plan from the Government to the Reserve Association: First, the handling of the Government funds and their disbursement; and, second, the issue and redemption of bank notes. This will effect great changes in the Treasury administration and will make possible great economies to the Government. As the functions of the sub-treasuries are to be taken over by the Reserve Association, the expense entailed by the management of these institutions can be eliminated. The appropriations for salaries in the sub-treasuries for the current year aggregate $715,390 and for contingent expenses $170,000, or a total of $885,390, all of which would be saved to the Government in the future. The details of the reorganiza-

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tion of the Treasury, which would follow the adoption of this plan, have not been worked out, but it is likely that most of the expense of the division now known as the Division of Public Moneys could be wiped out. It is, of course, a question still to be determined whether the Government deposits which are to be continued in National banks in places where there is no branch of the Reserve Association shall be placed there to the credit of the Treasury or of the Reserve Association, but it is quite within the range of possibilities that all Government money should be in the custody of the Reserve Association, and that where it has no branches it should designate the local banks in which deposits are to be made. This would relieve the Secretary of the Treasury of the task of distributing public funds and the remaining functions of the Division of Public Moneys could easily be assumed in the office of the Treasurer. The appropriation for this division for the current year amounts to $200,600, all of which could probably be saved. It would thus not be extravagant to estimate the saving through the elimination of the independent treasury at about $1,000,000 per annum. This takes no account of the valuable space in Federal buildings now occupied by sub-treasuries and of buildings in certain cities devoted entirely to this purpose, all or part of which could be either sold or rented to the Association or devoted to other purposes.

In the transfer to the Association of the business of bank note issue and redemption, the Government will effect further important savings. During the present year the Treasury has been involved in the following expenses in connection with the bank notes:

Through the Division of Loans and Currency:			
For distinctive paper	$76,194		
For handling this paper	4,354		
			$80,548
Through the Bureau of Engraving and Printing:			
For engraving plates	$5,471		
Printing of notes	541,416		
		$546,888	
Through the office of the Comptroller of the Currency:			
Redemption and Issue Division		$66,320	
			$693,756

In other words, the transfer of the business of issuing and redeeming of national bank notes to the Reserve Association would result in a saving to the Government of about $700,000 annually and the aggregate saving from the elimination of the remnants of the independent treasury and of the National bank circulation would be $1,700,000 annually, to which should also be added the rental value and the present cost of maintenance of the nine sub-treasuries, which would carry the total annual saving certainly above two millions.

It would be premature at this time to attempt to add to this figure any estimate as to the amount which the Government will receive from the Reserve Association in taxes and surplus profits, but this undoubtedly will be reckoned annually in the millions.

And so the Government will save upwards of two million dollars per year and will receive profits of several millions more, in ridding itself of two branches of activity for the conduct of which it has always been ill-equipped and which it ought never to have assumed. One of these, the bank note circulation, was only undertaken as a measure of war, but has lagged on superfluous for a half century thereafter; the other, the independent treasury, though it has been on the statute books a longer time, really collapsed years ago and, for at least a decade, has only maintained a limping existence. We shall see them both go, with benefit to the country and profit to the Government.

Circulating Credits and Bank Acceptances.

By Paul M. Warburg, of Kuhn, Loeb & Co., New York City.

In studying and teaching ancient history we lay great stress upon the names of kings and dates of battles while we unduly neglect the more important problem of how the people lived and what were their thoughts and ambitions. It is in considering this phase of history that we perceive most clearly the development of man and the progress of intellectual development, a process as yet by no means completed.

In dwelling upon such thoughts one cannot help recognizing as one of the most striking differences between primitive man and ourselves, that in the daily routine our ancestors took very little for granted, that everything they used and every manipulation they performed, they understood and did from beginning to end. In short, they were dependent entirely upon themselves. On the other hand, there is hardly anything in our daily routine that we use, or do, or even understand, from beginning to end. The activities of one day, even with the least developed of our fellow creatures, are indissolubly interwoven with those of millions of fellow beings whose products we eat or wear or use, and the most surprising feature of this evolution is that we have become quite unconscious of it.

Riding in the subway in the morning while reading our papers, do we think of the men that broke the coal, built the power-house, car and track, and that operate them at the very hour, do we think of the thousand manipulations and inventions that produced our newspaper, and of the hands that wrote, printed, and distributed it? Do we, while we are reading, think at all that we are riding at the rate of 60 miles an hour? Does the tenant of an office on the thirtieth floor think of the thousands of devices that had to be invented and applied to make the "sky-scraper" safe and practicable? Does he stop to consider what would happen to him if the house were not fireproof, or if he could not rely on the elevators or his telephone?

We have become accustomed to rely completely on the perfection of all these appliances and the normal functions of the thousands of hands that co-operate in serving us during the day, that unless there be a sudden stop of a wheel, we use them without further thought. To this class of appliances that it takes millions to compose and ages to develop, and that we use without thinking, belongs the thing, so important to us all, the thing commonly called "money."

In a modern system we can no longer separate actual money from the many appliances that take its place in our daily routine; they are linked together and have all become essential parts of one big machinery.

The modern banking system has been likened to a huge sky-scraper based on a comparatively small foundation of gold, and the many superimposed stories are represented by the immense number of all obligations payable in gold which, ordinarily, are settled by clearings of credits.

The most evident and direct forms of circulating credits which have taken the place of actual gold are the bank-note—forming a class by itself—and bank deposits, and checks. These are the main tenants of the towering structure. But they in turn have sublet a great many floors to all the other appliances for clearing indebtedness, all of which in the final analysis are being reduced to payments by exchange of bank credits.

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Time will not allow to deal fully with the inter-relation and the functions of all these tenants of the building; we shall only casually mention the most important phases.

A modern system aims at establishing standard values for which a broad market can be created, so that assets can be quickly turned into bank credits. This is one of the most fundamental principles of modern banking, of equal portent for depositor and banker. Our most important staples are no longer dealt in in individual lots, which must be personally examined before the bargain can be struck, but they have been standardized and special exchanges have been organized in order to reduce merchandises into bank credits in the quickest way and to offset all purchases and sales so as to reduce to the minimum the actual use of money.

We have achieved the same perfection in dealing with stocks and bonds. While the original part ownership in a business could be transferred only by protracted negotiation and by finding a new purchaser who, after full examination, would take the place of the old owner, evolution has brought about the corporation, issuing stocks and bonds in easily transferable shape, so that these forms of investments and indebtedness have also been mobilized. They, too, have been developed into securities for which large special markets and organizations have been created, enabling the owner to transform his holdings with the greatest possible dispatch into bank deposits. In this respect stocks and bonds have become circulating credits, they are the means of transferring part ownership in, or the indebtedness of, a corporation from one owner to another in quick succession. But while the bank note and the check are clearers of credits on demand, stock and bond transactions are clearers of credits on time, or even for an indefinite period. They are only indirect and secondary.

The most important of the sub-tenants is the commercial paper. In a modern system the promissory note, running for a limited number of months, and representing some kind of a commercial transaction, has been mobilized by adding to it, by indorsement on the back, or by acceptance on the face, the banker's guarantee. Thus the old-fashioned "bill"—existing already in the form of bricks in the age of Hamurabbi—is being transformed into a "bill of exchange," thus an immovable investment is turned into a quick asset. The importance of this evolution is two-fold, because it is just as fundamental for the safety of the individual bank as it is for that of the whole credit banking system. The main assets of a deposit institution ought not to be stocks and bonds, nor loans on stocks and bonds, but commercial paper. But a bank, the deposits of which may be withdrawn on demand at any time, must have assets which can be reduced to bank credits within the quickest possible time and with the smallest possible loss, if any.

If a banking system, like ours, is built up on promissory notes which have no free market, the consequence must needs be that when deposits are withdrawn heavily, or when there is a strong commercial demand for money, stock exchange loans must be called and holdings of securities must be sacrificed, these being the only available liquid assets. This means great economic waste and often calamity, for it is an absolutely perverse system that expects a *normal* investment demand, in times, especially, when money is scarce, to be able to supply a sufficient sum to satisfy all the immense commercial demands of the entire nation. Moreover it follows that prices of securities have to be so far reduced that at bargain, or sometimes panic prices, an *abnormal* demand for securities at home or abroad will be stimulated. This method is not only wasteful, but, as the past has shown us, it is most dangerous. A modern system must provide the means which banks can rely upon to enable them to market their bills receivable, which represent the trade and commerce of the nation. In a modern system this can be done without appalling losses, there being no question of sacrifice of capital in selling securities, but only a question of difference in rate of interest in selling paper. Moreover, it can be done without creating a panic; since gradual liquidation of commercial paper means a reduction of the volume of all commerce and trade, which is adjusted by co-operation of every toiler and consumer. It is thus spread over 100 million of people, instead of falling back on the holders of stock exchange loans and investors, few in number by comparison. While our system has remained entirely archaic and primitive in this respect, Europe enjoys the full advantages of a highly developed discount system, which averts panics there with as much certainty as we may expect their occurrence with us.

Commercial paper and bank acceptances form the main asset of European banks, these bills have the widest possible market, where millions are exchanged daily with margins of 1-16 per cent. or ⅛ per cent. in the interest rate, without the necessity of scrutinizing the paper when the bargain is struck. Bills of exchange have been standardized, everybody in all parts of the globe knows what names of the many thousands that appear as endorsers and acceptors are considered as "good delivery," and everybody knows against which names there is discrimination. The daily differences are normally regulated in the case of European banks by means of larger sales of bills receivable or by larger investment in these bills.

The mobilization of the promissory note, the system which enables Europe to transform bills into bank credits as quickly as staples or securities, is the explanation of Europe's success where we have failed.

To insure safety for such a discount system, however, to render it possible and effective, a central reservoir for all the cash of the nation is necessary, as, inversely, for the safety and efficiency of the central reservoir a system of exchanging bills is a prerequisite.

If a system constructed upon credit is to be safe, the first condition is that cash must be less valuable or attractive than the bank credit.

Holding of cash entails the risk of loss or robbery; it is a source of danger, like ammunition which we keep under our roof. Moreover, to keep cash unemployed means a loss of interest, depositor and bank alike must therefore try to turn cash holdings into interest-bearing bank credits with the greatest dispatch and to the largest degree that may be possible and permissible. This alone will allow cash at all times to return freely and rapidly into a central reservoir, as provided by modern financial systems, this alone will allow the central organization to respond freely to any demand for cash, because the latter cannot fail to return through some other channel, unless it be taken for export.

But in order to secure the free flow of cash into a central reservoir it is a prerequisite that there must be absolute confidence (1) that there is enough cash to meet all emergencies, (2) that it will be freely forthcoming when demanded and, last and most important of all, that the banks must be sure that they may be able, in case of need, to build up with such central organization a cash credit upon the strength of which they can withdraw cash, if such may be required from them. It follows then, that, under a modern system, there are two entirely different duties to be performed by the general banking institutions and the central organ: The former must see to it that they can command cash credits to meet their demand obligations, but it is the duty of the central reservoir to see to it that these cash credits be always transformed into actual cash when required.

The means, however, by which banks transform their assets into cash credits with the central organization are the rediscount of bills purchased, local or foreign.

Commercial paper, transformed into bills of exchange easily marketable at all times, forms the means of connection between the central organ and the banks; it con-

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stitutes the elevator system of the skyscraper which alone renders the evergrowing tower safe and habitable.

This division of functions and this means of connection between the central institution and the individual banks cannot be too clearly understood:

In Europe the general banks have no cash reserves, they have credit reserves. The duty to transform credit into cash resting on the central organ, it alone is concerned in the holding of adequate gold reserves and in watching that a certain and safe proportion be preserved between the aggregate demand obligation of the nation and its holding of gold. The existence of such a strong supervisory organ and its ability to maintain the nation's credit creats that safety for the circulating credits of the nation, which renders the whole system possible. For it is the confidence in these circulating credits which creates the broad market for money, always flowing where it can earn interest in safety, and it is in turn this free flow of money, attracted or driven away by a higher or lower rate of interest, which protects the central organ. By increasing or decreasing its rate of interest, thus taking a larger or smaller part in the nation's investments in commercial paper, by accumulating or selling holdings of foreign bills of exchange, the central organ exercises a regulative influence which keeps it strong enough to protect each bank individualy in case of need, thereby safeguarding the whole nation.

"Safety," from the point of view of banking investments, consists of two elements: the one, the intrinsic value, the other, its market. A consideration of these two factors produces the stipulation of the interest return that the investment must produce.

International money may flow to England and buy three months' British Bank acceptances at 2 1-16 per cent., while for three months English time money it would possibly demand 3½ per cent.; the difference between the two rates showing the difference in value between a quick asset and an investment for a definite period. But, even a comparative rate of 4 and 5 per cent. could not cause international money to invest largely in American commercial paper; since not only is it unsalable, unliquid investment, but it has not been standardized. It is individual and provincial in its character, while the American banks which, knowing the maker of the note, might render it liquid and salable abroad, must not, under present conditions, freely endorse or accept it. Moreover, as long as is lacking with us a central organ that would guarantee its market in case of need and secure at all hazards the transformation of cash credit into cash, foreign money will remain cautious and the interest inducement must remain comparatively exhorbitant.

Contemporaneous financial history furnishes us constantly with illustrations showing the superiority of the European system. We have not only lived through the disgraceful collapse of our own machinery, but, quite recently again, we have seen the advantages of European financial methods. During the recent Morocco crisis a war scare developed in France and actual hoarding of gold began; the withdrawals from the deposit banks were at a given moment alarming. But there followed no panic. The Banque de France issued notes freely, the French banks collected their holdings of foreign paper and the general confidence in the Banque de France's power to cope with the situation overcame the fright without the calamities that would have ensued with us.

When France, for reasons just explained and as a means of political pressure, withdrew from Germany more than 200 million marks that temporarily had been invested there, when English and Russian money was called back, when runs began upon some savings banks, Germany had to face a very severe strain. But what happened? The German Reichsbank rapidly increased its credit facilities by about $150,000,000; moreover, it had accumulated in times of ease vast sums of foreign bills, and when rates of exchange moved up to a point warranting gold exports, it began to sell these foreign holdings. At the same time a comparatively slight increase in its rate took place which brought new money, mainly American, to Germany's assistance. This inflow of foreign money was increased by the sale abroad of German Treasury notes.

What would have become of Germany without the Reichsbank?

Without the confident reliance that the Reichsbank would be able to meet the situation and without its ability to apply all these various means of defense, general suspension would have been inevitable. It is the elasticity of such a system that renders it safe, and it is the implicit confidence that it inspires, that made our bankers send their money, without hesitation, in spite of a critical situation, in order to secure for a few months a beggarly ¼ per cent. to ½ per cent. interest per annum more than they could have obtained at home. We had no war scare, the country was full of gold in 1907, but rates of 50 per cent. to 100 per cent. could not bring money, because our system—or rather the lack of system—had killed our own confidence in our own credit. We have no credit system, but a discredit system.

The advantage of a big central organ, not run for profit like the general banks, but administered solely for the protection and safety of the nation, is plainly shown by Germany's recent history.

The complete withdrawal of money from "gainful occupation," turning it into idle cash to serve as means of legitimate assistance in times of need (a real and effective reserve in that respect, not a nominal one like our ineffective idle funds, which are termed reserves by a misnomer); the quiet accumulation of foreign bills—less profitable than the German bill carrying a higher rate of interest—could only be brought about and brought into effect by such an institution.

It is the inefficiency and the discredit of our system which severely handicaps us also in our foreign trade; for a foreign purchaser will rather buy merchandise to be paid for in sterling than in dollars and for the shipping of goods purchased abroad, be it South America or Asia, the American merchant has to provide European Bank acceptances, because the acceptance of the American banker, no matter how good his credit, has no market. We pay an annual tribute of millions to Europe for the financing of our trade, which is not only a wilful national waste, but also a blemish on our financial standing.

A wonderful change will take place in all these respects if the bill, now in preparation by the Monetary Commission, will be passed on the lines as suggested by Senator Aldrich.

Without creating a Central Bank—for all the far-reaching banking powers have been eliminated which are characteristic of European central banks—and without fundamentally disturbing existing banking methods, merely by a simple device of federating the now scattered reserves into one general reservoir to be jointly administered for the protection of all, our system will be changed from a provincial, old-fashioned, wasteful and dangerous one into a national, modern, economic and safe structure.

Our system—at present a tottering, top-heavy skyscraper without a solid foundation—the tenants, instead of uniting in constructing a safe substructure, have solely concentrated their efforts on strengthening and fortifying each their own flat—a towering fire-trap, provided with an old-fashioned staircase as the only means of communication for all its disconnected tenants—with one stroke becomes modern and safe. Or, as I said on previous occasions, the 20,000 to 30,000 scattered pails of water, representing our disconnected bank reserves, will be united into one large reservoir, with a system of pipes leading to every house, bringing safety to all by co-operation.

While the solution is simple in principle, it had to be complicated in form; for it had to satisfy even the most suspicious mind that control and abuse of power by in-

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dividuals, singly or combined, political or financial would be absolutely impossible, and it had to take into consideration that a modern discount system cannot be created by a stroke of the pen and that, therefore, a new device had to be invented to bring about a safe and effective mobilization of the present form of American commercial paper.

Both will be achieved under Mr. Aldrich's plan.

It is true that we shall have to create a machinery more cumbersome in operation and not quite as far reaching in effect as the European systems, but a careful consideration of all the details convinces the student that a simpler way would not be a safe one.

The plan, if carried out on its present lines, will by process of federation, bring about a centralization of reserve with a guarantee of decentralization of banking facilities. It will strengthen the independence of the smaller banks, and while restricting the National Reserve Association to the smallest possible field of operations, the power given to this association will be large enough to protect the nation in the future. It will bring about the mobilization of our commercial paper and, in encouraging bank acceptances, it will help us to finance our own trade, and to establish in doing so the first basis for the development of an American discount market, a step of the vastest importance for the future of our country. The National Reserve Association will be able to accumulate foreign exchange, and thus to act as a protector of the nation in times of need. It is also to be hoped that some way may be found to enable it from the beginning to meet emergencies by being in a position to sell short treasury bills of the United States.

The National Reserve Association, if enacted into law, will take the monetary system of the United States out of Wall Street, and instead of a rigid system, the little elasticity of which is now based on stocks and bonds, we shall enjoy an elastic system primarily based on commercial paper, bank acceptances, and foreign bills.

I have almost concluded my address without dealing with the bank notes which, as circulating credits—the subject matter allotted to me—ought to have been treated prominently. In beginning to study the subject of monetary reform one is apt to think that the question of note issue is the primary one. After some years of struggling with this problem, one learns to understand that the question of effective reserves and liquid credits is the main question, and that note issue is only a secondary phase and of lesser importance.

If any bank, rediscounting with the Bank of England, Reichsbank, or National Reserve Association, may take gold against its credit balance, there is, from the National Reserve Association's point of view, no difference between this balance and a bank note against the presentation of which gold may be demanded. Bank notes are deposits in bearer form. The liability for bank notes and deposits is the same. For each deposit can be turned into bank notes, and each bank note into a deposit, and inversely, and for the same reason, it is immaterial whether a general bank owns a bank note or a credit balance with the Bank of England, the Reichsbank, the Banque de France, or the National Reserve Association.*

Some of our leading financial papers appear not to have fully grasped this point. Because National Banks are not allowed to count their own notes as reserves, it is argued that also the notes of the National Reserve Association should not be counted as reserves. But the difference is obvious.

*Mr. Aldrich has very wisely, and I believe for the first time in banking history, made the liability a subject of measure and taxation—not alone the note issue as in France and Germany. To my mind the law would be even more perfect if the clauses taxing the note issue were left out entirely. In France and Germany, where an effective check system does not yet exist, note issue is the barometer of expansion, while with us and in England deposits play the more important part.

The National Reserve Association could not count its own notes as cash; returning notes will not be treated as an asset, but be charged off, reducing liabilities. In order to avoid confusion, our present National Bank notes must be considered collectively in this connection. From that point of view National Banks must treat their own notes, like checks on other banks, as clearing values; as assets but not as cash. The notes of the National Reserve Association are liabilities of an independent institution endowed with a huge capital and organized for the sole purpose of providing for the payment in gold of all its liabilities, including its notes. If the balance with such a National Reserve Association is to be counted as cash, as it should be, the note certainly must be counted as cash, too.

When one of our leading financial weeklies advanced the argument that such notes should not be counted as reserves because they are not so counted in Europe, it went far afield. For as we have seen, in none of the leading European countries is there any law requiring general banks to keep cash reserves nor do these banks generally keep more cash than they actually need for their daily business. Neither could it strengthen the general system if they accumulated gold reserves. Quite the contrary, it would interfere with the free flow of gold into the central reserve where, becoming the basis of an elastic system, it can do vastly more for the efficiency and safety of the whole system than if locked away in a single bank. Since we possessed no central organ for the consolidation of our reserves, we had to have laws requiring each bank to accumulate reserves of its own. This archaic and unfortunate method can, however, now be turned to good account. For this direct co-operation in strengthening the reserves of the National Reserve Association—which co-operation, in this form and to this degree, does not exist in Europe—is all the more necessary since, through the lack of a highly organized discount system and through the restrictions placed upon the scope of its operations, the National Reserve Association would otherwise not command the strength and the confidence enjoyed by European Central banks. In other words, with us the elevator service being less perfect—in the beginning at least—the foundation must be so much broader.

The fear that notes counted as reserves would attenuate the basis on which our banking system rests, would apply with equal force to balances kept with the National Reserve Association which, under the new plan, may be counted as reserves. This possibility of attenuation is the very element of elasticity.

It is the function of the National Reserve Association to see to it that all its liabilities—balances and note alike—are fully protected by an ample supply of gold and by a credit so strong that nothing can shake it. But a system without the power to expand, no matter how large its gold holding, remains vulnerable. Elasticity wisely safeguarded—as in this plan—is the basis of confidence and therefore of safety.

Not infrequently one hears the question: If it be true that the National Reserve Association will democratize our system and to a large extent turn the banks' call money into the bill market, taking it away from Wall Street, why should the latter favor the new law?

The answer is plain: This overflow of money, which in times of ease floods New York, and which, when needed, is withdrawn with such vehemence that it causes violent convulsions, is a constant source of danger to that city. While our present system makes New York the undoubted money center and gives to its banks a position of preeminence and predominance, this power is possessed only at the expense of a responsibility, which, with our present system, in times of stress brings mortification and humiliation. Wall Street, at present, is a ruler on a keg of dynamite. And, like many an absolute ruler in recent years, it finds it more conducive to safety and contentment to forego some of its prerogatives—thrust upon New York

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not by its own will, but as a result of our present laws and conditions—and to turn an oligarchy into a constitutional democratic federation.

But that is not all. We are a nation still in its formative period, full of ideals and ambitious imagination. It is not the hunt for the almighty dollar that prompts men, possessed of millions, to keep on toiling and struggling with nature and with their fellow creatures. It is the youthful and boundless energy craving for constructive success, the joy of creating and the conscious and unconscious desire of taking a hand in the triumphal development of this great country. Our ambitions are great, and it hurts our pride that, while we have become powerful and leaders in many respects, we are an object of contempt and of ridicule when it comes to the question of our monetary system. We cannot become a center of international finance, on a par with European countries, until we reorganize. If New York has to make some sacrifice in order to achieve this aim, she is willing to do her share, just as every part of the country will have to contribute. Whatever little advantage may be lost in the beginning, the safety and continuity that will be ours will return in many other ways. The United States enjoying a modern financial system will attain that place among the nations which should be hers by destiny, and she will weather in safety and dignity the storms, from within and without, that may be in store for her. A modern financial system will enable the banks fully and safely to finance the future growth of this country and, vice versa, a healthy growth of the country is bound to bring prosperity to the banks. The "sky-scraper" placed on a solid foundation will safely carry many additional stories, and the tenants will be at once secure and prosperous.

The Relation of State Banks, Savings Banks and Trust Companies to Senator Aldrich's Plan.

By F. H. Goff, President of the Cleveland Trust Company, Cleveland, Ohio.

The more carefully the plan proposed by Senator Aldrich is considered, the more practicable, ingenious and comprehensive it seems. The National Reserve Association would afford all the advantages of a central bank freed from its evils. The scheme of organization suggested is sufficiently democratic to prevent control by the large financial interests in the moneyed centers. If the recommendation of the Currency Commission of the American Bankers' Association is approved—that the Governor and Deputy Governors be elected by the directors instead of appointed by the President—the possibility of political influence and control would be largely reduced. Should the plan be adopted, the note-issuing power would be centralized, insuring a volume of currency quickly responsive to fluctuating demands. Our bond-secured currency, with its limitations, in time would be done away with. Reserves would be centralized, ready for freest use in times of need. Banks of discount would be able to convert their prime commercial assets into cash without disturbance to business.

The plan admirably provides for every requirement of a properly financed, well-managed national bank. It affords them satisfactory facilities for rediscount at uniform rates throughout the country, if that, indeed, shall be deemed wise. It gives them power to accept commercial paper drawn on themselves; to hold stock in banks doing business in foreign countries and last, but by no means least, provides a market for their $700,000,000 irredeemable and now somewhat despised 2 per cent. Government bonds. The plan, as originally proposed, gave national banks the right to establish branch banks within the city or town in which they are located and provided for the organization of a new class of national banks having a savings department, which should be authorized to make loans on real estate, and for another class having privileges and functions belonging to trust companies under State laws. As an alternative, it was suggested that the charters of national banks be liberalized so as to permit of their doing a savings and trust business.

It was my understanding that Senator Aldrich had abandoned these ideas, until he submitted his revised plan, which provides that national banks be given the right to receive savings deposits and to make loans on real estate. In an address delivered at the Annual Banquet of the Trust Companies on May 5, 1911, referring to these features of his original plan, he said:

"After the most careful consideration of these several questions, which mean the gradual elimination of banking corporations acting under state charters, I have reached the conclusion that, in view of the diverse interests involved and the many grave objections urged from every quarter, the obstacles in the way of the adoption of either of these plans are insuperable."

Desirable as it would be from many points of view to accomplish an elimination of State banks to the end that legislation affecting banking interests might be unified and the same methods of supervision and control and the same standards of excellence obtain throughout the country, I concur in the opinion then expressed by Senator Aldrich that, under existing conditions, it is impossible of accomplishment, at least so far as nationalizing trust companies is concerned. It may well be doubted whether the Federal Constitution gives the Government the power to charter corporations to act in a fiduciary capacity. If it does, there can be no question but that the States having the right to determine as to the qualifications of statutory trustees could prevent corporations operating under Federal charters from acting at least in such capacity.

In lieu of providing for new classes of national banks or enlarging the powers of those now existing, the Special Committee appointed by the Currency Commission of the American Bankers' Association suggested that State banks, capitalized savings banks, trust companies and mutual savings banks be permitted to subscribe to the capital stock of the National Reserve Association in the same manner and upon the same conditions as national banks, such subscribing banks to become members of the local association and to have the same rights and privileges therein as if national banks. These suggestions for the most part have been adopted by Senator Aldrich in his revised plan. His views with regard to the desirability of admitting State institutions to membership in the Reserve Association were given in the address referred to, from which I again quote:

"I am convinced that the interests of the public and of existing state institutions alike require that some means should be devised by which all classes should be permitted to participate upon some reasonable terms in the advantages and to share in the responsibilities of the ownership and management of the association. How this can be accomplished in a manner which shall be fair to and answer reasonable demands of all participating banks without trespassing upon the rights and privileges of any is the serious question that confronts us. . . . I am anxious that the state banks and trust companies of the country shall appoint representative committees to confer with the National Monetary Commission in order that the recommendations of the Commission to Congress on this subject should be reasonable, and if possible, satisfactory to all parties."

Mr. James B. Forgan, Vice-Chairman of the Currency Commission, in discussing this matter, has said:

"That these state institutions must in some way participate on equal terms with the national banks in all the benefits of

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the proposed plan, seems to me inevitable. Unless they do, the defects in our banking methods, which are as germane to state as they are to national banks, will continue to exist among the great majority of our banking institutions. There is no greater solidarity in the one class than in the other. In times of financial stress, state banks participate with the national banks in the struggle for cash reserves."

If this view shall finally prevail, the status of national banks being left unchanged and full rights of membership accorded State institutions, it would seem as if Senator Aldrich's revised plan, with slight modifications, should be acceptable to State banks discounting commercial paper. To the extent that the laws of the several States creating them would permit, every advantage, privilege and facility afforded national banks may be enjoyed by State banks of discount. If the revised plan adequately provides for all the needs and is satisfactory to national banks, I can see no reason why it ought not to be satisfactory to State banks of the character I have referred to.

If I am correct, but few questions remain to be discussed.

First—Ought the privileges of membership to be extended to State banks having less than $25,000 capital?

There are about 18,000 State banks, 6,000 having more than $10,000 and less than $25,000 capital. About 1,800 of these smaller banks are located in the South; 1,600 in the Middle West; 2,600 in the Far West. Their aggregate capital and surplus is perhaps in the neighborhood of $100,000,000. For the most part they are serving communities where it would be unprofitable to establish a national bank. While it is doubtful whether many of these institutions would become members of the Reserve Association if the opportunity were afforded, I can see no objection to giving the right of membership to such as have been subject to proper examination, supervision and control by State authorities. It would certainly not only tend to popularize the plan and be helpful in securing its adoption, but lessen the possibility of large financial interests securing control of the Reserve Association.

Second—What facilities for rediscount, in addition to those provided in the plan, should be given State institutions which do not discount commercial paper?

Out of a total of about $16,000,000,000 deposits, over $6,000,000,000 are savings. If Senator Aldrich is correct in assuming that it is essential that the Reserve Association include within its membership all the banks of the country, and Mr. Forgan is correct in assuming that unless they shall become members, the defects in our banking methods will continue, the suggested plan for monetary legislation must be condemned as inadequate unless it affords sufficient advantages to savings institutions to induce them to accept of membership. What advantage can savings institutions derive from membership under the proposed plan? There are four ways in which the National Reserve Association can extend credit to its members:

1. It can rediscount paper arising out of commercial transactions having not more than 28 days to run; commercial paper being defined in the revised plan as notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes. While the language used is somewhat vague, I assume it would be interpreted to exclude obligations issued for investment and to cover only obligations arising out of the distribution of commodities to supply present consumptive demands.

2. It can purchase bank acceptances having not to exceed 90 days to run.

3. With the endorsement of the local association, it can discount paper arising out of commercial transactions having more than 28 days and not exceeding four months to run.

4. Whenever the Secretary of the Treasury, the Governor and the Executive Committee of the National Reserve Association all agree that the interests of the public so require, it can discount the direct obligation of a depositing member, when endorsed by the local association, and secured by satisfactory collateral; the bank receiving the guaranty being required to pay such commission as may be fixed by the local association.

Savings banks and trust companies restricting their investments to savings bank standards, for the most part, have no paper arising out of commercial transactions, even as defined in the revised plan. The only facilities afforded them would be the right to discount their direct obligation at such times, and at such times only, as the Secretary of the Treasury, the Governor and the Executive Committee of the Reserve Association should unanimously determine that protection of public interests required such accommodation to be given.

The situation can best be illustrated by giving one or two concrete examples. A commercial bank could rediscount an unsecured obligation of the United States Steel Corporation, if you please, having less than twenty-eight days to run, provided only it arose out of a commercial transaction, while a savings institution could not rediscount an obligation of the same company having the same maturity, not arising out of a commercial transaction, although secured by government bonds. A commercial bank could rediscount the note of a farmer given for seed or fertilizer, while a savings bank could not rediscount a note of the same party for the same amount and having the same maturity, although secured by mortgage on real estate worth several times the amount of the loan, if issued for other than commercial or agricultural purposes. Manifestly, if the membership and the co-operation of savings institutions is needed or desired, either Senator Aldrich's plan must be broadened so as to qualify for rediscount assets held by them or the legislatures in many States must repeal existing laws prohibiting savings institutions from investing in unsecured obligations. Until quite recently, at least, it has been generally conceded that savings deposits ought to be invested in loans and securities which are locally recognized as the safest. The belief that savings deposits should, in good morals, be regarded in the nature of trust funds, has induced many states to restrict the character of investments that may be made by savings institutions. It is said that in England, France and Italy, savings funds are largely invested in government bonds and mortgages; in Germany in municipal bonds and mortgages. The Law Committee of the American Bankers' Association has been actively considering whether banks doing both a commercial and savings business ought not to be required to segregate their savings funds and investments.

Conceding, without admitting, that in the panic of 1907, prime commercial paper was found more liquid than well-secured Wall Street loans, it may well be doubted whether unsecured commercial paper will ever come to be regarded in some jurisdictions, at least, as a proper investment for savings deposits. In considering the self-liquidating value of commercial paper, it should be remembered that the panic of 1907 was a money panic and that general business conditions remained undisturbed for some months; that commercial paper was not found to be so satisfactory nor so self-liquidating in the industrial panics of 1873 and 1893, when more comparatively solvent concerns failed. It should also be remembered that stocks, bonds, real estate and collateral loans were freely received as security for currency issued by the Clearing House Associations in 1907 and proved eminently satisfactory. The currency then issued has been said by no less an authority than F. A. Vanderlip, President of the National City Bank of New York City, to have been as safe a currency as National Bank notes.

I seriously doubt whether any plan which penalizes savings banks and trust companies for adherence to standards supported by sound reason and long experience will prove acceptable in the end to the public. If it is essential to the success of the proposed plan that State institutions should become members of the Reserve Association, the plan must be liberalized so as to give such of these institutions, as voluntarily or under legal compulsion adhere to savings bank standards in the matter of investments and loans, the right to use their prime secured loans for rediscount.

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I am well aware that it is contended that prime commercial paper is the most self-liquidating asset a bank can have; that it is essential that the assets of the Reserve Association be kept liquid and that to permit savings institutions to use secured loans for rediscount will in some mysterious way further the interests of Wall Street. But so far as I have observed, those who are most insistent that the assets of the Reserve Association be kept liquid have entered no protest to the suggestion that the Association purchase from the National banks $700,000,000 of irredeemable 2 per cent. bonds which would be absolutely unmarketable in its hands, and when deprived of the circulating privilege, worth not to exceed 70c. on the dollar. I fully agree with the opinion expressed by the Currency Commission that it would be a menace to the establishment of the National Reserve Association on a solid basis to permit the taking over of these bonds unless some definite plan for refunding them is worked out in advance, to which the Government is definitely committed. It is gratifying to find that Senator Aldrich has made careful provision for this in his revised plan.

Those who contend that Wall Street interests will profit if secured loans are qualified for rediscount have failed to take note that the demand is made only in behalf of institutions adhering to savings bank standards in the matter of investment. The only savings institutions in the State of New York are mutual savings banks, and unfortunately, as it seems to me, even under the revised plan, they are to be denied the right of membership. Were they admitted and given all the facilities for rediscounting prime collateral loans equal to the facilities afforded National banks for discounting commercial paper, the amount that would be available for speculative purposes would be a negligible quantity, if all the savings banks in the city of New York were to lend themselves to such purpose, which, of course, is unthinkable.

Third—In view of the fact that members of the local association will be required to guarantee the obligations of discounting members, it is important that membership be restricted to solvent, ably and honestly managed institutions. It is far easier to exclude than to suspend the undesirable if admitted. Mere examinations, either by a State banking department or by the Comptroller of Currency, ought not to entitle a bank to membership as a matter of right. Every applicant should be required to present credentials from the department supervising it, certifying to its condition on the date of the last examination and to the fact that the applicant is in good standing with its department.

Fourth—Ought the privileges of membership to be extended to mutual savings banks?

There are 635 mutual savings banks in the country with deposits aggregating $3,500,000,000, nearly 25 per cent. of the total deposits of the entire country. Upon what theory are they to be excluded? Is it because they neither need nor desire the protection, which it is assumed membership in the National Reserve Association would afford, or has the decision to exclude them been found the most convenient way, in view of the fact that they would only have collateral loans to offer for rediscount, to escape from the hue and cry against Wall Street. In times of public distrust, savings institutions are peculiarly subject to attack because of the number and character of their depositors. They can, it is true, require 30 or 60 days' notice of withdrawal to be given, but to take refuge under that right is humiliating, if not a disgrace, at least in normal times. A bank enforcing it fails in the supreme test of good banking, which has been said to be the ability to pay all demands in cash.

Nearly 40 per cent. of the total deposits of the country are savings. Under Senator Aldrich's plan practically none of the resources in which savings deposits are invested could be converted into cash except in times of extreme disturbance, when their direct obligations, properly secured and guaranteed by the local Reserve Association, could be used. Under ordinary conditions protection to savings deposits must result, under the plan proposed, from the conversion of investments representing commercial deposits held by other institutions. I fear too much reliance is placed on the self-liquidating quality of commercial paper and that Senator Aldrich, in his zeal to avoid the appearance of giving any supposed advantage to Wall Street, has entirely overlooked the needs of savings institutions.

If the co-operation of mutual savings banks is essential, the plan must be modified to meet the conditions under which they operate and are powerless to change. Whether secured loans are less liquid than obligations arising out of commercial transactions, is not the only question. The acceptable plan must deal with conditions as they exist and afford the banks of all classes the maximum of opportunity consistent with sound banking to convert their resources into cash.

Fifth—The Currency Commission has recommended that State banks be required to maintain against demand deposits a reserve of like character and proportion as required of National banks in the same locality, trust deposits, savings deposits and liabilities for deposits payable beyond thirty days not to be subject to reserve requirements provided for demand deposits. No suggestion was made by the committee as to what the requirements for such deposits ought to be. In the revised plan Senator Aldrich has provided that time deposits and money held in trust, payable or maturing more than thirty days from date, shall be subject to the same reserve requirements as demand deposits for the thirty days preceding their maturity, no reserve to be required except for such period; savings deposits subject to thirty days or more to be covered by a reserve equal to 40 per cent. of that required for demand deposits in the same locality.

At first glance this seems reasonable and just, but there may be instances where it might prove unreasonable and operate to exclude institutions whose membership should be desired. To illustrate: National banks in central reserve cities are required to keep a 25 per cent. cash reserve in vault. After a thorough and careful investigation, the Clearing House of New York City reached the conclusion that it would be unfair to require the trust companies, in view of the number, character and amount of their clearance items, to maintain such reserve, and it will be remembered that they were admitted to membership under a rule requiring a reserve of 15 per cent. cash in vault and 10 per cent. on deposit with members of the Association carrying 25 per cent. in vault. But for this concession, the trust companies of New York City would undoubtedly have declined to become members of the Clearing House Association. It is possible that failure to lodge power somewhere to make exceptions in the matter of reserve requirements might operate to exclude many, if not all of the larger trust companies in New York City from membership in the Reserve Association, which would be unfortunate. Similar conditions may exist in other reserve centers. I would suggest that instead of having Congress fix the reserve requirements the Executive Committee of the Reserve Association be given power to fix from time to time the amount of reserve required to be maintained by its members for all classes of deposits—savings, time certificates and demand.

If the Reserve Association shall be able to provide for the needs of its members in times of emergency, trade expansion and crop movement, I firmly believe that reserve requirements can gradually be liberalized and within a few years at most entirely dispensed with. Under existing laws $1,500,000,000 out of a total of $3,500,000,000 of currency in this country, is required to be locked up in our vaults and made unavailable for any purpose. It is uneconomic and wasteful, the burden falling in the last analysis upon the borrowing merchant, manufacturer and farmer.

I gave at the outset some of the advantages that would accrue to National bank members if the plan were adopted. A summary of the disadvantages State institutions accept-

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ing membership in the Reserve Association would labor under until State laws are amended may be of interest:

1. State banks could not accept paper drawn on themselves.
2. In many States they could not establish branches.
3. They could not own stock in banks doing business in foreign countries.
4. In most jurisdictions they would be compelled to maintain greater reserves against their demand deposits than is required by the law of the State where they are located.
5. While National banks would not be required to keep any reserve for time deposits not payable within thirty days, State banks in most jurisdictions would be compelled to do so.
6. While National banks would only be required to keep a reserve for savings deposits equal to 40 per cent. of that required for demand deposits, which in reserve cities would be 10 per cent. and in non-reserve cities 6 per cent., State banks in many States would be compelled to maintain a 15 per cent. reserve against savings liabilities.
7. Funds deposited with the Reserve Association could not be counted as reserve.
8. Notes of the Reserve Association held by State banks could not be counted as reserve.
9. State banks must agree to submit to such examinations and to make such reports as may be required by Federal law or by the local association.

While the disadvantages at the outset would be many and burdensome, I am confident the Legislatures in the several States can be relied upon to promptly enact legislation correcting these inequalities.

I have already expressed the opinion that the plan proposed by Senator Aldrich ought to be satisfactory to State banks of discount. If it shall be amended so as to give mutual savings banks and the smaller State banks the right of membership and trust companies and savings institutions adhering to savings bank standards adequate facilities for rediscount and provide for making proper exceptions in the matter of reserve requirements, the plan submitted, in my judgment, should receive the unqualified support and approval of all State institutions.

Interest Rates, Earnings, Dividends and Taxation.

By Benjamin Strong, Jr., Vice-President Bankers' Trust Company, New York.

The purposes to be accomplished by monetary legislation are stated by Senator Aldrich in his letter of January 16 to be the "unification of our banking institutions into one comprehensive system," the establishment of a "scientific basis for bank note circulation," and the "creation of a discount market similar to the discount markets in Europe." The keystone of the proposed plan is the assembling of a large part of the scattered bank reserves into the custody of the Reserve Association, thus making them actively useful.

As the reservoir of the country's reserves, the Association must be able so to control its note and deposit liabilities that its reserve will at all times be adequate to permit extensions of credit, both ordinary and extraordinary. At the same time it must be able to exert a sufficient influence upon the exchange and money markets to contract its credit extensions and increase its reserves when necessary and without harmful influence upon business.

The provisions of the plan as to taxes, earnings and dividends, and the possible relation of the Association to rates of interest throughout the country all co-ordinate with the broad design of the organization.

Having no precedent in banking history for the radical readjustment of the relations and methods of a class of institutions controlling such vast resources as do the banks of this country, that is contemplated in the National Reserve Association, it was essential that its limitations and powers be reasonably safe, clearly defined and liberal enough to insure the accomplishment of the objects for which it is created. As will be seen, the safeguards provided in the plan operate generally as restrictions upon expansion of the Association's liabilities, and reduction of its reserves, while most of the powers vested in the management may be directed toward strengthening the Association's reserves. The proposed methods of taxation govern every possible from of expansion, and the limitation of the distribution of profits to shareholders and to surplus should cause the management to seek a record for conservatism rather than for money making. As it is intended that the Reserve Association shall maintain the surplus reserve of the whole country, such provisions are most important.

The powers conferred upon the management in the exercise of which it may strengthen its reserves are: The power to borrow gold; authority to fix an uniform discount rate, and authority to purchase and sell foreign bills of exchange and foreign Government obligations.

An analysis of the disposition of earnings, the methods of taxation and the probable relation of the Association to the domestic and foreign money markets all lead to the belief that the Reserve Association will be a conservative and trustworthy custodian of the country's lawful money reserves.

As to the earnings of the Association and their distribution, I suggest the following assumed statement of the possible condition of the Reserve Association at the end of say one year, as stated by one of our noted financiers in an address delivered at Nashville last May:

ASSETS.

Lawful money received for capital	$100,000,000
" " " " government deposits	100,000,000
" " " " bank deposits	500,000,000
Government bonds taken over	500,000,000
	$1,200,000,000

LIABILITIES.

Capital	$100,000,000
Government deposits	100,000,000
Bank deposits	500,000,000
Circulating notes	500,000,000
	$1,200,000,000

No amount has been allowed for capital subscribed by State institutions. The capital stock of the State institutions which would be eligible for membership could not exceed $803,000,000, the present combined capital of such institutions, but would be very much less owing to the fact that of the 12,000 odd State banks and trust companies whose capital is included in these figures, nearly 7,000 have not the requisite capital of $25,000.

Solely for the purpose of illustration we will assume a condition for the Association, after some years of operation, as follows:

ASSETS.

Lawful money received for capital	$125,000,000
" " " " government deposits	100,000,000
" " " " bank deposits	625,000,000
Government bonds taken over	700,000,000
Investments and discounts	300,000,000
	$1,850,000,000

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LIABILITIES.

Capital	$125,000,000
Government deposits	100,000,000
Bank deposits	625,000,000
Circulating notes	700,000,000
Deposit and note liabilities arising from investments and discounts	300,000,000
	$1,850,000,000

In this estimate is included an increase in capital and deposit liabilities, as well as circulation to cover a possible admission of State institutions, and a larger discount and investment account is indicated than may arise for many years. Based upon this assumed condition the earnings should work out in round figures about as follows:

EARNINGS.

3 % on 700,000,000 U. S. 3's	$21,000,000
4½% " 100,000,000 discounts	4,500,000
3½% " 200,000,000 investments	7,000,000
	$32,500,000

DEDUCTIONS.

1½% on 700,000,000 U. S. 3's	$10,500,000
Expenses Main Office and 15 branches	6,000,000
" note issues (about double present cost)	2,000,000
	$18,500,000

This result, although allowing for changes in the monetary plan since the estimate heretofore referred to was made, is substantially the same. The stockholders might receive a dividend of $5,000,000, and there would be left for surplus $4,500,000, and for the Government $4,500,000, total $14,000,000. It is quite apparent, therefore, that the disposition of the earnings of the Association may become an important question immediately upon its organization.

Credit institutions are influenced in their operations by two considerations, profit and safety. In this plan the ability to make profits is subordinated to the necessity for safety. Very wisely a limit has been placed both upon the amount of dividends to be paid to the subscribers and the amount of profits to be added to surplus. By limiting the amount of dividends and surplus, incentive to large profits is removed, and no pressure of opinion either from the public or stockholders should induce the management of the institution to allow undue inflation or extend its operations for profit beyond the point of conservative action.

The attention of the country will be focused upon the condition of the Reserve Association, and its earnings will be a subordinate consideration, as is the case in Germany, France and England.

Were the surplus to be increased beyond a moderate maximum fixed amount, subscribers to the stock, in later years, at a greater book value, would realize an increasingly reduced interest return as compared with older stockholders, unless adjustments in the dividends were made which plan would seem impracticable.

The Bank of England has established by long precedent, a fixed rest or reserve of approximately £3,000,000, in excess of which amount profits are distributed to the shareholders. The dividends paid by the Bank since 1844 have been from 7 per cent. to 11¾ per cent., in recent years 9 per cent. Eliminating its own notes held in its Banking Department, the Bank of England shows roughly a net earning power of 1.3 per cent. on all of its assets and 2.2 per cent. on the assets which are earning interest, assuming that all of its earnings have been distributed. This compares with the assumed earnings as above suggested of ¾ of 1 per cent. on all of the assets of the Reserve Association, and 1.4 per cent. on the assets which are earning interest.

The Bank of England earns roughly $6,500,000 to $7,000,000 on $500,000,000 assets, against a forecast of earnings for the Reserve Association of $14,000,000 on $1,850,000,000 of assets.

No more difficult problem could have been presented to the Monetary Commission than that of devising a suitable check, by means of taxation, upon expansion of the note and other liabilities of the Association. The banking business of this country has about doubled in the last decade, and an arbitrary tax, based upon a fixed excess of circulation, would be almost certain in time to cause distress and embarrasment, if, as seems probable, our growing commerce results in a continued growth in our banking requirements. It has, in fact, been calculated that had a tax upon the basis proposed in the first plan submitted by Senator Aldrich been applied to our bank note circulation about seven years ago, a portion of the normal note issues in circulation today would be paying a tax of 6 per cent. There are three taxes proposed by the plan: The first is based upon percentages of deficiency in the amount of the Association's reserves. For each 2½ per cent. that the reserve falls below 50 per cent. of net demand liabilities, a tax at the rate of 1½ per cent. per annum is to be paid to the Government upon the amount of such deficiency. Further consideration may develop necessity for increasing the amount of such tax, or possibly starting the tax at a smaller rate and increasing it as the amount of deficiency increases. While there is no precedent in Europe for the imposition of a tax based upon the *percentage* of reserves held, the plan is so simple and appears to be so scientific in its effect that it should meet with approval. It must be borne in mind that emergency measures are generally applied to bank crises after the worst injury has been done. This was true in the three instances when the Bank Act was suspended in England. The suggested form of taxation should enable this country to meet a crisis without the necessity of an emergency measure, as Germany has done recently through the power vested in the Imperial Bank to expand its circulation. To meet the demand upon it the Imperial Bank has issued 500,000,000 Marks in excess notes upon which it has had to pay a tax of 5 per cent., but by doing so in the ordinary course of business a crisis never developed. When the pressure was over the excess issue immediately began to be reduced and the same phenomena should occur under the Association plan, provided the amount of the tax is reflected in a higher bank rate.

The second tax provided in the plan is applied directly upon such amount of circulation in excess of $900,000,000, as is not covered by 100 per cent. lawful money, until the circulation reaches $1,200,000,000, after which the tax is 5 per cent. This is possibly a wise limitation, necessitated by inability at this time to forecast conditions which may arise in future years. It may, however, prove to be burdensome. There is certainly difference of opinion among bankers in this country as to the wisdom of an absolute limitation upon circulation either by fixing the maximum amount permitted, or by applying a tax upon circulation in excess of a fixed amount. This tax, however, does not interfere with the further extension of note issues, if fully covered by gold, and the Association would still be able to receive gold and issue its notes against it to an unlimited amount.

The provisions of law as to the taxation of unusual note issues by the principal banks of Europe are briefly as follows:

The Bank of England has a fiduciary circulation limited to the exact amount of £18,450,000. Beyond that, notes must be covered in full by gold or silver coin or bullion. Three times since 1844 the Bank Act has been suspended, although it was only necessary in one instance to issue additional fiduciary notes. The tax imposed by the Government has simply been the amount of net profits realized upon such issues. The Bank of France is limited to a maximum note issue of 5,800,000,000 Francs. It may not exceed this amount even with 100 per cent. cover in gold, and there is no provision for an emergency circulation subject to an emergency tax. The Imperial Bank of Germany may issue its notes to an unlimited amount, free of tax, if fully covered by bullion, coin or lawful money.

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It may also issue, free of tax, up to an amount of 750,000,000 marks in excess of the bullion, gold coin and lawful money held by it, or an unlimited further amount subject to a Governmental tax of 5 per cent., provided such excess is covered by Government securities and short notes and bills, but at no time may the total note issues of the Bank exceed three times the amount of lawful money held.

The first two plans of taxation should, as designed, provide an effective check upon expansion by causing a higher rate and its resultant curtailment of loans. Actual contraction of liabilities should soon follow, as the paper carried by the Association would not be subject to removal. As soon, therefore, as the decrease in new loans exceeded the amount of maturing bills, a contraction in liabilities would commence.

The third tax provided by the Monetary Plan consists of a "franchise" tax of 1½ per cent. annually upon an amount equal to the par value of the 2 per cent. Government bonds transferred to the Reserve Association by the subscribing banks. The Government is asked to increase the rate on its 2 per cent. bonds to 3 per cent., thus giving the Association an investment of a market value about equal to the price at which it takes the bonds over. At the present time the Government pays 2 per cent. interest on its bonds and receives from the banks one-half of one per cent. upon the amount of their circulation. Approximately the same result is realized to the Government by this plan. Were it not for such an adjustment the bonds taken over by the Reserve Association would have a market value upon an investment basis estimated at 70 per cent. of their par value. The shrinkage in the value of this asset would be possibly $200,000,000, or nearly double the assumed paid-in capital of the Association. This tax, of course, has no relation to the reserves of the Association, and its effect is simply to reduce a large part of the Government debt to an annual net interest charge of 1½ per cent.

Of more importance to the country as a whole will be the relations of the Reserve Association to the money markets, and the effect of its operations upon interest rates. The magnitude of the plan will be realized when we consider the possible loan contraction resulting from the payment of $100,000,000 lawful money to the Reserve Association for its paid-in capital. For instance, if every subscribing bank were loaned up to its limit, figured upon the 14 per cent. average of lawful money reserves now held throughout the whole country, this would theoretically call for a contraction of about $700,000,000 in loans unless offset by other provisions of the plan, or by the operations of the Reserve Association itself. As partly offsetting the effect of such payment, there will doubtless be released a considerable amount of lawful money now held as reserve for savings and time deposits, upon all of which reduced reserves are permitted by the revised plan. Any further net contraction caused by payments for the Reserve Association's capital stock would probably be offset by the discounts of the Association soon after its organization, and no disturbance of rates should result.

The plan provides that "The rates of discount which the National Reserve Association shall have authority to fix from time to time shall be published, when fixed, and shall be uniform throughout the United States." It further provides that the Association shall have power to "contract for loans of gold, coin or bullion," also that the Reserve Association shall have power to purchase from its subscribers, and to sell with or without its endorsement checks or bills of exchange payable in foreign countries. These are powers in the exercise of which the Reserve Association may in time be expected to exert an important influence upon interest rates. A uniformly low rate of interest cannot be expected in this country for a long time to come, but greater stability in interest rates, particularly in our money centers, might result as soon as the Reserve Association becomes active. This would enable those engaged in commerce to anticipate with greater certainty the cost of their credit requirements and should make normal business safer to carry on. French economists, commenting upon the unique record of the Bank of France, contend that the welfare of the commerce of France has been conserved and protected by the maintenance of a low and uniform rate of interest.

To the forces already mentioned, which would tend toward more stable interest rates, must be added the wonderful power of expansion that the Reserve Association would possess.

In the second statement of conditions given it is assumed that the Reserve Association before making any discounts or investments might have total deposit liabilities of $1,425,000,000, upon which a 50 per cent. reserve, after deducting one-half of the Government bond holdings, would be $537,500,000. The lawful money held was $850,000,000, or $312,500,000 in excess of 50 per cent. of its net liabilities. Were the bank to extend credits, thus expanding its deposit and note liabilities to the maximum amount possible without incurring liability for tax upon either of the two plans provided, it could at once add $200,000,000 to its circulating note issue, thereby reducing its surplus reserves $100,000,000. The balance, $212,500,000, might still serve as 100 per cent. cover for a like amount.

The extent to which this vast credit would be employed would depend entirely upon the developing needs of the country as expressed in the discount rate, for as already stated there would be no temptation to the management to expand its liabilities for profit and it would consequently be used only as a governor to interest charges.

Under our present system (comprised of 26,000 individual units without cohesion) there is a greater divergence of interest rates in various sections of the country than can be accounted for by the difference in strictly local conditions. Credit operations between the banks are now effected through individual alliances and relationships, instead of through a broad market for commercial paper and bank acceptances. This partly accounts for the high rates that have ruled in certain sections of the country remote from financial centers, for our system is so rigid and the provisions of our present banking law so inadequate that it is now repugnant to the country banker to show an account of borrowed money in his statement. The Association plan, carrying with it a system of bank acceptances and encouraging the rediscounting of certain classes of paper will cure such objections to the employment of the credit of country banks for the purpose of making provisions for the needs of their customers. The introduction of a system by which bank acceptances and short time commercial paper may be freely moved from one part of the country to another should, in time, exert an influence upon money rates largely favorable to interior institutions.

The influence of bank officers will probably be exerted toward the creation and accumulation of a larger volume of short time mercantile paper, which will be susceptible of discount among banks and rediscount with the Reserve Association. Such paper will pass from the country bank to the reserve bank, and will be considered by the latter its choicest asset by reason of its convertibility through the Reserve Association. This class of paper will then become the secondary reserve of the banks of the country in place of demand Stock Exchange loans which largely constitute such reserve today. These loans are made with the expectation that in the early Fall they will be largely recalled, and the proceeds used for crop movement in the West and South. The same inducements which have made such loans desirable, namely, realization of interest and availability, will prevail to as great and probably a greater extent in the case of bank acceptances and short time commercial paper with the Reserve Association in operation, and it is only natural to suppose that the result will be the gradual accumulation of bills of short maturity in place of Stock Exchange loans and the building up of a new form of secondary reserve. It may be found that these changes take place slowly and that while the discount

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account of the Reserve Association will gradually increase, yet its principal primary transactions will be the accumulation of foreign exchange. Its position with reference to the importation of gold, as its business develops, will necessarily require the accumulation of such exchange, and its hold upon the discount market will be influenced more or less by the strength of its foreign relations. It would seem natural to expect the bank rate of the Association to follow, to a certain extent, the same position relative to open market rates in this country (open market rate would be the discount rate for commercial paper and bank acceptances) that has prevailed in France and England between bank and open market rates. It has been found in both of these countries that the rate of discount in the open market has generally been lower than the official rate of the bank. However, when it has been necessary for the Bank of England to check withdrawals of gold or to attract gold to the bank, it has assumed control of the open market rate for such time as conditions required, and it can safely be assumed that the Reserve Association with its vast resources could upon occasion wield the same power over our open market and make its rate effective.

The necessity for such control will be particularly felt in New York where the adjustment of our foreign exchanges and the settlement of balances in gold are principally effected.

It is plain to be seen, without further discussion, that the provisions of the Association as to taxes, earnings, dividends and the probable effect of the proposed organization upon interest rates in this country are not only of the utmost importance, but that they have been given due consideration by those who prepared the plan and that they are aimed to encourage and conserve the business interests of the people of the United States.

Gentlemen, this Reserve Association is a magnificent conception. If Congress permits its organization in its present from, its destiny will be in your hands, for you will own and manage it. When that time comes, the highest prize to be gained by the American business man will be the privilege of participating in the management of the National Reserve Association of the United States.

The Mobilization and Control of the Reserves of the Country.

By James B. Forgan, President of the First National Bank, Chicago, Ill.

The lack of proper economic control of the reserve money in the United States is the most vital defect of our present banking system. It is the most serious weakness of the banks individually and collectively in their relation to the public. It affords a constant source of anxiety to bankers and in emergency becomes the prime cause of panic. Other benefits anticipated from suggested banking legislation are secondary and incidental to those that will be derived from the correction of this, the greatest defect.

Our present system makes each bank responsible for the maintenance, control and custody of its own fixed proportion of lawful money. Under this requirement the reserves of the country are divided into as many separate portions, and put under as many different controls as there are individual banks. The result is that the legal reserve money, which could be massed and mobilized for the effective protection of all, is distributed for the ineffective protection of individual banks.

In times of panic the money reserves so distributed, although more than ample if mobilized and properly controlled, are not sufficient to protect the situation until the aggregate amount of them has been abnormally increased by the importation of gold and by the liquidation of loans. This process, causing financial disturbance and business distress, continues until the reserves become quite unnecessarily large, as I shall show later by statistics.

On the first suggestion of financial trouble, the responsibility placed upon each bank of maintaining its own fixed portion of reserve and the necessity it feels for increasing the amount throws them all into a state of demoralization, and each one strives with all the rest, for the reserve money deemed necessary for its individual survival.

Just when, were their reserves under proper economic control, the banks would be looked to as the mainstay and support of a doubtful business situation, for lack of such control, they fail to inspire the public confidence that should be reposed in them and fail even in the performance of their ordinary functions. They disintegrate when they should coalesce. They display individual weakness when they should demonstrate united strength.

Their individual scramble for reserve money withdraws it from the centers and scatters it widely just when it should be mobilized and controlled for an exhibition of strength. Furthermore, lacking the strength, begotten of unity, and fearing that such individual reserve strength as they may have will soon be exhausted, our banks in critical times reduce loans and almost discontinue the performance of their principal function, that of exchanging credits with the business community. Thus, under unfavorable business conditions, they become the cause of panic, instead of being in a position, as they would be under the proper mobilization, protection and control of their cash reserves, to render the assistance necessary to allay fear, tide over temporary difficulties and prevent the upheavals to which we have become so accustomed that we erroneously regard them as periodically inevitable.

Probably the most vivid description that has been written of this vital defect in our present banking system and of the futility of our disintegrated and widely distributed reserves in the time of financial stress comes to us from the other side of the counter. I refer to Mr. A. B. Stickney's letter published in the New York *Times* on December 16, 1907, when our latest panic was at its acute point. Mr. Stickney, as you know, is not a banker but a prominent railway official. He wrote:

"Some of the statistics contained in Mr. Ridgely's report, which has just been published, when analyzed and compared with other banking systems, prove most conclusively the necessity of the central reserve bank which he advocates.

"It appears that on August 22 the 6,650 National banks of the country held deposits amounting to $4,755,000,000, and held for 'statistical purposes' actual cash reserves amounting to $552,000,000, while all the banks in England in October, 1901, the last date at my immediate command, held $3,732,000,000 in deposits against an actual cash reserve of only $185,885,000 in gold in the Bank of England.

"With this enormous reserve for 'statistical purposes' of $552,000,000 in gold all the banks in the United States were compelled to suspend specie payment in October.

"With these facts before me, the question arises: Do the banks in this country possess any reserve in any true sense of the word 'reserve'?

"The units of a nation's military reserve are its able-bodied fighting men, but as long as these fighting men are scattered over the country, unorganized, they constitute no military reserve to defend the country against mobs, insurrections or the invasion of the public enemy.

"So, if these units of the military reserve of a country are organized into 7,000 small bands, under the command of 7,000 independent captains, for the purpose of protect-

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ing their individual localities, but absolutely refusing to leave their locality or engage in the general defense or in the defense of any other locality, owing no allegiance to each other or to any superior officer, they would in no proper sense of the word constitute a military reserve.

"The present condition of the so-called bank reserves is exactly similar. Its enormous units, consisting of over 552,000,000 of gold dollars, are unorganized, scattered in insignificant banks, each commanded by an independent captain, who is intent upon taking care of himself, who refuses allegiance to any superior officer, and refuses to go to the defense of any other bank when beset by the public enemy—distrust.

"These independent captains not only refuse allegiance to any superior officer and refuse to go to the defense of any other bands, but they are continually making efforts to increase their own band by depleting the forces of the other captains.

"Under such circumstances, can the $552,000,000 be properly considered as bank reserves, any more than the larger number of dollars which are contained in the pockets of the people?

"On the other hand, had this enormous amount of gold, constituting a huger pile than has ever been aggregated in the history of commerce, been held in a great central reserve bank, like the Bank of England, or the Bank of France, available for defense against the attack of distrust and panic in any section of the country, it is beyond question that the banks in this great country, instead of occupying their present humiliating position, would now be on a gold basis, capable and willing to extend all the necessary credits required by the vast commerce of the nation.

"A London banker recently wrote me as follows:

"'It is ridiculous that with £300,000,000 of gold in the United States, as compared with £30,000,000 in the Bank of England, the great American nation should be reduced to such a pitiful pass.'"

Lest these descriptions should seem exaggerated or inaccurate let me give you some statistics showing what actually took place during the panics of 1893 and 1907.

On May 4, 1893, the legal tender money held by all the National banks in the country amounted to 16.9 per cent. of their net deposits. By July 12, when the next Comptroller's statement was published, this percentage was increased to 17.2 per cent. By October 3, the date of the next call, it had increased to 22 per cent., and by December it reached 23.2 per cent., an increase of 6.3 per cent. during a panic period of seven months.

The liquidation of net deposits by the banks outside of the reserve and central reserve cities, between May 4 and October 3, 1893, amounted to $203,000,000, and notwithstanding this enormous liquidation of their liabilities, amounting to 21 per cent. of their net deposits, the aggregate amount of their lawful money in their vaults was increased by about $7,000,000, and they had on hand at the end of the scrimmage lawful money amounting to 15.2 per cent. of their deposits. This was more than the percentage of legal reserve required, notwithstanding the facts that three-fifths of it may be kept on deposit with legal reserve agents, and that under normal conditions one-half of it is usually so kept. Their legal reserves, including their balances with reserve agents, were 30 per cent. of their deposits, being double their legal requirements.

During the same period the reserve city banks liquidated $75,000,000 of their net deposits and practically held their own as to the aggregate amount of their lawful money on hand. They used $23,000,000 of Clearing House loan certificates, and thus increased the percentage of their cash on hand to net deposits from 16.8 per cent. to 19.4 per cent.

During the same period the banks in the central reserve cities liquidated nearly $60,000,000 of their net deposits and at the same time increased their lawful money on hand by $20,000,000 and the percentage of it to net deposits from 28.2 per cent. to 36.9 per cent. In order to accomplish this they imported $50,000,000 of gold and had in use $38,000,000 of Clearing House loan certificates.

Between May 4 and October 3, 1893, a period of five months, during which panic prevailed, the National banks of the country liquidated $337,000,000 of their net deposits and increased their actual holdings of lawful money by about $25,000,000. To accomplish this they put in use $61,000,000 of Clearing House loan certificates and imported $50,000,000 in gold, $20,000,000 of which got away from them. Some of this may have been absorbed by the State banks, but the probabilities are that a large part of it was locked up by those, who, through fear, had withdrawn their deposits. The enforced liquidation of deposits was therefore almost entirely accomplished by a corresponding enforced liquidation of loans, which were reduced during this same period to the extent of $318,000,000.

In 1907 the same thing occurred. Between August 22, 1907, and February 14, 1908, the National banks liquidated $218,000,000 of their net deposits. During the same period they increased their specie and legal tenders by $88,000,000. They imported $116,000,000 of gold, received $75,000,000 of gold on deposit from the Government, and put in use $75,000,000 of Clearing House loan certificates, which enabled them to liquidate their loans to the extent of $257,000,000.

The banks outside of the reserve and central reserve cities liquidated $166,000,000 of their net deposits by calling in and enforcing liquidation of $176,000,000 of their loans, while at the same time they increased their legal reserve money on hand by $33,000,000.

These figures are impressive, but they tell only half the story, for they relate only to the National banks which do less than half the banking business of the country. If similar statistics were available for the State banks the aggregate figures would be doubled.

There can be no doubt then that in meeting a financial crisis the banks do not rely upon nor can they use the cash reserves which the law arbitrarily requires them to keep on hand ostensibly for that purpose. Instead of being able at such a time to use their reserves they are compelled to curtail the credit of their customers, to enforce liquidation of loans and to enter into a scramble among themselves and with foreign banks for the gold necessary to strengthen their individual holdings of reserve money. And by this scramble they upset the financial equilibrium of the world.

Doubtless you have heard the story of the hospital superintendent and his emergency beds. It illustrates very aptly our action in an emergency. This superintendent was required by law to reserve a certain number of rooms in his hospital for an emergency. One day a building in course of construction in the next block collapsed, maiming a considerable number of the workmen. The people of the neighborhood hurriedly carried the poor fellows to the hospital. The superintendent received them as long as he had ordinary beds to put them in, but kept the emergency rooms locked. He then told the people he could not take care of any more patients, and on being reminded by a nurse that the emergency rooms were not in use, he said: "Why, we cannot use these, the law requires us to keep them for an emergency." That, of course, seems highly absurd, but the practice enforced on us by our banking law is even more so, for when in a financial emergency we reach the legal limit of our reserves, we not only keep the doors of our legal reserve rooms locked, but we throw our weakest patients into the streets and increase our reserve capacity even beyond the arbitrary requirements of the law.

The financial loss to business concerns through the enforced liquidation of their credits during these periods of panic must have been enormous in the aggregate. Those who weathered the storm not only suffered loss through the process of liquidating and the consequent depreciation in the realizable value of their assets, but must have met

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directly with large loss as creditors of those who failed. The amount of such loss, direct and indirect, to those who survived as well as to those who failed, it is impossible to estimate, but a vivid impression as to the extent and far-reaching effect of such loss is made on one's mind by a study of the statistics of business failures as furnished by the commercial agencies. The statistics of failures for the past twenty-four years and a comparison of them in years of panic with those in years of normal conditions show as follows:

Comparative statistics of failures in the United States between years of panic and years of normal conditions:

Particulars.	In panic years 1893, 1896, 1907, 1908.	Twenty normal years from 1887 to 1910. Panic years omitted.
Average yearly number of failures.....	13,728	10,945
Average yearly amount of actual assets of failed concerns.....	$208,900,000	$73,040,000
Average yearly amount of total liabilities of failed concerns.....	327,100,000	141,880,000
Average yearly percentage of assets to liabilities	63.10%	51.30%
Average yearly percentage of failures to the number of concerns in business....	1.12%	.95%

It will be observed that in panic years the relative amount of assets to liabilities was increased to 63.1 per cent., against 51.3 per cent. in normal years. When it is borne in mind that bankruptcy causes a much greater shrinkage in the realizable value of commercial assets in panic than in normal years, and that such shrinkage runs from 25 per cent. to 50 per cent., or even more, the abnormal percentage of assets to liabilities shown in panic years clearly indicates that a large part of the increased number of failures in these years were of solvent concerns, and were caused by enforced liquidation and by the curtailment of their bank credits.

How different from our method of meeting an emergency is that employed by European banks. In every country in Europe, whose banking system the National Monetary Commission investigated, it was found that the practice is just the reverse of ours. They meet emergencies by expansion of credit, we by contracting it; they increase their loans, we curtail ours; they have facilities for so doing, we have none.

Take Germany, for example: On September 23, 1907, at the time of their commercial crisis and our panic, the cash on hand of the Imperial Bank was $236,797,000; on September 30 it had declined to $199,025,000, a decrease in one week of $37,772,000. During the same week the loans and discounts rose from $289,750,000 to $391,637,000, an increase of $101,887,000; and the note circulation rose from $339,625,000 to $433,437,000, an increase of $93,812,000. On December 23, 1907, the cash on hand was $196,588,000, and on December 31 it had declined to $187,306,000, a decrease in that week of $9,282,000. During the same week the loans and discounts rose from $340,337,000 to $441,275,000, an increase of $100,938,000; and the note circulation rose from $372,637,000 to $447,925,000, an increase of $75,288,000.

During the last week of September, this year, when monetary conditions were disturbed by the Morocco scare, the specie of the Imperial Bank fell from $264,100,000 to $236,300,000, a decrease of $27,800,000; while during the same period the loans and discounts rose from $308,300,000 to $445,500,000, an increase of $137,200,000, and the note circulation increased $183,800,000.

In a crisis our system provides no method for maintaining mutual confidence between the banks and the public. The banking business is based on confidence, and confidence must be mutual. The public never will have confidence in the banks during financial crises until facilities are provided in our banking system that will enable the banks to protect themselves in panic times. The primary cause of panics is the requirement in the National Bank Act that each bank must hold in reserve for an emergency a fixed percentage of lawful money, which it is prevented by the same law from using when an emergency arises. No facilities are provided, nor are methods suggested, in the National Bank Act by which the banks in a crisis may protect their reserves and maintain the legal percentage required, except the fatal provision that while their reserves are impaired they shall make no new loans to their customers.

The percentage of actual cash reserves to deposits carried by each bank becomes fixed in the public mind as the sole measure of its ability to pay its deposits, and practically such it is under our defective system in times of panic.

For example, a bank with $100,000 deposits is required by law to keep on hand $6,000 in lawful money. Its depositors, measuring ability to pay its deposits by this small percentage of available money, take alarm whenever anything occurs foreshadowing financial trouble, and many of them decide to get their money out of the 6 per cent. cash on hand while it lasts. Against such an attack the bankers, not knowing where or when it will end, have only one resort, *i. e.*, to increase at any cast their individual holdings of reserve money. This produces a scramble among the banks themselves and entirely changes the relations existing between them and the alarmed public. Mutual confidence which had previously controlled such relations is shattered and panic prevails.

My early banking experience was under the branch bank system, and I know that no such thoughts or fears disturb a community whose banking facilities are supplied by a branch of a bank with large cash reserves at its central office. The thoughts of the local customers of a branch bank are never directed to the amount of lawful money it may have in its vault. From time to time they see the statements made by the parent bank, and realize that there could be shipped promptly from the large reserves it carries sufficient money to pay all the deposits at the branch. The customers are concerned only in having the branch keep on hand sufficient acceptable circulating medium for the payment of checks as they are presented. This the branch does by carrying a sufficient supply of the parent bank's notes. It requires only such lawful money in small denominations as is needed for small change.

Under the proposed plan for a National Reserve Association the minds of the local depositors in our banks would be diverted from the small lawful cash reserves they individually maintain. Attention would be directed, rather, to the fact that the banks were affiliated with a central association, maintaining and controlling for them their lawful reserves and standing ready to supply them with its circulating notes whenever necessary. The plan suggested will therefore afford our banks the principal advantages of the branch banking system, without surrendering their individuality of ownership, their interest in local affairs or the local control of their business.

In order to ascertain what power the National Reserve Association would have to mobilize and control the reserves of the country under ordinary conditions and to utilize them in a crisis for the protection of the banks and through the banks for the protection of the public, I have prepared what might be called a prospectus of the institution. The figures are purely prospective and probably about as accurate as those of the average prospectus of any unorganized business undertaking.

Before giving you these figures I should explain that my estimates are based on Senator Aldrich's revised edition of his "Plan for Monetary Legislation," in which among other new suggestions he makes the following:

1. That the National Reserve Association will have a paid-in capital of approximately $150,000,000 to start with.

2. That its minimum legal reserve shall be 50 per cent. of its net liabilities, any deficiency from that figure to be

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subject to a graded tax which shall increase as the deficiency increases.

3. That its net liabilities shall be ascertained by deducting from its gross liabilities—the combined amount of its deposits and circulation—50 per cent. of the face value of the Government bonds taken over from the National banks.

4. That the Government shall refund at 3 per cent. its 2 per cent. bonds thus taken over from the National banks.

5. That as an offset to this 1 per cent. additional interest and as a special tax for its note-issuing privilege the National Reserve Association shall pay to the Government a franchise tax equal to 1½ per cent. on the amount of the bonds so refunded.

PROSPECTIVE FIGURES.

If the National Reserve Association should commence business with a capital as proposed of.....		$150,000,000
it would gradually assume liabilities approximately as follows:		
Government deposits	$100,000,000	
Bank deposits (estimated at a little over half the present lawful money in the national banks alone).....	500,000,000	
Circulation against government bonds taken over from national banks.....	700,000,000	
Its total liabilities outside of its capital would be		1,300,000,000
		$1,450,000,000
Against these liabilities it would require the following assets:		
Gold or legal tender money for its capital	$150,000,000	
Gold or legal tender money for its deposits	600,000,000	
Government bonds against circulation.....	700,000,000	$1,450,000,000

Its lawful money reserve against its liabilities would be as follows:	
Gross liabilities	$1,300,000,000
Deduct 50% of government bonds on hand.....	350,000,000
Net liabilities	$950,000,000
Lawful money on hand, 79%.....	750,000,000

On the basis of these figures it would have a loaning or investing capacity of $275,000,000 as, after investing that amount of its lawful money, it would still have left 50 per cent. of its net liabilities. But in the ordinary course of business its deposit and circulation liabilities would increase in proportion to the amount of its loans and investments, doubling its loaning capacity. Expanded to its full capacity its loans would be $550,000,000 and its net liabilities $1,500,000,000, while its $750,000,000 of lawful money would still be 50 per cent. of the latter.

If the loans and investments required under normal conditions should be one-half this amount, or $275,000,000 (or, in other words, if the management should, as it probably would, under normal conditions, run the Association at half its maximum loaning capacity), the normal reserve would be 61.22 per cent., and there would be, placing the minimum legal reserve at 50 per cent., a leeway for expansion of the loans of $275,000,000.

A normal balance sheet on this basis would be:

ASSETS.

Gold or legal tender money.....	$750,000,000
Government bonds	700,000,000
Loans and investments.....	275,000,000
	$1,725,000,000

LIABILITIES.

Capital	$150,000,000
Government deposits	100,000,000
Bank deposits (originally deposited in lawful money)..	500,000,000
Circulation	700,000,000
Bank deposits created by, or circulation issued against, loans and investments (immaterial which).....	275,000,000
	$1,725,000,000

And a statement of liabilities and legal reserve against them would be:

Gross liabilities	$1,725,000,000
Deduct capital	150,000,000
	$1,575,000,000
Deduct 50% of government bonds.....	350,000,000
Net liabilities	$1,225,000,000
Legal reserve money, 61.22%.....	750,000,000

To indicate that the Association could afford from the standpoint of profit to thus run under half steam, so to speak, I offer the following prospective figures of its income and expenses under normal conditions:

INCOME.

3% on government bonds.....	$21,000,000
3½% on loans and investments	9,625,000
	$30,625,000

EXPENSES.

Operating expense	$5,000,000	
Expenses connected with note issue.....	2,000,000	
Franchise tax (equal to 1½% on government bonds taken over from national banks with privilege of circulation against them....	10,500,000	17,500,000
Net profits		$13,125,000
Dividend on capital stock 4%.....		6,000,000
Applicable for division between surplus and the government besides the franchise tax, as above.....		$7,125,000

When the maximum dividend of 5 per cent. is paid to stockholders and the surplus is 20 per cent. of the capital, the distribution of profits would be as follows:

Net profits, as above.....	$13,125,000
5% maximum dividend to stockholders.....	7,500,000
Balance of profits to government.....	$5,625,000

These figures are made up on the basis of the original and direct business which the National Reserve Association would acquire. They do not disclose the reserve strength it would have nor the increased loaning power it would acquire as its business develops.

An important part of its reserve strength would be its foreign balances and the foreign bills and foreign government securities in which it is authorized to invest and which would therefore under normal conditions form a very considerable part of its current loans and investments. These foreign investments would be increased or diminished, or, in other words, the National Reserve Association would invest its gold in them or convert them again into gold as the fluctuations of international commerce and the trade balances between this and foreign countries made such transactions necessary or desirable.

Another source of the National Reserve Association's strength which would develop as its business expanded would be the accumulation of reserve money that would gradually find its way into its vaults. Mr. John Perrin, of Indianapolis, in his address before the Tennessee bankers' convention, stated this feature of the Association's ultimate strength so clearly that I will take the liberty of quoting him:

"One feature which perhaps does not present itself at first glance," says Mr. Perrin, "is that all the reserve money of the country would tend ultimately to find its way into the Association's vaults. As its depositing banks would ship currency to it from time to time, these shipments would be made up indiscriminately of gold, gold certificates, greenbacks, silver certificates and National bank notes. The National Reserve Association would, of course, not reship gold or gold certificates when called upon for currency, but would send out its own notes. The gold certificates would be presented at the United States Treasury, where they would be cancelled and the actual gold taken over to the vaults of the Association. Through this process substantially all the gold money in the country, whether coin or gold certificates, not only that in the reserves of banks, but also that now in the pockets of the people, would gradually find its way into the vaults of the National Reserve Association, and its notes would gradually form the main body of our currency.

"As the reserve money of the entire country steadily

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accumulated in the vaults of the Association, its lending power would correspondingly increase. The gold received by it, whether creating in equal amount a liability subject to check or a bank note liability, would provide a 50 per cent. reserve against that liability, and an amount sufficient for a 50 per cent. reserve against a new deposit liability of equal amount which might be created by rediscounts to that extent for its customers. As the general stock of gold in the United States is now estimated at more than $1,700,000,000, the importance is apparent of this tendency of the reserve money of the country to accumulate with the Association, whose normal percentage of reserve would doubtless soon be 70 per cent. or 75 per cent. It would have such vast credit-extending power as to be almost beyond belief, and certainly far beyond the requirements in any panic.

"With such an institution established, the strength of banks would be judged not by the proportion of cash in their vaults, but by the character and convertibility of their commercial assets."

Another feature of inherent strength in the National Reserve Association will be found in its note issuing privilege which will afford its proper protection for its gold reserves through its right to issue its notes for circulation as substitutes for gold or lawful money. The demand for its circulating notes will fluctuate with the seasons. When crops are being moved the demand for them will be at its height, and the maximum amount of them for which legitimate use can be found will be reached. At such times the banks will have to support their reserve balances with the National Reserve Association, against which they may have currency shipped to them, by rediscounting their available paper. As the business demand for circulating notes declines, they will return to the banks and through them to the branches of the National Reserve Association for credit on deposit. Simultaneously will mature the rediscounts on which the increased issue of notes was based. Thus, when circulating notes are shipped out, there will simply be a change in the form of the National Reserve Association's liabilities from that of deposits payable on demand to that of demand notes outstanding. When they return the transaction will be reversed, without in either case changing the proportion of lawful money on hand to the total liabilities of the National Reserve Association.

The lawful money reserve of the National Reserve Association will be but slightly affected by its domestic business transactions. So far as they are concerned, its cash reserves will remain practically stationary except, of course, as they may increase with the growing business and wealth of the nation. Its total liabilities will fluctuate as its rediscounts, prime acceptances purchased, or other permissible investments fluctuate, and the aggregate amount of these it will control and regulate in accordance with the percentage of lawful money it has on hand as legal reserve against its liabilities. Fluctuations in its lawful money reserve will occur principally through the withdrawal or the deposit of gold in connection with the settlement of foreign balances. Control of this will be in the hands of the management, as has already been indicated, by dealing in foreign exchange and foreign government securities, carrying a line of foreign acceptances and maintaining foreign balances.

We have seen the futility of our present method of handling the money reserves of the country. We have seen that our reserves, though ample if mobilized and properly controlled, are ineffective in a financial crisis when scattered as the law now requires. That in an emergency instead of using them we must increase them. That in a financial crisis liquidation is enforced by the banking law, which provides no legal facilities by which the banks can protect their reserves. That it requires banks to stop loaning money whenever the legally required reserve is impaired. That at such times the banks have had to resort to issuing Clearing House loan certificates, circulating Clearing House checks and suspending cash payments.

We have also seen that these weaknesses in our present system, which are primarily responsible for our panics, would be corrected by the mobilization and control of the reserves of the country in the National Reserve Association. We have seen that in a crisis the facilities afforded to and by the National Reserve Association would not only afford it ample protection for its own reserves, but that the reserves of the country mobilized in and controlled by it could be made effective for the protection of all the banks affiliated with it. That the banks so protected would in an emergency be dominated by courage instead of fear, and would be able to devote their attention to caring for their customers instead of exclusively caring for themselves.

I am convinced that the National Reserve Association would become the largest, the strongest, the safest and the best financial institution in the world. I believe that it would put our banking and currency system where it should be, in the front rank of those of the leading nations of the world, instead of trailing, as now, at the end of the procession, under the constant fear, shared in by other nations, that it may at any time break down and upset domestic and international financial relations and arrangements.

Public Opinion and the National Reserve Association Plan.

By J. G. Schurman, President of Cornell University.

I appreciate the honor of the invitation to address this National Association of Bankers. Nothing indeed but my deep sense of the honor involved in this invitation would have induced me to leave home, where I have many pressing engagements. And your General Secretary will bear witness to the fact that I felt myself on that account at first compelled to decline your invitation. If, nevertheless, I am now here, it is due to the persuasive appeals of your President and General Secretary, my deep sense of the honor of the commission they put upon me, and also, I may as well confess, my personal desire to hear from the most competent experts in the land a thorough discussion of the Aldrich plan of banking and currency reform.

While I keenly appreciate the honor of addressing this convention of bankers, I desire, in the first place, to crave their indulgence by confessing my lack of qualifications for the undertaking. I am not a banker or the son of a banker. Neither do I enjoy the opportunities of making money with which an unsophisticated public credits all bankers. Nor have I had any experience as director of a bank, for, though I was once elected to that honorable position, I declined it on the ground of its possible incompatability with some of the duties of my office as President of Cornell University.

There are, however, three considerations which I may mention in explanation of—I will not say in justification of—my appearance as a speaker before your national gathering of bankers. And I am very desirous of discovering even plausible reasons to justify in your minds the invitation which your officers have conveyed to me. Perhaps one or other of the facts I am about to mention may be considered an excuse for them—a partial mitigation of their

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rashness. In the first place then let me say that, having been a student of economics and finance from my boyhood, though my studies have often been interrupted by other duties, I have for many years been deeply interested in the subject of banking and currency reform; secondly, though I have been compelled by administrative duties to give up teaching and have conducted no classes for many years, I am, nevertheless, at the present time giving a course of lectures to our students on economic and financial subjects, in which I am devoting considerable space to the subject of money, credit and banking; and in the third place, I have long been a disciple and advocate of the doctrine that the United States has the worst system of banking and currency in the whole civilized world.

This Association is vitally interested in and devoted to the reform of that system. I meet you on common ground. I am as keenly alive to the importance and indispensable necessity of reform as you are. It is impossible to estimate and difficult to exaggerate the magnitude of the losses which this country has suffered from the defects of its present banking and currency system. No other civilized country would so long have endured such a waste of its resources; no other country is rich enough to have stood it.

Banking Reform and Party Politics.

The general public has no idea of the importance or urgency of the reformatory and constructive legislation which we now desire for the improvement of our banking and currency system and the protection of the financial interests which they represent. Questions of partisan politics, especially if embittered by personal feuds, easily gain possession of the public mind. But the promotion of the public welfare without appeals to passion and to fury is a much more difficult undertaking. Yet measures of this character are vastly more fruitful than any issue of mere partisan politics in promoting the public interests. Education, research, invention, the wise organization of capital and labor, and the maintenance of a system of orderly and just government have been of infinitely more benefit to mankind than any, or perhaps all, of the personal or emotional issues which have ever convulsed party politics. If, therefore, it is more difficult to arouse public attention to the importance of subjects of this character, we may, nevertheless, console ourselves with the reflection that these are the subjects which it is supremely worth while for the public to be interested in. And we may cherish the faith that in the long run a hearing will be secured for them and public interest aroused, first, because with all their emotional partisanship there is a large residuum of reason in human beings and, secondly, because in the fierce competition of modern industrial societies it is absolutely impossible for a nation to prosper if its economic and financial arrangements are out of harmony with the arrangements of modern industry and commercial life. The advocates of banking and currency reform have behind them as their support the inexorable nature of things, the laws of the physical universe and the industrial life of mankind; and in spite of indifference and even of opposition they are bound in the long run to prevail.

Nevertheless, I believe a thorough and extensive campaign of education will be necessary. This is not merely a matter which concerns bankers, though from their vocation bankers happen to know more about it than other members of the community. But because bankers see the evils more clearly than the rest of the community, they have no personal or professional interest in the reform of these evils. The benefits of reform inure to the public generally. It is not the bankers but the public who now suffer. And the first lesson to be emphasized in our campaign of education is this: That banking and currency reform is the concern, not of bankers, not even of financiers, but of the American public in general. Under our present system there are times when unnecessary financial stress is experienced by farmers, by fishermen, by lumbermen, by wage-earners, by all classes of the community. Though the banker perceives these evils and realizes the causes from which they follow, he does not suffer from them in a more acute form than any of his fellow citizens. It is merely that his experience brings the evils under his observation. The general public indeed do not realize this situation of affairs, and are prone either to accept their sufferings as a result of the necessary nature of things or to imagine they can be remedied by some remote measure of party politics. For this reason I say it is essential that the public shall be educated to a realization of the true situation of affairs. When panics come and wage-earners are thrown out of employment, and farmers with good properties cannot borrow money at a moderate rate of interest, and no one can get the cash necessary for the transaction of routine business and checks are not accepted at face value, the public must be made to understand that these evils in which all alike are participating are due to a cumbersome, antiquated and unscientific system of banking and currency and that they could be eliminated with the reform of that system.

Supreme Importance of Banking Reform.

Senator Aldrich is not the spokesman of the bankers and financiers of the country, though the daily experience of bankers and financiers enables them to appreciate more quickly than other members of the community the nature and value of the reform which he has outlined. Banking and currency are invaluable and indispensable agencies of business. Whoever can improve the American system of banking and currency improves American business and confers a benefit, not only on business men, but on every one who is engaged in any of the tasks of production or distribution, on the farmer and the laborer, as well as on the trader and the capitalist. If Senator Aldrich, bringing a vigorous mind and a large and varied experience to the study of banking and currency problems, has, after conference with bankers and business men and economists and other groups of intelligent citizens, worked out on sound business principles a plan for the reformation of our currency and banking system which can be fitted into existing conditions without involving abrupt or revolutionary changes, his name will be ranked among the foremost financial statesmen of modern times, and he will have laid before our people a programme of practical reform which, in view of the magnitude of the interests involved and the terrible severity of the evils to be remedied, should take precedence of every other question of contemporary public policy. In comparison with a sound banking and currency system proposed changes in our tariff and trust laws, important and urgent as they may be in themselves, fall into the background. You will not misunderstand me. I recognize the propriety of bringing our tariff laws into a closer harmony with the conditions of modern industry and commerce and the demands both of the consuming and the producing public. And though I am firmly convinced that business on a large scale is absolutely essential to efficiency in the modern world and should be protected and encouraged by all proper and legitimate means, I hold not less emphatically that the public have a right to be protected from oppressive monopolies. But whatever the losses, inconveniences and sufferings which may be attributed to our tariff and trust laws, they are far less than the losses, inconveniences and sufferings which are due to the imperfections of our banking and currency system. To the supreme importance of this issue, therefore, it is indispensable that the public should be aroused.

Our Present System Lacks Co-ordination and Centralization.

Look at the magnitude of the interests which are involved in the question of banking and currency reform. The business of this country last year amounted approximately to $450,000,000,000. Four-fifths of that business was done by means of bank checks, and of the remaining fifth a considerable proportion by means of bank notes. A plan of banking reform, therefore, aims at the perfecting of a machine which engages in the work of exchange to the extent of over $375,000,000,000 annually. At the present time

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this banking machine suffers from two great defects; first, its different parts are without co-ordination; secondly, it does not respond automatically to business demands upon it. The enormous crops of the country make credit far more essential at certain seasons of the year than at others. But under the present system our banking credit is notoriously inelastic.

The business of the country has undergone consolidation, co-ordination and centralization at a tremendous rate. But our banking system is paralyzed by decentralization and lack of co-ordination. To realize how antiquated that system is one has only to imagine trade and commerce conducted today as it was fifty or one hundred years ago. Yet that is the decentralized condition in which under the present system our banks are actually left. The evils of decentralization and lack of co-ordination are felt especially in times of threatened panic. There are bank reserves enough in the country to protect all the banks. But they are widely scattered and each jealously guards its own. That, however, is the very time when reserves should be centralized, subject to single control, and ready for application at any point in the country where danger especially threatened. It is as though a town were to be protected against fire when each citizen possessed a private reservoir of water and would not allow his neighbor to use it. At a time when concentration of the water supply and unitary control of it was absolutely necessary for the protection of property the town may be sacrified to a needless dissipation of its resources and an absurd system of separate and individual control. That was the condition of this country in the panic of 1907. There was abundance of reserve money; but it was divided, scattered, segregated and subjected to local control. That circumstance explains why panics occur in the United States with far greater frequency than in other civilized countries. In France, in Germany, in England there are great central National banks, and they have all the facilities needed for warding off threatened panics. They can establish a new rate of discount; they can conduct extensive operations in foreign exchange and gold bullion; they can discount and rediscount commercial paper, and otherwise inspire the confidence of the community. It may not be possible or desirable to charter in the United States an institution like the Bank of France or the Bank of England. But unless some way is found of co-ordinating the scattered strength of the 25,000 independent banking establishments which now hold the money reserves of our country, business will continue in the future as it has in the past to be subject to extreme fluctuations and to suffer from the panics by which it has hitherto been characterized.

Lack of Elasticity in Banking Credit.

The second fundamental evil from which our banking system suffers is the lack of elasticity in the credit it furnishes to the country. Under our present system issues of bank notes do not respond to variations in the demands of business. These notes are secured by United States bonds and they respond to variations in the price of these bonds, increasing as the price of Government bonds declines, decreasing as the price of Government bonds rises. Yet these decreases and increases in circulation come at exactly the times when business needs the opposite. On the continent of Europe and in Canada bank note circulation adjusts itself automatically to the demands of trade. When crops are marketed in the fall, circulation rapidly increases; when the crops have been removed, when demands for credit have subsided, the circulation automatically declines. In the United States, on the other hand, there is little elasticity in bank-note circulation; and when the demands for moving the crops have ceased the circulation shows no tendency to contract. This rigidity of our banking system, combined with its lack of centralization, produces alternations of speculation and of stringency, and extreme fluctuation in the rates of interest. The losses to the country thus ensuing cannot be calculated.

The Aldrich Plan.

Senator Aldrich's plan furnishes a method for unifying our present banking system into one comprehensive system; and while it thus secures co-ordination and centralization, at the same time it provides for that elasticity which is so notoriously lacking at the present time.

I need not go into the details of Senator Aldrich's plan, as you are all familiar with it. It is enough to characterize some of its essential features. It is a National Reserve Association and not a United States bank. It deals, not with individuals, but with banks and with the Government. Its stock is to be held, not by individuals, but by banks. And of banks it takes direct account only of National banks, which today number some 7,200. Each of these banks may subscribe to the authorized capital of the Reserve Association an amount equal to 20 per cent. of its own stock. The authorized capital of the Reserve Association is to be $300,000,000, of which $150,000,000 is to be paid up. Provision is made for banks other than National banks ultimately coming into the Association and subscribing to its capital. The National banks which subscribe to the capital will be grouped in local associations throughout the country. A number of these associations will form a district. Altogether there will be fifteen districts in the United States, and in each of them there will be a branch of the National Reserve Association. Each of the fifteen branches of the Reserve Association shall have a board of directors elected by the local associations. And these fifteen branch associations will elect and control, directly or indirectly, thirty-nine of the forty-five directors of the National Reserve Association. The other six directors will consist of the Secretary of the Treasury, the Secretary of Commerce and Labor, the Comptroller of the Currency, and the Governor and two Deputy Governors, who are to be appointed by the President of the United States from a list submitted by the board of directors.

Centralization and Adaptation to Local Needs.

In its structure and organization this National Reserve Association with its branches admirably combines centralization and adaptation to local needs. The Canadian system of a few large banks with scores of branches scattered all over the country is also an example of centralization and local adaptation. But the centralization in Canada is arbitrary since it inheres in a casually elected board of directors. In the Aldrich plan the centralization is associated with representation of the country as a whole. Furthermore, in the Canadian system, while branches are scattered all over the country, and while local needs are subserved, there is no appeal to local interests and no local voice in the control. In the Aldrich system, on the other hand, the control of the local branches is in the hands of the local banks. The Canadian branches are governed from Montreal or Toronto, or some other large city in which the parent bank is located and the directors live. Under the Aldrich plan the branches are governed and controlled by directors living in the localities and elected by the banks themselves.

In another respect the Aldrich plan affords an admirable example of the highest statemanship. Burke defined a statesman as one who showed a disposition to conserve and a willingness to improve existing institutions. Senator Aldrich's plan conforms to this test of statesmanship. He might have swept the 7,200 National banks which we now have out of existence. Or he might have made them, as under the Canadian system (if indeed our Constitution would permit of such an arrangement), mere branches of one or more large parent institutions. He took neither course. These 7,200 existing National banks presumably meet local needs—else they would not exist—and they have become identified with local interests. Senator Aldrich's plan leaves them as they are, but provides a scheme by which they come together in a large local organization, which they themselves shall constitute and control. And these local associations thus organized are com-

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bined into fifteen district associations by which, as we have seen, the National Reserve Association itself is ultimately controlled.

The same centralization and the same adaptation to local needs meets us when we pass from the organization to the functions of the National Reserve Association. That Association will conduct operations in foreign exchange and in gold movements. But it has two other functions of great importance to the local banks: First, it serves as a depositary of bank reserves; secondly, it will rediscount commercial paper of high grade. Being a depositary of bank reserves funds can be transferred from banks in one section of the country to another by a transfer of credit on the books of the Reserve Association. Instead of the present absurd system of shipment of cash to and fro, the National Reserve Association would in this way become a National clearing house. The system of rediscounts would bind the local banks to the Reserve Association. And in this way local banks could obtain funds in time of need. It is difficult to imagine a better protection against the incipient attacks of panic.

Credit Elasticity.

As the Aldrich system provides for centralization, so also it provides for credit elasticity. With its large capital and its deposits, both from National banks and from the Government, the National Reserve Association would have a large banking power. Through its foreign exchange and gold bullion operations the bank would exert an influence on the contraction and expansion of credit, as also by its rediscounting of commercial paper and the raising and lowering of the rate of discount. But this is not the whole story. The Aldrich plan adopts a scientific system of bank-note circulation. The notes of our present banks are secured by bonds, and are therefore inelastic. The Aldrich plan substitutes therefor an asset currency of the same amount issued by the Reserve Association. And besides this issue provision is made for an emergency circulation to an indefinite amount, subject, however, to an annual progressive tax, starting with 3 per cent. on the first $100,000,000 and reaching 6 per cent. on all above $300,000,000. Like the Canadian system, this provides not only adequate machinery for the expansion and contraction of credit but also for *automatic* expansion and contraction. The danger to which all bankers are exposed is that of unduly extending their credit. When emergencies come they are caught with inadequate reserves. This, of course, is due to their desire for profits. That temptation, however, is provided against in Senator Aldrich's plan by the proviso that after stockholders receive 5 per cent. on their stock and the surplus amounts to 20 per cent. of paid-up capital, excess earnings shall go the Government, unless indeed, as has been sugested by the Bankers' Association, a portion of them shall go into a reserve fund.

The Aldrich Plan and Politics.

The Aldrich plan, therefore, provides both for centralization and credit elasticity. And it fits into our existing system of banking without the necessity of radical modifications. At the same time, it gives us all the benefits of the best European and Canadian systems of banking without entailing some of the drawbacks to which those systems are exposed. On the other hand, we must recognize that any banking system in the United States, even the most perfect, is exposed to peculiar difficulties. In the first place, there has been a larger infusion of politics into currency and banking problems in this country than anywhere else in the world. And in the second place, in this day of opposition, not only to monopolistic trusts, but even to big business, there is a suspicion and apprehension that the big financiers who are supposed to control Wall Street may also control and exploit this National Reserve Association.

Those of us who recall the agitation of a currency system based on 16 to 1 are not likely to underestimate the danger of politics in banking and currency legislation. And history teaches us also that two United States banks have already been destroyed by politics. Doubtless Senator Aldrich and his coadjutors were keenly sensitive to this danger. And there are certain features of the present scheme which differentiate it completely from those which have gone before. In the first place, this is not a National bank, but a reserve association owned by bankers. It does not compete with the National banks, but it co-ordinates them and supplements their functions; it does not deal with individuals, but with banks and bankers; and it can play no part in politics, but, on the other hand, will be subject to strict Federal supervision.

The Aldrich Plan and Wall Street.

There remain the dangers of Wall Street exploitation and control. On this point the public will be sensitive and suspicious in the extreme. Yet the Aldrich plan seems to reduce to the lowest possible degree the opportunity of exploitation by Wall Street. So far as appears, it might be said that that possibility is wholly eliminated. But in view of the subtle machinations with which the recent history of American finance has made us familiar one may hesitate to make such a positive assertion. One may, however, venture to declare that it would be difficult to lay down greater precautions than those embodied in this plan. Wall Street deals in the main with stock and bonds of private corporations. But the National Reserve Association is not permitted to purchase such stocks and bonds. Still more important is the difference in the control in the two cases. The manipulators of stocks and bonds in Wall Street are the small number of men who own and control enormous holdings in combination. But the directors of the National Reserve Association are not from Wall Street, but from all parts of the United States, their electorate being ultimately the local banks. It is not easy to imagine such a body of representative Americans being either the tools or agents or the daring rivals of the manipulators of Wall Street. If it is said that these directors being elected by the banks, as the majority of them are, are from the very character of their experience and vocation predisposed to sympathy and alliance with Wall Street, I would appeal to the voters of States outside of New York and ask whether the bankers of the South and North, of the East and West, are not really more responsive to the sentiments and views of their own localities than they are to those of Wall Street. And in the second place, I would point out that of the forty-five directors of the National Reserve Association twelve are to "fairly represent the industrial, commercial, agricultural and other interests of the country." And though they may be bank directors, they cannot be officers of the bank.

Enact This Plan or Formulate a Better.

The Aldrich scheme is now before the country. No one who is acquainted with our present banking and currency system and with the proposed plan can hesitate to pronounce it a great constructive measure. It is quite possible that it may be modified; it is quite possible that it may be improved in details. And I am confident that Senator Aldrich and the Monetary Commission and the Bankers' Association would all welcome suggestions in the way of improvement. But one fact must be recognized. Reform is absolutely essential. There has been a consolidation of our great industries in the interest of economy and efficiency. And for the same reason railroads have been unified and multiplicity of administration abolished. The present banking law of the United States is a survival of an industrial, economic and financial condition which has passed away. We must follow other great nations in providing an institution for the centralization and co-ordination of our banking power. The waste and inefficiency of the present system are no longer tolerable. The Aldrich plan is an attempt to solve this problem. It has received the highest commendation from intelligent men and experts all over the land. If a better scheme can be pro-

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duced, let it be forthcoming. Either this scheme or a better scheme is indispensable. And until I can hear of a better scheme—of which, indeed, I have no expectation—and until I can see serious defects in the Aldrich scheme—which are not now visible to me—I heartily join this Association in commending this plan to the American public and will gladly do everything in my power to secure its enactment into law. And if at any time you think I can co-operate with your Association, or with its officers, in bringing about this reform, I beg to assure you I stand ready whenever my other duties permit to put my services freely at your disposal.

The Needs of the Farm and Its Benefits from the National Reserve Association.

By Joseph G. Brown, President of the Citizens' National Bank, Raleigh, N. C.

When God created man in His own image, and placed him in the beautiful garden, He gave him dominion over the land and over the sea and all that in them is. From that day through all the ages until now the soil has been responsive to the touch of his hand.

So bountiful has been the yield in our own portion of that inheritance that it has become a mighty and a wonderful country.

The population of this country is 92,000,000 people. Of these, more than half, say 49,000,000, live in the rural districts. There are nearly 1,000,000,000 acres of cultivated lands. The value of these lands, including buildings, amounts to more than $34,000,000,000, and their annual product is $9,000,000,000, or about as much as the entire resources of all our National banks. It would require only 10 per cent. of one year's product to pay the National bonded debt. The capital invested in agriculture exceeds that invested in either manufacturing or railroad enterprises. The man who tills the ground is, in these United States, creating wealth at the rate of $25,000,000 daily. How essential then that we bear in mind that no system of finance can be effective that does not embrace in its scope the needs of the agricultural sections! Back of all commerce, back of all banking, back of all manufacturing, back of all industry lies agriculture, the real basis of all prosperity.

The product of the soil demands the first consideration, and when a system is evolved by which the farmer may handle that which he has produced in such way as to retain for himself a fair share of the profits of his labor, such a system is apt to meet the needs of every other interest, and only such a system will stand the test of time.

The wealth of the world comes out of the land, and try as he may, man cannot escape the sentence passed upon Adam in the Garden of Eden: "In the sweat of thy face shalt thou eat bread." From that far aback day in the dim twilight of creation until the noon day brightness of this twentieth century, "The man with the hoe" has been the man who has added to the wealth of the world. And from that day there seems to have been implanted in every human breast an inclination to till the land, and this is well, for there seems to be something in the touch of the sod that gives strength and vigor and character to man.

It is an established fact that the great interests of the city are built up and maintained by men who have come from the rural sections. A recent canvass of one of the great cities has shown that out of 100 successful men, 85 came from the country. There can be no question that our very civilization depends ultimately upon the character and strength of the life developed at the countryside.

Whittier said, "Who sows a field or trains a flower
Or plants a tree is more than all."

And yet we see the population of the farms being depleted whilst that of the city increases, and we naturally inquire the cause, and wonder what there is lacking in country life and what is needed to hold its young men and its young women.

In Denmark, we are told, country life has been made so attractive that men are abandoning the desolate tenements of the cities for the healthier and happier homes on the farm.

Perhaps, with us, there may be need for another Virgil to write upon the charms of country life, as Augustus thought there was when Italy was devastated by a civil war.

I would like, if time permitted, to mention in detail the many needs of the farm. But in various ways these needs are being supplied. The telephone, rural free delivery, parcels post system, good roads, and the growing use of automobiles are bringing the country people closer to each other and into closer touch with the outside world, thus eliminating in large measure the isolation and loneliness of country life—causing the employment of more efficient teachers, the building of better school houses and churches and more attractive homes.

Special training is scientific, and intensive farming is producing greater diversity of product and more rotation of crops, and is adding largely to the wealth and independence of the farmer. He is rapidly learning the best methods, the crops best adapted to the soil, the best time for planting, the most economical way of doing things, and best of all to raise his own "hog and hominy."

The great need is that of men, men of broad vision, men who can see beyond their own back yards, men possessing the spirit of Seaman A. Knapp, and fitted to wear his mantle, and who can inspire the owners of the land as he did, to develop methods that will treble the yield of every acre cultivated.

The work of the Country Life Commission, farm life schools, agricultural colleges and the competitive corn clubs among the boys have had a most helpful influence, which has been largely augmented by the excellent farming journals, which are more ably edited, have wider circulation and wield a larger influence than ever before.

There is one special need, however, which appeals to us particularly on this occasion, a need that underlies all others and without which we can never hope to get out of country life the very best there is in it. There must be some system of finance by which the farmer may not only secure funds to make his crop, but may also be sure of facilities for holding or marketing it after it is made, so as to get for himself a fair share of the profits of his labor. Under the present system all too often he is forced to rush his crop to market and sell under most unfavorable conditions.

But our defective financial system has not affected the farmer alone. It has touched every phase of business life. The whole country has felt its blighting hand, and the resulting loss has been incalculable. Some one has well said that panics have cost this country more than war, and yet we know that panics can be prevented, or at least greatly modified. They are practically prevented in other civilized countries. Is it not strange that the American people have so long permitted them, that through all these years they have admitted their inability to provide a system for this country as effective as those of other nations?

In the recent panic we were forced to call upon England to help us out of her gold reserve when in our own vaults there was stored six times as much as she possessed. The difference was that hers was concentrated and available,

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and the people knew it, whilst ours, larger than that of any other nation, was scattered among 25,000 different banks, and therefore of no service. With us the banks lost confidence in each other, there was no practical way of co-operation, the people knew it and the blighting panic ensued. Such will continue to be the result until we reach the point where we can lay aside sectional jealousies and partisan prejudices and unite in some plan by which the vast resources of this country may be readily utilized and be made as they should be, a mighty tower of strength.

We have had the lesson of experience, we must not fail to profit by it.

There must be a currency that is not only safe, but is abundant and unfailing in supply, always available and entirely adequate for the requirements of the largest crops. The present system, although well devised and in many points satisfactory, is uncertain and likely to fail, and has actually failed in every great emergency.

"A chain is only as strong as its weakest link," and the weakest link of our system is the inelasticity of the currency and the uncertainty or rather the absolute certainty of its scant supply when the largest volume is needed. It does not respond to the demands of business, but its volume is determined mainly by the price of bonds.

The recognition of this condition and the fearful losses entailed upon the country by the panics that have come with almost periodical certainty have led to a careful and perhaps more exhaustive study of the whole question than has ever been given to any other problem that has come before the American people, and out of it all has been evolved the plan proposed by the Monetary Commission. But the question before us at the moment is what benefit is to accrue to the farmer from the operations of this bill if enacted into law?

Of course whatever advances the common good must necessarily be of benefit to an interest that makes up so large a part of the world's activities as does that of farming. Whatever affects disastrously the great commercial interests of the country, whatever unsettles financial conditions, closes banks and factories, and throws men out of employment, necessarily interferes with the handling and marketing of crops.

These things are directly due to the lack of confidence in our monetary system, and nothing can be more effective in restoring and maintaining such confidence than the linking together of the strong banks of the country, unifying their interests and giving to each the combined strength of all. This is the main feature of the proposed plan.

This union of forces will strengthen the courage and faith of the country banker whose business is conducted along prudent lines, will enable the farmer to secure funds for the making of a crop, and keep open the markets through which the crop is converted into cash.

Under the proposed plan the bank can readily and quickly convert into actual cash the solvent commercial paper it is carrying, and in emergency its own obligations, so that hardly any condition can arise by which the farmer with his crop, which constitutes the safest collateral known to the commercial world, cannot secure needed help.

Of course short crops may come, dull business may follow years of expansion, but there should be no more runs on banks, no more closing of solvent banks, or selling of cash at a premium.

It is possible that some of the smaller banks which seldom have the required short-time commercial paper, may not take advantage of membership privileges, but whether members or not, they cannot fail to enjoy the benefits of the Association because their reserve correspondents, having themselves an unfailing source of supply, can always provide for their needs, and they in turn can provide for the handling of every bale of cotton and every bag of corn.

The strong feature is the establishment of absolute confidence in the strength and stability of the system, a system which will furnish an inexhaustible source of supply, whose very presence and certainty will tend to eliminate its need. If you can get it, you don't want it, but if you can't get it, you must have it!

This availability and sufficiency of resources will doubtless facilitate the building of bonded warehouses, and with these in operation all over the country, the farmer will occupy a most independent position in regard to the disposition of his crop—for his warehouse certificates will be just as desirable collateral as stocks and bonds, and in many cases, far safer. The farmer will at last have that which has been denied him all these years, facilities for borrowing, equal at least to the man in the city who carries his surplus in the shape of negotiable securities.

This will bring about more cordial relations between the farmer and the banker, and both will appreciate more fully the fact that each has his place in the world's economy, that their interests are mutual, and that whatever builds up the one adds in some degree to the strength and stability of the other. There should be no antagonism between these two classes. The banker has long recognized the farmer as the back-bone of the country, and no well-posted banker can be found who does not realize that his bank is in better shape with its loans scattered in the hands of a hundred substantial farmers than with them concentrated in the hands of a few city borrowers.

The disfavor with which rediscounting by banks has been regarded is eliminated by this bill, and the proper use of facilities for rediscounting is emphasized as entirely legitimate. So far does it go in this direction that by a system of bank acceptances it brings the resources of the world within the reach of every banking community.

The great good that accrues to the farmer from this is that the adequacy of the supply and facility for borrowing equalizes rates, and gives to the sparsely settled and undeveloped regions the same favorable terms that have obtained in the rich and populous sections where desirable collaterals are available. Texas and Wall Street must pay the same rates. It hardly requires the vision of a seer to perceive what this may mean to those sections remote from the centers where interest rates have been almost confiscatory.

The Reserve Association will be especially charged with the maintainance of uniform rates. In France the rate has varied only 2 per cent. in twenty years, the highest being only 4½ per cent.

The average farmer has been the possessor of little else than his land, and our present laws forbid the lending by the banks on mortgaged security. This has forced the land owners into the hands of individual money-lenders, many of whom have not been overmodest in their charges. The farmer has had no heavier burden to bear, and this is relieved by the provision in the proposed law that banks may lend on real estate.

If this be followed by the universal adoption of the Torrens Land Title System it will make available to the farmer as collateral practically every dollar's worth of his property.

Some suggest that this would make borrowing too easy, but can there be any good reason why the land owners should not be put on the same footing as the owner of other kinds of property? The man who has the capacity to accumulate must be credited with the judgment to use his property prudently. The restrictions in the present law were doubtless wise, and have served a good purpose, but conditions are now changing rapidly, and one of the objects of the proposed legislation is to give the farmer a chance.

The prohibition of loans on stocks and bonds ought to satisfy those who fear the money-power that no effort is being made to provide for speculation to the exclusion and hurt of the business interests of the country.

Of course commercial deposits should not be loaned on long mortgages, but the Savings Departments will attract time money, a limited portion of which may be safely utilized in land loans, and this privilege will, in my judgment, tend greatly to building up and beautifying life on the farm.

Better school houses and churches will follow, more efficient teachers will be employed, more good books read, and

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one-half of our great population will be lifted up upon a higher plane, and then the sons and daughters of farmers will no longer be found in the almost endless procession that is now seen with their faces turned towards the cities.

There is no lack of banking facilities in this country. We have more than 25,000 banks, widely scattered, all free, individual and competitive. About 7,000 of them are National Banks with note-issuing privileges. All these institutions naturally take care of their local interests first, and then send their surplus funds to other communities. In many respects the present system is good. It has proved its merit, but it is not perfect. In fair weather it works like a charm, but when the storm clouds gather it becomes inefficient. Its cash in circulation disappears. Its vaults swell with increasing reserve. Each individual bank looks out for itself alone.

At such a time, in the large cities where there are organized clearing houses, and only in such places, there are developed community interests. The banks composing these Clearing Associations, without any sanction of law but from sheer necessity, pool their assets, issue Clearing House certificates and boldly violate the plain letter of the law. The officers, sworn to its protection, wink at it because they know that such united action is the only solution of the problem. It is to accomplish this same thing in a lawful way, to get the benefit of organization and of co-operation that the plans of the Reserve Association have been devised.

Every other great country has its Central Bank. This plan endeavors to secure the advantages of such a Central Bank without its objectionable features, and to my mind this desired object has been largely attained. President Taft says of the proposed plan, "There is nothing in it that is of a partisan nature." And this is true. They need no longer cry "politics," or "monopoly," or "the rich against the poor." There is nothing of the kind in it.

Dividends limited to 5 per cent. will not create monopoly. Scattered directors and bank ownership, instead of individual ownership, will surely eliminate politics, and prevent the possibility of control by any one district or group. Such, I believe, is the desire and purpose of the authors of the bill. It is difficult to conceive how a plan could be devised that would render more difficult the political or monopolistic control of the great volume of funds that would necessarily be accumulated, and of the powerful influence it would wield.

Every army needs its general in command. Every great movement is headed by some leader. So there must be some wise and well recognized leadership for the banking interests of this great country, and you can find no highway, no byway that will not lead you ultimately to the same point. There must be some great central power.

There must be a heart, a great reservoir through which, like the life blood in the human body, must circulate the currency, which is just as certainly the life blood of all the commercial and material interests of this old world.

It is said there is strength in numbers, but if our country is to be taken as a criterion, this does not hold true in her financial realm. England with her forty banks, and France with only three, besides her great National Bank and its branches, can under expert management go from decade to decade, through times of war and times of peace, through seasons of plenty and seasons of famine, without ever a panic or semblance of panic, whilst we with our vast resources are frequently in the throes of a great financial upheaval. There is no justification for this. Our system must be made such as to inspire confidence under all conditions. It must be national in its scope and spirit, and national in its strength.

It is not the swan-like boat with banners streaming and gaudy paint that one seeks for an ocean voyage, but rather the great sturdy steamer whose throbbing engine reveals her power to move along her course not only when the blue sky smiles down upon the placid sea, but as well when the angry waves seem about to meet and test strength with the angry clouds overhead. So the need of this country is a financial system so strong that no short crop, and no number of mismanaged institutions can bring disaster upon those banks which are honestly and conservatively managed, or bring about such a condition of affairs that the men who are doing things in the world, and who by their skill and ingenuity are supplying the daily wants of mankind, must stop the wheels of their mills and their factories and turn their operatives adrift with no means of procuring a livelihood for their wives and children.

It is a disgrace to this twentieth century and to the genius of American manhood; it is a discredit to the banks of America that such a state of things should exist. And, instead of spending their energies as many do in denouncing the old political banks of a century ago, our people should encourage those who are today giving their time, their means and their talents, in an effort to shape currency legislation in such way as to guard forever against the recurrence of such devastating panics as we have had in the past.

The men that are giving their efforts in this direction are patriotic men, they are honest men, they are business men, they are men who have led their banks through many rocky places and can continue to do so. Like the old ship of Zion, "they have weathered many a storm, and can weather as many more."

They are men who have come up from among the people, and who know their needs. They are men who are in close touch with the men who are operating the mills, whose looms are weaving our cloth, and making a market for our cotton, whose factories are making our furniture and providing a market for our timber, whose mills are buying our ores and moulding them into useful shapes, whose genius and whose integrity are gathering into their vaults large sums of money which they can prudently lend to those who are constructing our railroads, which are opening up pathways across our fertile fields, thereby making a world-wide markets for our crops, enhancing the values of our farm lands; making rich our farmers; building for them churches and school houses, and attractive homes, sending their children to school and developing all of this wonderful country.

It is time then to stop fault-finding; to cultivate confidence in our fellows and to lend a helping hand in the mighty work which our country is accomplishing today.

There must be some remedial legislation. Elasticity of circulation and responsiveness to the demands of trade, are absolutely essential to a nation whose soil yields in a single year harvests whose values are $9,000,000,000, a large part of which harvests comes upon the market within a very brief period. Properly handled, we have enough gold reserve upon which to base a note circulation ample to meet every demand, even when there might be an abnormal crop and a quick rush to market. But for some reason when business is poor and there seems no need, our bank note circulation increases in volume, and when trade is brisk its volume contracts. But the banker is not charged with the duty of supplying a proper volume of currency—he needs only to know if the price of bonds will justify his hope of profit if he invests in them and increases his circulation.

Our reserve, presumably for emergency, fails absolutely in its purpose whenever emergency arises, for instead of using it at such a time to tide us over, we find ourselves with all the other banks of the country trying to add to our reserve. We know too well if we use our supply at such a time there is no source from which we can replenish our tills, and the hoarding that is done by all of the 25,000 banks of the country naturally adds to the tightening of money, and our customers, like the famishing mariners on the sea, with "water, water everywhere, and not a drop to drink," find money, money everywhere, but not a dollar with which to meet their legitimate obligations.

The great white fleet affords ample protection to the Metropolis when asembled in her harbor, but the squadron of the enemy would laugh at her big guns if scattered at remote points along the Pacific Coast.

So the reserve may be ample in volume, but if scattered

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all over the country, it is of absolutely no service. If assembled in one great central reservoir, which is easily accessible, then at the very appearance of panicy conditions at any one point, ample assistance can be extended at once, and the feeling of alarm dissipated before it can be communicated to other points.

The funds of our banks are accumulated in the great city banks, a large portion of the reserve being held by them, and yet the most of us know that under existing laws such reserves are absolutely unavailable and that but for the unauthorized use of clearing house certificates, in time of panic, we not only could not borrow a dollar, but could not actually get the use of the balances due us by our correspondents. This is not because of any disposition on the part of the city banks to embarrass their country correspondents, but because of the system itself, which is just as irksome to the great metropolitan banks as it is to the little banks at the crossroads.

This country can never be satisfied until some system is devised by which the country banks can avoid being declared insolvent when they have ample credit or ample funds in the hands of their city correspondents, who, because of defective laws cannot come to their relief, without running the risk of placing themselves in a similar situation. All these things are too fresh in our minds to need elaboration. The system has proved insufficient in time of critical need. The country demands another that shall be effective at all times.

There is no need, however, to abolish our present system of independent banks. We need only to secure their mutual co-operation. Their interests are identical. National and State Banks and Trust Companies alike are seeking the same ultimate object, and all alike affect the prosperity and upbuilding of our country. All therefore are to share alike in the duties and responsibilities, as well as in the emoluments that may come with any new currency legislation.

It is folly to presume that American ingenuity cannot devise a plan suited to the demands of the time, and equal to any test. We have the brains, we have the natural and acquired resources, and only lack of faith in ourselves can prevent the establishment of a system as good as the best.

When such a system has been adopted then the cotton farmers of the South and the grain raisers of the West may have the assurance that funds needed for the movement of the crops are always available and always at their service. The bank with $25,000 capital will then be heard and helped as readily as the bank with $25,000,000.

Such the needs, such the benefits sought, and such I believe will be the effect of the adoption of the act creating the National Reserve Association, and the plan proposed is very unique.

It may not be complete, but there is in it the best from all systems that experts could make adaptable to our needs, and it at least furnishes a foundation upon which may be built a system that is believed will eliminate panics, produce unity of purpose and concert of action, and give to the American people the same primacy in world finance that they now hold in every other line. It behooves us as patriotic citizens to give our best efforts to the perfection and final adoption of such a system.

If we cannot have reciprocity with Canada,
Let us at least have reciprocity with one another.

The Benefits of the National Reserve Association to the Manufacturer and the Laborer.

By C. Stuart Patterson, President of the Western Savings Fund Society of Philadelphia.

I may assume that I have been asked to speak upon the subject of this address, because I have been for many years, and am, one of the directors of a railroad and also the president of a savings bank. That railroad in the year 1910 carried 168,604,348 passengers; moved 441,619,033 tons of freight, manufactured in its own shops railroad material and supplies of a value of $91,839,069, and paid wages to the amount of $154,896,327 to 189,809 employees.

That railroad system may properly be characterized as a manufacturer of transportation and of railroad supplies.

That savings bank holds in trust the savings of more than 58,000 depositors, most of whom are wage-earners.

I may, therefore, venture to think that I have had, as regards the interests of both manufacturers and laborers, a qualifying experience.

Large as are the figures which I have quoted for the railroad system to which I have referred, they are small in comparison with those of all the manufacturing concerns of the United States, who, according to the latest report of the Census Bureau, number 268,491, have 6,615,046 employees, and the total value of whose annual output exceeds $20,672,052,000.

The successful manufacturer sets aside an adequate working capital. He invests the balance of his capital in the construction of his original plant. From time to time he invests additional capital in, or takes out of earnings the sums needed for, any betterments, new appliances, or methods of working, which may diminish the cost of operation. He appropriates the balance of earnings to the maintenance of the plant in thorough repair, the purchase of raw material, the payment of wages, and to other necessary expenses. He sells his finished product at the highest obtainable prices in the hope of making the greatest possible profit, after deducting all disbursements and interest upon invested capital.

He opens and maintains one or more banking accounts for the safe custody of his moneys, cashing of his checks upon demand, conveniences of collection and remittance, and loans and discounts by which to convert into cash bills and accounts payable. He knows, as all intelligent men know, that, in the last analysis, the business of the country rests upon credit, public and private; that the basis of credit is confidence in the certainty of the fulfillment of obligations; that that confidence is sensitive and liable to serious disturbance, sometimes by an undue expansion of trade beyond the demands of the country and in excess of the means of payment, sometimes by unwise governmental action, and sometimes by the intemperate utterances of demagogues in office or out of office. He, therefore, is assured that, at greater or less intervals, panics will come, and that, when there is no panic, there will be varying periods of greater or less financial stringency.

So far as regards his payment of wages and minor disbursements, he asks of the banking and currency system of the country that, under strained, as well as under easy, conditions, his checks against the credit balance of his banking accounts be cashed on demand in currency of full purchasing power, and in the desired kinds and denominations. So far as regards his purchases of raw material, his sales of finished product, and the general conduct of his business he asks of the banking system of the country just what the merchant asks; and that is, that the system should minimize, rather than make greater, the disastrous effects of panics; that when he most needs loans, by which

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to anticipate receipts in times of stringency, and when he furnishes collateral acceptable, and is ready to pay discount rates satisfactory, to the lender, he should be certain to receive the indispensable accommodation; and that, whenever asked, his banks should, upon reasonable terms, give him, or obtain for him, every facility in foreign bills of exchange, in inland drafts, in telegraphic transfers, and also in bank acceptances, which acceptances ought to, but cannot, under existing legislation, be issued by National banks.

It is a truism that people of limited resources suffer more in hard times than people of large resources, and that working people, generally dependent upon their wages for their daily bread, suffer most of all when adverse conditions compel the diminution, and sometimes the stoppage, of work, increase the prices of the necessaries of life, and require them to draw upon their too scanty savings. They are, of all people, the most deeply interested in the establishment and successful operation of a banking and currency system, which will, to the extent that any system can, ensure commercial stability, facilitate continuous employment at good wages for all who are willing and able to work, and make certain that wages, when paid, will be paid in currency of full exchangeable value.

Those of us who had to face the panics of 1893 and 1907, with their melancholy records of closed factories, and idle workmen, unnecessary insolvencies that might have been averted if prompt and adequate relief could have been given, and widespread suffering—all of us who are now in touch with the business of the country—well know how far and in what respects the existing banking and currency system falls short of that which the growing commerce and expanding trade of the United States demand.

The plan of monetary reform based upon the formation of a National Reserve Association, with its constituent branches and local associations, will give the needed relief. While preserving the independence of the individual banks, National and State, and the existing relations between National banks, it extends to the whole country, and to all banks, State as well as National, an effective means of obtaining that concert of action, invaluable in times of panic, which heretofore has only been possible in cities having Clearing Houses. It makes it possible to substitute for the present safe but inelastic note-currency, a currency that will be as safe, and which will automatically expand and contract in accordance with the demands of the trade of the country, and which will be forthcoming, in good times and bad times, when and as needed, and only when and as needed. It makes available for common protection the present scattered and unavailable reserves of the individual banks. And, best of all, in providing the banks with an assured market in which they can rediscount their paper of short maturity and thereby convert that paper into reserve funds it strengthens the position of the banks, and it enables the banks to assist their customers when that assistance is most needed.

When this project of real reform shall have been crystallized into legislation, the laborers and the manufacturers of the country will join in gratitude to Senator Aldrich, whose patriotism and whose genius have made the reform possible.

Relation of the National Reserve Association to the Foreign Trade and Banks and the World's Financial Center.

By Frank B. Anderson, President of the Bank of California, N. A., San Francisco.

Gentlemen: In order to present my views on the subject which has been assigned to me, I find it necessary to refer briefly to a few facts in our history.

For a great part of our life as a nation our activity has been directed mostly towards internal development, to the assimilation of a rapidly increasing population and to the settlement of our arable lands. Barring a few setbacks, we have enjoyed great prosperity; our home markets have been more tempting and more profitable than foreign markets. Our manufacturing plants increased in magnitude until they became far greater than necessary to supply the home demand; congested markets and the economic necessity of running these plants under as full headway as possible, gave us the incentive to seek an outlet in the markets of the world. Great prosperity increased the purchasing power of our people, and the world sought our markets with those commodities which we could not produce or which it could sell in competition with our home industries. The sum of these exports and imports made up our foreign trade which, in the early sixties, amounted to approximately $600,000,000, and has increased to approximately $3,500,000,000.

During the period that we were busy with internal development, England, Germany and France were adding to and cultivating their foreign commercial relations, intrenching themselves at strategical points of distribution, obtaining a foothold through concessions and gradually spreading their influence until they dominated the situation. They have fostered their merchant marine in the belief that trade followed the flag; have established banking institutions or affiliations everywhere; have invested millions of capital in every land and established commercial firms in every port, in fact, in every city of any importance. England has been the most active, but of late years Germany has been a successful competitor in many of her richest markets. These countries have colonized many lands; their capital has exploited many countries and developed their natural resources; they have captured the bulk of the trade and carry it in ships flying their own flags. You will find them in control at those points which command the trade of the different countries and where navigation is most profitably followed. Exchange moved in favor of or against the interested countries as trade fluctuated. England enjoyed the greatest advantage because she was first in the field and her banking machinery was adapted to the business of clearing the world's transactions.

With inadequate banking machinery (a great part of which was created to finance the Government rather than to finance business) our active and aggressive people have succeeded in building up a large and increasing foreign trade. To accomplish this, we have been forced to borrow the financial machinery of other countries and to pay, annually, millions of dollars for the use of it; incidentally, with every transaction adding to the prestige and supremacy of the financial center to which we have had to appeal. These centers are created by trade movements and, given an equality of financial machinery, would follow the shifting of trade centers. We have in this country all the fundamental conditions favorable to predominance in the world's trade—vast natural resources; intelligent, aggressive, inventive people; and a commanding stock of gold. If we take advantage of our opportunities intelligently, it would seem that increasing importance in the world's trade is inevitable. On the other hand, if we are to compete with the world—especially with England and Germany—we will

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have to change many of our theories and conventions and equip ourselves with the necessary machinery.

In a few years we will complete the Panama Canal, and may say we are at the threshold of a new phase in the world's history—a phase that will deal mostly with the development of the countries bordering on the Pacific Ocean. A new impulse will be given to commerce, mighty changes will be made in the trade routes of the world, and we believe that the United States will receive more benefit than any other country. Our geographical location will, through the use of the Canal, give us a decided advantage over our competitors for the trade of the countries bordering on the Pacific Ocean—countries which contain a world of undeveloped resources. This trade will give a new impetus to our manufacturing plants, especially in cotton and iron, and will greatly stimulate the ship-building industry.

The Atlantic seaboard and the Middle West (with an outlet down the Mississippi River), where the centers of activity and the densely populated parts of the United States are located, will be brought nearer to Australasia, Japan and the west coast of Central and South America, than England, Germany and France; and the same sections of the United States will be given a geographical position approximately equal to that of its most serious competitors for the trade of China, and will have a manufacturing advantage through the necessity of its competitors seeking raw material outside their borders.

We have strategic points on the Pacific Ocean which will aid us in our efforts to increase our traffic. We lack ships to fly our flag and carry our trade—in fact, what trade we have is dependent upon the peace of Europe. Our sales and purchases are carried, through the courtesy of rivals, for a tribute which offsets, in a measure, the excess of our exports. If the Government can find a way to allow ships flying the American flag, both those employed in the coastwise trade and those bound to foreign ports, to pass through the Canal free of toll, or to give them a bounty equal to the tolls which they would have to pay, we would be able to escape from this dangerous, expensive and humiliating position, and would gain an advantage over our competitors for the trade of the Pacific that would more than justify the cost of the Canal.

In order to take our place in the world's trade we need an efficient banking system, a merchant marine, and a better knowledge of the purchasing power, the resources, the necessities, the manners and customs of the countries where our trade can be extended, and an education which will enable us to negotiate with the people in their own language. The banking system must be able to extend credits in accordance with the usages of the various countries and be of such a nature as to give the world confidence that it can, if necessary, immediately realize upon the bills of exchange created by our foreign trade. Ultimate solvency is not sufficient; there must be no doubt about our ability to pay gold. We must relieve our merchants of the necessity of speculating on the rates of exchange which they cannot escape when they have to trade under credits that call for payments in sterling, or have to bill their goods in sterling. The relation that such a system will bear to our foreign trade will depend greatly upon the success which meets our efforts to build up a discount market, in order to absorb the bills of exchange which are created by that trade. This market cannot grow to any great importance without the privilege of going to the National Reserve Association in case of need, and the Association cannot perform its functions intelligently or safely unless it can make its rate of discount effective; in other words, unless it is given the power to protect itself by influencing the rates of interest throughout the country. The banks will stand between the Association and the public, but the Association must be able to influence the banks, if it is to be a successful guardian of the gold reserves of the country.

Foreign bankers, especially those in the great financial centers, view with some alarm the inability of our bankers to control their reserves and to protect themselves in times of uneasiness. The scramble for gold on the part of our banks, to build up their waning reserves, not only intensifies the uneasiness here, but influences the foreign bankers and investors to sell our securities, to hesitate when applied to for help, and to call their loans. The high rates of interest which ensue do not attract foreign money; on the contrary, they repel it and cause the foreigners to sell the American stocks and bonds which they had previously bought for investment, through the fear that we will not be able to control the situation. These sales are made on a falling market, add to the general uneasiness, and give the foreigners a call on our gold supply at a time when we are struggling to maintain it. Our imports shrink and our exports are forced on the market in an effort to get relief.

In 1907 there was, for a short time, a question about the ability of our banks to move exports, owing to the difficulty in selling foreign exchange in our money centers. The hesitation was slight, but contributed more to the loss of confidence than any other one thing, as the movement of these exports meant the power to realize on merchandise against which the banks had made loans.

Will the National Reserve Association of the United States give us the necessary machinery to enable us to seek foreign trade, and to deal quickly and intelligently with the great banks in the financial centers? The revised plan submitted by Senator Aldrich to the National Monetary Commission is tentative, as I understand it. Discussions from different points of view are wanted, and suggestions have been invited from all classes of the community. The plan as it stands is unquestionably good, but what should concern us most is whether or not it will work practically. With this idea in view, let us assume that its charter has been granted, and that it is in existence; the Government of the United States and those banks owning stock in the Association are its only depositors, and all domestic transactions of the Association are confined to the Government and the subscribing banks, with the exception of the purchase or sale of Government or State securities, or securities of foreign governments, or of gold coin, or bullion. As its domestic activities are confined to the Government and the subscribing banks, the thought naturally arises as to what becomes of those banks which do not subscribe. The non-subscribers, State and National, will continue to do business with the reserve and central reserve cities, and many of the subscribers will do likewise, with the added confidence that their reserve city correspondents have been placed in a position where they can take care of all legitimate transactions in fair weather and foul. They deal now with certain banks because they have confidence in them, because they know and like the officers, and because those banks have confidence in them and their integrity, and know their communities and the class of loans which they are called upon to make. Legitimate business will no longer be told that loans cannot be made until the crops are moved. The fact that these crops are moved without making violent strains upon the reserves of their correspondents will create confidence in their minds and in the minds of bankers in foreign financial markets. The only question between the legitimate borrower for commercial purposes and his banker will be that of the rate for the accommodation, and when the rate becomes sufficiently attractive, the foreign banker will be in our markets as a purchaser of the bills of exchange which will be brought into being under the new plan. The National Reserve Association, freed from the necessity of making such profits as our banks seek, is watching the situation and controlling it through the influence of its rate, which is uniform at all of its branches; it has formed connections with the great banking houses of the world; has their confidence; can, without fear or hesitation, part

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with gold to aid them in their problems, or arrange to obtain gold from them to help it solve its own problems.

Agencies have been established in the larger cities of the world which dominate and control the trade of their respective countries, not only buying, selling and collecting foreign bills of exchange arising from commercial transactions, but studying the trade conditions and sending home knowledge which will enable our exporters and importers to extend their business and to operate more safely and intelligently than they can today. The "Local Associations" will have to be formed in order to carry out the plan and perfect the machinery, but the necessity for their use will seldom arise, and the crisis will have to be of a very desperate nature before the banks will be willing to appeal to them. The head of the Department of Commerce and Labor is a member of the Board of Directors of the Association; he will have an opportunity of coming into intimate daily contact with the financial affairs and business needs of the country; he will be able to render valuable aid to the trade of the country through the machinery of his department and will be in a position to advise and recommend to Congress such legislation as is necessary for the benefit of trade—in other words, the Department of Commerce and Labor can co-operate and act as an agency for the development of trade and commerce. The new Tariff Board will no doubt work in close touch with the foreign agencies of the Association as well as through consular bureaus, and will be able to give intelligent advice to Congress as to what changes in the tariff would aid in securing the trade of foreign countries without sacrificing our own. Intimate contact with the problems of business will give the Government representatives in the board of the Association an opportunity of understanding the probable effect of proposed legislation before it is placed on the statute books.

Banks other than the agencies of the National Reserve Association will be established in foreign countries; American capital will be appealed to to aid in developing natural resources and to aid in financing enterprises, opening up profitable fields to our commerce, and adding to the prestige of our financial centers. Every foreign dollar that is captured will contribute towards the prosperity of our people and aid them in giving employment to labor.

The provisions of the plan under discussion make everything that I have outlined possible, except the clause which reads "In addition to the rights now conferred by law, National banks shall be authorized to accept commercial paper drawn upon them, having not more than four months to run, properly secured, and arising out of commercial transactions." This will enable the National banks to do a great portion of the business which is now done through the aid of London, but not all of it. To my mind, the reservation that the bill of exchange must arise out of a commercial transaction is sufficient without limiting the bill to four months. Sailing ships still carry cargoes, and many legitimate transactions are presented which cannot be consummated within the four months. For instance, when this paper was being prepared, the bank which I represent was called upon to give a credit authorizing six months' drafts on its London correspondent covering coffee to be shipped in a sailing vessel from Java to New York. The coffee benefits by the long, slow ocean trip, and arrives at its destination materially enhanced in value. I cannot imagine any more legitimate commercial transaction, and cannot understand why we should legislate against business of this character. The practice abroad is to grant short credits in transactions within their own borders, but to grant credits outside which will bridge over the time necessary to make the transactions possible. In granting foreign credits under our present system we now exercise great care, and will not grant such credits as authorize four-months' drafts on our foreign correspondents, if we know that the transaction does not require more than ninety days, nor will we grant credits allowing sixty-day drafts when we know that thirty is sufficient. The clause as it now stands does not prevent our doing the business, but it places us in a position where we will only be able to do part of it with our own machinery, and will have to continue to borrow London's machinery to do the balance.

The provision that the acceptances of the National banks will have to be properly secured will need interpretation. Many of a bank's transactions that have no specific deposit of security back of them are more secure than those with specific security. A clause in the bill to the effect that the banks could not make loans except when properly secured, would, in my opinion, be just as sensible as a clause that they cannot accept commercial paper unless properly secured; the banks try not to make loans of any kind unless they feel confident that the loan is good, and in lending their credit exercise greater care than in lending money; documents attached to time bills have to be delivered against trust receipts, and many legitimate transactions are presented where there is no specific security; for instance, we are often asked for letters of credit authorizing drafts against the receipts of the captain and engineer of a steamship for bunker coal bought in foreign ports. The coal cannot be regarded as security, as it is being consumed daily, and the bank has nothing but the guarantee of the shipping firm to protect it. In other words, it is practically a loan on the clean note of the shipping firm.

In operating through its foreign agencies, the National Reserve Association may purchase prime bills of exchange arising from commercial transactions running for not more than ninety days, and bearing the signature of two or more responsible parties. This fits the character of the foreign bills which will be available, but the agencies should be allowed to purchase American bills with documents attached and arising from American merchandise letters of credit; otherwise the demand for those bills in foreign countries will be small until such time as American banks are established. This demand for bills on American cities must be fostered, otherwise our importers will have to continue to use London credits.

The powers given to the National Reserve Association to deal in gold coin, or bullion, to grant loans thereon, and to contract for loans of gold coin, or bullion, giving, when necessary, acceptable security for their repayment, together with the other powers conferred upon it in relation to dealing with foreign countries, are ample to enable it to transact its business intelligently, and place it in a position where it can establish reciprocal relations which will enable it to co-operate with the great foreign banks, lending its powerful aid to help them in their emergencies, and attracting their aid when necessary to relieve the emergencies of the banks which rely upon it for protection.

I take it for granted that the power to deal in gold coin or bullion includes silver as well as gold bullion, as it will be necessary to deal in silver bullion in connection with the Orient and other silver-using countries. London's great prestige comes largely from the fact that it is the only free market for gold; the plans for the National Reserve Association, if properly supported, will give us the opportunity to challenge London's supremacy, but the standing of our bank acceptances abroad will depend largely upon the freedom with which we part with gold. As a rule, when a gold movement starts in any country, arbitrary means are employed to retard or stop it; even London, the freest of all markets, will unduly raise the price of gold and of foreign coin, releasing them only when a point is reached where her own sovereigns will be shipped if she does not. If we can gain the confidence of the world that gold will be released freely, it will be our greatest aid in retaining our own gold, as our financial paper will be bought freely and held until maturity, gold only being taken when absolutely needed.

The ability of the National Reserve Association to pro-

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tect and control the legal cash reserves of the banks and to relieve them individually of that responsibility seems to me to be the crux of the whole situation. If any doubt of this ability creeps into the minds of the public, the banks, or the foreign banking and investing public, we will be back again to the position where these elements periodically compete with each other to see which can lock up the most gold. The plan says that "The rates of discount which the National Reserve Association shall have authority to fix from time to time shall be published when fixed, and shall be uniform throughout the United States." This means that the rate shall be uniform at its branches throughout the United States.

The power to make its rate effective would be the Association's greatest weapon of offense and defense. It will, if efficient, give the elasticity to our banking system which is so desirable—elasticity means contraction and expansion, not expansion alone. In normal times the influence of the Association's rate would be practically nil. Under the plan the Association would be a beggar at the doors of its depositors, dependent upon them for the investment of its funds; failing there, all of its funds would have to go abroad for investment. On the other hand, when the banks were loaned up and actual stringency existed, the banks would have to go to the Association and accept such terms as it imposed; that is, the Association rate will be effective only when the banks have to borrow. In other words, the Association can only act on the defensive and its influence will not be felt until inflation has gotten under pretty full headway. World conditions might be so settled that the Association felt that the business public was entitled to lower rates, and that there was no danger in allowing business to expand. It certainly would not be wise to encourage the banks to borrow the Association's money at such a time. On the other hand, it would be conservative for the Association to let some of its money out by purchasing bills in the open market, because it would be in a position to control the situation when necessary. The purchases of the Association would be only of the highest grades of short-time paper, and the competition with the banks would be practically negligible; the Association would certainly be able to serve the nation and the banks more intelligently and with more safety if it could purchase and sell in the open market. If the Association is to be charged with the responsibility of guarding the reserves of the banks and the gold supply of the country, it should be given the power to make its rate effective. If the lessons of history are worth anything, the Association will not be fully successful unless it can make its rate effective.

Provision is made for the banks subscribing to the National Reserve Association to hold the Association's notes as part of their reserve, but no such provision is made for those banks which do not subscribe. Under the existing laws the non-subscribing National banks, and a great many of the State banks and trust companies would not be allowed to hold notes of the Association as reserve money, and unless the notes of the Association are made lawful money, the National Bank Act and the laws of a great number of the States will have to be changed or the non-subscribing banks will drain the Association of its lawful reserve money as the National bank notes are presented for redemption.

If the Association's notes are made lawful money or the different laws are changed so that they can be held as reserve by all banks, the Association must be placed in a position where it can have a reasonable hope of controlling the volume of credit through the country. In other words, it must be able to make its discount rate effective.

The same banks which now hold National bank notes in their reserve will hold notes of the Association. The same affiliations which now exist between the National banks and State banks and trust companies will exist or be established between members of the Association and non-members, and if there is any advantage in keeping the Association's notes from seeking redemption, they will be kept out just as the National bank notes are now. In fact, they will have to take the place of the National bank notes which are now being held as reserve money by the State banks and trust companies when these notes are retired, or some way will have to be found to shrink the credits of the country.

Every banker with whom I have discussed the question admits that the Association would be more efficient if given the power to buy and sell in the open market, but many say that this power would create friction with the existing banks, because they would fear the competition of the Association. There will be no competition worth talking about. Such as there is will be salutary, and will tend towards more stable and reasonable interest rates throughout the country. Bank earnings will be increased rather than decreased, owing to the greater volume of business which will be encouraged, and which can be safely done. The competition will be in the best interest of the business public, and it is through their growth and success that we grow and succeed.

I have read many able papers on the plan which we are discussing, and they all recognize the necessity of a regulating force to weld our banking system together, and seem to take it for granted that the plan creates this governing power. For instance, one writer says: "The fixing of the discount rate by the directors of the Reserve Association will give them more or less control over the expansion and contraction of credits throughout the country." Another says: "Through its power to raise and lower discount rates (a power which is now wisely used by such banks as the Bank of England and the Bank of France for the protection of their reserves as well as for the benefit of the trade of their respective countries) the Reserve Association could and would protect our national stock of gold, which is at present wholly unprotected." Still another writes: "The volume of credit through the country will be controlled by the discount rate of the National Reserve Association; it will be raised to check over-expansion and lowered to encourage legitimate operations in accordance with the conditions as they exist from time to time. The National Reserve Association will thus become the central power of a well-organized banking system—at once its main strength and its guiding and controlling influence."

The thought naturally arises, will the mere fact of the directors of the National Reserve Association naming a rate have any effect when their hands are so tied that they have no way of enforcing the rate and of making it effective. For instance, they wish to enforce a low rate to encourage legitimate transactions and for the benefit of the trade of the country. They can make no investments in this country except through the good will of their depositors, and it is certainly not sound to encourage their depositors to borrow money to expand their business when money is plentiful and times are easy. But as I have said before, it would be conservative for the Association to let out some of its money at such a time by purchasing bills of exchange in the open market because it would be in a position to control the situation. On the other hand, they wish to curb expansion; the banks are busy making money, they feel safe; the responsibility of guarding the legal reserves is not theirs; if they become over-extended they can go to the National Reserve Association; the directors raise their rate as a warning, the cautious banks pay attention, the others do not; the Association is not allowed to sell any of the domestic acceptances which it may have in its portfolios, and there is no other provision to absorb any of the money which is being so freely loaned; the directors see the storm coming, know they will have to protect the banks, but have to wait for the wind to blow hard enough to make their depositors take in sail. The Association will not have any control over the situation

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until the demands of the great mass of non-member banks have put such a strain on their reserve city banks, who are members, as will drive those banks to the Association for help. If it had the power to sell in the open market it could force contraction, and it is only through contraction that it can prepare itself to fulfill its responsibilities towards the banks.

The relation of the National Reserve Association to foreign trade and to the money centers of the world will depend entirely upon the confidence that the Association will be able to instil into the minds of the foreigners as to its ability to control credits and defend the gold supply of the country, and the freedom with which it parts with gold. As I have said before, ultimate solvency is not sufficient; there must not be the shadow of a doubt in the mind of any one on the question of ability to realize at once through our discount market, and to get gold as a result. The extent of this confidence will determine the success of our efforts to build up a discount market and to pay for imports with drafts on American points.

We must keep in mind the fact that the Association is to be charged with the responsibility of keeping the ultimate lawful money reserve of the banks and with the protection of the gold supply of the country and also that the individual banks are to be relieved of this responsibility. Experience has proven that the supreme weapon of defense of an issue bank to protect its gold reserve is to raise the rate of discount, but the mere act of raising the rate would be of no avail if the power to make it effective were lacking. In other countries the great banks of issue are not only banks for banks, but for the commercial and industrial public. In our plan we propose to limit the domestic transactions to such an extent that the raising of the rate is no more than a cry of "wolf." The raising of rates will not decrease demands from the clients of the individual banks; for men with immediate liabilities will pay whatever rate is asked. These demands will be freely met until the pressure on the banks that are members of the Association drives them to that Association to ask for help. In other words, the Association can do nothing to enforce its rate. Its depositors are operating to make as great a profit as possible, are no longer charged with protecting their lawful money reserves, and know that in any event they can fall back on the Association for protection. The Association, on the other hand, is dependent on them to put the brakes on their clients and on perhaps fifteen to twenty thousand banks which are not members of the Association, and are confident that they are safe in any event, as their reserve banks can fall back upon the Association. The Association can do nothing; it can only wait, bracing itself for the demand from its depositors which will finally give it control of the situation. Inflation under such a system is allowed to get under too full headway before the Association can take hold of and curb it.

Experience has proven that the great banks of Europe are not serious competitors of the private institutions; their rules are more conservative, the lowest bank rate is, as a rule, higher than the rates ruling with the other banks. General business deals with the other banks because the controlling institutions do not pay interest on balances of any character, and because, as a rule, better rates can be obtained; its needs are better understood and the private institutions grant longer credits.

If I had more time I would like to touch upon the question of the retirement of the National bank notes and also on the question of taxing the note issues of the National Reserve Association. The amount of intelligence displayed in solving these questions will determine in a great measure the relations which the Association will bear towards foreign trade and towards the money centers of the world, for the reason that whatever decision is reached will have its effect on the efficiency of the Association.

To my mind the American people have as great an interest in getting rid of the National bank note as the National banks have. These notes are being used as a basis of credit for several billion dollars; are based on promises to pay largely without maturity date and without one dollar of gold back of them. True the Government promises to keep all money on a par with gold, but conditions are conceivable which would make it difficult if not impossible for it to keep that promise. This danger has been recognized, and it is to be hoped that no more bonds will ever be issued with the circulation privilege. All of the present 2 per cent. bonds should be purchased by the Association and presented to the Treasury Department, to be refunded into 3 per cents. in order to place them on an investment basis, and the Association should, as opportunity presents, and at any time that the Secretary of the Treasury will permit, sell these bonds at home and abroad and retire a like amount of its note issue, gradually substituting gold for its notes.

The refunding plan suggested by Senator Aldrich, in my opinion, evades the issue and attempts to put a burden on the shoulders of the banks and private investors which should be placed on the nation as a whole; it destroys the market for all of the 2 per cent. bonds which are not turned over to the Association, and forces the National banks to join the Association to protect themselves from loss; it makes no provision to refund or protect the bonds which are not now deposited to secure circulation, and reduces their value about 30 per cent. It places a franchise tax on the Association of 1½ per cent. during the fifty years of its existence, based on the theory that the banks now pay ½ per cent. on their circulation, and to cover the extra interest which the Government will have to pay.

The Association is to be the instrument of relieving the nation from the economically unsound position which it now occupies on account of the bond-secured notes, and is assuming a great risk in taking for granted that bonds bearing 3 per cent. interest can be sold at par over a period of years and at such times as the Secretary of the Treasury is willing to permit them to be sold. The nation would run practically no risk in refunding the 2 per cent. bonds into threes, as the Association's earning power will be great —and all of the profits over a small percentage go to the Government. I regret that the suggestion is being made to use part of the Government's share of the earnings to aid in refunding the 2 per cent. bonds, as in my opinion all of the profit which the Government receives should go towards cleaning up its economic position. In other words, these profits should be used to retire the greenbacks, to put more value back of the silver certificates and to retire the Government debt. In time these obligations of the Government would be retired without calling upon the public to pay any additional taxes.

The question of fixing the discount rate by the Association should be clearly stated by Congress so that the institution will not be hampered by the usury laws of the different States.

I am in favor of the general plan suggested by Senator Aldrich, but I believe it fundamentally wrong to tie the Association's hands so that it cannot enforce its rate. It has no doubt been done to prevent any competition with the existing banks, but such competition as would occur would be in the interest of all of the banks of the country outside of the central reserve cities, and the more important reserve cities, and in the interest of the entire business public in this country; and the facilities which the Association would give the reserve and central reserve city banks, added to the power to do a greater volume of business with safety, would more than offset the small amount of competition which they would receive.

The State banks and trust companies should be encouraged to join the National Reserve Association, but not on more liberal terms than the National banks. They have multiplied more rapidly than National banks. The reason

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they have done so is that they are better fitted to meet in competition the business needs of the communities where they exist. In my opinion the great majority of these institutions will seek a national charter if the National Bank Act is so liberalized that they can enter the system without giving up the competing advantages which they now enjoy. They will at least have the privilege of doing so, and when nationalized can then have the privilege of joining the National Reserve Association. The business which they are doing is legitimate, and is necessary to their communities; and it certainly would be sounder common sense and better morally to allow a National bank to do a commercial, savings and trust business openly, in its own banking room under one supervision and one set of regulations, than to do the business through subsidiary corporations next door or down stairs, under a different set of laws and under different supervision.

If we are to have a National Reserve Association, it should be so armed and equipped that its responsibilities could be met successfully. The supreme responsibility of the Association is to defend the gold reserves of the country and through them to insure financial security to the business public.

No selfish interest on the part of the existing banks who are to be the shareholders of the Association would justify their asking that any concessions be made to them, particularly if such concessions would have the effect of weakening the efficiency of the proposed Association in a vital and fundamental function. The business public of the country looks to us as bankers to solve the question, as experts, and has the right to expect that the plan we recommend is sound in every respect and free from any personal selfish consideration.

Mr. President and Gentlemen, let me say in conclusion that in all the great questions which are before the public today, we are dealing with fixed and immutable principles. We may blunder, but these principles will not change; the laws of economics are just as sternly certain in their operation as the laws of health. We can violate either, but must pay the penalty; it matters not whether the violation is of our own volition, or by reason of the statutes of the United States.

Rediscounts and Book Credits.

By George M. Reynolds, President of the Continental and Commercial National Bank, of Chicago, Ill.

Mr. President, Ladies and Gentlemen of the American Bankers' Association:

In view of the agitation for currency legislation which has been going on during the past three or four years, or since the panic of 1907, which brought the citizens of this country to a realization of the pressing need for currency reform, I assume that the business public, generally, recognizes the weaknesses and the deficiences of our present banking and currency system, and I shall not, therefore, make any extended reference to it.

In many respects it has great merit, but, on the other hand, its faults are so many and so apparent that, like the chain, it is only as strong as its weakest link and it fails utterly in great crises when confidence has been disturbed and there is a tendency on the part of the public to hoard money.

While it has given us a uniform circulating medium in the National Bank United States bond-secured note, the fact that such notes have been inelastic and thereby unable to respond to the requirements of business has made it impossible for the banks of the country under certain conditions to furnish currency in sufficient quantities to meet the demands of trade.

The reserve requirements under our National Banking system are such that an effort on the part of one bank to increase its own reserve must of necessity result in its withdrawing funds standing to its credit with some other bank, thereby reducing and weakening the reserve of that bank.

The system is unscientific, and the fact that it has served us as well as it has, and that we have not had more frequent panics or seasons of severe depression in business, is due very largely to the growing use of credit in business transactions in this country, one of the most used instruments of which is the bank check.

Where formerly currency had to be sent to the country for crop-moving purposes, the enterprise of the country banker, so called, has resulted in the majority of our farmers opening accounts with the various banks throughout the country, and today the major portion of the products of our soil are paid for in checks given to the framers, who, in turn, deposit such checks in their local banks and take credit for them. They, on the other hand, pay their obligations to their creditors with checks on the bank, thus making each transaction one in which credit has been the agent of money itself. Indeed, this practice has become so general that fully ninety-five per cent. of the business of the country is done on credit.

This being so, credit becomes one of the most potent factors in all economics, and credit to be stable must be protected by a system of currency and banking which, while providing for an amount of credit necessary to meet the reasonable requirements of business, will prevent an over-expansion of credit and at the same time make it possible to transfer or exchange liquid credits of solvent concerns of one form into credits of another form, and even into a circulating medium or bank notes when the necessity for such exchange exists.

In business there are different forms of credit, the initial form being that created in a transaction between two individuals or concerns through which one gives to the other his note for the amount due or where the other charges the debtor on his books with the amount.

If the credit thus created is protected by the solvency of the debtor it is intrinsically as good as any credit, but we will assume that inasmuch as "A," the debtor in this instance, is not known a long distance away from home, and the extent and character of the property which he owns and which is a protection to his debt is unknown to the public generally, it is impossible for "A's" note to be passed from hand to hand in the payment of obligations between others having business relations. So the owner of the credit, "B," if he wishes to use his credit in some other business transaction, must transfer it into some other form of credit which will be acceptable to the person with whom he contemplates dealing. To do this he takes "A's" note to the bank and discounts the same and takes credit in his own account for the proceeds and draws his check on the bank for the amount of his transaction; or he may, with the proceeds of the note thus discounted, buy from the bank a bill of exchange or a banker's draft on its correspondent, which bill is given by him in payment of the debt thus incurred.

This, then, is using bank credit instead of "A's" credit as the transactions of business progress, the check of the bank on its correspondent being a still higher form of credit than the check of "B" on the bank itself, unless, indeed, "B's" check is certified; in which case, of course, it then becomes the instrument of and carries with it the credit of the bank as well as the credit of "B," the maker of the check.

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Now, the note which "A" gives "B" is still in the hands of the bank, and yet the amount of that note has been used by "B" in another direction through having had it converted into a bank credit.

Let us see what becomes of this credit which is representer by a bank credit or a banker's bill of exchange.

"B," in his transactions with, we shall say, "C," gave this check or bill of exchange to "C" in payment of his obligation, but "C" expecting to leave the community in which he had resided and intending to go to some remote section of the country where in his mind there might exist some doubt about the financial responsibility of either "B" or the banker being known, does not wish to carry a check or a draft or bill of exchange with him, and so goes to the bank and, instead of taking credit for the amount of the check, he draws currency for the same, and the bank gives him currency in the form of bank notes which are known throughout the country.

So, in these transactions, we see the credit created in the individual transaction between "A" and "B" exchanged for other forms of credit and used in other business transactions until it finally falls into the hands of some one who wants currency, thus converting, through these processes, the credit represented by "A's" note into a circulating medium.

Now, my friends, credit, if it is stable and properly safeguarded and protected, must be exchangeable into these different forms of credit and finally into currency, the highest order of credit, which is widely known and generally acceptable.

Therefore, it must be clear to you that the banker is a dealer in credit, but when he sells his credit, through discounting paper or in any other way, he knows he must be able to protect that credit by always being prepared to pay money on demand against the credit he extends. This requires that he must keep on hand an amount of money known by experience and measured under the law of averages as being in a proper relation to his outstanding credits.

This requirement of carrying a proper reserve against his outstanding credits in order to enable him to pay cash on demand against those credits is the safeguard of the prudent banker against over-extension of credits.

Since the credits of a community arising from the profits of the industries in that community are pretty generally concentrated in its banks, the shipment of its products to the markets of the world maturally increases the balances of the local banks in the reserve centers, for when a carload of the products of a community goes forward to market it is generally represented by a bill of lading which the shipper takes to his local bank and attaches to a draft upon some commission merchant at the destination of the shipment, which draft is generally drawn for from 75 to 80 per cent. of the value of the shipment. This draft is deposited to the credit of the shipper in his local bank, thereby increasing the deposits or the credits in that bank. The bank, in turn, forwards the draft with the bill of lading attached to its correspondent in the reserve center most convenient, which, as you will see, increases the amount of the credit of the local bank with its reserve correspondent.

This process, then, represents the marketing of the products, or one side of the business transactions of that community, and if we were to stop here we would find the deposits as well as the cash means of the local banks at the highest point of the year; but there is another process which is going on all the while, and that is the process of the importation of whatever commodities, such as dry goods, groceries, hardware, etc., the people of the community do not produce among themselves and which must be brought in from other places where they have products of this character to spare. All products thus imported must be paid for, and this is accomplished through the merchants in the local community purchasing the drafts or bills of exchange of the banks of that community upon their reserve correspondents, which are forwarded to the centers from which these commodities are purchased.

In these transactions the merchant in the local community writes his check upon the bank for the amount of his obligation, takes it to the bank and exchanges it for the bank's draft upon its correspondent in the reserve city, which he, in turn, forwards to the wholesale house in the city where his purchases were made, and in due process this check is finally forwarded to the reserve correspondent of the bank in the local community, with the result that it is charged to the account of that bank.

Thus you will see that through this process the credits which were built up in the local banks and with their reserve correspondents are gradually diminished; you will also see that the debts and credits in every community center more or less in the banks of that community, and through this process of offsetting or cancellation which the banker can employ, most of the debts and credits adjust themselves and are discharged without the use of money, the bank being compelled to pay out money only when someone demands it against a credit which has gone away from home and has not fully served its purpose and has not reached its proper destination.

This, my friends, is the natural trend of the business of a bank, as, indeed, it is the natural trend of all business, and if we safeguard our business against recurring panics and seasons of extreme depression, we must have a system of currency and banking for the protection of credit by means of which our liquid credits can be used and exchanged as I have indicated, thus making it possible, when needed, for a bank to convert its liquid assets, which consists in great part of notes of solvent concerns, into other forms of credit, even to the extent of being able to convert same into currency or bank notes when necessary.

This is absolutely impossible under our present system because of the inelasticity of our bond-secured National Bank notes.

Thus you will see that if a bank cannot convert its liquid assets into bank credits or bank notes in times of need that bank must, if called upon to do so, pay lawful money against such credits, thereby impairing its reserve.

This condition, naturally, restricts the amount of credit a bank can extend, no matter how imperative the need for credit may be.

It is to correct these inefficiencies in our present banking and currency system, and to protect credit in this country through making the credit backed by the solvent debtor exchangeable for such forms of credit as the holder or owner of the credit may demand, that we need currency legislation. The inauguration of a system of currency and banking such as will give to business these facilities is the basis of the plan proposed for the organization of the National Reserve Association of the United States.

The Relation of the National Reserve Association to the Banks of the United States.

The proposed plan was conceived upon the premise of giving to the small banks of the country the same facilities that the largest banks would enjoy, and it has been designed to insure the entity of our banks, and to protect them from competition of the Reserve Association and other large banks through making it impossible for branch banking to be established in the United States.

It was, at the very beginning of all study of the question, the consensus of opinion of all engaged in the work, that any plan which would be effective must include the smaller banks of the country and enlist their co-operation. In order to do this it was provided that banks throughout the country operating under either Federal or State charters, desiring so to do, may become a member of and participate in the benefits of the Association by subscribing for stock in the Association in amount equal to 20 per cent. of the capital stock of the subscribing bank. Whether or not a bank becomes a member of the Association is left to the option of each bank as the plan nowhere compels any action on the part of the banks.

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Subscribing banks will be required to pay in 10 per cent. of their capital stock, upon which they will, if it is earned, receive a dividend of 5 per cent. and all earnings in excess of that will go to the Government, except an amount necessary to provide an adequate surplus fund.

Each bank a member of the Association is given the right to discount through it an amount of paper equal to its, the member's, capital stock, and in addition it may if desired accept drafts drawn upon it for an amount aggregating one-half of its capital.

Paper to be eligible for discount by a bank with the Association direct must have not longer than twenty-eight days to run after, and furthermore it must have been dated not less than thirty days prior to the date of its discount. This restriction is made for the purpose, first, of confining the operations of business done through the Reserve Association representing the natural and automatic demands of trade, and second, to create safeguards against over-expansion of credit. These restrictions prevent a bank from making up for rediscount paper which has not come through the natural channels of business. Additional safeguard against over-expansion is provided in that the notes issued by the Association to be used as a circulating medium, in excess of those issued to take the place of our outstanding National Bank notes, shall be taxed when the reserve of the Association falls below 50 per cent. of all its liabilities, the tax to increase as the reserve decreases. An imposition of a tax on its notes would mean that interest rates would be advanced, and it is a well-established principle with the great banks of Europe that the raising of the rates of interest serves the two-fold purpose of replenishing their reserves and discouraging speculation.

In times of extreme pressure additional facilities will be afforded for discounts through the medium of the Local Associations, which subject will be discussed by another speaker.

The fact that the plan does not provide for any change in the deposit or reserve relations now existing between banks does not make it in any sense revolutionary, but on the contrary it will be only a voluntary co-operative organization among the banks, forming an institution of refuge to which the banks of the country can turn for assistance in times of stress or storms, creating an organization into the vaults of which the reserves of the banks may be mobilized in order that they may stand as a bulwark of protection to our credit system.

While it provides for centralizing the reserves of the country it does not provide for centralizing the power; the assembling of such large reserves will create an increased ability to extend credit, for that power will be decentralized and be turned back to all of the banks instead of remaining in the hands of bankers in the Central Reserve cities as is now the case.

To secure credit now the public must depend upon the ability and the inclination of bankers in those cities to furnish it, but if the Reserve Association is formed the country banker, as well as the city banker, will be given the right by law, as he will by the very nature of the plan, an assurance that he can secure, through rediscounting paper with the Reserve Association, the credit necessary for the protection of the industries of his community when they are conservatively managed; therefore, the plan, while providing for the centralizing of our reserves, provides for a decentralization of credit which, in view of the fact 95 per cent. of our business is done on credit, means the decentralization of the business power those reserves create.

I hope you will get clear in your minds that under the principle that reserves are held only as a protection to credit, and that since credit itself is the controlling power in business, the credit large reserves will justify is given back to the members of the Association, or the thousands of banks located all over this country, thereby decentralizing and taking away from the control of a few that power so vital to business life.

The plan proposed is not a wide departure from our present system. Rather it augments and widens the system, correcting the weaknesses in the plan and furnishing the machinery for the natural ebb and flow of business and a constant increasing and decreasing of credits and the rise and fall of the amount of bank notes in circulation.

The plan of the National Reserve Association is based on these essential principles:

First, that it will be able to protect our credit by extending credit to the amount of all reasonable requirements.

Second, that through it credits could be exchanged from one form into or for credit of another form, thus making it possible through the process of business for any form of credit to be exchanged into or for bank notes, or the highest form of bank credit.

Third, that the character of the paper it would discount would very largely prevent over-expansion of credit and confine the credit it would extend to the natural channels of business.

Fourth, its circulating notes would be elastic and respond fully to the requirements of business, and yet at the same time the tax which would be imposed upon such notes when the reserve of the institution would fall below 50 per cent., would be an additional safeguard against over-expansion.

Fifth, it would assure less violent fluctuations in interest rates and provide credit to all banks at the same rate of interest.

Sixth, it would either prevent panics or minimize their effects.

The adoption of the proposed plan would enable a banker in a small community to exchange his draft for 75 per cent. of the value of a car of grain, when accompanied by a bill of lading, into either bank credits, through the use of which he could liquidate his indebtedness, or he could exchange that bill of lading credit into bank notes or currency through the National Reserve Association, which bank notes it is provided shall be secured one-third by gold coin and two-thirds by commercial credits of the character I have described.

The tentative plan of the National Reserve Association as proposed provides such a unique manner for the election of its directors and officials who will be charged with its management as to preclude the possibility of its ever falling into the hands of any individual, interest or clique to be operated to their advantage and against the welfare of the masses of the people; and its plan of organization and management is calculated to prevent the institution from ever in any wise becoming a political issue or being subject to the control of any political party or coterie of politicians.

If the proposed plan becomes a law it will provide an institution which will be able to extend credit in proportion to all the reasonable needs of business in this country, and at the same time safeguard against the over-expansion of credit.

It will provide also a system of bank notes which will be sufficiently elastic to enable any bank that is solvent and in good standing to transfer or exchange its liquid credits into whatever form of credit the requirements of the community would make it convenient for that bank to furnish, even to the extent of furnishing currency itself.

The fact that any bank in good standing could discount with the institution the paper of solvent concerns which would not have exceeding twenty-eight days to run, but which would be dated thirty days prior to the date upon which it would be discounted, would provide a means through which there would be an automatic ebb and flow of credit as the needs of business would require.

If you are a banker in a local community at this time operating under a National charter, or any other charter

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for that matter, you cannot under the existing law extend to the people of your community credit in an amount which will be out of proportion to your reserve or which will impair your reserve below the legal requirements, no matter how great the needs for credit of that community may be.

The fluctuation in the yield, as well as the value, of crops produced year after year makes it necessary some seasons to use an infinitely greater amount of credit in moving the crops than is required in other years, and I contend that our system of currency and banking should be such as would enable the local banker in a community to secure, through the use of the notes of solvent people in the community, backed by the products of the soil, whatever amount of credit would be necessary to move his crops.

The proposed plan of the National Reserve Association, having been constructed along scientific lines, would make it possible, through the use of this institution in connection with a bank in any community, to secure whatever amount of credit might be necessary to supply the reasonable and conservative needs of that community where the requirements for credit would exist.

The plan proposed has been before the people for many months and it was put out in a tentative form for the express purpose of inviting a discussion, with a view on the part of the members of the National Monetary Commission of having this discussion disclose whatever weak points, if any, there were in it.

As a result of this discussion many modifications of the original plan have been provided for, and will be covered in the bill itself when it is prepared for introduction into Congress, and, indeed, most if not all of the points which have been criticized in reason have been taken into consideration in the preparation of the revised plan, and I am confident that it will, when introduced, meet with the approval of business interests and the public generally.

Now, some people have an impression that this is a bankers' bill or a bill intended to be solely advantageous to the banks of the country. This is not true, for the banks will not share in its benefits in any greater measure than will any other line of business which is dependent upon the use of credit in its transactions.

If the bill is adopted and it accomplishes what we hope for and expect it will accomplish, all lines of business will be benefited, in that we will not have frequently recurring panics and seasons of extreme depression when business is at a low ebb.

It is a bill well calculated to serve all of the business interests of the country, and it is, therefore, a business man's just as much as it is a banker's bill or my bill; and whether or not it ever becomes a law will depend upon support and activities of the people generally quite as much as upon the support and activities of the bankers throughout the country.

In some quarters criticism of the bill has been made which has been based entirely upon prejudice, and this, my friends, is to be greatly regretted, for since the question of currency legislation is without doubt the one of the greatest importance before the American people today, I hold that it should be discussed and treated entirely upon its merits, free from all prejudice and vituperation.

Prejudice and selfishness are restrictive and cannot possibly be constructive, as construction and growth and development must be founded on confidence.

The bill is not a partisan bill, and the only hope of its becoming a law depends upon our ability to keep it out of politics.

Commerce is not partisan; industry, credit and currency are not partisan; character, integrity and personality are not partisan! Then why make partisan any measure which treats only of these non-partisan qualities?

I have an abiding faith that when the people of this country awaken to the importance of this legislation they will put aside all feelings of prejudice and selfishness and treat the subject entirely upon its merits; in which event I have full confidence in the belief that the bill itself will enlist the support and co-operation of business men generally regardless of what their party affiliations may be.

It is my belief that the representatives of the people at Washington, no matter in what branch of Congress they may be, desire to cast their votes upon all these important questions in accordance with the wishes of their constituents. Therefore, the most effective way to further the cause of currency legislation is to interest all business men, generally, in this subject and secure their co-operation in our efforts to have it inaugurated into a law.

I contend that this bill has been constructed upon the theory of giving to the smallest bank in the country the same privileges and the same prerogatives that it furnishes to the largest institution; and, too, I contend the wage-earner who is dependent upon a continuation of prosperity without interruption should favor the adoption of this bill, as such an institution as it contemplates will, in active operation, be the means of preventing these frequent seasons of depression which result in throwing hundreds of thousands of men out of employment.

I contend that the farmer should be enthusiastically in favor of this bill for the reason that it gives to him an assurance that his note, if he is solvent and it is protected by grain and live stock which he produces, can be discounted by his local bank, because the local bank, in turn, will have the right to discount it with the National Reserve Association, which will furnish him either credit or currency, no matter what the state of the reserve in its relation to the credit already extended by the *local* bank may be.

I contend that the business men of the country, without reference to the kind or character of business they are doing, should favor the enactment of a law providing for the adoption of this bill, as it will give to them, if they are solvent, an assurance that they can at all times secure credit in proportion to their reasonable needs for credit, when such credit is backed and protected by liquid assets of a character which are readily convertible into other forms of credit when so desired.

At the present time an ability on the part of business men, generally, to discount their paper must necessarily be measured not by the requirements of business, but entirely by the relationship between the reserve in the vaults of the banks in the reserve cities and the credits which those banks have extended.

The growth and development in business in this country, and the consequent growth in the use of credit, have caused an expansion of credit almost as great as the supply of money in the country will justify, and if we expect to continue that development and see our commerce continue to grow, we must adopt a system of banking and currency which will furnish the facilities necessary to protect it.

Under existing conditions it is impossible to import a carload of coffee from Mexico to any point in the United States except through the use of a foreign bill of exchange, and every transaction of this character means that the foreign banks get a commission for the use of their credit in business transactions between concerns or individuals in Mexico and the United States.

We want to have enacted a law which will correct this condition.

We have in this country nearly 40 per cent. of the banking power of the world and yet we must depend upon the English bill of exchange if we wish to import $5,000.00 worth of coffee from Mexico to New Orleans or to New York City.

This is the richest nation in the world, and with our large and fertile area of crop-producing country the future growth in wealth in the United States should far exceed that of any other section of the world. If we wish to make the most of this growth in wealth we must have provided a system of currency and banking which will utilize that wealth to the greatest extent possible.

The National Reserve Association is planned to be only

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a co-operative organization of the banks of the country, both National and State, devised particularly with a view of mobilizing the reserves of our country and having them count for the greatest possible influence in times of stringency or when public confidence is unsettled.

If you adopt a system of banking and currency which will provide an ability for solvent concerns, through the banks of the country, to secure credit in proportion to all reasonable needs of business, panics will be very infrequent, if at all, in the United States, for I say to you without fear of successful contradiction that panics never come except as the result of the inability of solvent people to get credit against satisfactory securities.

It has been said that bankers are to blame for the periodical stringency in money because they do not carry sufficiently large reserves to meet the requirements of crop moving.

I wonder if it has ever occurred to such critics that a bank can protect itself against any condition by increasing the amount of the reserve in its vaults, but the only way that this can be done is through cancelling a proportionate amount of the credits which it extends; consequently, an attempt on the part of the banks to carry larger reserves to provide for the requirements during crop-moving season would mean a restriction in the credits extended by the banks to business interests generally, which would of necessity materially reduce the volume of business which is done even now; and do you, if you believe that the banks are derelict in this respect, appreciate that just in proportion as they increase their reserves as a protection against the conditions which I have mentioned they must take away from you and from all their other customers a part of the lines of credit which they now extend?

Furthermore than this, to follow that plan would mean to cause a large amount of money to be idle eight months in the year in order that the banks might take care of that particular demand which extends over but four months of the year.

This, I think, you will agree, is unscientific and not in keeping with the spirit of the times; especially since it is possible to correct all these conditions through the enactment of currency legislation which will provide for the adoption in this country of the National Reserve Association with facilities to meet all of these conditions and requirements.

The proposed establishment of branches of the National Reserve Association in fifteen districts throughout the country, located geographically with a view of giving the greatest service to the greatest number of people, will assure every community the same facilities, the same consideration and the same promptness in all transactions of business with the Association.

The fact that it provides for the use of commercial paper as a part security for the circulating notes which it will issue in excess of those to take the place of the present United States bond-secured National Bank notes will make such notes elastic and gives an assurance of an ability on the part of the Association to protect the credits of our country when based upon the principles of conservation.

Our present methods of conducting business are the outgrowth of business evolution, just as our form of government, our customs and mode of living are the result of the development peculiar to our people and our geographical location; and in the formation of the National Reserve Association, its authors have been steadfast in confining their efforts to the rehabilitation or remodeling of our present banking and currency system and to a perpetuation of the good that is in it so that it will conform to the growing requirements of our people, at the same time avoiding the introduction of revolutionary methods. Therefore, please do not be confused into the belief that the plan proposed is but another name for a Central bank such as those established in foreign countries, for, unlike them, the National Reserve Association would not accept accounts from individuals and corporations or discount paper direct. Instead, it would confine its business relations entirely to the banks of the country and would act as the reserve depository for at least a part of the reserves in actual cash that they now carry in their vaults.

Under our present system the banks are forced to discontinue extending credit to their patrons when to do so would seriously impair their reserve, and since this disturbs business and makes it impossible for solvent concerns to obtain credit, confidence is disturbed, the hoarding of money begins and we are in the midst of a panic.

No bill or law in itself could be a panacea for all business ills, and so a mere law cannot prevent panics. Overspeculation and the disregard of economic laws must bring a penalty, but the National Reserve Association would exert such a supervising influence over all these conditions as would practically prevent panics, or at least would minimize their bad effects on business.

In 1907 we had in the Treasury and in the banks of the United States about a billion eight hundred million dollars in gold coin, yet we had to turn to our friends across the water for assistance, the Bank of England furnishing us, directly and indirectly, gold to the amount of $125,000,000 while the average stock of gold in her vaults for the year was only approximately $155,000,000, and all because of an inefficient system of banking and currency which prevented us from mobilizing that gold to stand as a protection for our credits.

Whether or not this or similar legislation is enacted will depend entirely upon the patriotism of our people and whether or not our business men, our farmers and the laboring men of this country, who are dependent upon prosperity for their positions, are sufficiently interested to study the bill and make an expression of their opinion of it to their representatives in Congress.

The plan proposed is the creation of many minds, after exhaustive study of this subject, and it has been approved by our leading bankers, by the Monetary Commission of the American Bankers' Association and by the leading political economists of the country.

May we not depend upon you lending your influence and your co-operation in the dissemination of information on this subject looking to the ultimate passage of this bill, upon the theory that such action on your part will be the highest form of patriotism in the discharge of your duty to your citizenship?

Trade Fluctuations and Panics.

By John Perrin, Chairman of the Board of the Fletcher American National Bank of Indianapolis.

Our trade with other countries during the past year approximated three and a half billion dollars, a total regarded as extraordinary. But it was less than one per cent. of the amount of our domestic trade, estimated at approximately four hundred billion dollars. There are wide fluctuations in the total of our trade from year to year, although the necessities of ninety million people assure a huge volume even in dullest years. And there are wide fluctuations from season to season.

An increase of trade means a proportionate increase of both credit and cash transactions, requiring more bank loans and more money paid out to make cash settlements. In the autumn, to assist in moving the crops, banks are called upon for large additional amounts of currency, the total vary-

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ing according to the size and value of the crops, but estimated usually at from 150 to 200 million dollars. It comes out of bank reserves and reduces correspondingly their power to lend, making interest rates higher in the fall than in the spring. As the crop movement is completed, this money gradually finds its way back to interior banks and finally in considerable measure to New York, creating deposit balances upon which interest is paid. Such accumulation is at the season of least commercial demand, and consequently much is loaned for stock speculation. When the demand for currency again comes from the agricultural districts, reserves must again be drawn upon. If trade is active and stock speculation rife, reserves will already be low, and serious reduction of loans will be necessitated in order to meet the demand for currency and also maintain reserves. If crops are large, which ought to be an assurance of greater prosperity instead of cause of disaster, the demand will be the more important, and the reduction in loans necessitated will be the more serious.

It is such a situation which precipitates a panic, with its collapse of credit, its disastrous liquidation, restriction of money payments, followed inevitably by a period of commercial stagnation. The loss is incalculable.

Panics and depressions have recurred so periodically, that there may seem excuse for thinking them inevitable as the change of seasons. If the banking machinery of every country broke down under strain in like manner, there might be justification for stoical endurance, although even then it would be the part of intelligence first to exhaust every resource of ingenuity to devise a better machinery. But ours is practically the only civilized country which has financial panics and currency famines.

Lord Beresford, in his book concerning his visit to China recounts his inspection of a fort, where he pointed out that the guns were so placed that when fired they would explode the magazine. The Chinese general exclaimed with admiration that he was a wonderful man to observe that; that it was exactly what had happened. But the fort had been rebuilt exactly as before.

We have periodically exploded our magazine, and yet for half a century we have rebuilt our banking fort exactly as before.

What Is Wrong With Our Banking System?

In simple terms commercial banking consists of accepting deposits with a contract to repay in money on demand, and at the same time lending the larger portion thereof repayable at future dates. The funds deposited are less than ten per cent. in money. Such a procedure would seem to court disaster. Its safety lies in the fact that on the average deposits and withdrawals nearly offset one another.

Our National banking law requires that a bank must constantly have reserve money on hand equal to a specified percentage of its deposit liabilities. If it were required that this should be apportioned pro rata for each depositor, and that the money set apart as reserve against one deposit balance should not be used to pay another, the bank could not be sure of meeting the demand of a single depositor for the amount due him, unless it carried 100 per cent. reserve against all deposits. But if these separate reserves were gathered into one mass, available for any demands, the bank could operate with a high degree of safety by having on hand in money only a small percentage of the aggregate amount owing depositors, and would consequently be able to lend for use in the commerce of its vicinity the greater part of such funds. Under normal conditions deposits and withdrawals would nearly offset one another, so that the bank would actualy use very little of its reserve money. Efficiency in serving the commerce of its community, which is the source of its own profit, and at the same time strength to meet depositors' demands can be attained only by thus gathering into one mass the reserves held against each separate deposit balance.

Turning now to the vast system of banks throughout the country, if all the depositors of each bank be regarded as merged into a single individual, all banks taken together would then be in a situation similar to that of the single bank just mentioned, each bank holding its separate reserve against its one deposit, the reserve of one bank not available to pay the deposit of another. No one of them would surely be able to meet the demand of its one depositor for the amount due him unless all carried 100 per cent. money reserve. But if the separate reserves of all the banks were gathered into one mass, available to meet the demands of depositors for payment in money, whether made in Maine or Texas, New York or California, the banks of the whole system, as in the case of the single bank cited, would be able to operate with the highest degree of safety by having a total sum of money equal to only a small percentage of the aggregate amount owing to depositors, and consequently would be able to lend for use in the commerce of the country the greater proportion of the funds deposited. The total of deposits and withdrawals made throughout the country would very nearly offset one another. Very little of the reserve money would actually be used. A special requirement of one section would represent only a small percentage of the total massed reserves. The country has such vast area, and the requirements in different parts so vary in season that a deficiency of money in some sections would find a measureably offsetting surplus in others.

Applied to a system of banks, this principle would be that of a single institution with local officers throughout the country. Theoretically the maximum ability to serve, and maximum strength to withstand, would exist in such an institution of one ownership, controlling under one management the entire reserves, each deposit with a local office a liability, and each loan an asset of the one institution. Its vast loanable funds would be equally available for every section, and its mass of reserve of money would be so great that a special demand from any section for payment of deposits in money would make only an imperceptible drain.

While theoretically an institution so constituted would be strongest and most efficient, none such exists, and no one would advocate such a system. Omniscience and omnipotence would be required for its wise administration.

But the conclusion seems clear that only in proportion to the massing of reserves can efficiency in lending for commerce be combined with strength to pay depositors. The greater the proportion of the entire reserves gathered into one mass, the greater the efficiency and strength rendered possible. This principle is fundamental, and is the basis of the strength of the great central banks of Europe.

To maintain the individual identity, separate ownership, and absolute independence of our twenty thousand banks, and at the same time, to endow them both with the ability to serve efficiently the commerce of their respective localities, and also the strength to meet special strains, whether local or general, it would seem that the only way would be to follow a middle course. This would be to so co-ordinate the banks of the system that it would be possible to mass part of the reserves, thereby securing a measure of efficiency and strength, which, if not the theoretical maximum, would practically, at least, be adequate.

With banks self-dependent as now, each must carry constantly a reserve which it regards as sufficient not only for normal conditions but for fortification against special demands. If this surplus of reserve beyond that for normal conditions were lodged with a co-operative agency, it would gather into one mass that portion of the reserves now held for possible requirements beyond the ordinary. This would constitute a vast consolidated reserve fund available as a basis for extending credit, or furnishing reserve money in exchange for acceptable loan assets, to those banks in any section of the country upon whom special demands might be made at any time by their depositors. Such an agency would be powerful to prevent panics. A panic results from collapse of credit, but a great reserve fund held for use in times of stress would assure to solvent borrowers extensions of credit when needed.

Summing up, the fundamental defect of our banking sys-

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tem is the parcellization of the entire reserves among the separate self-dependent banks, necessitating either a wastefully large proportion of reserve for assured ability to pay with corresponding inefficiency service to commerce, or efficient service with the hazard of unexpected exhaustion of reserves and consequent inability to make good the contracts to pay depositors on demand.

The remedy would be the massing of a portion of the reserve money in a co-operative agency available to render assistance when required by the banks of any section.

The Currency.

Nearly a billion dollars of the gold in the Treasury is not owned by the Government, but is held in trust to redeem an equal amount of gold certificates outstanding. The other forms of money aggregating approximately two billion dollars, are, in last analysis, the Government's promises to pay gold on demand. A specific gold reserve of 150 millions is set apart against the greenbacks and Treasury notes. Silver must be maintained at a parity with gold, which can mean only its redemption in gold if necessary to that end. The Government must redeem National bank notes on demand if the issuing banks fail to do so and recoup itself from the sale of Government bonds held as collateral and from the prior lien on assets. Redemption of National bank notes, authorized by law, in other forms of lawful money, greenbacks and silver, would be no escape from redemption in gold, since these forms must be exchangeable for gold. In addition to the special gold reserve of 150 millions held against the greenbacks, the Treasury now has approximately 130 millions of gold in its general fund.

If a criticism be made that 280 million dollars is an insufficient reserve against direct and contingent demand liabilities of two billion dollars, this could be met by increasing the reserve to the point that its financial soundness would be beyond question. But this would not give our present currency economic efficiency.

What is Wrong With Our Banking System?

Aside from trust funds not owned by the Government only about one-tenth of our money is in the Treasury. The vast bulk of our money of all forms, aggregating approximately three billion dollars, is divided into two not very unequal parts, one of which is that in bank reserves.

When a bank's reserve exceeds the percentage which it deems adequate to enable it to pay depositors in money on demand, according to its contracts, it makes additional loans until its reserve represents the desired percentage of its deposit liabilities; and if its reserve falls below the desired percentage, it requires payment of maturing loans until its money reserve again represents the desired percentage. The continuous deposits and withdrawals of depositors, according to their convenience and needs, cause a constant fluctuation in the aggregate of a bank's deposits. As the total expands or contracts, the only means of adjusting its money reserve to the desired percentage lies in increasing or diminishing the amount of its investments. Bank loans are most intimately related to bank reserves. Aside from loans of capital, they owe their existence entirely to reserves. Increase of bank reserves involves increase of loans, and reduction of reserves, reduction of loans.

The other part of our money which is not in bank reserves is in circulation, that is, in the tills of merchants, in the pockets of the people. Banks are constantly paying out money, withdrawn by depositors, which goes into circulation. This is not at the volition of the banks, but because those owning the right to it exercise their preference to have money instead of deposits subject to check. As such money is spent, merchants and others who receive it redeposit it in bank, again not because banks desire this, though to be sure they are willing, but because merchants prefer to exchange money for rights to check, their payments being more conveniently made by check. The resultant of the preferences of those owning rights to money determines the volume of money in circulation. It is beyond the power of banks to control this. Bank reserves viewed as a whole are not the amount which banks desire for that use, but the amount remaining after the demands are satisfied for money to circulate. To illustrate: A manufacturer draws for his payroll the requisite money, which thus goes out of bank reserves into circulation; the individual replenishes his pocket money according to his convenience and habit, reducing bank reserves and adding to the money in circulation; the merchant deposits the amount received from cash sales, increasing bank reserves and reducng the amount of money in circulation. These are typical of the transactions of customers with banks, actuated solely by their convenience and beyond the control of banks.

No tax paid by banks upon money which they disburse would drive it out of circulation into bank reserves. If needed or desired, it would remain in circulation. It would go out of circulation and into bank reserves only when those having the money preferred to exchange it for rights to check.

Under our present system the volume of money in circulation is perfectly flexible. It constantly expands and contracts in automatic adjustment to the requirements of trade and the convenience of the people. An increase in the volume of cash transactions brings promptly an increase in the volume of currency in circulation through the current withdrawals of money exceeding the current deposits of money. A lessening in the volume of cash transactions promptly drives unneeded currency out of circulation through the deposits of money exceeding the withdrawals. No other system could provide a currency which would adjust its volume in circulation more exactly to the needs of trade and the preferences of the people. There is a ceaseless flow of the money in circulation into bank reserves, and of money in bank reserves into circulation—ceaseless except in an occasional crisis when the natural flow of money from bank reserves into circulation is arbitrarily stopped by banks refusing, for self-protection, to continue paying out to the point of exhausting reserves.

While the volume of money in circulation is thus perfectly and automatically adjusted to trade requirements, it is to be noted that this flexibility arises from the flow, back and forth, between the mass of money in circulation and the mass in bank reserves. In this lies the main economic defect of our present currency system. An expansion in the volume of money in circulation entails a corresponding contraction in the volume of bank reserves, and necessarily, as previously pointed out, a corresponding contraction in loans. A period of expanding business would naturally be attended by both an increased volume of loans, and an increased volume of cash transactions, such as increased payrolls, increased retail sales. Increased cash transactions cause a larger volume of money to flow into circulation. But this flow is out of bank reserves, thus reducing them and necessitating a reduction of loans depending upon them, at the very time when loans would naturally expand. Obviously, if business becomes very active, the effect upon bank reserves is so adverse, and the contraction of loans depending upon reserves so important that embarrassment is widespread and panic ensues.

It would be a remedy to have the volume of money in circulation find its adjustment in a flow from bank deposits into money in circulation, and from money in circulation into bank deposits, instead of through a flow between bank reserves and money in circulation. Such a result would be attained by the use of bank notes as our ordinary currency.

True bank notes are simply a bank's promises to pay money the same as are bank deposits, each backed equally by the bank's assets including the same proportion of money reserves. A conversion of its deposit promises into bank note promises, as Mr. F. A. Vanderlip has aptly expressed it, or bank note promises into deposit promises would in no wise change the total of its liabilities. The two kinds of promises, interchangeable at the will of the depositor, are identical in substance, differing only in form, each being simply promises to pay money.

A manufacturer drawing upon the bank for currency for a

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payroll and receiving bank notes, thereby causes a reduction in the bank's deposit liabilities and a like increase in its bank notes in circulation. A merchant depositing bank notes thereby increases the bank's deposits and contracts to the same extent the volume of its bank notes in circulation. To place its own bank note in possession of the issuing bank, would in effect cancel it the same as if destroyed. It would be like the promissory note of an individual coming into the maker's possession. If a bank note were re-issued, it would be in exchange for a new asset and would be a new promise to pay money as much as if the old bank note were destroyed and an entirely new note issued in the new transaction. Those owning rights to draw, as Professor Irving Fisher puts it, would determine according to their convenience whether they preferred deposits subject to check or bank notes. The requirements of trade and the preference of the people would thus determine what portion of the bank's obligations would be expressed by deposit promises and what portion by bank note promises. There would be a constant flow from bank deposits into bank notes in circulation, and from bank notes in circulation into bank deposits. Such an interchange would in no wise disturb the bank's reserve money and consequently would in no wise affect the loans depending upon the reserves. This would be true even if every one owning a right to draw should prefer bank notes for the entire amount due him, thus converting the entire bank deposits into bank notes in circulation. It would be all one to the bank, no advantage and no disadvantage. Its total liabilities would be unchanged and its money reserves unchanged. None of the capital lodged with it by depositors would be withdrawn in such an exchange. A situation approaching this does now exist with some of the great European banks in countries where the deposit and check system is litle developed, the principal part of the liabilities being bank notes in circulation.

To simplify the illustration of the principle, I have spoken of the bank as a single institution. But whether one great institution or twenty thousand individual banks issued such bank notes, they would effectuate the same result of protecting from disturbance both the reserves and the loans growing out of them.

If the co-operative reserve holding agency, previously mentioned, were given sole authority to issue such bank notes, it would naturally use them in current payments of depositors' checks, thus leaving undisturbed the reserve money with which such deposits had been created. Current deposits with such an agency would consist to some extent of gold and other forms of lawful money as well as of its own bank notes. The continuous process of receiving such deposits and paying checks with bank notes would gradually exchange bank notes for the gold, silver and greenbacks in circulation, thus concentrating the lawful money with the agency and rendering its bank notes our ordinary currency. With the principal part of the lawful money of the country massed in such a co-operative agency, its money reserve would be so vast that it would have strength, abundant beyond question, to serve efficiently the banks and, through them, the commerce of the country. Panics would be averted not only by the actual extension of needed credit, but by the confidence arising from knowledge that extensions of credit could be had if and when required. The possibility of currency famines would be eliminated and no longer considered, as all deposit credits, including those created by loans, would be exchangeable at the will of the depositing bank for bank notes.

Summing up, the main defect of our present currency system is that the volume of currency in circulation has its adjustment in the flow from bank reserves into money in circulation and from money in circulation into bank reserves, causing a contraction of bank reserves and the loans depending on them as business expands, and an expansion of reserves and of loans as business contracts.

A remedy would be the use of bank notes through which the volume of currency in circulation would have its adjustment in the flow from bank deposits into bank notes in circulation, and from bank notes in circulation into bank deposits, thus protecting from disturbance both bank reserves and the loans based on them.

Keeping the National Reserve Association Apart from Partisan Politics and Special Control.

By Hon. L. P. Padgett, Member of the National Monetary Commission.

Mr. President, Gentlemen of the Convention: To me has been assigned the subject: "Keeping the National Reserve Association apart from partisan politics and special control."

You will observe that this subject does not embrace a discussion of the intricate merits of the Association itself, but rather the importance of the line of procedure and collateral questions. I deem it hardly necessary to call your attention to the fact that those who have preceded me have cut such large slices out of my subject—or rather, I should say, that they have so ably and so much more eloquently than I will be able to do, made contributions on this discussion on the subject assigned to me, that the apology that I shall make to you for attempting to discuss further the question is the position in which the minister was who accepted a call to a certain church and announced his text and preached his first sermon. On the following Sunday he announced the same text and preached the same sermon, and on the next succeeding Sunday he again announced the same text and preached the same sermon. His elders went to him complaining of the repetition, and he said "Gentlemen, have you performed and done and kept all the things which I have enjoined upon you?" They said, "No." "Well," said he, "when you do and perform all of these things, then I will preach another sermon and give you something else to do." So that I feel that the overpowering importance of this question will justify even a repetition or a recalling to our attention of some matters even that have been mentioned before.

Legitimately and properly there is no more politics in a dollar than in a bag of turnips. A dollar, money, is cosmopolitan. Today it is mine; tomorrow it is yours. Todays it belongs to a Democrat; tomorrow it is the property of a Republican, and the next day it may belong to an educational institution, or to a church, or to some great benevolent organization intended for the amelioration of mankind. It is a medium of exchange; it is a measure of value; it is a storehouse—if we may use that expression—of future values. So that it has no partisan limitations; it is not intended or designed to accomplish partisan purposes.

The institutions which we call banks exist and are constituted for the purpose of making money more useful. They exist for the purpose of gathering together the money of the country—in many instances, the idle, unused money of the country—and to bring it together that it may serve upon the objects for which it exists and may contribute the more to the usefulness of the people and the upbuilding and the prosperity of the country and its people. Therefore, there should be no politics in the discussion of any question which involves the promotion and the betterment of those institutions.

Your attention has time and again been called to the necessity for a new and better system of banking and currency in this country; and at the risk of repeating I want

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to emphasize the overwhelming necessity, a necessity which everybody recognizes and admits and which no one denies. It is never a question that our existing system of banking and currency is essentially and materially deficient and defective. We all know that it is largely a patchwork of legislation and that it has been in large measure thrown together, haphazard as occasion would demand. And we know further that many of the requirements, many of the principles which run through and permeate and govern our existing system of banking and currency were placed in it, not for the promotion of banking and currency, but for other purposes, such as the support of the credit of the Government, to afford a market for Government securities.

The necessity for a new and better system is manifested by the repeated failures and breaking down of our system. Whenever a strain comes upon it, it gives way. Whenever an extraordinary demand is made upon it, it fails to respond. We have had in the past so many breakdowns of credit, so many prostrations of industry, so many instances in which labor has been thrown out of employment; the injury, the destitution and the suffering brought upon the great mass of the people have been repeated so many times in years that have gone by that it is a saying upon the streets today that we scarcely get out of one panic before we are preparing to go into another. The bankers of the country are interested in having a new system, but in my judgment, the bankers are not nearly so much interested in having a better system as are the farmers, the manufacturers, the producers and the laborers of this country. The banker is prepared to forfend himself against the calamity. The laborer is thrown out of employment, loses his all, perhaps, and the suffering is entailed upon his wife and children and he is utterly broken down in his manhood and is left a beggar upon the community. Gentlemen, the pride and the ambition of the American people ought not to tolerate a system that places the laborers of this country in a condition where periodically they may be converted into beggars.

The great manufacturing centers of the East, the manufacturers who employ labor, who have to get up their payrolls weekly or monthly or semi-monthly, as may be, are interested in a better system. The farmers of the South with their great crops of corn and cotton and wheat and live stock are interested in having an institution in which they can convert their wealth into useable and liquid condition.

The great grain fields of the West, with their hundreds of millions of bushels of wheat and corn, and the mining products of the country that challenge the admiration and wonder of the world by their immensity and by the grandeur of their achievements, are interested and demand a better, a safer, and a sounder system of banking and currency.

As I have recited to you these conditions that call for a change, the thought has occurred to you and you have anticipated the advantages that will accrue to the country from such a system, and I need not detain you to recall the many advantages that will accrue to the manufacturers, the farmers, the laborers and the whole industrial community in its national and international relations from the inauguration of a system that will stop these panics, prevent these prostrations of industry, cease tying up hundreds of millions of dollars in the banks of the country and leave the conditions in a normal business situation.

I wish to call your attention just here to one statement that I regard as fundamental and which overshadows every other consideration. That is, that a scientific system only will be the final solution of this problem. We can not compromise it. A compromise with truth in so far as the truth is compromised, just so far falsity exists. Just so far as the right is compromised, wrong prevails. We might discuss forever as an issue the law of gravitation, but unhindered the falling apple will pursue a straight course to the ground, and just so far as it is hindered or interfered with, so far the falling apple will be deflected from a straight course. No discussion can change that law. There is no subject within my discussion or reading that has been so much experimented with in the world's history as banking and currency. Every nation for centuries past has experimented with it with one result—that is, erroneous systems were adopted and as right principles were compromised, calamity, destitution and injury was the result.

We can only settle that question along scientific lines, and out of these experiments, out of the trials that have been made, it has been demonstrated that there are certain great fundamental principles according to which banking must be conducted if success is to follow; and we, as people interested in this great question, interested in the success of the movement, interested in the happiness of ourselves and our neighbors, interested in the up-building and prosperity and glory of our people and our country, must realize it, and come to the determination that in so far as in us lies the ability and the knowledge we will stand for truth and the right of this proposition.

I want to say to you, gentlemen, that it is the sincere desire of the National Monetary Commission to present a plan based on correct principles adapted to the varying conditions of the country and responsive to the economic demands of every section of the country. We have been studying these questions for three years. We realize that there are varying conditions in this country. England and its financial system has been referred to, but when you remember that you can place England and Scotland inside the State of Texas and have all of New England left on its border; that you can place the whole of France inside of the State of Texas and have a margin left; that you can place the German Empire in the State of Texas and have a margin! When we come to compare the conditions and to consider the conditions in this country, we must remember the magnitude of our territory; we must remember the varying conditions of our country; we must remember that in one section it is manufacturing and the employment of labor, in another section it is the growing and production of certain farm products, and in other sections it is mining, and then the great interests of transportation—and moving all these products. And let us not forget, let it be a living and burning truth, that there is no essential conflict between these interests. We are one people and one country, and what is for the interest of one in the final analysis is the interest of everybody. When we come to deal with this question, the Commission also has to bear in mind that we have a different governmental situation than is to be found in other countries. We have a different social condition existing in this country from those existing in the old world. All these conditions—geographical, social and governmental—have to be considered in order that we may have a plan that will be in harmony with the conditions that exist in our country and which will meet the economic demands of every section. And I want to repeat that it is the sincere and honest desire and intention of the Commission, so far as it has the ability to do so, to present a plan that shall be adapted to the varying conditions and which shall be responsive to the economic demands of all sections of the country and of all classes of the people.

I wish to call your attention, if you please, to another thought. To accomplish this, the situation must be so organized and constructed that it will be free from political, local and special control. The fundamental construction of the institution, whatever it may be, must be such. The American people will not tolerate an institution that does not, in its organic construction, commend itself to the honest integrity of the American people. It must be such from its internal construction and management that fairness and squareness will be dealt out to every citizen. That is our purpose and our aim.

I want to say to all my friends, and through the instru-

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mentalities and the agents of this great Association, that there is another influence to which I wish to appeal and to address myself—that is, to the public sentiment of the American people. We must build up and we must have in this country a public sentiment which will demand that it shall be free from political, local and special control. When the Commission was abroad three years ago studying and investigating this subject, I found among Englishmen a respect and a reverence for the Bank of England second only to the respect and reverence for the Crown. They looked upon it as a great institution, designed and existing for the protection of the industries and the institutions of their land and the preservation of the solvency of their people. And they would no more attack the Bank of England than they would attack the Crown of England. And we found in France and in Germany a similar spirit among the people. My friends, may we not cherish the hope, may we not harbor in our innermost souls the expectation that there will be an institution in this country that shall command the respect, the confidence and the love of the American people, to which they shall look as a shelter in times of financial storm?

I want to call your attention next to the fact that partisan politics can not prevent the recurrence of the evils and disasters of a faulty system. I care not how much we may discuss in a partisan way this condition or any institution that may be suggested. We may let our partisanship run riot, if you please, we may grow bitter, but with the unerring certainty of the law of gravitation the disasters of a faulty system will continue to visit the people notwithstanding.

In conclusion, my friends, I want to say that now is the time and this is the opportunity for wise statesmanship and noble patriotism. May we not rise above petty jealousies? Can we not stand on a plane higher than sectional disputes? Can we not appeal to the intelligence, the integrity, and the patriotism of the American people? May we not call forth the love of country, those high and noble principles that underlie the movements and the conduct of the American people and beseech them to place those principles first in the consideration of this great question?

It is my purpose to appeal to the best thought of the American people, and I think that when they have considered these questions seriously and intelligently as they will, that in time out of it right will prevail and a remedy will be devised.

This morning as I sat in the audience and listened to the concluding remarks of that splendid man, George M. Reynolds, as he referred so feelingly to his visit to the tomb of Abraham Lincoln, I could not—I would not—suppress the gentle and tender emotions that vibrated in my heart and soul. I thought of Lincoln as a poor boy, born in the direst poverty and raised under the most trying hardships and how in devotion to duty he had established himself forever in the esteem and affection of the American people. As I walked along the way between here and my hotel, I saw that lofty shaft with the heroic figure erected by the people of this State to the memory and honor of Robert E. Lee, and I remembered that he was the son of a wealthy and aristocratic family, surrounded by all the influences and all the advantages that wealth and social position could give; how there came a time in his history when the conditions of this country were such that his duty stood before him, and he was willing to sacrifice position, property and even life itself if necessary to maintain what he believed to be right. And then this thought came to me: that in the last analysis, Lincoln and Lee live in the honor and the glory and the love of their country because each of them believed and proved in his life that life was more than meat and body, more than raiment.

In the consideration of this question, we want to lift it out of the mire of partisan politics. We want to realize that whoever contributes material to the consummation of the purpose to relieve the country from the conditions under which the people live will erect for himself a monument more lasting and more honorable than an engagement in political disputes. This is a great country of ours. I have traveled over it from the iced lakes of the North until I find myself today on the flower-lined coast gulf. From the Atlantic to the Pacific I have seen the extent of its territory; the magnitude of its enterprises; the heroism of its people; I have stood at the foot of a great mountain that seemed to lift its head into the very blue of heaven and I have said "How grand is the Mountain!" I have looked out over the valley with its fields and farms, running streams and homes and flowers and I have said "How beautiful are the valleys!" But my countrymen, let us not forget that our country's manhood is grander than its mountains; its womanhood is more beautiful than its valleys; and its patriotism is sweeter than the fragrance of flowers. To this manhood, to this patriotism, enlightened manhood, the Commission intends to submit the result of its labors.

Benefits of the National Reserve Association to the Country as a Whole

By Hon. Arsene P. Pujo, Member of the National Monetary Commission.

Mr. President and Gentlemen: I am deeply sensible of the honor conferred in asking me to address this splendid assemblage of representative men. I have been assigned a text here, but I do not intend to use it; I believe I have been asked to say something about the National Reserve Association. I do not intend to refer to it, except in a general way, because I realize that this body is the final authority in America today and that I am not in a position to impart information to it. I feel, however, that it is due from me to the American people to make a general statement. I want to say, broadly speaking, that I am not in favor of any specific plan. As stated by the President of this Association, I have had the honor of being appointed a member of the National Monetary Commission and when the House organized at the last session I was elected Chairman of the Banking and Currency Committee. All of you realize that national legislation is perfected through committee action, and I merely want to say that I favor, on broad, general lines, a currency supported by gold, as far as we can go upon such lines. I want to say, further, that I do not favor the national bank-note system of today. It is merely a promise to pay backed by a promise to pay. We want something better than that.

I was told when I was made Chairman of the Banking and Currency Committee that there never had been a man chairman of that committee who was not a crank. Now, I am trying to avoid being a crank and so I have no system to propose for enactment into legislation.

We propose—and I am sure that I voice the sentiments of every member of the Banking and Currency Committee on both sides—to deal with that question on scientific and economic lines. We will not permit it to be treated as a political question. It is not a political question. In my judgment perhaps that is the reason why we have not progressed any more than we have. We have been dealing with the question on political lines, instead of on scientific and economic lines. I desire to tell the American people, through this Association, that, so far as I can, in my humble capacity, so long as I hold the position I now occupy in

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relation to national legislation, every man in the United States may come before our committee and submit his plan, if he has one, and if he is right we don't care whether he is a Republican or a Democrat.

I do not intend to speak extemporaneously to you gentlemen; in fact, I dictated a speech to my stenographer this morning and that is the address that you will doubtless see in the papers. I came here from other lines of activity to show my appreciation of the fact that your Association has met in New Orleans and to assure you that the people of New Orleans are with you and will co-operate with you in every effort you make to improve the financial condition of this country.

I am in favor of what was considered a few years ago as being almost a populistic idea: I am in favor of the National bank having the right to loan money on real estate—I mean to a reasonable amount, because the great agricultural interests of the United States and the property interests of the United States ought to have the right to go to the institutions that they are helping to mainain and borrow money, if their collateral is good; and I have advocated that in Congress and it passed the lower House, but it failed in the Senate.

Look back to the time when the National Bank Law of 1863 or 1864 was passed and you will find that banks had the right to loan money on real estate. So, you see it is not at all a new idea.

I regret that I have not had time to prepare an address along the lines of technique on this question. I assure you that we will deal with the subject upon judicious and correct lines. I do not want to come out and prejudice any plan or any system, and I do not believe that it would be correct to do so, for I think that men who are occupying public office should retain, as far as possible, an open mind on any question so that those who appear before them advocating any plan may have a fair hearing before open-minded men, men who have not made up their minds in advance.

Gentlemen, I thank you for the attention you have given me, and again I beg to express the thanks of our people for the honor you have done in again holding your convention in our city.

THE FOURTH NATIONAL BANK OF THE CITY OF NEW YORK OFFERS TO CUSTOMERS AND DEPOSITORS ITS SERVICE AND CO-OPERATION IN ALL MATTERS TOUCHING THEIR BANKING REQUIREMENTS.

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Committee Reports—Banking Section.

Annual Report of the Secretary, Fred E. Farnsworth.

NEW YORK, November 15, 1911.

To the American Bankers' Association.

GENTLEMEN: I respectfully submit my report as General Secretary of the American Bankers' Association for the fiscal year ending August 31, 1911.

In my report of a year ago I called your attention to the growing and prosperous condition of the Association, in which there has been no diminution during the past year. At this time the Association is comprised of nearly 1,000 more banks than it had on the date of the last Convention. There has been increased activity in every department; and there has not been a time in the history of the Association when the members have been so closely in touch with its affairs as they are now, which is evidenced by the large volume of correspondence with our members, and this condition has been greatly accentuated during the past two months. It would be impracticable in a report of this nature to do full justice to the extensive mechanism by which is conducted the progressive effort day by day of this Association. I can only refer briefly to the salient points in our work, leaving the vast details which would cover the labors of Sections and Committees to the individual reports which will be made by those units.

EXECUTIVE COUNCIL.

I know that it will be generally regretted most sincerely by our delegates and guests that we are deprived of the presence of Mr. Charles H. Huttig, our Chairman. Those who know him best will miss his genial presence, for he cannot be with us this year. Mr. Huttig underwent a serious operation in the Presbyterian Hospital of New York a few weeks ago; but I am glad to tell you that he is now rapidly recovering, although it will be several weeks before he can return to his home in St. Louis. In the absence of Chairman Huttig a report will be made for him.

The May meeting of the Council, which was held in the city of Nashville, Tennessee, was, like its predecessors during the past four years, very largely attended. Three full days were given to the Association's Committees and the Council. All of those in attendance were most hospitably entertained by the city of Nashville, and, at the same time, the entertainment was so arranged that it did not interfere with the business requirements of the Association.

SECTIONS.

Close observation of the work of the varoius Sections during the past year has convinced me that previous records for efficiency have been excelled in all that pertains to comprehensive handling of matters relating to the membership of the several Sections. The Trust Company Section made a notable success of its first annual dinner, which was held at the Waldorf-Astoria Hotel, May 5, 1911. The Savings Bank Section sustained serious loss during this year through the death of its Secretary, Mr. William Hanhart. The Executive Committee of the Section was very fortunate in securing the services of Mr. W. H. Kniffin, Jr., as successor to Mr. Hanhart. Mr. Kniffin is an indefatigable worker, with a knowledge of the intricate workings of savings banks and their requirements, and with the ability to promulgate ideas which have proven of great value to savings banks. The Clearing House Section will not be content to "rest on its laurels" of work accomplished during the year which is gone in the introduction of the Numerical Transit System—an intricate problem which has been developed in a relatively perfect manner. This System has been accepted by the banks with a unanimity that has been gratifying. The work of the Section has been confined chiefly to shaping this Numerical Transit System, although the subject of Clearing House bank examiners for Clearing House cities has been given considerable impetus, and a number of cities other than those announced last year have appointed Clearing House examiners.

With the authority given the Clearing House Section a year ago, Mr. O. Howard Wolfe, of Philadelphia, was in September selected as Secretary of the Section, beginning October 1st. Mr. Wolfe is eminently qualified for this position and has already shown his ability in handling the work whch has come into being through the introducton of the Numercal System.

AMERICAN INSTITUTE OF BANKING SECTION.

This Section, which represents the Institute, held its annual convention in Rochester, N. Y., during September, and your General Secretary attended this meeting. It was unquestionably the most successful convention of the Institute's series. The Institute is now expending its full energy on educational features, which is highly commendable to Mr. George E. Allen, Educational Director. Its present membership is 11,350, represented by 62 Chapters.

THE "JOURNAL-BULLETIN"

This, our monthly publication, seems to meet with increased favor from the members of the Association and the Institute. The general offices receive frequent communications from both sources, commending the course of the publication and expressing the opinion that it is a truly valuable adjunct to Association work. Liberal space in our "Journal-Bulletin" is apportioned each month to the Sections, that the membership of each may be kept fully informed of current activities.

I wish to commend particularly the work of the Section Secretaries, Messrs. Babcock and Kniffin, the new Secretary, Mr. Wolfe, and President Keyser, of the State Secretaries Section, as well as Educational Director Allen. During the year just closed these gentlemen have heartily co-operated with the executive officers to the end that the Association might reap full benefit.

CURRENCY COMMISSION

The Currency Commission has held several meetings during the past twelvemonth and has kept closely in touch with the work of the National Monetary Commission, and has had in preparation a report on the National Monetary Commission plan which was adopted unanimously at the May meeting of the Executive Council. The Currency Commission of this Association and its several members have been invited frequently to meet with the National Monetary Commission, and various amendments which have been suggested by the Currency Commission have been adopted by the National Monetary Commission. The Currency Commission will hold itself in readiness to prosecute a vigorous campaign when the proposed measure shall be framed as a bill and will come before Congress.

STANDING PROTECTIVE COMMITTEE

As executive officer of the Association, I am glad to state that I still hold the opinion that we acted wisely in changing our detective agency two years ago. With a largely increased membership the importance of the work of this department is increasingly apparent. The reports which will be made to you by our Standing Protective Committee, the W. J. Burns National Detective Agency and Department Manager L. W. Gammon will indicate this clearly. The present Standing Protective Committee has completed two years of service. We have been peculiarly fortunate in having three New York bankers—men distinguished in their profession, clear-headed, conservative and accommodating—who are willing to give earnest consideration to the business of this department, which is of great importance. The members of this Committee have been painstaking and conscientious in the performance of their duties; and, inasmuch as this is a "secret" Committee, hence differing from all other committees of this Association, and inasmuch as the work must be done without the emolument of publicity, the Standing Protective Committee is entitled to the unanimous thanks of the collective membership of the American Bankers' Association.

COMMITTEES

With the present large membership in the American Bankers' Association and the increased attendance at our convention, prohibiting consideration of important matters appertaining to banking interests-at-large excepting through the standing committees, the important matters which are entrusted to these committees receive the best thought of the men who compose their personnel, and frequent meetings are held and reports made to the Executive Council and main body, which enables the Association to accomplish the desired results. Our committees during the preceding year have been most excellent, having been earnest in their work and giving much time to the matters assigned to them. They are all entitled to our full appreciation.

STATE ASSOCIATIONS

There are forty-six State Bankers' Associations. Delaware, New Hampshire and Rhode Island have not a State Association. Forty-five of the forty-six Associations are members of the State Secretaries Section. At the last Convention of our Association a provision was made for admitting the Organization of Secretaries as a Section. This was a wise move and, I know, was highly appreciated by the various State Secretaries and members of the State Associations. The State Secretaries have been prepared at all times, as heretofore, to further the interests of the parent body and have co-operated with the officials of the American Bankers' Association whenever called

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upon to do so. I have, in accordance with my practice, familiarized myself with the reports of the State Associations during this year, and have attended Conventions in the following States:

Georgia,	Ohio,
Maryland,	Wisconsin and
New York,	Nebraska.

Scarcely a State Association has held a meeting this year which has not reported the best convention that has ever been held in the history thereof; and the various State Associations to the extent of almost the entire number have endorsed the plan of the National Reserve Association and the Numerical Transit System.

Legal Department

The members of the Association have utilized more than aforetime the services of Mr. Thomas B. Paton, the General Counsel, whose opinions are published in our "Journal-Bulletin." Mr. Paton has also given much time to the requirements of the Sections and Committees. The years of experience which he has had in banking law eminently fit him for the position he holds, and his ability is generally appreciated by our entire membership and all officials.

Association Offices

The list of those who visit the general offices of this Association shows a marked increase, and the register indicates that for the fiscal year ended August 31, 535 guests had been received. We desire to impress on our members the fact that they are always welcome at headquarters, where a library and reading-room are maintained for their use; stenographic services are available if required. Most of the Committees of the Association have held meetings during the year, and in some cases frequently in the general offices. At the present time we are occupying fourteen rooms, and there are employed altogether twenty-eight persons.

It has been apparent for some time that the present offices are inadequate for our needs, especially the rooms occupied by the working force. The rooms are overcrowded and the light and air poor. The arrangement of the several rooms is unsatisfactory, one office having been added at a time, making them ill adapted for our purposes. At a recent meeting of the Administrative Committee I was authorized to acquire a suite of offices that would be more acceptable than those now occupied.

Our Library.

It has been the opinion of the General Secretary that the American Bankers' Association should possess a library commensurate with its importance as the representative financial organization of the country.

Its primary purpose should be the systematic collection and preservation of all available data of historical or biographical interest relating to the activities of the Association and its membership. Until the last four years and before the present administration, no attempt was made to preserve material as it was received at the executive offices, with the result that files of proceedings, reports, documents, periodicals, and so forth, are very incomplete. This can be rectified only through the co-operation of members of the Association in forwarding to the library such material in their possession as will complete the historical records of the National and State Associations, and data regarding individual banks and bankers.

The present accumulation of material is being organized and catalogued by a trained librarian, and when larger quarters permit expansion of the existing small collection, it is the intention to build up a comprehensive financial library where bankers can come or send for reference material.

The principles, practice and historical development of banking and allied subjects will be adequately represented by a selection of books shortly to be made for the Association by some of the leading economic authorities, supplemented by Federal and State documents, statistical manuals, bound magazines, and a clipping-collection for current comment, with the constant addition of up-to-date material in every form. For research beyond the limits of the library's own collection, the resources of the great New York libraries will be utilized, and the library might well contain, in time, an index to material available elsewhere throughout the country.

Pending this development, however, the librarian's services are now available to members for the complication of bibliographies and statistics, the analysis of reports or articles on various subjects, or information as to where material may be found in books, magazines and documents. What the library's future resources should comprise can, to a large extent, be best determined by current demand, so inquiries will be welcomed and promptly responded to at any time. The General Secretary urges the immediate response of the members of this Association in the building up of this important department.

Routine Work

During the fiscal year just ended there have been sent out from the general offices about 328,500 circular-letters, documents, codes and so forth. This does not include the thousands of letters comprising our regular correspondence and the various Sections and Committees.

Membership

There has been a notable increase in membership, as will be shown by the tabulated statements which follow, those statements being compiled to the end of the fiscal year, August 31, 1911. The membership has increased materially since then and at this date is composed of 12,275 banks. During the preceding fiscal year the following States have increased their membership so as to give them an additional member on the Executive Council:

Oklahoma, Kansas, California.

The largest increase in any State was in Kansas; the gain was 119.

Membership

Aug. 31, 1910		11,405
*Erased from the rolls through failure, liquidation, consolidation and withdrawal		1,304
Sept. 1, 1910, Membership		10,101
Aug. 31, 1911, New members joined during the year	1,072	
*Regained members (secured from the above)	899	1,971
Aug. 31, 1911, Total membership		12,072
A net increase for the fiscal year of		667
A net loss for the year in failures, consolidation, etc.	159	
A net loss for the year in delinquents	246	
Total net loss		405
Making the actual gain in new and regained		1,072

It will be noted that the loss from delinquents is exceedingly small, being only 246 out of a membership at the beginning of the year of 11,405.

The aggregate capital, surplus and deposits of our membership amount to more than fourteen billions of dollars.

The membership and the resources of the Association have increased as follows:

	Paid Membership.	Annual Dues.
September 1, 1875	1,600	$11,606.00
September 1, 1885	1,395	10,940.00
September 1, 1895	1,570	12,975.00
August 31, 1905	7,677	127,750.00
August 31, 1906	8,383	137,600.00
August 31, 1907	9,251	150,795.00
August 31, 1908	9,803	162,507.00
August 31, 1909	10,682	175,352.00
August 31, 1910	11,405	188,934.00
August 31, 1911	12,072	199,972.68
Interest on Bonds and Corporate Stock	$4,650.00	
Interest on Bank Balances (estimated)	1,104.26	
Estimated annual dues, August 31, 1911	199,972.68	
Making the total income, year ending August 31, 1911		$205,726.94

Membership by Years

		Lost by Failures, Merger and Delinquents, etc.	Gross Gain	Net Gain
1899	3,915	211	741	530
1900	4,500	234	819	585
1901	5,504	200	1,313	1,113
1902	6,354	186	1,159	973
1903	7,065	313	1,139	826
1904	7,563	500	1,120	620
1905	7,677	1,038	1,152	114
1906	8,383	337	1,043	706
1907	9,251	434	1,302	868
1908	9,803	691	1,243	552
1909	10,682	760	1,639	879
1910	11,405	781	1,504	723
1911	12,072	1,304	1,971	667

The loss shown in 1911 was reduced by regained members to 405.

Membership of States and Territories Having Less Than 100 Members

[As of August 31, 1911]

Alaska	13	Utah	53
Arizona	54	Vermont	65
Delaware	33	Wyoming	65
District of Columbia	35	Canada	12
Maine	92	Cuba	17
Nevada	24	Hawaii	13
New Hampshire	48	Isle of Pines	1
New Mexico	53	Porto Rico	2
Rhode Island	48	Mexico	22
		Total	650

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MEMBERSHIP

DIVISION OF BANKS IN ASSOCIATION AUGUST 31, 1911.

State or Territory	Nat'l	State	Private	Tr. Co.'s	Sav. Bks.	Total
Alabama	47	83	3	20	5	158
Alaska	2	9	2	0	0	13
Arizona	12	26	0	16	0	54
Arkansas	35	111	3	28	2	179
California	163	239	7	36	65	510
Colorado	105	70	9	15	7	206
Connecticut	70	10	8	27	46	161
Delaware	18	1	2	10	2	33
District of Columbia	12	2	5	5	11	35
Florida	46	67	5	7	2	127
Georgia	72	194	8	17	13	304
Idaho	44	67	1	9	1	122
Illinois	290	219	216	55	19	799
Indiana	144	129	41	41	1	356
Iowa	149	104	53	14	135	455
Kansas	160	341	1	3	4	509
Kentucky	62	65	1	21	4	153
Louisiana	32	114	1	22	3	172
Maine	48	1	1	24	18	92
Maryland	77	23	23	15	25	163
Massachusetts	136	2	13	41	70	262
Michigan	81	121	46	6	104	358
Minnesota	156	184	6	3	6	355
Mississippi	28	100	0	16	5	149
Missouri	81	260	19	27	28	415
Montana	45	86	17	7	2	157
Nebraska	132	197	3	4	1	337
Nevada	10	13	0	1	0	24
New Hampshire	36	1	0	4	7	48
New Jersey	154	20	2	71	17	264
New Mexico	29	15	1	5	3	53
New York	358	210	179	89	83	919
North Carolina	51	65	1	19	4	140
North Dakota	80	127	0	2	0	209
Ohio	215	104	64	46	80	509
Oklahoma	130	162	0	11	1	304
Oregon	58	58	12	13	3	144
Pennsylvania	490	64	62	161	35	812
Rhode Island	17	2	3	20	6	48
South Carolina	21	88	1	5	13	128
South Dakota	61	118	3	8	5	195
Tennessee	53	47	4	34	5	143
Texas	215	65	27	34	1	342
Utah	19	23	4	3	4	53
Vermont	36	1	0	15	13	65
Virginia	76	74	15	11	7	183
Washington	69	152	12	22	7	262
West Virginia	60	67	2	12	5	146
Wisconsin	113	176	2	11	13	315
Wyoming	29	31	1	4	0	65
Canada	0	11	1	0	0	12
Cuba	1	12	3	1	0	17
Hawaii	4	5	2	2	0	13
Isle of Pines	0	1	0	0	0	1
Mexico	0	20	2	0	0	22
Porto Rico	0	1	1	0	0	2
	4,632	4,558	898	1,093	891	12,072

APPRECIATION.

Having had the earnest support of my executive associates, I desire to express gratefulness and appreciation, first, to Mr. F. O. Watts, our retiring President, whose energy and resourcefulness have been unfailing, to Vice-President Livingstone, Chairman Huttig, Treasurer Reynolds and to the Executive Council, the Vice-President for each State, the Secretaries of all State Associations, and to every officer of the Association. I would like also to give credit to Assistant Secretary Fitzwilson and to the efficient force in the general offices, who have rendered exceptionally helpful service at all times.

PROSPECTIVE

We are beginning the deliberations of our Thirty-seventh Annual Convention, which is to be distinctive from prior conventions. The Local Committee of Bankers in New Orleans and the Executive Officers of our Association have been in joint and extended preparation therefor, and we fully believe that this is to be a great occasion. Without invidious distinction I wish to express particularly my appreciation of the valuable services rendered me by C. A. Morgan, Manager of the New Orleans Clearing House Association, as the connecting link between the local Committees and this office. To New Orleans let us render advance thanks for the untiring effort that her bankers have shown in an endeavor to make us feel at home and to provide all that earth can give for our entertainment.

With the intelligent interest in the welfare of this Association by its members, I look forward hopefully into the future.

Respectfully submitted,

FRED. E. FARNSWORTH,
General Secretary.

Report of Executive Council, by Charles H. Huttig, Chairman.

To the American Bankers' Association.

GENTLEMEN:.The last convention of this Association was held at Los Angeles, Cal., October 3-7, 1910. The Executive Council since that period has held two meetings, one immediately following the adjournment of the Convention in Los Angeles and the meeting at Nashville, Tenn., on May 1, 2 and 3, 1911. The business transacted at these Council meetings was set forth fully in our JOURNAL-BULLETIN for the months of November, 1910, and May, 1911.

The May meeting, held in the home city of President Watts, was an innovation. The business sessions were unusually well attended and the entertainment furnished by the hospitable people of Nashville gave much pleasure to the participants.

Immediately following the adjournment of the Convention in Los Angeles the Executive Council met and elected the following officers:

Chairman, CHARLES H. HUTTIG,
President Third National Bank, St. Louis, Mo.
General Secretary, FRED E. FARNSWORTH,
11 Pine Street, New York City.
Treasurer, Arthur Reynolds,
President Des Moines National Bank, Des Moines, Iowa.
Assistant Secretary, WILLIAM G. FITZWILSON,
11 Pine Street, New York City.
General Counsel, THOMAS B. PATON,
11 Pine Street, New York City.

At the Los Angeles Convention there were present 49 members and at the meeting in Nashville 64, the total membership of the Council being 80. It is a notable fact that not only was there a large attendance on both occasions, but the meetings were well attended, there being no absentees during the sessions, excepting those who were not in either city. One could not ask for better evidence of the keen interest in the affairs of the Association than the large attendance of the Council members at these meetings.

At the first meeting held in Los Angeles, October 3, 1910, the annual reports of the various departments, Sections and committees were submitted, and either acted upon or referred to the Convention with proper recommendations. The Council authorized the Clearing House Section to employ a suitable secretary with that title. Amendments to the constitution providing for an Administrative Committee and the appointment of various standing committees were presented to the Council and recommended; another amendment providing for the admission of the Organization of Secretaries as a Section of the American Bankers' Association, and yet another to cover changes in the form of handling voucher checks. These were ordered to be reported to the Convention.

The invitations which were submitted to the Council for the next Convention were referred to the Convention.

The second meeting was held on Friday, October 6th, and the before-mentioned officers elected. The report of the Finance Committee, recommending various appropriations, was received and approved.

At the meeting in Nashville in May last important action by the Council occurred in the unanimous adoption of the report of the Currency Commission relating to the "Aldrich plan," with such amendments as had been submitted by the Currency Commission. The adoption of the report of the Clearing House Section authorized a uniform Numerical System for transit department of banks, and approved of a contract with Messrs. Rand, McNally & Company for the publication of a "Key" thereto; and also provided for the appointment of a special committee to be known as the Committee on Numerical System; provided for the semi-annual appropriations asked for by the committees and approved by the Finance Committee; the selection unanimously of New Orleans for the National Convention of 1911; the passage of a resolution to supersede the present resolution under which the Finance Committee was acting; instructing the Law Committee to investigate the subject of special investments for savings deposits.

The appointment of the Administrative Committee, which was authorized at the last Convention and which comprises the President, Vice-President and Chairman of the Executive Council, has eliminated from my report any mention of the meetings of the executive officers, as the deliberations of the Administrative Committee and the reports of their conduct are made to the Executive Council.

The change in the present constitution, which brought about the election of members of the Executive Council by members of the Association attending State conventions, and providing for representation on the Council based on the membership of State Associations, brings together a much larger body than heretofore. The Executive Council is now a representative body and includes members from all parts of the United States on a fair basis of representation in accordance with the selections made by the constituents of the Council membership. It was predicted that the body as now composed would be too large and unwieldly and that it could not dispose of the necessary business with proper despatch and without friction.

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Those who are familiar with the Council as it now exists are unanimous in the opinion that it is a business body and that it transacts its business on business principles with calm deliberation, foresight and expedition.

I wish to commend particularly the excellent work of the Sections and the committees of the Association. Their reports will be found to contain valuable information on the results achieved, and should be carefully perused by every member of the Association.

I call your attention also, with much gratification, to the work of the Standing Protective Committee. The personnel unknown except to your officers, that Committee is necessarily deprived of the larger credit which is due it. But "their works go before them," and the American Bankers' Association is distinctly indebted to its Standing Protective Committee.

It is meet and right to express our full appreciation to the various departments of the Association, to the heads of departments and to the General Secretary. Their work has been efficient and thorough. Their co-operation and concentrated effort has placed the Association on a progressive basis, and a higher plane has been attained than at any time during its history.

Your executive officers have worked in perfect harmony, having always in mind the great and growing interests of the American Bankers' Association and its advancement. For my associates I have only the highest personal esteem, for each has viewed his duty as requiring his most intelligent and consistent effort.

I wish to express to the American Bankers' Association my high appreciation of the honor conferred upon me by your Executive Council in electing me Chairman of that body. My Association experience during the past year has been most congenial and pleasant, and it is with keen regret that a severe illness, from which I am slowly recovering, prevents me from being with you on this occasion. My heart and best thought go out to you, one and all, with the sincere wish that the coming year, like its predecessor, may for the American Bankers' Association be full of advancement, strength and prosperity; that the Association may uphold its reputation as being the greatest and strongest organization of its kind in the world, with added usefulness, working for the good of the banks and bankers of the country and the great commercial pursuits of the nation.

Respectfully submitted,

CHARLES H. HUTTIG,
Chairman Executive Council.

Report of General Counsel, Thomas B. Paton.

This report will be confined to a brief general survey of the past year's work on behalf of the Association.

LEGISLATION.

Probably first in importance is the promotion of certain subjects of legislation, beneficial alike to banker and public and heretofore approved by this Association. I refer to the acts to make uniform the law of negotiable instruments, warehouse receipts and bills of lading, recommended by the Commissioners on Uniform State Laws, and to the special acts drafted or prepared by your General Counsel relating to false statements for credit, derogatory statements affecting banks, checks against insufficient funds, burglary with explosives, forged or raised checks, payment of deposits in two names, payment of deposits in trust, competency of bank notaries, for enactment in State legislatures, and to the Stevens bill relating to bills of lading in Congress. These measures have for their object uniformity of commercial law and adequacy of legislation to protect banks against crime or to safeguard or facilitate banking transactions. The proposed acts on many of these subjects have, in previous years, become law in a number of States, but notwithstanding this most desirable narrowing of the field for enactment, I have great pleasure in reporting a considerable number of new enactments in many of the forty-two State and territorial legislatures which convened during 1911.

Specific details as to particular State enactments this year on all these subjects, other than bills of lading, will be given in the report of the Law Committee, and on the last-named subject in the report of the Committee on Bills of Lading. They need not, therefore, be further referred to in this report, except to present a short table giving the number merely of measures recommended by this Association enacted this year, in previous years and the total, which will show at a glance the gratifying progress made during the last few years in this most important movement and what can be accomplished by organized and persistent effort:

TABLE OF STATE ENACTMENTS.

	This Year	Previously	Total To Date
Negotiable Instruments Law	2	38	40
Uniform Warehouse Receipts Act	3	20	23
Uniform Bills of Lading Act	7	2	9
False Statements for Credit	2	7	9
Derogatory Statements	3	7	10
Checks without Funds	3	11	14
Burglary with Explosives	3	16	19
Forged or Raised Checks	5	13	18
Deposits in Two Names	5	16	21
Deposits in Trust	2	18	20
Competency of Notaries	2	4	6
	37	152	189

In connection with the promotion of this legislation your Counsel has devoted much of his time. His work this year has consisted in the preparing of pamphlets containing drafts of proposed laws with annotations, correspondence with secretaries and legislative committeemen of State Bankers' Associations and others concerning their introduction, progress and passage, the preparation of written arguments to meet various objections raised in State legislatures, personal attendance in a few instances at legislative committee hearings, the making of a number of addresses before meetings of commercial organizations, including two State bankers' conventions, and participation in a number of conferences of committees of such organizations. Aside from the advocacy of legislation, your Counsel has participated in special meetings of the Law Committee in New York, Detroit and Cleveland in the conduct of an investigation relative to savings deposits, pursuant to resolution of the Executive Council, and has performed other labor in this connection; he has also given much time to the Committee on Bills of Lading in connection with their consideration of plans for the safeguarding of bills of lading against forgery.

FEDERAL CODE OF COMMERCE

The Committee on Commercial Law of the American Bar Association held a special meeting in Cincinnati on May 29th to consider, among other subjects, the wisdom of recommending the enactment of a Federal Code of Commerce. In view of the possible effect of any such movement upon the welfare of the Stevens bill relating to bills of lading, now pending in Congress, your Counsel attended this meeting and described in detail the history of the movement in behalf of the last-named measure. He showed that after several years of effort, by a pruning out and modifying process, its proponents have at last reached a framework of legislation which, as tested by experience, it will be practicable to have adopted. In view of this he strongly urged that nothing should be recommended by the Committee which would in any way hamper or put back the progress already attained with the present Stevens bill. His position was that while theoretically the enactment by Congress of a complete Federal code that would include the subject of bills of lading might be desirable, its early adoption would be impracticable, and that if such a code were proposed it would give a handle to opponents of the Stevens bill to plead for delay and to argue that there was no need of giving further consideration to that measure. He therefore asked the Committee that they recommend to the American Bar Association the endorsement of the Stevens bill, and if they deemed it their duty to recommend a Federal Code of Commerce as a matter of ultimate legislation, this recommendation be so framed as to make it clear that pending the final consummation of this object the Stevens bill was favored for immediate enactment as a practicable measure of urgent necessity.

At the annual session of the American Bar Association held in Boston last August the Committee on Commercial Law recommended that it give further consideration to the subject of Federal legislation on bills of lading and hold public meetings for the purpose of obtaining the opinions of experts thereon.

UNIFICATION OF INTERNATIONAL LAW OF CHECKS

Upon invitation of Mr. Charles A. Conant, the American delegate to the International Conference on Bills of Exchange, your Counsel has attended a number of conferences held at the New York Chamber of Commerce with foreign exchange bankers, at which the special subject for consideration this year has been the unification of the law of checks. A "Questionnaire," presenting the points to be covered, was gone over section by section at these meetings, preliminary to attendance of the American delegate at the Second International Conference to be held at The Hague for the purpose of participating in the preparation of legislation in regard to checks. At this conference Mr. Conant will also present the views of the United States upon the proposed uniform law on bills of exchange, a preliminary draft of which was adopted at the conference last year.

BURGLARY INSURANCE

In conjunction with the Committee on Fidelity Bonds and Burglary Insurance and after conference of the Committee with representatives of different surety companies, your Counsel prepared and had copyrighted in the name of the Association

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a standard form of bank burglary and robbery policy which, in the opinion of experts, is an improvement on any of the existing policies and is intended to take the place of the numerous policies now being written for members of the Association. A copy of this policy was set out in full in the "Journal-Bulletin," for September, 1911. The companies all agreed to the provisions of this policy in the main, but desired its amendment in a few particulars, not affecting its validity from the bankers' standpoint. These amendments were agreed upon at a meeting of the Committee on Fidelity Bonds and Burglary Insurance held in Chicago November 6-8, which was attended by a representative of the companies and by your General Counsel; and the policy will be again copyrighted and ready for issue before the first of January. The report of the Committee on Fidelity Bonds and Burglary Insurance will give more detailed particulars on this subject.

Sections and Committees

During the year a variety of services have been performed upon request of different sections and special committees of the Association. For the Clearing House Section a brief was prepared and filed with the Attorney-General of the United States in December, 1910, in support of the proposition that the rules of the New Orleans Clearing House, fixing a minimum charge for collection of out-of-town items, do not violate the anti-trust law. In behalf of the same Section an agreement was drawn up for the publication and copyright in the name of the Association of a Numerical Bank Directory entitled, "Key to Numerical System of the American Bankers' Association," and advice has been given the special committee of transit managers who have had in charge the working out of the numerical system, concerning various phases of the law of endorsements.

A form of Articles of Association for use in the organization of clearing houses in the smaller cities and towns has also been prepared and printed.

In behalf of the Protective Committee your Counsel is constantly consulted by Mr. Gammon, the Manager of the Protective Department, and advice is given upon matters of criminal law arising in the conduct of that department.

Legal work, consisting of opinions upon submitted questions, the furnishing of information and the drafting of papers, has been performed from time to time for the Trust Company Section, the Savings Bank Section, the American Institute of Banking Section and for special committees and officers of the Association.

The "Journal Bulletin."

The work of Counsel in connection with the "Journal-Bulletin," aside from certain general contributions and the yearly index, is mainly confined to furnishing material for that division of the publication classed as the "Legal Department." In this department is published such of the opinions given to members as are deemed of general interest, reference to important legislative enactments or developments in judicial law and an account of the doings of certain committees with the work of which your Counsel is associated.

Opinion Work

The advisory branch of the work, while it does not show prominent definite results as does the creative work, nevertheless requires the greater part of the time of General Counsel. In addition to personal interviews and consultations, an extensive service is carried on for the individual membership in answering letters calling for general information upon legal matters and for special opinions in particular cases. Letters come from bankers in every State, asking for legal opinions on questions arising in their business which cover the whole range of banking and commercial law. Many of these necessitate time for examination of authorities, and in view of the press of other matters cannot always be answered promptly. The service has been maintained, however, with all the diligence possible consistent with other duties. To illustrate its extent, 260 written legal opinions have been given during the year and several hundred letters conveying general information, this last being additional to a large miscellaneous correspondence in connection with committees and others.

Uniform Code of Collections

In conclusion, your General Counsel would say that his work in connection with the Association absorbs all his time, and with each succeeding year the field seems to widen and new subjects present themselves for remedy and reform. Next in importance to settlement of the currency question would seem the straightening out of the knots and tangles in the law governing the collection of commercial paper, which is now in a most confused state and is not adequately regulated by the Negotiable Instruments Law. The judicial decisions upon nearly all phases of the law of bank collections are in hopeless conflict—they do not square with modern banking customs—and it would seem of the utmost importance to all banks handling collection items that there be prepared for statutory enactment a uniform code of rules simplifying and making uniform the law governing collections, and covering (1) liability of initial bank for default of correspondent, (2) methods of presentment, direct and circuitous, (3) definite meaning and construction of collection endorsements and guarantees, (4) responsibility for lost items, (5) questions of title and right to proceeds in event of insolvency, and (6) such other topics as are germane to the subject. This is a problem to which General Counsel proposes to address himself at the earliest practicable moment.

Report of the Treasurer, Arthur Reynolds.

Des Moines, Iowa, Nov. 8, 1911.

Mr. President and Gentlemen:

Your Treasurer's report is of necessity a somewhat lengthy detailed statement, and in view of the fact that the same is printed in full in the pamphlet distributed among delegates by your General Secretary, I shall not occupy your time by reading the itemized statement. However, I regard it the duty of every member of this Association to acquaint himself with the details of this financial report of the Association, and especially the expenditures by the various Sections and Committees. By so doing, a much better insight may be had of the work that is being carried on, and of the splendid results accomplished.

I desire, however, to call the attention of the membership to some of the important items in the report.

The Cash Balance on hand September 1, 1910, was $1,278.90. The total receipts for the current year were $196,145.03. The total expenditures for the year were $195,990.50, leaving a credit balance, September 1, 1911, of $1,433.43.

These figures may be somewhat startling to some, particularly as to the amount of the expenditures, but it must be remembered that the American Bankers' Association is a great organization and is growing in importance, not only in its increased membership, but also in the extended scope of the work that is being accomplished.

Those who have not been closely identified with the work of the Association can have but little appreciation of what is being done through the co-operation of the membership.

The magnitude of the work can only be understood by carefully perusing the proceedings of the various Sections of the Association. Such an investigation will be most convincing of the need for heavy expenditures. Indeed, the American Bankers' Association is today one of the greatest organizations of its kind the world has ever seen.

I cannot refrain at this time from suggesting that such an organization could never have been built up except through a spirit of loyalty and patriotism on the part of the members, and the self-sacrifice of many individuals for the common good of all; this places the Association above the ordinary conception of the banker conducting business for profit only. It demonstrates what co-operation can accomplish, and the necessity for continued effort to keep the Association and its work on the present high plane.

On September 1, 1911, the General Secretary forwarded to me as Treasurer 11,641 drafts on account of the current membership dues, amounting to $188,565.00. These drafts have been forwarded for collection, and up to this writing $173,325.00 has been collected, and I have no doubt that a large part of the remaining unpaid dues will be paid by November 15th.

The Association has for some time kept its surplus funds invested in high-grade bonds, which are deposited with the Bankers' Trust Company of New York under the control of the Executive Committee. The interest on these securities has been regularly collected by the Trust Company and forwarded to me and by me credited to the Association account. The securities held are as follows:

$10,000 Government 4 per cent. Bonds, 1925.
30,000 Atchison, Topeka & Santa Fe 4 per cent. Bonds, 1995.
50,000 Chicago, Burlington & Quincy Illinois Division 4 per cent. Bonds of 1949.
30,000 New York City Registered Corporation Stock, 3½ per cent., due 1940.

While the duties of the Treasurer are somewhat onerous, yet through the kindly co-operation of the General Secretary and his staff, together with the support of the membership, the work of collecting and disbursing funds has been materially facilitated, and the Treasurer desires to extend to all his hearty appreciation.

The promptness with which the dues have been met this year by the membership is only another indication of the great interest exhibited in the work that is being carried on.

The small financial interest of each member is largely overshadowed by the benefits accruing to all, and I would earnestly recommend that you make yourselves conversant with the details of this and all other reports to this Association.

Respectfully submitted,

Arthur Reynolds,
Treasurer.

Report of Law Committee, Pierre Jay, Chairman.

Your Committee was appointed by the Administrative Committee pursuant to Section 1 of Article IV of the Constitution and held its first meeting at the offices of the Association on

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November 21, 1910, at which drafts of proposed laws on the following subjects, theretofore approved and advocated by the Association, were taken up and plans formulated for their further enactment in States not already having such laws:

1. An act to punish the making or use of false statements to obtain property or credit.
2. An act to punish derogatory statements affecting banks.
3. An act to punish the giving of checks or drafts on any bank or other depository wherein the person so giving such check or draft shall not have sufficient funds or a credit for payment of same.
4. An act defining the crime of burglary with explosives and providing the punishment therefor.
5. An act fixing liability of a bank to its depositor for payment of forged or raised checks.
6. An act relating to payment of deposits in two names.
7. An act relating to payment of deposits in trust.
8. An act concerning notaries public who are stockholders, directors, officers or employees of banks or other corporations.
9. The Uniform Negotiable Instruments Act.
10. The Uniform Warehouse Receipts Act.

Each of the above laws was printed in separate pamphlets, with annotations prepared by the General Counsel showing existing State statutes on the subject accompanied by a statement of the necessity for their enactment, and in December last copies of such pamphlets were forwarded to legislative committeemen, secretaries of State Bankers' Associations and to other interested persons in forty-two States where legislatures were to hold sessions in 1911.

A voluminous correspondence has been carried on while the various legislatures remained in session in behalf of all these proposed laws, and in a number of instances briefs and arguments have been prepared for use before legislative committees in aid of their passage.

The results this year have been most satisfactory. The act to punish the making of false statements has been passed in Connecticut and Missouri; the act to punish derogatory statements in Missouri, Nevada and Wyoming; the act concerning checks or drafts without funds in Alabama, Minnesota and West Virginia; the burglary with explosives statute in Connecticut, Kansas and Wisconsin; the act concerning payment of forged or raised checks in Idaho, Kansas, Maine, Minnesota and Ohio; the act relating to payment of deposits in two names in Iowa, Massachusetts, South Dakota, Wisconsin and Wyoming; the act relating to payment of deposits in trust in Oregon and Wyoming; the act concerning notaries public in Maine and South Dakota; the Negotiable Instruments Law in Delaware and in the Philippines; the Warehouse Receipts Act in Colorado, Missouri and Utah.

Appended to this report (Appendix I) is a summary prepared by the General Counsel, which gives the text of the above Association measures as passed in the different States with modifications which have been made in particular States in the original drafts; and a further summary (Appendix II) giving State legislation in 1911 affecting banks other than measures recommended by the American Bankers' Association.

In addition to its initial meeting in November, this Committee met in Nashville in May and reported its progress to the Executive Council; and has since held four special meetings in New York, Detroit and Cleveland devoted to investigation of the subject of special investment for savings deposits, pursuant to resolution of the Executive Council to whom report thereon has been made.

PIERRE JAY, *Chairman*,
J. F. HAGEY,
ISAAC H. ORR,
LYNN H. DINKINS,
LUCIUS TETER,
THOMAS B. PATON.

(Appendix I.)

ASSOCIATION MEASURES PASSED DURING 1911.

FALSE STATEMENTS FOR CREDIT.

Committee's Draft.

AN ACT to punish the making or use of false statements to obtain property or credit.

Be it enacted, etc.

SECTION 1. Any person,

(1) Who shall knowingly make or cause to be made, either directly or indirectly, or through any agency whatsoever, any false statement in writing, or intent that it shall be relied upon, respecting the financial condition, or means or ability to pay, of himself, or any other person, firm or corporation, in whom he is interested, or for whom he is acting, for the purpose of procuring in any form whatsoever, either the delivery of personal property, the payment of cash, the making of a loan or credit, the extension of a credit, the discount of an account receivable, or the making, acceptance, discount, sale or endorsement of a bill of exchange, or promissory note, for the benefit of either himself or of such person, firm or corporation; or

(2) Who, knowing that a false statement in writing has been made, respecting the financial condition or means or ability to pay, of himself, or such person, firm or corporation in which he is interested, or for whom he is acting, procures, upon the faith thereof, for the benefit either of himself, or of such person, firm or corporation, either or any of the things of benefit mentioned in the first sub-division of this section; or

(3) Who, knowing that a statement in writing has been made, respecting the financial condition or means or ability to pay of himself or such person, firm or corporation, in which he is interested, or for whom he is acting, represents on a later day, either orally or in writing, that such statement theretofore made, if then again made on said day, would be then true, when in fact said statement if then made would be false, and procures upon the faith thereof, for the benefit either of himself or of such person, firm or corporation, either or any of the things of benefit mentioned in the first sub-division of this section:

Shall be guilty of a felony, punishable by (insert amount of fine, term of imprisonment or both).

ENACTMENTS

CONNECTICUT.—"Any person who shall knowingly make or cause to be made, either directly or indirectly, or through any agency, any false statement in writing, with intent that it shall be relied upon, concerning the financial condition or means or ability to pay of himself, or of any other person for whom he is acting, or of any firm or corporation in which he is interested or for which he is acting, for the purpose of procuring, for his own benefit or for the benefit of such person, firm or corporation, the delivery of personal property, the payment of cash, the making of a loan or credit, the extension of a credit, the discount of an account receivable, or the making, acceptance, discount, sale, or endorsement of a bill of exchange or promissory note, or who, knowing that a false statement in writing concerning the financial condition or means or ability to pay of himself or of any such person, firm, or corporation has been made, procures, upon the faith thereof, for his own benefit or for the benefit of such person, firm, or corporation, any such delivery, payment, loan, credit, extension, discount, making acceptance, sale or endorsement shall be fined not more than two thousand dollars or imprisoned not more than five years, or both."

MISSOURI.—Committee's draft enacted in substance. Form of enactment changed to read "No person shall knowingly make," etc., and "Nor shall any person knowing," etc., at the beginning of respective paragraphs. Words "either orally or in writing" omitted from third paragraph. Concluding paragraph reads: "Any person, firm or corporation who shall violate any of the provisions of this act shall be deemed guilty of a felony, and upon conviction thereof, shall be punished by imprisonment in the penitentiary, not exceeding five years, or by imprisonment in the county jail not exceeding twelve months, or by a fine not exceeding one thousand dollars, or by both such fine and imprisonment."

DEROGATORY STATEMENTS AFFECTING BANKS

Committee's Draft

AN ACT to punish derogatory statements affecting banks.

Be it enacted, etc.

SECTION 1. Any person who shall wilfully and maliciously make, circulate or transmit to another or others any statement, rumor or suggestion, written, printed or by word of mouth, which is directly or by inference derogatory to the financial condition or affects the solvency or financial standing of any bank, savings bank, banking institution or trust company* doing business in this State, or who shall

*The names of banking institutions should be specified according to what they are termed in each particular State.

counsel, aid, procure, or induce another to start, transmit or circulate any such statement or rumor, shall be guilty of a (felony or misdemeanor), and upon conviction thereof, shall be punished by a fine of not more than five thousand dollars or by imprisonment for a term of not more than five years, or both.

ENACTMENTS

MISSOURI.—"Any person who shall make, utter, circulate or transmit to another or others any statement, untrue in fact, derogatory to the financial condition of any bank, banking house, banking company, trust company, surety company, guarantee company, title insurance company, or other financial institution in this Commonwealth with intent to injure any such financial institution, or who shall counsel, aid, procure or induce another to originate, make, utter, transmit or circulate any such statement or rumor with like intent, shall be guilty of a misdemeanor, and upon conviction thereof, shall be fined in a sum not to exceed $1,000 or imprisoned in the county jail for a period not exceeding one year, or by both such fine and imprisonment."

NEVADA.—"Any person circulating, knowing the same to be false, or instigating others to circulate either by word of mouth, writing or print, false or derogatory stories concerning the credit or solvency of a banking institution shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be fined not to exceed five hundred dollars or by imprisonment in the county jail not to exceed six months, or by both such fine and imprisonment." (Section 46, Banking Law of 1911.)

WYOMING.—Committee's draft enacted, the word "false" being in-

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serted before the word "statement" twice appearing therein, and the words "wilfully and maliciously" inserted before the word "counsel." Penalty clause reads: "Shall be guilty of a misdemeanor, and upon conviction thereof, shall be punished by a fine of not less than one hundred dollars nor more than one thousand dollars, or by imprisonment in the county jail for a term of not more than one year, or both."

CHECKS WITHOUT FUNDS

Committee's Draft

AN ACT to punish the giving of checks or drafts on any bank or other depositary wherein the person so giving such check or draft shall not have sufficient funds or a credit for the payment of the same.

Be it enacted, etc.

SECTION 1. Any person who with intent to defraud shall make or draw or utter or deliver any check, draft or order for the payment of money upon any bank or other depositary, knowing at the time of such making, drawing, uttering or delivery that the maker or drawer has not sufficient funds in or credit with such bank or other depositary for the payment of such check, draft or order in full upon its presentation, shall be guilty of a (felony or misdemeanor), and upon conviction thereof shall be fined not more than five thousand dollars, or imprisoned not more than five years, or both. The making, drawing, uttering or delivering of such check, draft or order as aforesaid, shall be prima facie evidence of intent to defraud. The word "credit" as used herein shall be construed to mean an arrangement or understanding with the bank or depositary for the payment of such check, draft or order.

ENACTMENTS

ALABAMA.—"That any person who, with the intent to injure or defraud, gives, makes or issues to another any draft, order or check either in his own behalf, or as agent for any person or persons, firm or corporation, upon any bank, banking house, person, firm, or corporation in payment for any money, goods or chattels, lands or tenements or other thing of value, the title or possession of which shall have been transferred upon the faith of the payment of such draft, order, or check, knowing at the time that he has not sufficient money on deposit with such bank, banking house, person, firm, or corporation to pay said draft, order or check, shall, upon conviction therefor, be punished as if he had stolen such money, goods, chattels, or other thing of value or the reasonable value of such lands or tenements."

MINNESOTA.—Committee's draft enacted with omission of provision that the making, etc., of such check shall be prima facie evidence of intent to defraud. Penalty clause reads: "Shall be guilty of a gross misdemeanor and upon conviction thereof shall be fined not more than one thousand dollars ($1,000), or imprisoned not more than one year, or both."

WEST VIRGINIA.—"If any person make, issue and deliver to another for value any check or draft on any bank, and thereby obtain from such other any credit, money, goods or other property of value, and have no funds, or insufficient funds on deposit to his credit in said bank with which such draft or check may be paid, he shall be guilty of a misdemeanor, if the amount of such check or draft be under twenty dollars, and upon conviction thereof be fined not exceeding one hundred dollars and confined in the county jail not less than one day nor more than thirty days, and if the amount of such check or draft be twenty dollars or over he shall be guilty of a felony and confined in the penitentiary not less than one year nor more than two years, and the drawer of such check or draft shall be prosecuted in the county in which he delivers the same. Provided, however, that if the person who makes, issues and delivers any such check shall, within twenty days from the time he receives actual notice, verbal or written, of the protest of such check, pay the same, he shall not be prosecuted under this section, and any prosecution that may have been instituted within the time above mentioned shall, if payment of said check be made as aforesaid, be dismissed at the cost of defendant.

"Justices of the peace shall have jurisdiction to try misdemeanors hereunder. The following form of indictment shall be deemed sufficient." (Form of indictment omitted.)

BURGLARY WITH EXPLOSIVES.

Committee's Draft

AN ACT defining the crime of burglary with explosives and providing the punishment therefor.

Be it enacted, etc.

SECTION 1. Any person who, with intent to commit crime, breaks and enters, either by day or by night, any building, whether inhabited or not, and opens or attempts to open any vault, safe or other secure place by use of nitro-glycerine, dynamite, gunpowder or any other explosive, shall be deemed guilty of burglary with explosives.

SECTION 2. Any person duly convicted of burglary with explosives shall be punished by imprisonment for a term of not less than twenty-five nor more than forty years.

ENACTMENTS

CONNECTICUT.—"Every person who, either in the daytime or in the night season, shall break and enter any building with intent to commit any crime therein and shall open or attempt to open any vault, safe, or other secure place, in such building, by the use of nitro-glycerine, dynamite, gunpowder, or any other explosive, shall be imprisoned not more than thirty years."

KANSAS.—Committee's draft enacted, omitting word "secure" before "place" in Section 1 and concluding portion of Section 2 reads: "shall be sentenced to the Penitentiary in the discretion of the court, for a period of not less than ten years nor more than thirty years."

WISCONSIN.—Committee's draft enacted, omitting words "use of" before "nitro-glycerine" in Section 1 and concluding portion of act reads: "shall be punished by imprisonment for a term of not less than fifteen nor more than forty years."

FORGED OR RAISED CHECKS.

Committee's Draft

AN ACT fixing the liability of a bank to its depositor for payment of forged or raised checks.

Be it enacted, etc.

SECTION 1. No bank which has paid and charged to the account of a depositor any money on a forged or raised check issued in the name of said depositor shall be liable to said depositor for the amount paid thereon unless either (1) within one year after notice to said depositor that the vouchers representing payments charged to the account of said depositor for the period during which such payment was made are ready for delivery, or (2) in case no such notice has been given, within one year after the return to said depositor of the voucher representing such payment, said depositor shall notify the bank that the check so paid is forged or raised.

SECTION 2. The notice referred to in the preceding section may be given by mail to said depositor at his last known address with postage prepaid.

ENACTMENTS

IDAHO.—"No bank or trust company shall be liable to a depositor for the payment by it of a forged or raised check, unless within three (3) months after the return to the depositor of the voucher of such payment, such depositor shall notify the bank or company that the check so paid is forged or raised." (Section 50 of new Banking Law of 1911.)

KANSAS.—Same enactment as in Idaho, except "bank" alone specified and time limit "six months."

MAINE.—Same enactment as in Kansas except time limit "one year."

MINNESOTA.—Committee's draft enacted, "one year" being changed to "six months" in subdivisions 1 and 2.

OHIO.—Committee's draft enacted, words "actual written" inserted before "notice" in subdivision 1 and section 2 of Committee's draft not enacted.

OREGON.—Section 4575 of the Banking Law is amended by inserting the words "or forged indorsement of any check" so that the amended provision reads as follows: "no bank shall be liable to a depositor for the payment by it of a forged or raised check or forged endorsement of any check unless within thirty days after the return to the depositor of the voucher of such payment such depositor shall notify the bank that the check so paid was forged or raised."

PAYMENT OF DEPOSITS IN TWO NAMES

Committee's Draft

AN ACT relative to payment of deposits in two names.

Be it enacted, etc.

SECTION 1. When a deposit has been made, or shall hereafter be made, in any (specify institutions) transacting business in this State in the names of two persons, payable to either, or payable to either or the survivor, such deposit, or any part thereof, or any interest or dividend thereon, may be paid to either of said persons whether the other be living or not; and the receipt or acquittance of the person so paid shall be a valid and sufficient release and discharge to the bank for any payment so made.

ENACTMENTS

IOWA.—"When a deposit shall hereafter be made in any bank or trust company in the names of two persons,"—continues as in Committee's draft, "bank, banker or trust company" being specified in last line.

MASSACHUSETTS.—"When a deposit has been made, or shall hereafter be made, in any bank, savings bank or institution for savings in the names of two persons, payable to either, or payable to either or the survivor, such deposit, or any part thereof, or interest or dividend thereon, if not then attached at law or in equity in a suit against either of said persons, may be paid to either of said persons, whether the other be living or not, and such payment shall discharge the bank, savings bank or institution for savings making such payment from its obligation, if any, to such other person or to his legal representatives for or on account of such deposit. For the purposes of this act the term 'bank' shall include any person or association of persons carrying on the business of banking, whether incorporated or not."

SOUTH DAKOTA.—Committee's draft enacted; word "bank" specified. Words "so paid" omitted in clause as to "receipt or acquittance."

WISCONSIN.—Committee's draft enacted; word "bank" specified. Words "not exceeding five hundred dollars" inserted after word "deposit" in first line.

WYOMING.—Committee's draft enacted; institutions specified are "incorporated bank, trust company or savings bank."

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PAYMENT OF DEPOSITS IN TRUST

Committee's Draft

AN ACT relative to payment of deposits in trust.

Be it enacted, etc.

SECTION 1. Whenever any deposit shall be made (specify institutions) by any person in trust for another, and no other or further notice of the existence and terms of a legal and valid trust shall have been given in writing to the bank, in the event of the death of the trustee, the same, or any part thereof, together with the dividends or interest thereon, may be paid to the person for whom said deposit was made.

ENACTMENTS

OREGON.—Committee's draft enacted. Institutions specified "bank or trust company." Words "person depositing" substituted for "trustee" in phrase reading "in the event of the death of the trustee."

WYOMING.—Committee's draft enacted without specification of institutions in the first line. The act concludes with the following addition; "and in case such person is a minor, to the duly appointed, qualified and acting guardian thereof."

COMPETENCY OF NOTARIES

Committee's Draft

AN ACT concerning notaries public who are stockholders, directors, officers, or employees of banks or other corporations.

Be it enacted, etc.

SECTION 1. It shall be lawful for any notary public who is a stockholder, director, officer or employe of a bank or other corporation to take the acknowledgment of any party to any written instrument executed to or by such corporation, or to administer an oath to any other stockholder, director, officer, employee or agent of such corporation, or to protest for non-acceptance or non-payment bills of exchange, drafts, checks, notes and other negotiable instruments which may be owned or held for collection by such corporation: Provided, it shall be unlawful for any notary public to take the acknowledgment of an instrument by or to a bank or other corporation of which he is a stockholder, director, officer, or employe, where such a notary is a party to such instrument, either individually or as a representative of such corporation, or to protest any negotiable instrument owned or held for collection by such corporation, where such notary is individually a party to such instrument.

ENACTMENTS

MAINE.—Committee's draft enacted; words "bank or other" inserted before "corporation" in three places.

SOUTH DAKOTA.—Committee's draft enacted.

(See also Appendix II under State headings "Indiana," "Iowa" and "Wisconsin" for reference to statutes validating past acts of notaries who were stockholders or officers of corporations that were parties to instruments acknowledged or protested.)

UNIFORM NEGOTIABLE INSTRUMENTS ACT

Enacted in

Delaware, Philippines.

UNIFORM WAREHOUSE RECEIPTS ACT

Enacted in

Colorado Missouri, Utah.

UNIFORM BILLS OF LADING ACT.

Enacted in

Connecticut Iowa, New York,
Illinois, Michigan, Ohio,
Pennsylvania.
(Appendix II)

STATE LEGISLATION AFFECTING BANKS, ENACTED DURING 1911, OTHER THAN MEASURES RECOMMENDED BY AMERICAN BANKERS' ASSOCIATION.

ALABAMA.

Columbus Day, October 12th, made legal holiday.

Mardi Gras Day, Tuesday before Ash Wednesday, made legal holiday.

General Banking Law, entitled, "An act to create a banking department of the State of Alabama, and through this department to regulate, examine, supervise banks and banking and to punish certain prohibited acts thereto."

CALIFORNIA

Amends law relating to holidays (Civ. Code, Sec. 7; Political Code, Sec. 10; Code Civ. Proc., Sec. 10) as to sessions of public schools on certain holidays. Also by inserting Lincoln's Birthday, made a legal holiday in 1909, in its appropriate place in the Code sections.

Amendments of the following sections of the Banking Law:

Section 11, by adding requirement that board of directors of bank must hold meeting at least once a month.

Section 16, payment of deposit of decedent, not exceeding $500, upon affidavit, without letters of administration.

Section 20, reserve of banks other than savings banks.

Section 23, requirements of banks desiring to do departmental business.

Section 33, prohibiting officer or employee to borrow deposits, etc.

Section 35, prohibiting director, etc., from selling to bank certain real estate mortgages or contracts without written consent of Superintendent.

Section 39, making it felony for officer, etc., to receive commission for procuring loan.

Section 43, deposit of funds in other banks.

Section 49, advertising or putting forth sign as savings bank.

Section 60, cash capital of savings banks.

Section 61, investments of savings banks.

Section 62, by allowing savings banks to borrow postal savings moneys of the United States and receive postal savings moneys on deposit.

Section 68, lawful money reserve of savings bank or savings department.

Section 80, limiting loans by commercial banks to single borrowers.

Section 82, paid-in capital of commercial banks hereafter organized.

Section 83, loans by commercial banks to directors.

Section 96, eliminating requirement that securities deposited by trust companies must be registered in name of State treasurer officially.

Section 120, office and term of Superintendent of Banks.

Section 121, employment of assistants by Superintendent, etc.

Section 123, State banking fund to defray expenses of banking department.

Section 124, examination of banks.

Section 133, making action by Superintendent compulsory, instead of mandatory, in case of impairment of capital.

Section 137, dissolution of banks.

Addition of sections to Banking Law, as follows:

Section 12A, prohibiting unauthorized persons and corporations from advertising or transacting business of a bank, savings bank or trust company and from doing other acts.

Section 52, requiring certified checks to be immediately charged against account of drawer and making it unlawful to certify a check unless drawer has on deposit a sufficient amount for its payment.

Section 53, relating to par and paid-up value of capital stock of bank and providing that no bank shall have preferred stock.

Section 68½, authorizing public administrator to allow decedent's deposit to remain in savings bank and to make other deposits to account of decedent.

Section 84, prohibiting a commercial bank from investing an amount exceeding capital and surplus in its bank premises without approval of Superintendent and authority of two-thirds vote of full board of directors.

COLORADO

A new act relating to banks and banking, providing a graded capital; also the segregation of savings deposits with provision that savings assets shall constitute a trust fund for the payment of savings depositors; also providing that every bank doing business in the State shall protect its unsecured depositors either by the guarantee plan or the security plan provided by the act.

The Bank Commissioner of Colorado advises that this act is not yet the law of the State, and its operation has been suspended until the election of 1912, when it will possibly be defeated.

DELAWARE

Columbus Day, October 12th, made legal holiday.

An act restricting the use of the word "trust" as part of name of any corporation now existing or hereafter created under the laws of Delaware. Provides that corporations using word "trust" as part of name shall be under the supervision of Insurance Commissioner and make not less than two reports each year; prohibits use of word "trust" except by corporations reporting to and under supervision of Insurance Commissioner; and also prohibits all but excepted corporations from advertising or putting forth any sign, soliciting or receiving deposits or transacting business as a trust company.

FLORIDA.

General act for organization of trust companies. Prohibits the use of word "trust" as part of name of any company not organized under act.

An act authorizing the employment of an additional bank examiner.

An act to amend Section 1369 of the General Statutes relative to rights and liabilities of sureties and accommodation signers on bonds, notes, drafts and bills of exchange and providing for contribution between such persons.

HAWAII

Any day appointed by the President of the United States as a day of thanksgiving, "or appointed by the governor of the territory as a holiday," shall be a territorial holiday.

IDAHO

June 15th, Idaho Pioneer Day, made a holiday.

October 12th, Columbus Day, made a holiday:

An act amending Section 130 of Article 3 of the Revised Codes,

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relating to the deposit of State funds. Relates to State and county warrants as security for deposits.

A new general Banking Law, entitled, "An act providing for the appointment of a State bank commissioner; prescribing his qualifications, duties and compensation; fixing the capital required to do a banking business; and providing for the examination, regulation and control of banks and trust companies doing a banking business, and fixing the fees for examination; providing for the formation and conduct of banking corporations and trust companies doing a banking business and for the sale of delinquent stock thereof; and fixing the qualification and liabilities of officers, directors and stockholders of banking corporations and trust companies doing a banking business; prohibiting banking, except under the provisions of this act; providing for the liquidation of banks and banking and trust companies and the distribution of the assets thereof; making an appropriation for the carrying out of the purposes of this act; declaring an emergency; prescribing offenses and penalties; and repealing other acts in conflict with this act."

INDIANA

October 12th, Discovery Day, made a legal holiday.

February 12th, omitted from the days declared legal holidays.

An act to amend Section 3 of an act entitled, "An act to authorize and regulate the incorporation of banks of discount and deposit in the State of Indiana," approved February 7, 1873. Amended provision relates to the filing of bonds of president and cashier.

An act entitled "An act providing for the appointment and fixing the powers of examiners for, and regulating the examination of all banks of discount and deposit, savings banks, loan and trust and safe deposit companies formed and organized pursuant to the laws of the State of Indiana, fixing the fees therefor and repealing an act entitled 'An act providing for the appointment and fixing the powers of examiners for and regulating the examination of all banks of discount and deposit, savings banks, loan and trust and safe deposit companies, formed and organized pursuant to the laws of the State of Indiana and repealing all laws and parts of laws in conflict therewith,' approved March 9, 1907, and declaring an emergency."

An act in relation to notaries public, legalizing the acts of notaries who have acknowledged the execution of instruments, "which acts of said notaries public would be valid except for the fact that such notaries public may have been officers, stockholders or employees in corporations which were parties to the instrument, the signatures of which are so acknowledged by such notary public."

IOWA

An act amending Sections 1310 and 1311 of the Code, and the law as it appears in Section 1321 of the supplement to the Code, 1907, relating to the taxation of moneys and credits and private banks, and repealing the law as it appears in Section 1322 of the supplement to the Code, 1907, and enacting a substitute therefor relating to the taxation of the shares of stock of National banks, State and savings banks and loan and trust companies, and defining moneyed capital and providing for the taxation thereof.

An act to repeal Section 1873 of the Code and Section 1873 of the supplement to the Code, 1907, and to enact a substitute therefor relating to the examination of savings banks and State banks by the auditor and to the publication of the statements thereof in some newspaper.

An act legalizing acknowledgments of instruments heretofore taken by notaries public, including acknowledgments of instruments made by any private or other corporation or to which such corporation was a party or under which such corporation was a beneficiary, which have been acknowledged by any notary public who was at the time stockholder or officer in such corporation.

KANSAS

Columbus Day, October 12th, made a legal holiday.

An act authorizing the Bank Commissioner to contribute public funds for the detection, apprehension and conviction of bank robbers, and making an appropriation therefor.

An act amending Sections 542, 543 and 545 of the General Statutes of 1909, relating to the bank depositors' guarantee fund in the State of Kansas and repealing said original sections.

An act amending Section 81 of Chapter 10 of the General Statutes of 1909, being general Section 540 of the General Statutes of 1909, being "An act providing for the security of depositors in the incorporated banks of Kansas, creating the bank depositors' guarantee fund of the State of Kansas, and providing regulations therefor and penalties for the violation thereof"; and repealing said Section 81 of said Chapter 10.

An act amending Section 499 of the General Statutes of 1909 relating to banks and banking, and repealing said original Section 499.

An act to provide for the regulation and supervision of investment companies and provide penalties for the violation thereof.

An act amending Section 1916 of the General Statutes of 1909 relating to trust companies.

MAINE

Columbus Day, October 12th, made a legal holiday.

An act to regulate the investment of deposits in banks and trust companies. Provides that every trust company receiving savings deposits shall segregate assets at least equal to the aggregate amount thereof; such assets to be held for the security and payment of such deposits and not mingled with other assets or liable for debts of company until after such deposits have been paid in full, and all other assets of company, including liability of stockholders, to be held equally and ratably for payment of all claims, including any balance due savings depositors after applying segregated assets. Also provides for manner of identifying segregated assets and allows trust companies to require savings depositors to give not exceeding 90 days' notice of intention to withdraw.

An act amendatory of and additional to Chapter 48 of the Revised Statutes, relating to annual examinations of savings banks and trust companies and verification of savings deposits.

MICHIGAN

Act adding a new section to Banking Law (Section 42) relating to impairment of bank capital and assessment to make good deficiency.

Act amending Section 1 of the Banking Law by adding proviso concerning rights and powers as to capitalization or otherwise of a bank organized in a territory which has been annexed to a city.

Act amending Section 7 of the Banking Law relating to examination and issue of certificate to commence business.

Act amending Section 2 of act relating to bills of lading passed in 1909.

MINNESOTA

An act amending the Banking Law relating to the limit of loans of banks.

An act amending Section 11 of Chapter 201, Laws of 1909, relating to salary and expenses of Superintendent of Banks and other employees in Department of Banking.

MISSOURI

An act amending Section 1080, Article 1, Chapter 12, Revised Statutes of 1909, providing for examination of banks, etc.

An act for incorporation of mortgage loan companies.

An act amending Section 1096, Chapter 12, Article 2, of the Banking Law, relating to cash capital required of banks of deposit and discount by adding a proviso that private bankers in any city of not less than 150,000 nor more than 500,000 inhabitants and having a paid-up unimpaired capital of not less than $10,000, upon complying with the other provisions of this article, may be incorporated with their present capital under their present name, style or title, changing same if necessary by joining thereto some word or words designating the business to be carried on by such corporation; but no such corporation shall thereafter have a banking house or office nearer than three miles to the main post-office building in such city as the same is now located.

NEW HAMPSHIRE

An act relative to proceedings against and the liquidation of institutions under the supervision of the Bank Commissioners.

An act for the regulation of trust and banking companies. Provides that business must begin within four years of incorporation; repeals certain provisions as to sale of bonds; provides how dividends shall be declared and paid; amount of cash reserve; personal liability of stockholders.

An act to provide for the taxation of savings banks.

NEBRASKA

An act to amend Sections 3, 8, 9, 14, 16, 22, 26, 27, 45, 46, 47 and 58 of Chapter 8 of the Compiled Statutes of 1909 (Sections 3702, 3707, 3708, 3713, 3715, 3731, 3725, 3726, 3744, 3746, 3747 and 3758 of Cobbey's Annotated Statutes for 1909), relating to the regulation, supervision and control of the business of banking, and to repeal said original Sections 3, 8, 9, 14, 16, 22, 26, 27, 45, 46, 47 and 58 of Chapter 8 of the Compiled Statutes for 1909 (Sections 3702, 3707, 3708, 3713, 3715, 3721, 3725, 3726, 3744, 3746, 3747 and 3758 of Cobbey's Annotated Statutes for 1909), as the same now exist, and to declare an emergency.

An act authorizing the organization of trust companies, and defining their powers, duties and privileges, and generally regulating such corporations, and authorizing judges, courts and competent persons or authority to appoint such companies to be executors, administrators, trustees, guardians, receivers, assignees, agents and attorneys in fact for any person or persons, partnership or bodies politic or corporate, and to repeal all acts or parts of acts in conflict herewith, and providing a penalty for violation thereof.

NEW JERSEY

An act amending Section 19 of the act of 1896 concerning corporations and specifying by what officers of corporations certificates of stock shall be signed.

An act amending Section 40 of the act of 1896 concerning savings banks. Relates to dividends, surplus fund and interest on deposits.

NEVADA

An act to regulate banking and other matters relating thereto. It provides for incorporation of banks, the business in which they may engage, including trust companies and savings bank business, how the funds of a savings bank must be invested, regulations concerning passbook, minimum capitalization of $25,000 for a bank or trust company and many other provisions. In 1909 Nevada passed an act to define and regulate the business of banking. The act of 1911 does not specifically repeal the act of 1909, but provides for the repeal of "all acts or parts of acts in conflict with the provisions of this act."

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NEW YORK.

An act to amend the Banking Law in relation to lawful money reserve.

An act to amend the Finance Law in relation to deposits of money by State officers.

An act to amend the Finance Law in relation to the deposit in banks of money by charitable and benevolent institutions.

An act to amend the Greater New York Charter in relation to deposit of public moneys of the City of New York.

An act to amend Stock Transfer Act.

An act to amend the Banking Law in relation to safe deposit companies. Relates to remedy for non-payment rent of safe.

An act to amend the Banking Law in relation to lien of safe deposit companies on packages left in vaults.

An act to amend the General Business Law in relation to private bankers.

An act to amend the Code of Civil Procedure in relation to attachment of interest in corporation. (Relates to attachment of stocks, etc.)

An act to amend the Personal Property Law in relation to sales of goods. (Uniform Sales Act.)

An act to amend the Banking Law relative to loans to officers, directors, clerks or agents of corporations subject to the Banking Law or to corporations controlled by such officers, directors, clerks or agents.

An act to amend the Banking Law in relation to powers of trust companies. (Amends subdivision 11 of Section 186.)

An act to amend the Banking Law relative to reports.

An act to amend the Banking Law relative to meetings of directors or trustees and reports thereto.

An act to amend the Banking Law in relation to security to be furnished by banks designated as depositories of court funds.

Two acts to amend the Tax Law in relation to taxable transfers.

An act to amend the General Corporation Law in relation to prohibition of banking powers.

An act to amend the Banking Law relative to certain foreign banking corporations.

An act to amend the Tax Law by adding Article 15, relating to taxation of secured debts.

An act to amend the Banking Law in relation to savings and loan associations.

NORTH CAROLINA

An act to provide for the better enforcement of the liability of stockholders in State banks.

An act limiting the liability to be assumed by fidelity and surety companies.

An act to authorize married women to contract and deal as if unmarried.

NORTH DAKOTA

An act prescribing the conditions by which the Public Examiner, his deputies and employees of the State Public Examiner's Department, officers and employees from any banking association in this State may secure loans from banking associations with which they are in any way connected, and fixing the liability for non-compliance with the provisions of this act.

An act to make it unlawful for corporations having banking powers to invest more than 30 per cent. of its capital stock and surplus in banking house, furniture and fixtures, defining its powers as to other real estate and repealing Section 4640 of the Revised Codes for the year 1905.

An act to amend Sections 4635, 4638, 4641 and 4664 of the Revised Codes of 1905, relating to State banking corporations; creating a separate banking department; and providing for placing banking and other financial corporations within the jurisdiction and control of the same.

An act providing for the establishing of savings banks and defining the powers and restrictions of the same. This act provides for organization of stock savings bank, limits deposits to twenty times capital and surplus, allows directors to require notice before withdrawal, ranging from one week upwards, according to amount of deposit; provides special investment of funds; regulates payment of deposits by executors, minors, etc.; provides a reserve and prohibits use of word "savings" by corporations not organized under act; prohibits receipt of savings deposits by corporations not organized under act except National, State banks and annuity safe deposit and trust companies; also regulates loans to directors and officers.

An act to legalize all notes and other written evidence of indebtedness providing for more than 7 per cent., but not exceeding 12 per cent. per annum interest, and amending Section 5513 of the 1905 Code, relating to penalty for usury.

OHIO

An act to amend Section 5978 of the General Code by omitting the provision as to presentment and protest of negotiable paper payable on a half-holiday Saturday.

An act to provide a depository for State funds.

An act to restrict the use of the word "State" in the name or corporate title of banking companies.

An act to amend Sections 5672 and 5673 of the General Code, relating to the collection of taxes upon bank shares.

An act to amend Sections 9703, 9711, 9716, 9721, 9758, 9759 and 12898 of the General Code, relative to organizing and government of incorporated banking companies.

An act to repeal Sections 5446 to 5542-8, inclusive, and 5542-10 to 5542-24, inclusive, of the General Code, as enacted May 10, 1910 (101 Ohio L., 399), relating to the Tax Commission of Ohio and to further define its powers and duties. . . . "Section 162. Nothing in this act shall be held or construed to permit the commission, or any of its agents or employees, to examine the deposit accounts or take a list of the depositors of any building and loan association or bank, savings bank, savings society, society for savings, savings and loan association, safe deposit company, trust company and savings and trust company, or a list of the shareholders of any building and loan association."

Uniform Stock Transfer Act.

OKLAHOMA

Columbus Day, October 12th, made special annual holiday, provided "that nothing in this act shall render illegal the service of process or the transaction of other business on this day."

An act to amend Section 1 of Article 2 of Chapter 6, Session Laws of 1907-1908, and Section 1 of Article 1, Chapter 5 of the Session Laws of 1909, relating to banks and banking, and Section 3 of Article 2, Chapter 5 of the Session Laws of 1909, relating to banks and banking, and declaring an emergency.

An act to amend Section 5, Chapter 4 of the Session Laws of Oklahoma, 1903, entitled, "An act amendatory of Sections 2, 5 and 54, Chapter 4, Session Laws of Oklahoma, 1899, and repealing Sections 6, 7 and 8, Chapter 4, Session Laws of Oklahoma, 1899." Relates to organization of trust companies.

An act requiring treasurers of cities, towns, villages, treasurers of boards of education of cities, township treasurer and school district treasurer to deposit all money belonging to such city, town, village, board of education of cities, township and school district funds in banks paying 3 per cent. interest on daily balances, fixing penalty for violation thereof, and declaring an emergency.

OREGON

Columbus Day, October 12th, made a legal holiday.

An act to provide for the discharge of judgments against persons discharged under the United States Bankrupt Law.

An act to amend Sections 4557, 4558, 4559, 4560, 4561, 4562, 4564, 4565, 4566, 4568, 4569, 4570, 4571, 4572, 4573, 4574, 4575, 4576, 4578, 4579, 4580, 4581, 4582, 4583, 4584, 4585, 4586, 4588, 4589, 4590, 4591, 4592, 4594, 4595, 4596, 4597 and 4598 of Lord's Oregon Laws, and all acts and parts of acts in conflict with the provisions of this act in so far as they are in conflict with the same. This act amends the Banking Law in numerous particulars.

PENNSYLVANIA

An act which amends and restates the act approved June 23, 1897, relating to holidays, omitting the third Tuesday of February from the days designated as holidays and inserting October 12th, which was declared a legal holiday in 1909.

An act authorizing a married woman to make conveyances of real estate to her husband, and validating all such conveyances heretofore made.

An act requiring each and every director of a bank of discount, banking company, co-operative banking association, trust company, safe deposit company, real estate company, mortgage company, title insurance company, guarantee company, surety and indemnity company and savings bank, which has been or may hereafter be incorporated under the laws of this Commonwealth, with the right to receive moneys on deposit, to take an oath of office, and prescribing the form thereof; said oath to be filed with the Commissioner of Banking.

An act to prevent the issuing or transfer by any person, other than a warehouseman or person controlling a place for storing of goods, of any paper in similitude of a warehouse receipt, and prescribing punishment therefor.

An act to provide for licensing and regulating private banking in the Commonwealth of Pennsylvania, and providing penalties for the violation thereof.

Uniform Stock Transfer Act.

PHILIPPINES

An act to amend act numbered 1863 by increasing to 60 per cent. of the value of the mortgaged property the amount which may be loaned by the Agricultural Bank.

An act in amendment of Chapter 232 of the General Laws, entitled, "of investments," and of the several acts in amendment thereof. Relates to deposits in savings banks, or received as savings deposits, or on participation by banks and trust companies, how to be invested.

An act in amendment of Chapter 546 of the Public Laws, entitled, "An act in amendment of Section 12 of Chapter 230 of the General Laws, entitled, 'Of incorporation of savings banks.'" Defines the duties of Auditing Committee.

SOUTH CAROLINA

An act to amend an act entitled, "An act to provide for the appointment of a Bank Examiner and to define the duties of his office," approved February 23, 1906, by amending Section 3 thereof, and by adding another section to be known as Section 4a. Section 3 relates to term of office, compensation, etc., and Section 4a examination of branch banks.

An act to amend an act entitled, "An act to authorize the appointment of certain banking corporations and trust companies as trustees,

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executors, administrators, guardians, receivers or assignees," approved February 20, 1903.

An act to require corporations to issue new certificates of stock to shareholders whose certificates have been destroyed or lost.

SOUTH DAKOTA

An act to amend Section 9 of Article 2 of Chapter 222 of the Session Laws of 1909, relating to organization and control of banks.

An act providing for fees to be paid by building, savings and loan associations for examination.

An act entitled, An act to provide for the organization of trust companies, defining their powers, and to repeal Chapter 74 of the Session Laws of 1905.

An act entitled, An act to reorganize the Banking Department of the State of South Dakota and to bring trust companies and banks more fully under the control and supervision of the Public Examiner, and to repeal Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18 and 19 of Article 1 of Chapter 222 of the Session Laws of 1909, relating thereto, and providing penalties therefor.

TEXAS.

Columbus Day, October 12th, made a State holiday.

An act to amend Chapter 164 of the General Laws of the State of Texas, passed at the regular session of the Twenty-ninth Legislature, approved May 1, 1905, relating to a system of State, county and city depositories for State, county and city funds, as amended by Chapter 90, General Laws of the State of Texas, passed at the regular session of the Thirtieth Legislature, and approved April 12, 1907, also relating to the same subject; so as to further define what banks or banking institutions may become State depositories and providing for the advertising of bids for the safe keeping and the payment of the deposits of said funds; and further regulating such depositories, repealing all laws in conflict with this act, and declaring an emergency.

An act to provide for the removal of a married woman's disabilities of coverture and to declare her feme sole for mercantile and trading purposes, and declaring an emergency.

UTAH.

An act designating a Bank Commissioner; providing for the appointment of Bank Examiners and prescribing their duties and fixing their salaries; providing for examinations and fixing a fee for annual examinations; providing for the organization of banks and banking companies and regulating the business of such companies; prescribing the powers and duties of the directors and fixing penalties for the nonperformance of such duties; prohibiting the establishment of private or partnership banks; prohibiting the maintenance or establishment of branch banks; prohibiting unauthorized banking; permitting foreign banks to operate in the State under certain conditions; providing for reorganization from a National bank to a State bank, and from a State bank to a National bank; requiring reports to be made to the Banking Commissioner and fixing a penalty for failure to make such reports; providing for a receivership for violation of certain provisions of this act, and repealing Chapter 7 of Title 76, and Chapter 5 of Title 14, and Section 969, Compiled Laws of Utah, 1907.

WASHINGTON

Columbus Day, October 12th, made a legal holiday.

An act relating to legal holidays; provides that whenever any legal holiday, other than Sunday, shall fall upon any Sunday, the next day following such date shall become and be held as a legal holiday.

An act allowing foreign corporations to loan money in the State, and amending Section 1 of Chapter 176 of the Laws of 1903.

WEST VIRGINIA

October 12th, Columbus Day, made a legal holiday.

WISCONSIN

An act to amend Section 2024-33 of the Statutes, relating to the purchase of bank stock and loaning money thereon.

An act to amend Section 2024-1 of the Statutes, providing for the kind and method and manner of keeping books and accounts of banks operating under the laws of this State. Amends statute by adding the following: "Section 2. All books of original entry, such as the cash book or journal, the registers of certificates of deposit of drafts and of loans and discounts, shall be required to be kept in permanently bound books. The so-called card system shall in no case be permitted as a substitute for a ledger in any bank."

An act to amend Section 2024-33 of the Statutes, relating to loans made by banks on real estate.

An act to amend Sections, 2016, 2018 and 2019 of the Statutes, relating to the regulation and supervision of banking business, and providing for the payment of examination fees by banks, and making an appropriation therefor.

An act to create subsection 8 of Section 693 of the Statutes, relating to the designation of county depositories.

An act to amend Section 2024-68 and Section 2024-69 of the Statutes, relating to the investment of the funds of mutual savings banks.

An act to amend Section 1680 of the Statutes, relating to acceptance of bills of exchange. This act substitutes the word "drawee" for "drawer" in the provision of the Negotiable Instruments Law, requiring acceptances to be in writing "and signed by the drawee."

An act to amend Section 2024-14 of the Statutes, relating to the duties of the directors of banks.

An act providing for a half holiday on the day of holding the annual municipal election in cities of the first class.

Uniform Sales Act.

An act adding to the Statutes a new section, to read: "Section 175m. No acknowledgment to a deed, mortgage or other written instrument heretofore executed to or by a bank or other corporation which has been acknowledged before a notary public who, at the time of taking such acknowledgment, was a stockholder, director, officer or employee of the bank or other corporation, to whom or by whom such instrument was made shall be declared invalid or to have been illegally executed and acknowledged because the notary public taking the acknowledgment was a stockholder, director, officer or employee of the bank or other corporation to which or by which such instrument was made, and no protest of a bill of exchange, draft, check, note or other negotiable instrument which has been heretofore protested for non-acceptance or non-payment by a notary public who, at the time of such protest, was a stockholder, director, officer or employee of the bank to which such bill, draft, check or other negotiable instrument was presented for acceptance or payment shall be declared to have been illegally protested because the notary public making the protest was, at the time of making such protest, a stockholder, director, officer or employee of the bank to which such bill, draft, check or other negotiable instrument was presented for acceptance or payment." This act took effect from and after its passage and publication. It was approved July 6, 1911.

WYOMING.

An act to amend and re-enact Section 2334 of Chapter 156 of the Compiled Statutes of Wyoming, 1910, providing for the assessment for taxation of capital and other property of corporations, banks and banking associations doing business in the State.

Report of the Committee on Bills of Lading, by Clay H. Hollister, Chairman.

It is with the greatest pleasure that the Bills of Lading Committee can today present its annual report to an audience made up in goodly numbers from those who are accustomed in their daily business to handle bills of lading representing large amounts of cotton and other staple products.

We like you because you will refuse to be bored by details that you know something about. Then again we want you next winter to send to Washington some good men who understand your needs and have them tell the Interstate and Foreign Commerce Committees of the House and Senate why the Stevens Bill is worthy of consideration and why it should be promptly passed without any more delays.

We do not wish to have it necessary to see in the New Orleans papers the headliner that last winter darkened the page of one of your local dailies with the sentiment:

"The Senate is Deaf to Plea of Bankers, Deaf also to the needs of million people supported by the Cotton Trade."

Why should your fourteen million bales of cotton which are worth gold dollars to you when shipped to your customers be impaired in their value to you by fraud, carelessness or indifference on the part of any one handling the shipment?

The work of this Committee in dealing with the numerous vexing details submitted to it would certainly be a burden except for the realization that, no matter what the present condition is in point of accomplishment, it is far and away ahead of what it has been.

Down here in the South you know the value of a good bill of lading as distinct from a poor one. You have tried both kinds. The rascally misuse of the poor ones has at times seriously threatened your ability to use your good ones.

With no sense of pride your Committee can say that it has been a real factor in smoothing over situations that were tense, disturbing and dangerous to legitimate and honest business and have assisted in keeping open the customary channels of finance while these differences between buyer, seller and carrier were being adjusted.

Your main Committee has had in charge distinctly the work of urging the Passage of the Stevens Bill by Congress and the Uniform Bills of Lading Act by the various State legislatures which have been in session. The latter work in conjunction with able assistance from the Law Committee.

Your sub-committee have worked studiously for the perfection of the validation plan adopted by the railroads, and also have been frequently consulted with regard to the formation of a Central Bureau under the auspices of the Liverpool Cotton Conference. All of their work has been of an advisory character, but it has nevertheless been extremely valuable in reconciling the attitude of the foreign purchaser of cotton bills to that of the home carrier and seller of exchange. The real point at issue, which was the protection of the true bill of lading against fraud, carelessness and indifference, has been sometimes very much obscured in a fog of suspicion prompted by business rivalry, but fortunately that condition is fast passing away as the integrity and the absolutely fair working of the Central Bureau plan becomes understood.

Your Committee have felt justified in devoting time to perfecting the situation with reference to cotton bills as they

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would to any other large factor of freight, and with the ideal to be hoped for that all bills of lading issued and drawn against for value should be carefully and practically safeguarded.

Our work before Congress and Congressional Committees has been in advocacy of the Stevens Bill, relating to bills of lading. This measure was originally drafted by our General Counsel, and its purpose is to raise the bill of lading to the standard of a valid instrument of credit by making a bill good in the hands of a holder for value, although issued without the goods having been received or where the goods have been delivered without taking up the bill. The Stevens Bill also provides that an altered bill shall be good for its original tenor, and further contains certain provisions relating to the form and contents of the bill which have been recommended by the Interstate Commerce Commission.

Following our success in securing the passage of the Stevens Bill by the House of Representatives at the long session of the Sixty-first Congress in June, 1910, which, however, did not progress in the Senate because of the short time which elapsed before the close of the session, our Committee spared no effort to secure a hearing and passage of the measure in the short session of the Sixty-first Congress, which opened in December, 1910. Our prospects seemed favorable, especially in view of the fact that, owing to the educational campaign that had been carried on by our Committee and the wide publicity given to the Southern cotton bill of lading frauds, the President had in his message to Congress, last December, urgently recommended legislation to regulate forged and fraudulent bills of lading, in language quoting as follows:

"For the protection of our own people and the preservation of our credit in foreign trade, I urge upon Congress the immediate enactment of a law under which one who in good faith advances money or credit upon a bill of lading issued by a common carrier upon an interstate or foreign shipment can hold the carrier liable for the value of the goods described in the bill at the valuation specified in the bill, at least to the extent of the advances made in reliance upon it. Such liability exists under the laws of many of the States. I see no objection to permitting two classes of bills of lading to be issued: (1) Those under which a carrier shall be absolutely liable, as above suggested, and (2) those with respect to which the carrier shall assume no liability, except for the goods actually delivered to the agent issuing the bill. The carrier might be permitted to make a small separate specific charge in addition to the rate of transportation for such guaranteed bill, as an insurance premium against loss from the added risk, thus removing the principal objection which I understand is made by the railroad companies to the imposition of the liability suggested, viz.: that the ordinary transportation rate would not compensate them for the liability assumed by the absolute guarantee of the accuracy of the bills of lading.

"I further recommend that a punishment of fine and imprisonment be imposed upon railroad agents and shippers for fraud or misrepresentation in connection with the issue of bills of lading issued upon interstate and foreign shipments."

Every effort was made to impress upon the Senate Committee on Interstate Commerce the importance of the subject and the necessity of an early hearing. But owing to the brevity of the session and the conditions in the Senate, caused by the death of a number of Senators and the consequent breaking up of Committees, a hearing by the Committee on Interstate Commerce was denied and the legislation accordingly failed in the Sixty-first Congress.

Last December your Committee caused to be prepared a circular of valuable advice to bankers, which contained instructions to banks handling bills of lading and a red card listing the dangers which banks undergo in financing Order Bills. This circular was distributed to every member of the American Bankers' Association and has proved of two-fold benefit in more thoroughly acquainting banks with the risks incurred in handling bills of lading and in spurring on the bankers and merchants of the country to greater activity in behalf of remedial legislation.

On April 13, 1911, during the first extra session of the Sixty-second Congress, the Stevens Bill was re-introduced in the House by Mr. Stevens of Minnesota (H. R. 4726) and was again referred to the House Committee on Interstate and Foreign Commerce. On the same day it was also re-introduced by Senator Clapp, of Minnesota (S. 957), and referred to the Senate Committee on Interstate Commerce.

The Chairman of your Committee, accompanied by its Counsel, Mr. Paton, visited Washington shortly thereafter and spent two days in conference with the various members of the House Committee and with Senator Clapp, in the hope of obtaining an early hearing on the bill. Many of the Committee members were found in sympathy with the proposed legislation but, as subsequent developments showed, no hearing could be obtained during the extra session. On July 22, 1911, Congressman Adamson, of Georgia, the new Chairman of the House Committee on Interstate and Foreign Commerce, introduced a measure of his own on the subject, entitled "A Bill to prevent the issuing or accepting in interstate commerce of forged and fraudulent bills of lading" (H. R. 12806), which was also referred to that Committee. It will be recalled that Mr. Adamson and Representative Bartlett, also of Georgia, were the two members of the House Committee who filed a dissenting report at the first session of the sixty-first Congress, when the majority of the Committee made a favorable report of the Stevens Bill. The Adamson Bill is impracticable in many of its features and especially objectionable to the banking interests. For example, one provision of that bill makes it unlawful for any bank or officer or agent thereof to accept a bill of lading as security "without first ascertaining by actual inquiry and investigation that the shipment described in the bill of lading was really delivered to the carrier," with fine and imprisonment for non-compliance and an added liability of the bank to subsequent holders for all losses sustained by reason of any such false bill. How many bills of lading would banks handle with such a provision in the law as that?

When Congress reconvenes in December, the Stevens Bill will be urged and the Adamson Bill opposed by your Committee.

While remedial legislation in Congress has not as yet been accomplished, your Committee have been actively engaged in aiding in the promotion of the Uniform Bill of Lading Act in the different States and are gratified to report that the Uniform Act has passed this year in the following States:

New York,	Illinois,
Ohio,	Iowa,
Pennsylvania.	Michigan,
Connecticut,	

In addition to the activities of the various members of your Committee in behalf of uniform State legislation, the Counsel of the Committee, Mr. Paton, has prepared a number of briefs and arguments for use in the different States, has appeared before committees of State legislatures in its support, and has explained the measure at meetings and conferences of commercial organizations and Bankers' Associations.

The Uniform Bill of Lading Act became a law in the States of Maryland and Massachusetts in 1910, so that the law, at present, is in force in nine States.

The sub-committee, as has been previously stated, has, in an advisory capacity, been working toward perfecting the validation plan which is now in successful operation. The Central Bureau plan has also been considered most carefully and also in an advisory capacity, and the best thought of the sub-committee has been devoted to assisting this most important forward movement. The Chairman of the sub-committee, Mr. Fred. I. Kent, has prepared a statement concerning this plan and we herewith submit his report, which has the approval of your main committee.

REPORT OF THE SUB-COMMITTEE, BY MR. FRED. I. KENT, CHAIRMAN.

The Liverpool Cotton Conference presented a plan for safeguarding cotton bills of lading to the sub-committee of the Bill of Lading Committee, of which, at the time, Mr. Walter E. Frew was Chairman, in December, 1910. This plan, which is the so-called Central Bureau plan, was unanimously approved by the Committee, with the suggestion that it might be advisable to change some of the detail when the plan was worked out.

Mr. Charles S. Haight, the American representative of the Liverpool Cotton Conference, advised the sub-committee in the spring of 1911 that it was ready to proceed with the establishment of the proposed system, and requested that a meeting be called of the representatives of the cotton-carrying railroads in New York City. It was thought that by holding such a conference much time would be saved, and that the plan could be more fully discussed and its feasibility determined at such a meeting. A meeting was then called at the Chamber of Commerce in New York City, which was attended by representatives of the principal cotton-carrying railroads of the United States. Mr. Haight presented the plan of the Liverpool Cotton Conference. After considerable discussion the plan was agreed to, and a committee was appointed, consisting of seven railroad men, the representative of the Liverpool Cotton Conference, and two members of the sub-committee. A form of agreement was drawn up by this committee, also a statement recommending to the railroads that they take part in the plan and sign the agreement. The form of agreement, together with the detail of the plan, was presented to and accepted by the regular Bill of Lading Committee at the meeting held in Nashville. This report was then made a part of the report of the regular Bill of Lading Committee, and was approved by the Executive Council. Mr. Haight thereupon went to Europe to have the matter confirmed by the foreign committees interested. His report to them was unanimously accepted by both the Bankers' Committee and the Liverpool Cotton Conference, representing the buyers of cotton. The foreign bankers' committee authorized the Liverpool Cotton Conference to carry on the negotiations and put the system in operation.

In the meantime a conference was held in New York, which was attended by representatives of Southern bankers and cotton shippers, and buyers of foreign exchange outside of New York, at which a detailed explanation of the Central Bureau plan was made. Opposition having developed at this meeting, Mr. Haight was requested immediately upon his return to the United States to meet with the Southern interests in New

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Orleans, and advise them of the attitude of the Liverpool Conference toward the portions of the plan to which objections had been made.

A meeting was called of the sub-committee to hear Mr. Haight's report. He stated that the Central Bureau had been established by the Liverpool Cotton Conference. They felt justified in doing this, as it did not mean any additional cost to American interests and made it possible for the agreement of the railroads to be effective September 1st, as originally called for. The Liverpool interests also felt confident that every objection that might be raised by American interests could be successfully answered, and that with the Central Bureau in working order, it would be much easier to make such changes in the plan as might seem necessary.

The sub-committee in due order notified the railroads that the Executive Council of the American Bankers' Association and the Liverpool Committee had passed upon the agreement and approved it. The Chairman of the Liverpool Cotton Conference then forwarded letters to American exchange buyers, explaining the system and asking their co-operation. One of the forms suggested did not meet with the approval of American exchange buyers, as it was feared that it might carry with it some additional responsibility. The Liverpool Cotton Conference agreed to change this form in any manner desired to remove this objection, and Mr. Paton, the attorney for the American Bankers' Association, was requested to draw up a new form. A meeting was then called of the regular Bill of Lading Committee, which the members of the sub-committee were invited to attend. The objections which had been made to the plan were considered, and the new form of advice which exchange buyers were to forward to the Central Bureau, and which was aimed to meet all valid objections to the form originally drawn up approved. Mr. Haight then called a meeting of exchange buyers in New York City, showed them copies of the new form, explained the matter to them, and stated that if this form did not meet with their entire approval the Liverpool Cotton Conference would willingly accept any other form which would be satisfactory. He stated specifically that it was not the desire nor intention of the Liverpool Cotton Conference to have American buyers of foreign exchange assume any additional liability or responsibility. No objections whatever were raised to this form by those present at the meeting.

Since the meeting of the regular Bill of Lading Committee already referred to, the sub-committee has not been called together. The Liverpool Cotton Conference has been carrying on the negotiations alone.

It was understood that the Liverpool Conference, representing as it does the cotton buyers, would explain the system to the American cotton shippers, and they issued a letter of explanation to American shippers of cotton, giving the whole detail of the plan.

The Central Bureau has been receiving bills of lading daily since September 1st from all parts of the South. They have also been receiving notices from exchange buyers of cotton purchased by them. These notices have been attached to and filed with their respective bills of lading. Sufficient documents have been received by the Central Bureau to enable them to determine beyond any question of doubt as to the effectiveness of the system, if used by all shippers and exchange buyers. One of the objections raised to the system, viz., that errors would occur in the issuance of bills of lading, and that unnecessary friction would be caused shippers and bankers on this account, has been proved to be untrue. While a number of errors have actually occurred, yet the Central Bureau has in every case been able to trace them satisfactorily and make proper corrections without either the shipper or the banker buying the exchange being any the wiser. The actual working of the Central Bureau has proved conclusively that it is possible to check up bills of lading with certainty. This includes the signatures of agents signing bills of lading, the signatures of agents signing the validation certificates, the form of validation certificates and the fact that actual bills of lading had been issued covering the cotton represented by documents attached to bills of exchange purchased by American bankers. No other plan which has ever been suggested would have made it possible to have satisfactorily accomplished any of these things. The working of the plan has proved its simplicity. While it has seemed complex to those who have read an explanation of it, this has been due to the fact that the operations have covered the action of a number of different interests. Each of these interests, however, has a very simple act to perform, the railroads having to forward copies of the bills of lading to the Central Bureau, the shippers having to fill out a paper describing the bills of lading, the exchange buyers having to compare and mail such notices and the Central Bureau having to receive, file and compare all documents. The detail of the Central Bureau is very great, but that is a matter which need not concern any of the American interests, as the Central Bureau is the creation of the Liverpool Cotton Conference. As already stated, even though the detail of the Central Bureau, due to the vast number of bills of lading received, is very great, yet it is being handled effectively and without friction, and is doing all promised for it.

Report of Standing Protective Committee.

To the Executive Council and Members of the American Bankers' Association:

Your Standing Protective Committee submits herewith its annual report for the fiscal year ending August 31, 1911.

FINANCIAL STATEMENT.

From September 1, 1910, to August 31, 1911, inclusive.

CREDITS.

Oct. 6, 1910, By appropriation of Executive Council	$15,225.61	
Oct. 6, 1910, By appropriation of Executive Council	25,000.00	
May 1, 1911, By appropriation of Executive Council	25,000.00	
Received from sales of old filing cases	6.00	
Received in settlement of Du Bois, Pa., case	24.60	
		$65,256.21

DISBURSEMENTS.

Rent	$499.92	
Legal services	713.97	
The Wm. J. Burns National Detective Agency	53,067.59	
Salaries Protective Department	5,481.36	
Stationery	52.42	
Convention Expenses, 1910	310.34	
Telephone and Telegraph	62.04	
Expenses for extraditing and witnesses	273.50	
Traveling expenses	243.57	
Executive Council meeting	87.67	
Press clippings	1.38	
Sundry extra expenses and disbursements of General Counsel, Thomas B. Paton	159.95	
Department's expense, ice, water and towels	19.57	60,973.28
September 1, 1911, Credit balance		$4,282.93

ARRESTS, ETC.

For the period covered from September 1, 1910, up to and including August 31, 1911, your Committee beg to report as to its operations against criminals, as follows:

Total cases not disposed of arrested prior to Sept. 1, 1910		57
Total arrests since Sept. 1, 1910		205
		262
Convicted	124	
Released, escaped, killed and died	59	183
September 1, 1911, Awaiting trial		79

Since the beginning of the fiscal year, September 1, 1910, up to and including August 31, 1911, there have been 37 burglaries and attempted burglaries and hold-ups reported on members, and 146 similar crimes, including sneak theft, on non-members as follows:

	Members	Non-Members		Members	Non-Members
Alabama	1	..	New Hampshire	..	1
Arizona	1	..	New Mexico	1	..
Arkansas	..	3	New York	3	5
California	1	1	North Dakota	1	1
Colorado	..	1	Ohio	1	5
Georgia	..	1	Oklahoma	3	16
Illinois	4	17	Oregon	2	2
Indiana	3	8	Pennsylvania	..	2
Iowa	..	12	South Dakota	1	6
Kansas	1	14	Tennessee	..	4
Kentucky	1	2	Texas	1	7
Louisiana	..	1	Utah	1	1
Maine	1	..	Vermont	..	3
Massachusetts	1	..	Washington	..	1
Michigan	1	4	West Virginia	1	..
Minnesota	2	2	Wisconsin	1	5
Mississippi	1	..	Wyoming	1	..
Missouri	..	9		37	146
Montana	1	..			
Nebraska	1	12			

Of the 37 attacks on members, 11 were successful; 14 attempts were made by professionals; 9 attempts by amateurs where no explosives were used; 1 professional hold-up, and 2 attempted hold-ups.

Of the 146 attacks on non-members, they were all made by professionals, amateur attacks on non-members as a rule not being reported to this Department.

The loss by attacks on members amounts to $32,130.40, while the loss from attacks on non-members amounts to $205,979.64.

The above figures do not accurately represent the number of attacks upon non-member banks, nor do they give the actual

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losses sustained by such banks as the result of the depredations enumerated. These statistics are necessarily incomplete, because of the difficulty encountered in gaining information from the banks in question. We submit, however, that a careful comparison of the above two statements tells its own significant story.

The following figures are given for your information of reported burglaries and attempted burglaries on banks since the inauguration of the Protective Feature, such as are known:

Non-Members	1,275	Loss	$1,769,877.48
Members	254	"	194,414.54
Difference	1,021		$1,575,462.94

On September 1, 1909, when the Protective Department was established and the present Protective Committee accepted their appointment, the records of the General Secretary's Office showed a membership of 10,682, and at the close of the fiscal year ending August 31, 1911, the records showed a membership of 12,072, making a gain of 1,390. This gain in membership as reported by the General Secretary's Office is very gratifying to this Committee, as it enlarges the scope of their operations and shows that the banks of the country realize the benefits to be derived from the Protective Feature of the Association

We cite the following instance:

In the town of Waterville, Kan., on December 31, 1910, there were three banks, one member and two non-members, all located within seventy-five feet of each other. On that night "yeggs" made successful attacks on the two non-member banks, securing over $3,000.00 from one and $4,000.00 from the other. They did not attack the member bank, which clearly demonstrates that they preferred to operate against the non-member banks in preference to the member.

On April 12, 1911, our Detective Agents rounded up one of the most dangerous gangs of "yeggmen" in the country at Toledo, O., in connection with a burglary on a bank member in Michigan. They were assisted by the post-office authorities and railroad officers. Most of these criminals have been sent to prison, as reported in the JOURNAL.

Relative to forgers and bogus check operators, these criminals are on the decrease as to the professionals, while the amateur operators appear to be on the increase. From the reports of the Protective Department, about two-thirds of the cases reported of this nature are the operations of amateurs.

CORRESPONDENCE.

The Protective Department has received during the past fiscal year 17,482 reports and other communications from our Detective Agents; they have also received 1,302 letters and telegrams, and have written 3,374 letters and telegrams. These figures, however, do not include circular letters and similar communications.

PHOTOGRAPHS.

The gallery of the Protective Department now contains 1,632 photographs of parties who have operated against banks, with a complete criminal history of each one.

OFFICES OF OUR DETECTIVE AGENTS.

When our Detective Agents—The William J. Burns National Detective Agency—less than two years ago took the contract to handle our criminal work, they did not have any offices of their own. They now have thirteen offices of their own, located at New York, N. Y.; Chicago, Ill.; San Francisco and Los Angeles, Cal.; Philadelphia and Pittsburgh, Pa.; Seattle, Wash.; Boston, Mass.; Portland, Ore.; Minneapolis, Minn.; Kansas City, Mo.; New Orleans, La.; Cleveland, O., and also sixteen reliable correspondents, fourteen being located in prominent cities in this country, one at London, England, and one at Paris, France.

REPORTS.

Mr. L. W. Gammon, Manager, will read his report to you, which covers matters pertaining to the Protective Department other than those contained in this Committee's report.

We wish particularly to commend the Manager of our Protective Department, Mr. L. W. Gammon.

Mr. Gammon's work has been very effective for the Association. He is thoroughly interested in every phase of it, and has a knowledge and experience which makes him valuable to the Association.

Our Detective Agents will make a detailed report of the work accomplished by them during the past fiscal year. Their report will be published in the Annual Proceedings, and also printed in pamphlet form for distribution at this Convention.

For more detailed information as to particular cases referred to, we respectfully refer you to the monthly JOURNAL.

All of which is respectfully submitted.

THE STANDING PROTECTIVE COMMITTEE,
FRED. E. FARNSWORTH,
Secretary.

Report of the Fidelity and Burglary Insurance Committee.

To the American Bankers' Association:

In presenting our report, we desire to call your attention to the fact that a Committee was first appointed at a meeting of the Association held in Denver in 1898, and served until they were discharged by a resolution of the convention at the meeting held in New York in 1904. Four of the present members served on the original Committee, and have been through this work from the beginning. The other three members, while they were not associated with the former Committee, have for years given careful thought and study to these questions, consequently the entire Committee is well versed in the subject of insurance. The present Committee was appointed in Chicago in 1909.

The Committee recognizes the fact that this year the Association must determine as to what course it will pursue, and decide whether or not it will be its policy to secure protection to its members in the lines of insurance, referred to us for investigation or forever abandon any effort in this direction. The Committee has positive information that unless the American Bankers' Association takes the necessary steps to assure this protection, an outside organization will be completed for this purpose. The Committees having this in hand are only waiting the action of this Convention.

Correspondence requiring over 50,000 letters shows that the bankers are deeply interested in this subject.

Inquries were sent to 25,600 banks since May 1, 1911, and replies from 13,081 give reliable information on which to base our report.

It is interesting to look back to the reports of this Committee in former years and note the changes that have taken place.

In 1898, the average rate for Fidelity Bonds per $1,000 was $3.89.
In 1904, the average rate for Fidelity Bonds per $1,000 was $3.04.
In 1910, the average rate for Fidelity Bonds per $1,000 was $3.06.
In 1911, the average rate for Fidelity Bonds per $1,000 was $2.74.
On July 1, there was a further reduction of 50c. per $1,000 or $2.24.

The reduction of rates during the past year means an annual saving to the members of the American Bankers' Association on fidelity bonds alone, of $314,674.73. This reduction in rates has benefited the banks who are not members of the Association as well, and the savings to these institutions will amount annually to $79,192.72, or a total saving to the bankers of the United States annually without regard to membership in the Association of $393,877.45.

The loss paid by surety companies on fidelity bonds for the year amount to $142,630.00, while the members of the Association are paying annual premiums amounting to $1,141,045.04, equal to eight times the loss.

FIDELITY BONDS.

The Committee, in 1899, prepared and copyrighted a standard form of Fidelity Bond for the use of the members of the American Bankers' Association. This bond has been adopted by many of the banks, members of the Association. It has stood the test for all these years, and we believe it is the best form of Fidelity Bond written today.

The Committee has endeavored to find if there were any serious defects in this bond, and have made a careful search for legal decisions concerning it. We have found in the few cases that have been ligitated, that it has come about through warranties placed in the applications by the surety companies which were made a part of the contract thereby defeating the provisions of this bond. The Committee has repeatedly warned the banks to read carefully all applications and be sure that they sign no guarantee that would defeat the provisions of the bond.

BURGLARY INSURANCE.

Our Committee has given special thought to Burglary Insurance this year, and has the most complete statistics and information on this subject that has ever been gotten together. We have reports from 10,174 banks carrying Burglary Insurance. The total amount of premiums paid by members of the American Bankers' Association is $434,042.86, and the non-members are paying $300,994.83 against a total loss for 1911 of $213,097.68. The losses to non-members equals sixty-one per cent. (61%) of the premiums paid annually, while the loss to the members of the Association equals only 7 per cent. of the premium paid.

The average rate for Burglary Insurance in 1909 was $3.29 per thousand. In 1911 the average rate was $2.74, and the reduction of 50c made July 1 by the Surety Companies will bring the average rate down to $2.24 per thousand. The reduction since 1909 saves annually to the members of the American Bankers' Association $176,835.92, and to the banks not members $84,183.69, or a total saving for all banks of $261,019.61. The average rate paid by the members of the American Bankers' Association in 1911 is $2.69 per thousand, while the average rate paid by banks not members is $2.95 per thousand.

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Burglary Insurance Policy.

Attached and made a part of this report is the form of Burglary Insurance Policy prepared and copyrighted for the members of the American Bankers' Association by your Committee. This Committee immediately after our appointment in 1909, took up the study of the subject of Burglary Insurance. We carefully considered the numerous policies written by the different insurance companies. The counsel for the Association, Mr. Thos. B. Paton, looked up the legal decisions affecting such insurance, and after a careful consideration of all the forms and the legal questions involved, we prepared a uniform Burglary Insurance Policy which we have had copyrighted for the exclusive use of members of the American Bankers' Association.

Before copyrighting this form, and recognizing the fact that the burglary insurance companies of the United States should be consulted, we sent copies of the tentative draft of the policy prepared by our counsel to all of the Burglary Insurance Companies doing business in the United States that we could learn of, asking them to carefully consider the form and to send representatives to a meeting to be held in New York, June 1, 1911. Eighteen of the insurance companies were represented at this meeting, their representatives claiming to come as a committee, not only representing the Burglary Insurance Association of America, but of all burglary insurance companies in the United States. Before any consideration was given the policy, the statement was made to the representatives of the companies that whatever form of policy was agreed upon it would be copyrighted by us for the exclusive use of the American Bankers' Association.

We also informed them that as a committee we had no authority to grant the indiscriminate writing of this policy by insurance companies for banks not members of the Association, that being a question for the Executive Council, or the Association itself to pass upon at its annual meeting, and the policy was accordingly prepared with this understanding, after a careful consideration, section by section, of its provisions in a conference lasting three days. Twenty of the surety companies signified their approval of this policy.

On November 6, at Chicago, was held a meeting of our Committee. At this meeting we considered the objections raised to some of the provisions of the policy, both by the surety companies, our counsel, actuary, and the members of our Committee. We have made the corrections that were essential to be made, and have instructed our attorney to take the necessary steps to have the revised form copyrighted.

This policy beyond all doubt is the best form of burglary policy in existence and is recognized as such by all the companies writing such insurance.

It establishes a uniform policy that is for the best interest of the bankers, as it will be the means of preventing needless ligitation and expense, not only to the members of the Association, but to the insurance companies as well.

Your Committee recommends that commencing not earlier than January 1, 1912, the Burglary Insurance Companies be permitted to write the American Bankers' Association copyrighted form of policy, providing that they make application to the General Secretary of the Association and sign an agreement to be prepared by the Committee, protecting the rights of the Association and its members; the Committee to send out notices and copies of the agreement to the insurance companies who will be given thirty days from the date of such notice, to determine whether or not they will accept the provisions.

The Burglary Insurance Companies, through their representatives, brought influence to bear upon the secretaries of the different State Associations who held contracts, or acted as the agents of such companies, asking them to use their influence and insist upon it that our Committee should grant the indiscriminate writing of our Burglary Insurance Policy to all bankers, whether members of the American Bankers' Association or not.

This request our Committee felt we had not the authority to grant, and referred it to the members of the Executive Council, who decided that it had best come up for discussion at its November meeting.

The Burglary Assurance Association of America was notified of this decision and they unanimously decided that they would not write our form of policy for any bank until after it was considered at our annual meeting. Thus the matter stands.

We made inquiry of the chairman of the Committee representing all the Burglary Insurance Companies of the United States whether or not they would be willing to agree to write this policy for members of the American Bankers' Association and for members of the different State Bankers' Associations only, agreeing not to write it for banks who did not belong to any association. Their reply was:

"The committee has been given to understand that personally you are disposed to recommend the extension of the use of the policy to banks that are members of a State Bankers' Association, but not to banks at large. Inasmuch as there are only two or three of the companies that write their bankers' insurance through State Bankers' Associations under contracts with such Association, the extension of the use of the policy to members of the State Bankers' Association would be no more satisfactory to the majority of the companies than would be the restriction of its use to members of the American Bankers' Association."

The Burglary Insurance Committee asked that our Committee make the following change in our policy:

> "The assured is and will be during the currency of this insurance a subscriber to detective service furnished by ——— agency."

This request the members of our Committee unanimously rejected. We considered that it would be an imposition on any bank to require them to pay this additional expense. The Committee is convinced that there is no Protective Detective Association that can possibly give to its members the protection that a membership in the American Bankers' Association gives.

Since the Protective Committee was first appointed in 1900, there have been 1,218 banks robbed that were not members, while there have been 231 members robbed.

While the membership is about half of the number of banks in the United States, yet there are seven non-members attacked to one member, and the loss is 61 per cent of the premiums paid by non-members, while the loss to members of the American Bankers' Association is but 7 per cent of premiums paid.

We are convinced there is no better protection to be had than by being a member of the American Bankers' Association with its efficiently managed protective department.

Depository Bonds.

We made inquiries this year asking for the amount of Depository Bonds carried by banks not members of the Association. 623 banks carry $15,407,921.75. Premiums paid $47,881.14. Average rate of premium paid is $3.10 per thousand. These banks have replied that if this protection could be had at a reasonable premium, they would use $12,379,470.00 additional bonds.

We did not make inquiry of the members of Association this year as to Depository Bonds, but from answers received yast year, the members reported:

512 banks gave private bonds to secure deposits	$8,685,500.00
1275 banks gave Surety Co. bonds	$49,522,450.00
771 banks paid a premium of $5 per $1,000.	
The other banks paid a premium of $2 to $10 per $1,000.	

Your Committee believes that a uniform Depository Bond should be prepared for the use of the members of the Association, that a careful study should be made of rates, and it should be insisted upon that banks only be required to pay premiums on the average amount of risks. If the banks should pay their premium in advance, then there should be a provision in their bonds refunding the unearned portion of premiums at the rates at which the risk was taken and not on a short rate basis.

Amount Saved to the Bankers.

Your Committee feels that through its efforts since its inception, they have been the principal factors in bringing about the reduction of rates, yet we do not wish to depreciate in any manner the splendid work done by the Secretaries of the different State Associations, and the assistance rendered by the membership of the Association, yet we feel a commendable pride in the fact that the statistics show the amount saved to members in 1911 on Fidelity Bonds:

Amount saved members, 1911, Fidelity		$314,674.73
" " " 1911, Burglary		176,835.92
Total savings to members		$491,510.65
Amount saved non-members, Fidelity	$79,192.72	
" " " Burglary	84,183.69	
Total	$163,376.41	$163,376.41
Total savings in premiums to all banks in United States		$654,887.06

The savings annually for the past two years have been enormous and beyond the comprehension of any one, unless it were possible for them to make the investigation and secure the information that we have. The bankers of the Association are a special class who are paying hundreds of thousands of dollars in premiums in excess of a fair and a reasonable amount for such protection, and we should see to it that this protection is had at a reasonable figure.

The bank risks are a preferred class in all lines of insurance and should insist upon being recognized as such, and not made to carry the burden of less desirable risks.

Your Committee desires to call your attention to the tables showing the average rates paid by members and non-members of the American Bankers' Association for the year 1902, as compared with the present year, and we would suggest that the members of the Association carefully consider these statistics as they will save them quite a considerable annually over the special rates that they now seem to enjoy.

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From the information and statistics gathered by your Committee, it has also been demonstrated that there is lack of uniformity in the rates charged for bank insurance, and that some of the members of this Association are now paying from two to ten times more for burglary and fidelity insurance than the actual premium which should be charged if the business was properly regulated.

Your Committee would, therefore, recommend that it be instructed and empowered to take such steps as may be necessary either by negotiation with existing companies, or by a separate corporation, to place the business of writing burglary, fidelity and other insurance for members upon a more satisfactory basis, with the end in view of providing the members of this Association with valid and collectable bank insurance, at a reduced and reasonable rate.

If such steps are not taken at this time, the initiative will be taken by the State Bankers' Associations with the result that the insurance feature will be transferred from the National to organized State Associations to the consequent detriment of the National body. Your Committee believes that the best interests of this Association will be served by itself taking the initiative, and this must be now done, if at all.

The members of the Committee wish to thank the executive officers, the members of the Executive Council, the Vice-Presidents, and the members of the Association for the courtesies shown us. We also wish to thank the bankers that are not members of the Association, who have so promptly and cheerfully responded to our inquiries, and we hope that our efforts may prove of lasting benefit to the bankers of the United States.

Respectfully submitted,

JOHN L. HAMILTON
COL. F. H. FRIES
CALDWELL HARDY
W. P. MANLEY
GEORGE L. RAMSEY
C. Q. CHANDLER
C. E. BATCHELLER

Committee on Fidelity and Burglary Insurance.

FIDELITY BONDS.

	Rates paid per M by Members 1902.	Rates paid per M by Members 1911.	Rates paid per M by non Mbrs. 1902.	Rates paid per M by non Mbrs. 1911.
Alabama	$3.84	$2.78	$3.56	$2.82
Arizona	3.81	3.09	....	....
Arkansas	2.54	2.76	3.66	2.65
California	4.30	3.24	3.18	3.85
Colorado	4.32	3.26	5.00	3.55
Connecticut	3.26	3.05	3.47	2.87
Delaware	3.59	3.07	3.55	2.81
District of Columbia	4.09	2.93	....	....
Florida	3.08	3.01	5.00	2.95
Georgia	3.16	2.91	3.07	4.12
Idaho	3.50	3.52	2.50	3.21
Illinois	3.31	2.89	4.08	2.58
Indiana	3.34	3.08	3.38	2.99
Iowa	3.37	2.65	3.71	1.18
Kansas	2.87	2.27	3.44	2.21
Kentucky	3.18	2.68	3.94	2.40
Louisiana	4.26	3.23	4.01	1.47
Maine	3.70	2.81	3.83	2.79
Maryland	4.03	3.71	3.15	2.53
Massachusetts	3.62	3.10	3.34	2.59
Michigan	3.28	3.17	3.66	2.98
Minnesota	2.95	2.61	3.52	2.45
Mississippi	3.37	2.82	3.62	2.95
Missouri	1.99	2.80	2.88	3.44
Montana	2.95	3.15	3.16	4.01
Nebraska	4.41	3.08	3.93	1.99
Nevada	....	3.13	....	2.50
New Hampshire	3.47	2.93	3.19	1.53
New Jersey	3.18	2.92	3.11	2.79
New Mexico	3.11	4.07	4.00	3.00
New York	3.45	3.18	3.38	2.47
North Carolina	3.24	2.98	3.89	3.06
North Dakota	3.52	2.75	4.32	2.44
Ohio	3.29	4.07	3.95	2.43
Oklahoma	3.38	3.28	4.03	3.95
Oregon	3.67	3.10	3.00	3.33
Pennsylvania	3.54	4.06	2.44	2.37
Rhode Island	3.92	3.12	3.85	2.95
South Carolina	4.71	2.86	4.01	3.09
South Dakota	3.14	3.11	5.06	2.94
Tennessee	3.50	2.70	2.99	2.62
Texas	3.29	2.46	3.40	2.16
Utah	3.17	3.17	....	3.00
Vermont	2.92	2.70	2.87	2.80
Virginia	2.88	2.69	3.24	3.19
Washington	4.17	3.11	2.97	3.94
West Virginia	3.13	3.14	2.91	3.15
Wisconsin	3.56	3.09	3.88	2.64
Wyoming	2.50	4.08	3.50	2.74

BURGLARY INSURANCE.

Comparison showing the variation per thousand and the average rates paid by members and non-members.

	Variation of rates A. B. A. 1911.		Variation of rates non-mb. 1911.		Rates A. B. A.'11.	Non mb. 1911.
Alabama	$ 83	$7.00	$1.00	$6.00	$2.06	$2.53
Arizona	2.00	11.00	....	....	3.33	....
Arkansas	2.00	7.82	1.12	8.00	2.71	3.14
California	2.00	25.00	.37	12.35	3.53	2.60
Colorado	.80	15.00	1.50	10.00	2.60	5.48
Connecticut	.97	8.40	2.64	9.00	1.27	4.16
Delaware	1.78	6.18	1.83	6.00	2.38	2.46
Dist. of Columbia	3.25	7.50	....	....	5.86	....
Florida	1.20	13.00	2.00	15.00	3.06	4.53
Georgia	.65	12.00	1.00	10.00	2.65	3.49
Idaho	1.00	10.40	1.15	22.00	3.43	4.10
Illinois	.62	13.00	2.50	10.00	2.61	3.26
Indiana	1.00	13.00	.50	10.00	3.04	2.83
Iowa	.66	10.92	1.50	20.00	2.68	3.55
Kansas	.65	12.00	.75	22.50	2.47	2.91
Kentucky	1.00	7.75	1.00	18.00	3.01	2.98
Louisiana	.76	12.50	1.44	3.00	2.73	2.55
Maine	.68	4.00	1.41	6.46	1.80	1.84
Maryland	.93	13.98	1.00	8.33	3.28	2.03
Massachusetts	.62	17.50	1.28	6.00	2.47	1.73
Michigan	.50	10.00	1.00	25.00	2.32	3.16
Minnesota	.72	10.00	.95	12.00	2.32	2.70
Mississippi	.66	10.00	1.50	13.33	2.41	3.54
Missouri	.95	12.28	.60	11.00	2.77	3.83
Montana	.87	10.50	1.39	13.00	2.88	4.36
Nebraska	1.00	....	.39	30.20	2.73	3.11
Nevada	.63	7.54	....	....	2.67	....
New Hampshire	.75	4.25	.85	5.00	1.95	2.34
New Jersey	.54	10.00	1.50	8.00	2.36	1.34
New Mexico	1.17	9.55	1.80	5.00	2.82	2.89
New York	.58	13.66	.85	10.66	3.17	1.81
North Carolina	.88	7.00	1.30	10.00	2.55	3.86
North Dakota	.65	10.00	1.20	24.97	2.70	4.08
Ohio	.67	11.00	.40	20.26	2.29	2.64
Oklahoma	.88	18.00	.33	23.57	3.11	3.45
Oregon	.90	10.00	1.50	4.75	2.68	2.47
Pennsylvania	.57	19.00	.50	19.00	2.74	1.87
Rhode Island	1.40	10.00	....	....	1.82	....
South Carolina	.40	14.70	1.50	7.00	3.43	3.30
South Dakota	1.00	13.50	.86	33.00	3.31	4.52
Tennessee	.50	9.00	.22	8.00	2.74	3.41
Texas	.64	12.28	.50	11.00	2.27	2.77
Utah	1.50	9.23	3.00	10.50	3.44	4.84
Vermont	.90	8.00	2.50	10.00	1.80	4.25
Virginia	.66	14.33	1.00	9.67	2.40	3.86
Washington	.72	10.00	1.66	9.50	2.87	5.12
West Virginia	.60	11.00	1.20	26.40	2.33	1.62
Wisconsin	.60	15.00	1.00	10.00	2.61	2.80
Wyoming	.84	10.50	4.60	10.90	3.03	7.02

Report of Committee on Forms for National and State Banks.

To the Chairman and Executive Council, The American Bankers' Association, New Orleans, Louisiana.

New York City, October 24, 1911.

Gentlemen:

Your Committee on Forms for National and State Banks, appointed by resolution of your Council at Atlantic City, May 4th, 1910, begs leave to report that its work is not yet completed.

A mass of work has been accomplished at considerable time and labor by your Committee and its assistants, but, owing to the fact that the three members of the Committee live in widely separated localities—Chicago, New York and Richmond—more or less delay and difficulty has been experienced in getting together at frequent intervals. A great part of the work, however, has been completed, and it is confidently anticipated that at the spring meeting of your Council a final report will be presented.

At Los Angeles the Executive Council appropriated $5,000 to carry on this work, with the authority vested in your executive officers to increase in their judgment the appropriation by not exceeding $3,000.

Your Committee has expended from the appropriation referred to for actual expenses in attending meetings, postage, and so forth, $528.26. A request has been made to your Finance Committee to recommend for the coming year an appropriation of $4,500, with authority vested in the executive officers to increase it in their judgment by not exceeding $3,000.

It is the opinion of your Committee that the books should be sold at a price that will reimburse the Association for the expenditure, and to insure this orders will be taken for the books

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in advance of its completion, so that approximately correct estimates may be made of costs and receipts. Some idea of the magnitude of the work necessary can be imagined when it is stated that between four thousand and five thousand forms must be examined and considered carefully, and properly printed and so forth. Respectfully submitted.

COMMITTEE ON FORMS FOR NATIONAL AND STATE BANKS.
JNO. M. MILLER, JR., *Chairman.*
J. FLETCHER FARRELL,
CHAS. W. REICKS.

Report of Committee on Express Companies and Money Orders.

To the Members of the American Bankers' Association:

Gentlemen:

This committee was appointed by the Association in 1906 in the belief that the Express Companies were absorbing the business of the banks by using their facilities as carriers with gross unfairness to the banks. Our earliest activities were engaged in the presentation to the Interstate Commerce Commission of these unfair and discriminatory practices of the express companies. We call the attention of the Association to the fact that the Commission is now conducting the investigation of the express companies that we asked it to undertake in the beginning, and which it could not then carry out for lack of power and of funds. This investigation is serious and purposeful, and in view of the evidence presented to the Commission by this Committee, we believe that the Commission must require the carriers to discontinue their banking practice, which result will be an enormous victory for the Association.

OUR TRAVELERS' CHEQUE.

The Travelers' Cheque system has shown a steady growth ever since its establishment by the American Bankers' Association. This growth has covered every phase of the system, including the number of banks selling the Association cheques, the number of cheques sold to tourists, number of cheques redeemed, and the number of countries where banks are selling the cheques.

The amount of advertising matter distributed has also increased tremendously. During the year 1911 about 1,000,000 pieces of advertising matter were sent to bankers at their request.

The cheques are giving the best possible service. Those called upon to accept cheques from tourists have, in many cases, expressed their great satisfaction with the system, as the use of one form by thousands of banks has greatly simplified the difficulties ordinarily surrounding the acceptance of miscellaneous cheques.

Cheques which have originally been cashed for travelers have come back for redemption from all parts of the world, and there is not a single country visited by Americans where the cheques are not well known.

At the present time prominent banks in Canada, Europe, Asia, Mexico and South America are selling the cheques of the American Bankers' Association. The sale of these cheques in foreign countries has been of great value to the system, as it has made the cheques known in many places where Americans do not commonly travel, so that when they do happen to visit such points, they find the Association cheques already favorably known.

The Money Order Committee has over 70,000 hotels on its list, and is increasing it as rapedly as the names of other institutions are obtainable, whose business is partly or wholly with transients.

Since the establishment of the system three years ago there have been printed for bankers, who desired to sell them, 1,917,890 cheques, bearing the name of the American Bankers' Association. Cheques which had been sold to tourists and had been cashed for them at different points throughout the world showed an increase the second year over the first of 129%, and in the first ten months of the third year, 1911, 38% on top of the previous increase. This, too, in spite of the fact that it has been estimated that the falling off in travel in 1911 amounted to at least 20% of that of 1910. Considerably over twenty-one million dollars in these cheques have been cashed for tourists.

As travel changes and new conditions are met, the system is constantly kept up to date, and nothing is left undone to add to its perfection.

The system of protection is so perfect that many crooks who have found cheques have put them in mail boxes, in order to get rid of them. In one case a detective stood at the door of a bank while a crook, who had some Association cheques, went in to endeavor to get them cashed, and arrested him as he came out. In another case a crook who endeavored to cash some of the cheques fraudulently, was sent to jail for two years, inside of ten days after he had attempted to use them. These and other instances serve to show the thorough protection that is afforded tourists carrying Association cheques, and the same protection will follow any other paper the Association may decide to issue.

It can safely be said, without fear of contradiction, that the Travelers' Cheque system of the American Bankers' Association has proved to be most beneficial to bankers selling the cheques, to tourists carrying them, and to all those called upon to cash them, and that they have in every way fulfilled the requirements of a perfect Travelers' Cheque.

Your Committee congratulates the members of the American Bankers' Association upon having made a successful start toward recovery of banking business that had been lost to bankers and taken over by carriers of merchandise.

MONEY ORDERS.

The subject of a domestic and foreign money order has been a matter of great interest to Bankers' Associations for the past ten years. Many State Associations adopted money order systems which failed to solve the problem, because the credit of the order could only be locally known.

Under authority of the American Bankers' Association a domestic money order was established by this Association in 1904, by which the American Surety Co. of New York entered into a contract with individual banks to guarantee the final payment of the orders furnished by it. Some 800 banks in the United States availed themselves of this system, but owing to the prejudice of bankers to having a Surety Company guarantee a money order or draft sold by them, this system did not meet with the success which it probably deserved. Owing to the demand from our members for a money order system, which would meet the requirements of both the banks and the public, your Committee was instructed a year ago to present to the banks, and report results to this Convention, a plan by means of which the money order business of the country, amounting to some $700,000,000 annually, could be done by the banks. The Committee has carried out these instructions, and has presented to the banks the following plan for their consideration, namely:

First—The money order shall be known as the American Bankers' Association money order.

Second—This money order shall combine both the domestic and foreign money order features.

Third—The money order shall have all the elements of strength and protection which have made the Travelers' Cheque of the Association the safest piece of bank exchange in circulation.

Fourth—It shall enable the local banker to issue, over his own name, exchange available throughout the world enabling him to grant to his customer the widest possible service.

Some three thousand banks have definitely agreed to use such a system, and as further requests are still coming in daily for its establishment, the success of the plan is assured.

It has been endorsed by the Executive Council, and your Committee will endeavor to put it into operation at the earliest possible moment.

Report of the Federal Legislative Committee.

The Federal Legislative Committee has during the past year rendered assistance when called upon to do so to the other committees of the Association upon any Legislative matters pending before Congress.

We have ever been watchful of the best interests of the memberships and have especially kept in close touch at all times with all laws looking toward a change in our financial and monetary system.

Your committee has taken an active interest in all proposed provisions for Banking Legislation, and we have aided in securing the recognition of State Banking Institution by the Monetary Commission of Congress as set out in their amended plan.

Your committee has always believed that National Banks should be given broader powers to compete with other banking institutions, and especially that there should be a definite provision of law permitting the establishment of savings departments in such institutions in which loans on real estate would be made possible to some extent. We believe every member should carefully examine the provisions made in the proposed plan for monetary revision covering this feature, as it seems to us to be a most important one.

Your committee believes that there should be embodied in any new law for the revision of our monetary system such features as will permit every organized banking institution in the country to become a member, and we have always insisted that no organized bank should be discriminated against. In harmony with the position taken by your Currency Commission, and realizing the great importance of securing the cooperation of the bankers of the country, we have not thought it desirable to urge upon the members of Congress any particular features in connection with the proposed change in our monetary system, but have felt that it was desirable to await the final plan to be submitted by the Monetary Commission, at which time this commission will be very glad to assist in the accomplishments of the desired results.

We believe that the time is no ripe for vigorous action, and if legislation is to be had, a vigorous campaign must be inaugurated. In previous years, this committee had an organization of representatives in each Congressional district who were willing to aid in this work.

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We feel that it will be necessary for the Association to organize for this work and have no doubt if properly presented, the Association can secure the co-operation of its membership, and we hope that you will all feel that this coming campaign is of personal interest to each of you, and not hesitate to use your influence to the fullest extent.

Realizing that it is not so much a question of what the bankers of the country may desire in connection with monetary revision, but it is more a question of what they may be able to secure. We believe that any committee having in charge the work of organization and of the promotion of legislation in Congress should be of such a representative character and should be empowered to accept such reasonable changes that may be necessary to secure the passage of some law which will correct our present financial evils.

It has been claimed by many that it will be impossible to secure any legislation during the short term of Congress. This same objection was raised a few years ago when your committee had charge of the bill before Congress looking towards the securing of greater loaning privileges to National Banks. Yet, with the co-operation of the membership of the Association, we were able to secure the passage of this bill.

This proposed financial legislation being non-partisan in character, is equally beneficial to all political interests; hence, we do not believe that there will be any serious objections raised to the measure. The bankers of the country must assume the responsibility of passing a proper bill, whether they wish to do so or not, and, upon the energy which they exercise in attempting to bring this about will depend the ultimate outcome of such legislation.

We earnestly urge the hearty co-operation of the membership in securing action by Congress at its next session.

Report of the Currency Commission.

To the American Bankers' Association:

Gentlemen: Your Currency Commission along with the officers of your Association were called into conference with the National Monetary Commission at Washington on Tuesday, March 28, 1911, to consider Senator Aldrich's suggestion for Monetary legislation.

At a meeting of the commission held immediately before the conference it was unanimously agreed that the plan suggested by Senator Aldrich is founded on correct principles, that it is ingeniously adapted to present conditions, that it will correct existing defects in our national banking system and that with further developments in some of its details it can be made thoroughly practicable. We then went carefully over the plan paragraph by paragraph recording such suggestions as occurred to us and the conclusions we arrived at. Subsequently we discussed with the National Monetary Commission every feature of the plan giving our reasons for the suggestions made and the conclusions arrived at. Our suggestions were well received by Senator Aldrich and the other members of the National Monetary Commission. Later our report was published in pamphlet form and circulated among the members of this Association. Our recommendations have since been very generally adopted in the revision of the plan recently published by Senator Aldrich.

On May 2, 1911, we reported to the Executive Council in their meeting in Nashville, and submitted to them Senator Aldrich's plan as revised by us. After receiving the report, the Executive Council, by resolution, unanimously approved the plan thus revised. As a result of the work we thus initiated, followed up by the individual efforts of the members of the commission and of Mr. Farnsworth, your General Secretary, out of forty-six State Bankers' Associations twenty-nine have passed resolutions at their annual conventions, endorsing Senator Aldrich's plan as revised by us, while, of the remaining seventeen State associations, two had held their conventions before the plan was brought out, two have not yet held their convention, and at the conventions of the other thirteen the subject was not considered.

We have, therefore, as will be seen, been keeping in close touch with this proposed monetary legislation, and we believe it will be in the interest of the American Bankers' Association that its officers, together with its Currency Commission, should continue to represent it in future conferences with the National Monetary Commission, with committees of Congress and otherwise, to the end that a sound banking system may be established and unsound monetary legislation avoided.

JAS. B. FORGAN, Vice-Chairman.

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Detailed Report of Proceedings.

THIRTY-SEVENTH ANNUAL CONVENTION HELD AT NEW ORLEANS, NOV. 21 TO NOV. 24, 1911.

FIRST DAY'S PROCEEDINGS.

MORNING SESSION.

Tuesday, November 21, 1911.

F. O. WATTS, President, presiding.

President Watts: Gentlemen, the 37th Annual Convention of the American Bankers' Association will now come to order.

The members of the Executive Council and the Vice-Presidents of the States are especially invited to occupy the seats on the stage, and we will pause a few minutes to have any of you in the audience come and take these seats.

Gentlemen, you will please stand while the invocation is pronounced by the Most Rev. James H. Blenk, Archbishop, Catholic Archdiocese of New Orleans.

PRAYER.

ARCHBISHOP BLENK: In the name of the Father, Son and Holy Ghost; amen. Oh, eternal God, creator of all things that exist; loving Father of the human race; author of nature as well as of race, we implore Thee to send forth in abundance Thy divine light into our minds that we may be in fruitful relation with facts and thus enlightened by the grasping as thoroughly as human minds may the great concerns about which we are to deliberate and which we are to discuss. We trust that invoking Thy help, Thy divine assistance we may reach conclusions that will benefit not only all the people of this land, but the people somehow of all lands; that the conclusions reached may in their great way, through their wisdom, contribute to the permanence and stability of our government and its well being in all the rules of life. Grant unselfish motives to all these Thy children gathered together to give glory to Thy name and to be under Thine eye and blessing to Thy people in providing for their best interests in a manner that touches all the resources and springs of life.

Oh, loving divine Father of our minds, purify also our hearts that as true sons we may give honor and glory to Thee and do our full duty in the matter that have gathered us together here. Amen.

President Watts: Gentlemen, we are to be welcomed to the State of Louisiana by the Chief Executive of this great commonwealth.

I had the pleasure last evening of listening to the Governor, and, using the language of the popular song, "There's something in his voice appeals to me," a voice mellowed by this sunshine of the South and made more musical by the murmurings of the Gulf upon which he was reared. The mere listening to that voice will make every banker feel immediately that he has a welcome and that he is at home among the citizens of Louisiana.

I take pleasure in presenting to you Governor Sanders. (Applause.)

Address of Welcome by Governor J. Y. Sanders.

Gentlemen of the American Bankers' Association:

It is seldom that I have had a duty that has carried with it more pleasure than that of accepting the kindly invitation of your Arrangements Committee to welcome you here today to what we deem the real gateway of the Panama Canal, the entrepôt through which will flow the tremendous commerce of the years to come, after the opening of that work of the ages from Colon to Panama.

We believe that you are, to-day, upon the spot about which will center the greatest trade and financial development of the next two decades.

The banks of any nation, in connection with the national treasury, make up the heart, the veins and the arteries of the economic structure of the nation. They supply the life blood to enable the parts to do their work, to repair the wasted tissues, to heal the wounds, to keep the whole in perfect, competent and efficient condition.

No man who has kept even remotely in touch with the splendid work of the American Bankers' Association but knows that it has been vastly effective in bringing this circulation system of the American people to its present high point of effectiveness, and in striving to remedy these faults and flaws in the system which every thinking man knows exist.

We here in Louisiana want you to see the opportunities we believe and know exist on every hand. We want you to see that this region is a member of the economic body, which requires only more life-giving blood—capital—in order to render it one of the most beneficial and effective to be found in the whole list of commonwealths.

Louisiana has never been swept away by any appeals to prejudice against men of means, largely because our men of means and our banks have nearly always been good citizens working for the good of the community, as a whole, and not seeking to take unfair advantage of those less fortunately established.

Louisiana has made splendid progress in her State banks alone, in which, at the close of business in December, 1908, there were $68,270,258.78 on deposit. There were in December 1909, deposits, aggregating $80,308,000, and in December 1910, deposits aggregating $90,380,000. At the close of business in this year, despite the tremendous loss of the value of the cotton crop, the deposits will show, I am informed, a proportionate increase for the past twelve months.

In our national banks there was on deposit at the beginning of the current year alone $54,000,000, and I am informed that, at the end of the current fiscal year, this total will show a handsome increase.

Thus it will be seen that we are adding to our own capital, proving our faith in our own resources by doing our utmost to turn them to use, proving the value of the resources by the increase in our own capital, which has resulted from their exploitation.

Yet, it is our wish that you gentlemen who represent the accumulated cash reserves of the greatest financial centers, nay, of the whole people of the United States, would see and understand the boundless openings for safe investment ready on every hand here in Louisiana. Hardly a day passes but what some school district does not vote school bonds. Hardly a month goes by but what some parish or municipality asks to capitalize some portion of its assured property in order to better equip itself to hasten that prosperity's arrival. Our school bonds, our drainage district bonds, our levee bonds, our municipal and parochial bonds, have found ready marketing, and I believe I am safe in saying that in no community has the confidence thus called upon been more completely justified than in ours.

The commonwealth itself is now upon the eve of refunding its entire State debt of $11,108,300, which falls due on January 1, 1914, and our people, by constitutional amendment, have provided for the liquidation of this indebtedness, and our State Board of Liquidation is even now preparing to carry into effect the provisions of the enabling act passed by the Legislature to carry into effect the mandate of the people at the polls.

As our commercial and industrial horizon widens before us, and the opportunities for capital defined, safe and profitable investments are becoming more and more apparent. We hope that in the years to come New Orleans, by virtue of its strategic position of the great trade route of the Western Hemisphere, will be not only one of the great seaports of the world, but one of the great banking centers of the world as well. We believe that the time will come when along the hundred-mile front of our unsurpassed fresh water harbor will be lined the greatest shipping that sails the seas flying the American flag, representing the rejuvenated American merchant marine, standing for the investment of American capital and carrying the gospel of American commercial supremacy to every foreign land.

We believe that here in New Orleans will fittingly be established trading houses and through which the product of the American manufacturers, American mills, American forests and mines will be distributed to the markets of South America and the Orient.

British trade and the British merchant marine have enabled the banker, from his home in London, to sway the destinies of nations and to keep his native land pre-eminent in the parliament of the world through many generations.

Down the great Mississippi, and over the rails that line its banks on either side, should come the vastest tide of traffic that has ever moved from out the heart of the American continent, and through New Orleans it should pass to every port upon the seven seas.

Surely this is no idle dream when one remembers the tremendous changes wrought by the cutting of the Suez Canal. Surely it is fairly indicated by the building of the business empire which has sprung up around the Great Lakes by the cutting of the Saulte St. Marie.

We are not asking you to help us, we are asking you to join with us in realizing upon the most splendidly alluring future which has opened before the eyes of any community.

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Gentlemen of the American Bankers' Association, I, as Governor of all the people of this State, welcomed you to Louisiana; Louisiana, the great State that was added to the American Union some hundred years ago, out of which purchase has sprung some of the greatest commonwealths today upon the American continent. I welcome you to this State, the State of sunshine and flowers; the State of mocking birds; a State on every hand where you see evidences of a civilization as old as any upon the American continent; a State where you see evidences of progress as great as can be found in any community in the land.

Gentlemen of the American Bankers' Association, you are welcome to our State, welcome to our hearts and our homes. The latch hangs on the outside; we are glad that you are with us, glad that you came down to enjoy our hospitality; glad to know that so many of the leading bankers of America are making their home, if but for a day or two, in this the Capitol of the Southland. You are welcome, thrice welcome to the State of Louisiana. (Loud applause.)

President Watts: Gentlemen of the Convention. Under our political system of government, the police control is placed in the municipality, and I have the idea that it will be most pleasing to us to hear from the Mayor of the metropolis of the South and let him tell us that we are welcome and let him give us other assurances which we may need. I take pleasure in presenting to you Mayor Behrmann. (Applause.)

Address of Welcome by Mayor Martin Behrmann.

Mr. President, and Gentlemen of the American Bankers' Association: I want to assure you at the outset, and I want to assure the President of the Association, that the police have strict orders not to arrest any bankers. (Laughter.)

Gentlemen: It gives me a peculiar satisfaction to respond to your cordial invitation to be with you on this occasion. Indeed, I am deeply sensible of the honor of addressing so distinguished a body as the Bankers of America; and it is with a feeling of genuine pleasure that, as chief executive of this city, I extend to one and all of you a right royal welcome. That you have on two previous occasions visited New Orleans as a body is to be regarded not only as a tribute to its growing importance as a great commercial center, but as a manifestation of your approval of what I might term our social ethics—is an indorsement of our hospitality, and a compliment, coming as it does from the disciples of Luculus himself, that cannot be too highly appreciated; nor is it to be misunderstood.

The banker represents the most vital force in commerce; the bank is the synonym of progress, and banking is its highest development. Commerce or trade, as it is generally styled, is as universal as the human race; as ancient as the first barter when two men get what both wanted, by giving what neither needed, and each gained, while neither lost. In our day trade has penetrated every phase of civilized life. Not for protection against violence, but for trade do men in these days come together in cities and rear those splendid modern superstructures of social order which are the admiration of the world. Trade summons from the quarry the choicest and most enduring material with which it rears its handsome and capacious homes; and in this country are seen edifices whose stately beauty far surpass the baronial castles of the olden time; salesrooms, exchanges and banking quarters more beautiful and attractive than ducal palaces. On the continent of Europe today the banker vies in power with royalty itself. As a matter of fact, he wields a greater influence than royalty is capable of wielding, and his fiat is for peace. He is a diplomate par excellence—an arbiter, comparable to whom the Talleyrands and the Machiavellis of history are but as the voice of an infant crying in the night. In our own country the banker has no superior in any walk of life. He must obviously be thoroughly enlightened upon a great variety of subjects, and his information is invariably accurate and to the point. He is possessed of an intimate knowledge of past and contemporary history; political, social and financial questions are alike familiar to him, the fluctuations of the market, the ratings of communities and governments, etc.—in fact, there is no subject upon which the mature judgment of the banker is not of value—nay, essential in most instances.

And right here, while it is not my purpose to talk shop, on an occasion of this kind I cannot resist the temptation of saying a few words as an expression of my appreciation of the uniform and kindly co-operation and encouragement of your brethren of this city towards the administration, which I have the honor to represent. More particularly is this true in relation to the alacrity with which our local institutions have recognized and placed the seal of their confidence and approval upon what is known as the public improvement certificates, an evidence of the indebtedness, the issue of which was authorized by Act 56 of the Legislature of 1908. Through the successful operations of this act, the City of New Orleans has been enabled to effect much in the way of permanent public improvements that otherwise would have been difficult, if not practically impossible of accomplishment at this time. While those certificates have proved a very great convenience to the contractor, they have demonstrated more emphatically than anything I can say, the solid foundation upon which the city's credit reposes and the confidence of eminent financiers in her methods. It affords me so much gratification to say in this connection that there has already been provided for and paid of these certificates the sum of $780,500, which includes the total issue of 1909 and 1910, and the further sum of $158,300 of the issue of 1911, which I believe, you gentlemen will admit indicates a healthy financial status, as well as the ability of the old town to meet its outstanding obligations cheerfully and promptly.

The improvements to which I allude and of which I now invite your personal inspection, consist of those works so necessary in the development and evolution of the modern city, such as splendidly paved streets, drainage, fire fighting apparatus, bridges, new schools, markets and various other public buildings. I should be pleased to have you interest yourselves in these matters that you may carry away with you at your departure from here the knowledge that New Orleans has not been lagging nor wanting in a proper spirit of enterprise since your visit in 1902, but that she has accomplished much with the limited revenues at her command and is justly entitled to recognition as one of the great and progressive cities of the Union.

Before concluding my remarks, I would direct your attention to the matter of the exemption of mortgages from taxation in this State. At the recent session of the General Assembly an act to amend the organic law of Louisiana to the extent of authorizing these exemptions was passed without opposition, and subsequently the amendment itself was adopted by a practically unanimous vote of the people, indicating just how the people feel upon this subject and with what unanimity they favor this policy of exemption. It is an inducement offered the stranger who is desirous of engaging in business here, increases his facilities in that direction, and encourages and protects financial investment. It is an advantage which must necessarily redound to the benefit of capital, and the people of this state and city are willing to concede this advantage as an evidence of good faith on their part toward those who are willing to interest themselves in the growth and prosperity of the commonwealth.

I would urge also that you avail yourself of the opportunity afforded by this visit for an inspection of our new sewerage and water systems, both of which are now in successful operation, and which have been completed at an expenditure of many millions, since you were last here. Those splendid utilities are reputed by experts to represent the very highest development in efficiency and modern construction in this country in their respective lines, and I am anxious that you should see them.

I again bid you welcome. I trust that your deliberations may prove both interesting and instructive, as I am sure they will, and that this your third visit to the Crescent City may abide with each and all of you in after years as a pleasant memory.

President Watts: This is the third time in the history of the Association when we have been guests of the City of New Orleans. Upon our second visit we were welcomed by a man then President of the Clearing House Association. There could be no greater honor to him and no more pleasing compliment to us than to be again welcomed by the same man, still the President of the New Orleans Clearing House Association, Mr. Walmsley, and I take pleasure in presenting him to you.

Address of Welcome of R. M. Walmsley, President of the New Orleans Clearing House.

Mr. President and Members of the American Bankers' Association:

We are greatly honored by your presence, and the associated banks of this city tender you their cordial and sincere greetings.

As in politics and in the general business world, so in banking circles, new questions arise, and your Association is called upon to deal with them.

You have before you at this time an extremely interesting situation, not only in banking, but in many other respects. We are face to face with many economic questions demanding change or correction. Adjustments and readjustments are in progress.

A noted writer once said that "Change is the mistress of all things, therefore he that hopeth is wise and he that despaireth is a fool." This is a suggestive thought.

The basic or fundamental conditions are good and justify optimistic views. We will therefore hope for the best and go forward.

We appreciate your acceptance of the invitation tendered you by the New Orleans Clearing House Association. Our earnest desire is to do everything we can to aid you in the discharge of your responsible duties, and to contribute to the best of our power to your pleasure and enjoyment.

Again we extend you a cordial welcome.

President Watts: Gentlemen, history is repeating itself again. The American Bar Association has selected as the man to respond to these excellent addresses of welcome one who stood upon the platform and represented the Association in the same capacity nine years ago; a man who is an ex-President of the American Bankers' Association, an ex-Governor of one of the greatest states in the Union; a man of whom it might be said, as the lover said of his sweetheart, that she is not too any-

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thing. I present to you a well-balanced man, a man who has had honors heaped upon him, and yet in your company and in the company of every one a man who does not take himself too seriously. I take pleasure in presenting to you ex-Governor Myron T. Herrick, of Ohio. (Applause.)

Response to Addresses of Welcome. Myron T. Herrick, of Cleveland, Ohio.

Mr. President, Ladies and Gentlemen: On behalf of the American Bankers' Association, I thank you, Governor Sanders, Mayor Behrmann and President Walmsley, for your kind words to us. Away up in our country we are not accustomed to such kind words, and I noticed the eyes of the bankers light up when they heard your pleasant phrases and when you told them such nice things about themselves that they really believed them. (Laughter and applause.) We are accustomed, up in our country, to have people in politics talk about putting us in jail. So you can appreciate how good it makes us feel if you say these nice things about us. Mark Twain once said that he always thought he would like to be a governor, because all the governor had to do was to just go down and govern. (Laughter.)

It is very evident that the Governor of Louisiana is doing something else, and it was very interesting to me to hear a man who is in politics and who hopes, perhaps, as I hope he will, go higher, because we need men like him in the United States Senate, to hear him talk seriously about the problems of the future and the development of his country, of preserving the business in trests of the country. Then the Mayor, who is enthusiastic about the progress of his city, and I must say that in the nine years since my last visit here—my first visit having been thirty years ago—I believe your development has come in the last nine years. Your Mayor speaks of building further this great city, and he recognizes its importance and its relation to this great continent. That is interesting and refreshing.

When I was here nine years ago, the bankers were invited to look into the merits of the gin fiz, and the celebrated New Orleans cocktail. Now, however, the Mayor invites you to inspect the water works (laughter) and look into the sewer system. Perhaps, at this time, as we are engaged in more serious matters in these conventions than we were in the olden days, that you had better take the Mayor's advice. He spoke of the castles and the magnificent banking houses of Europe, and I was thinking what a man said to me abroad this year. Some one had the temerity to say to him when he spoke of the abodes of the Rhine, that we have in this country the Hudson River, which is quite as beautiful, but he replied, "You have not the old baronial castles that we have on the Rhine; we have the robber baron castles." "Oh, yes," replied the American, "but we have the modern robber baron castles on the Hudson. (Laughter.)

I was also interested in what your Mayor said about relieving mortgages of taxation, if I may be permitted to say just a word on that subject. You realize that is a subject that is coming to the front very fast, and one which will occupy the attention of bankers as one of the great economic questions of the day, almost as important as the solution of the currency question. And this suggestion which the Mayor raises here is one that may bear directly upon it, that is, removing taxation from mortgages. And, furthermore, that with the attention of the people of this country turning once more to the development of the land as it has not done for a century, the matter of creating a wider market for the financing of the farm is coming to the front. If I may be permitted just two or three centences which may bring it home to you, the great development of France and of Germany in the line of their agricultural interests began precisely at the time when by a system of legislation and governmental inspection and oversight, they were able to make a bond based upon a farm mortgage as wide in its character as a municipal security. There began the great agricultural development of those countries.

It is not the place now to speak at length on any subject except responding to the hospitality which has been so beautifully and elegantly expressed by these gentlemen, We appreciate, I am sure, their cordiality. I think there is no place in America today that is so interesting to the people engaged in finances as the South. The spirit of progress, and at the same time the conservatism which bears all the imprints of a new country, because it is essentially a new country, with a reincarnation, with a spirit enthused into its citizenship which is to be an example for all the rest of the American people, and of course it cannot help but interest American bankers. We come here because we like your cordiality; because we are interested in you and because we are proud that a part of this nation is showing such a fidelity and is doing such noble work in the upward and onward evolution of our land. For the bankers, Governor, and your Honor the Mayor and Mr. Walmsley, I but feebly express our appreciation of your hospitalities and your most cordial welcome. (Applause.)

President Watts: Gentlemen, unless objection is made the convention will consider the published order of business as being the order of business for this convention. There being no objection, it is so ordered.

In accordance with the order of business and the custom of the Association, it becomes my duty to submit to you now my Annual Address as President.

Annual Address of the President, F. O. Watts.

To the Thirty-Seventh Annual Convention of the American Bankers' Association.

Gentlemen: The happenings during the term since the last convention of this Association have been most important to the whole country and of special interest to bankers. Whatever is of great import to the country should be of the greatest interest to every banker, for no citizens are more interested in the prosperity and growth of the community or the nation than those owning the financial institutions. The bankers must feel this interest, and yet its outward evidence is lacking at times because our activities are too often either misunderstood or purposely misrepresented. Therefore the address of the President of your Association will pass the many questions of public policy which have made the year a notable one in business, politics and judicial construction, and deal only with the routine work of the Association and the one public question on which the banker is an expert and which can only be solved by his serious and constant interest. Those actively engaged in the affairs of this Association should adopt all reasonable methods of stirring up general interest in monetary reform and work unceasingly towards having individual preference and prejudices laid aside when considering proposals born of experience, good principle and the evolution of our business.

MEMBERSHIP.

When the Association met in New Orleans nine years ago the membership was 6,354, while at this, the thirty-seventh annual convention, the membership on November 1st was 12,232. These figures show a practical doubling in membership, and the accomplishment and promise are fully in keeping with the numerical increase. Of this increase 827 has been in the period since your last convention.

THE ADMINISTRATIVE COMMITTEE.

By a change in the constitution at the Los Angeles Convention, the management of the affairs of the Association in the interim between meetings of the Executive Council was put upon an Administrative Committee composed of the President, First Vice-President and Chairman of the Executive Council. The wisdom of this creation appears when it is considered that the responsibility and activities hitherto upon the President are divided and under the well-founded and sensible custom of the Association only one new member comes on each year, so that the majority are thoroughly conversant with the affairs under control. This Committee encouraged the idea of having some officer of the Association visit the several State associations, and to this policy is attributed much of our success and growth during the year. The officers, including the President, First Vice-President, Chairman of Executive Council, General Secretary, Treasurer and General Counsel, visited twenty-four State associations and public gatherings of especial importance to this Association.

THE GENERAL SECRETARY.

While the work and responsibilities at the general offices have steadily increased, yet the organization perfected by the General Secretary has handled the affairs of the Association so well that the officers feel it a subject for congratulation to the Association and for commendation to the General Secretary, to whom the credit is due.

THE JOURNAL.

Among the increased duties and responsibilities of the General Secretary none were a greater charge on him than as publisher of the "Journal." To send out a creditable publication every month to twelve thousand banks and to ten thousand bank clerks, forming an army of probably thirty-five thousand discriminating, not to say critical, readers, and yet to confine the subject matter within the bounds of authority given the publisher by the Executive Council and above any just criticism from the publishers of the regular financial journals formed a task requiring rare discrimination, and yet that end was accomplished to the satisfaction of your Administrative Committee. The idea of the Government going into the banking or other business has been abhorrent to bankers, and yet it would be no worse in principle than for the Association to enter fields well covered by private enterprises and the present authorities in the Association have no such purpose. There appeared several months ago some captious criticism of the Association and some of its officers that seemed to justify the suspicion that it was prompted by personal prejudice or by the establishment of the "Journal." That publication has a distinct field, and in that field it will in no way injure any interest. It is not intended to supplant the live financial papers that have done so much for good banking any more than the employing of a General Counsel by this Association in any way changed the relation between the banker and his local counsel. While the Executive Council should have great care in making any extension of authority to the publisher of the "Journal," equal care should be exercised by the financial press in criticism of the Association, the "Journal" or the officer who recommended its publication.

GENERAL COUNSEL.

There is no Section, department or committee work that has not been materially aided by the General Counsel. The wisdom of the establishment of this office is more apparent every year, and those

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charged with the duty could have made no other selection to fill the office so entirely satisfactory as the selection of the incumbent. In conjunction with the Law Committee, he has done much towards the passage of laws of benefit to our Association, the details of which will be covered in the report of that Committee. Such an officer, being a specialist in banking and commercial law, is of great value to those having no regular counsel, for they can be assured of accurate and prompt opinions on any such question submitted to him.

PROTECTIVE DEPARTMENT.

Because the nature of the service is of necessity secret, the committee handling this branch of work does not get from us the personal credit which is due. There is no regular work more important, and we have been most fortunate in having a Protective Committee fully up to the importance of the work. While my predecessor reported the change in the manner of operating this department, as well as the change in detective agencies to be most satisfactory, a year's time has further convinced your committees and officers of the wisdom of those changes. While we are now paying more we are getting more, and we are building records in our own offices under the supervision of our own capable manager that will be of incalculable value and that make us independent of any one agency. Another year removed from our change of agencies further proves our contention that it is not the police power or detective agency that is a terror to criminals, but it is the power behind them—in other words, it is the American Bankers' Association and its proven determination to apprehend that deters criminals from committing depredations on its members.

SPECIAL COMMITTEES.

The special committees of the Association have been doing the same effective work that has been characteristic in recent years. The **Fidelity and Burglary Insurance Committee** has perfected a special form of bond for burglary insurance which will be presented to the Executive Council for its ruling as to whether its use shall be confined to our members. Pending the final decision on this point, the Special and the Administrative Committee took the position that it should not be used by non-members. There is much of the work of the Association that inures to the good of all bankers, but same should properly be confined to those bearing the charges of organization. The **Committee on Money Orders**, having given to the Association a system of travelers' cheques which has been most satisfactory to every interest involved, and in which a short period has equaled any other, have now turned their attention to the question of money orders. Doubtless the activities of the committee will result in a solution of that question in a manner equally as satisfactory.

The work of the **Bill of Lading Committee** is of a character requiring persistence and determination. The members of that committee possess those qualities fully up to the requirements of the situation, and whatever the required time, neither the committee nor the Association behind them will falter until a fair and uniform bill of lading is adopted. This committee has had a special question to deal with during the year in which only a part of the Association had a direct interest and which was rather apart from the main work assigned to the committee. They endeavored to settle the question of validation of cotton bills in a spirit of compromise, and to meet a situation which many thought to be fraught with injury to all those interested in cotton from the planter to the spinner. The committee did not assume to act in other than an advisory capacity, for in the very nature of things any plan must be voluntary, and they would probably be glad to turn over the further handling of the matter to any committee representing those directly interested. My opinion is that there was no imminent danger of more than fleeting inconvenience and trifling loss to the South, for its staple will be used and payment will be made in the most economical and safest way. It is probable that Southern bankers, assisted by our ever-ready New York correspondents, have built up a dangerous and expensive system when we should have had foreign buyers establish credits in our principal markets and take title and make payment where the hartering is properly done. Tennessee tobacco is bought and taken in that way, and why not Southern cotton?

SECTIONS OF THE ASSOCIATION.

The five Sections of the Association have never done more effective work than during this year. The concentrating of the offices of the Sections in the general offices has tended to increase the harmonious working, but there is a question as to whether the best results to all will be attained short of a constitutional provision that the Gene al Secretary shall be ex-officio secretary of all Sections and committees, and such as need special work shall be provided with an assistant secretary to be appointed by the Secretary on the approval of the Section or committee. In this way there could be no duplication, waste of time or money, lack of harmony or sensitiveness at imaginary usurpation of rights. This year has been marked by the absence of these evils, but why should a premium be constantly placed for the breaking out of such things in any future administration?

TRUST COMPANY SECTION.

The officials of this Section have shown great capacity and activity during the year and have done much for the trust interests and much that will result in general good. A notable occasion of the year in financial circles was the first annual dinner given by the Section in New York, which created a great impetus to the future growth and influence of the Section. It was through conferences between special committees of the Trust Company Section and the Currency Commission of the American Bankers' Association that a satisfactory solution was found by which all State chartered institutions might become partakers in the benefits of the proposed Reserve Association. They enunciated the principle that shareholding in the Reserve Association should be a matter of standard and not of charter.

SAVINGS BANK SECTION.

During the year this Section suffered a great loss by the death of Mr. Wm. Hanhart, who had been the guiding spirit of the Section since its organization in 1902 at New Orleans. The other officers, however, have not allowed this loss to prevent the Section from doing its full part in the year's work. The matters in which they are now especially interested are the school savings banks, the celebration of the centennial of savings banks in 1916 and the question of segregation of savings deposits. The latter is yet to be a general issue before the Association, but it seems that its importance is not so vital that it cannot well await our attention until we have as our accomplishment the approval of some plan of monetary reform. In the meantime surely no harm can arise nor can there be just criticism in the appointment of a special committee to study the question, composed, as was our Currency Commission at the time of the appointment, of those of different views on the subject.

CLEARING HOUSE SECTION.

Neither this Section in other years nor any other Section this year has accomplished more than our Clearing House Section by completing the numerical system and pushing the idea of examiners for all clearing house cities. The thought and labor necessary to perfect the numerical system can hardly be appreciated by those unfamiliar with it, but the accomplishment and the hearty reception it received surely repay those who gave freely such thought and labor. As a result of the educational work of this Section, the cities of New York, Boston, Buffalo, Cincinnati, Chicago, Washington, San Francisco, Pittsburgh, St. Louis, Detroit, Milwaukee, Hartford, Cleveland, Columbus, Kansas City, New Orleans, Richmond, Denver, Des Moines, Seattle, Toledo, St. Paul, Spokane, Salt Lake City, Omaha, Oklahoma City, Portland, Atlanta, Savannah, Grand Rapids, Wilmington, Fremont, Pasadena, Nashville, Los Angeles and Chattanooga have adopted the system of clearing house examinations. No movement in recent years has been more effective in strengthening the banking situation, and at no distant day every city in this country of sufficient importance to have a clearing house organization should have a special examiner. Surely no city working under such a system and seeing the manifold benefits will ever discontinue it.

AMERICAN INSTITUTE OF BANKING.

With an army of over ten thousand strong this Section probably justifies the interest of this Association above any other, for no other is susceptible of greater development, and in future years our teaching will bear good fruit, repaying many fold in good bankers and good citizens the time and money expended by the Association. While the apparent link between the junior organization and the Association is the Committee on American Institute of Banking, the real link is the Educational Director, who has in a marked degree the faculty of getting good work and giving full credit to the workers. In fact, he often gives credit where another might properly assume it. In the very nature of things it is difficult to have the members of the Institute understand that, while sociability is properly encouraged as a means of attraction, the real end is educational. The reports indicate that the individuals of the organization are now more than ever imbued with the proper spirit and understand the force of an adaptation of the great novelist's simile that "Sociability may form two sides of the ladder upon which men mount, but the rounds of the ladder must be of sterner stuff to stand the wear and tear of time."

STATE SECRETARIES SECTION.

The newest born of the Sections, the Secretaries, has not in its brief existence of one year more than organized for effective work. The mere fact, however, that the Association has, through those composing this Section, such a tie between it and the State associations is sufficient to justify the creation of the Section. There is little doubt that the officers chosen by those who have made such marked successes of the State associations will find many ways to add to the size and effectiveness of the larger Association.

A NEW STANDING COMMITTEE.

During the year there has been a movement in many of the State bankers' associations which resulted in the appointment of special committees on agriculture. The scope of work and accomplishment for these committees is well set out in a resolution adopted at a joint conference of the committees from Minnesota, Wisconsin, Illinois, Iowa, Kansas, Nebraska, North Dakota, South Dakota, Oregon, Montana, Idaho and Washington, which said that "We urge the bankers' associations of every State to appoint standing committees on agriculture, to work for improved agricultural methods, better farm life conditions and education in agricultural development and domestic science for the farm boys and girls, more especially as provided by the consolidated rural school and the agricultural colleges." It is surely true that the banker and the farmer should each have the greatest interest in the prosperity of the other, and this Association should

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join in the movement by the appointment of a suitable committee to co-operate with the State committees.

MONETARY REFORM.

In view of the general importance of monetary reform, and especially in view of the tentative plan presented by the Chairman of the National Monetary Commission for the establishment of a central agency of all banks, to be known as the National Reserve Association, the officers having in charge the programme of this meeting decided to make the discussion of that subject in all its phases the special feature, and to that end they received the co-operation of the Sections of the Association, who abridge their programme in order to permit the Association to devote practically two days to the discussion.

The first convention of this Association assembled thirty-seven years ago adopted this: "Resolved, That this convention deems the subject of commercial crisis or money panics as a proper one for discussion with a view of finding their causes and progress and the necessary means of preventing them." From that time to this our conventions, with varying degrees of earnestness, have been discussing these or similar subjects arising from the same underlying causes. Surely there is no other country and no other profession that would as carelessly put up with legal conditions which prevent the safe, sane and free exercise of banking and credit functions.

Your Executive Council, meeting in May in Nashville, Tenn., unanimously adopted this: "Resolved, That the Executive Council of the American Bankers' Association heartily approves the plan for monetary legislation suggested by the Hon. Nelson W. Aldrich, as modified by the Currency Commission of the American Bankers' Association, and the principles set out in the report of the Special Committee of the Currency Commission for extending the benefit of the plan to State banks and trust companies. We firmly believe that it is thoroughly practical, fundamentally sound and comprehensive, and that if enacted into law it will correct all principal defects of our present banking and currency system." It is a far cry from the resolution adopted in 1876 to the one first unanimously adopted, approving the suggested remedy, in 1911. It is almost inconceivable that bankers should have taken thirty-seven years in coming to some solution satisfactory to themselves, and it is to be hoped that the present convention will give its approval of the action of the Executive Council in such a positive way that the whole country will understand that the bankers have at last agreed with practical unanimity on the cause of the trouble and the remedy. The plan upon which this agreement is reached is that proposed by our distinguished guest, the Hon. Nelson W. Aldrich, in the early part of this year, and as revised in October, after numerous conferences with the Currency Commission of this Association and others interested in the subject. The Chairman and other distinguished members of the National Monetary Commission, publicists and bankers representing every Section and every interest appear on the programme. The subject is divided into parts covering every phase from panics to the control of the institution, and these addresses should form a symposium on the subject such as was never before presented in this country and of such value that this Association would be justified in publishing them in book form and offering the work to the bankers and citizens as a standard work upon the subject.

In view of this arrangement it might be considered a discourteous anticipation by those invited to deliver the addresses for me to go into details of the plan or discuss any of the principles of it, but no banker, whether as individual or presiding officer, should lose an opportunity to urge that the settlement of the question be apart from partisanship or to help to make it clear to the country that the proposal is such that it will always be away from the control of designing politicians or of any selfish interest.

If the bankers and business men, who must be the leaders in the movement, succeed in keeping the question non-partisan and in convincing the public beyond a reasonable doubt of the integrity of the control, then its enactment into law will be an easy accomplishment. If the four thousand bankers at this convention are imbued with the proper spirit, if they go to their respective communities and in the period between our conventions put the same energy as they daily apply to personal and business affairs into making the enactment of monetary legislation non-partisan, that end could be accomplished with little other aid. Fortunately, however, we have the hearty co-operation of many commercial and business organizations, and we need only to do our part well. Surely there is no good reason why the question should become a partisan one. There is no party principle involved in such a co-operative agency and nothing but prejudice or the extremity for an issue, which certainly does not exist in this day, could cause either of the two great political parties to treat the subject differently from what they should proposals for good health or pure food, or river improvements, or the building of a great canal. If by any chance it drifts unavoidably by the bankers and business men into a partisan alignment, the only hope of making it an effective issue to the party opposing the plan would lie in its ability to appeal to prejudice through talk of centralization and control by special interest. Neither proposition could be maintained before the thoughtful citizenship of this country, and when the light of reason entered, the party making such an appeal would suffer as such parties have always suffered in the past.

We can show that instead of being centralization the proposal is decentralization, the power coming to the central agency for all banks in just such a way as the power is placed in the Chief Executive of the nation. The President becomes the composite of American ideas, and when not so there occurs a shifting of authority. So the Central Reserve Association would always be the composite of the shareholding banks, and, therefore, standing for the best in our business life. The Currency Commission and officers of your Association have been in a number of conferences with the Chairman and members of the National Monetary Commission, both before and after the public presentation of the tentative plan, and those having the responsibility of forming a plan showed remarkable willingness to hear and adopt any suggestions tending to (1) keep the control away from speculative marts, (2) keep it apart from political control or prevent its being at any time a political issue, (3) keep the investments of a character that would make any control of little value compared to such an outlay as necessary to acquire it.

This disposition is shown in the recent revision of the plan in which it is provided that not more than four of the thirty-nine elective directors, nor more than one of the five elective members of the Executive Committee shall reside in one district. It seems that the only way in which this disposition can go further is to provide for an Executive Committee consisting of one and only one member from each of the districts. It is practically certain that the real management and control will finally rest either by direct authority or acquiescence of the directors in the Executive Committee. If every district has an equal voice at such a time, nothing will be permitted which would appear to specially favor one interest or district to the injury of the whole country. The working value of a small committee and the expense incident to a large one are quite insignificant and lacking in force as arguments compared with the value of assuring every district in the entire country that it will be fitly represented and by one of its own choosing.

Before leaving the question of control, those expressing a fear on the point seem to deal only in generalities instead of giving some good reasons for the belief that any selfish interest would seek control, or that if sought it could be attained. The plan expressly prohibits the holding of shares by any individual or other than banking corporations, so that direct stock control is forever impossible, and, therefore, to get even indirect control it would be necessary for such interests to purchase control of the majority of the shares of more than half in number and amount of the twenty thousand independent banks of the country. The use of such a stupendous sum as necessary is highly impractical. The suggestion appears foolish to those analyzing the situation and to be a serious reflection on the good sense of those in mind when special control is mentioned.

Undoubtedly those interests which, according to passing speech and hurried composition, are designated as "Wall Street" favor the National Reserve Association or any plan of monetary reform making for stability and prosperity and relieving the best bankers of New York from the great strain of crop movements, trade expansion and panics. Passing the relatively small number of stock gamblers around New York's Stock Exchange, we find there banks, business houses, industrial and railway corporations vitally interested in every section of the country and who have learned what one aptly expressed during the year in saying that his institution and allied interests "makes dollars out of the general prosperity of the country where they could make only pennies out of special privilege." Those interests would subscribe to that truth expounded at our Denver convention by one now a leader in one of the great political parties, when he said: "It is the part even of selfish calculation to know that no interest can hurt the country as a whole and serve itself." The real Wall Street prefers prosperity to special privilege, and knows that they serve themselves most when building up the commercial, manufacturing, agricultural, transportation and banking interests of the whole country.

Even limiting the prompting force to selfish interest there should be no divergence of effort in this country on any business, and certainly none on the question of banking power and credit. So common has become the assumption by those persons most heard by the public that Wall Street is inimical to every other spot in the country, and so far have such theories found lodgment that an unfortunate prejudice exists that can only be removed through greater concern by New York's busy men—such concern as will cause them to remedy any wrongs that exist and then to have in the future greater respect for the importance of holding a democratic attitude towards the things outside of their immediate surroundings.

There were many bankers in New York so conversant with the correct principles of banking and bank credits and having such a position among bankers of the country that it seemed most desirable that they should be here taking part in the discussion, and yet their fear of the public prejudice and belief that injury would be done the cause prevented the part being taken by them which otherwise they would have taken willingly. The officers of this Association doubted the existence of any such extreme prejudice among the bankers and believed that such as did exist would pass away by such participation and discussion together. We believed that every interest favoring monetary reform should come out in the open and advocate it, and by doing so when we came to its final solution we would have as an additional accomplishment a better understanding each of the other, which would more than compensate for the delays caused by unfair and unfounded prejudice.

With only experience in a section of our country mainly dependent upon agriculture, and yet observant of the relative necessities of other sections, my belief is strong that no section or interest can be more benefited than the South and West, and it would be difficult to conceive of a plan, if attempted, that would give such sections greater benefits.

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In passing this subject simple justice causes me to congratulate this Association upon the appointment of its Currency Commission at the St. Louis convention in 1906. Whenever the reform of our banking and currency laws becomes an accomplishment, it will be largely as a result of the work and thought of our Commission, and without such a body representing every section and every condition of banking and working on principles and details unceasingly until they arrived at unanimous agreements, the present proposal probably would not now be presented to you in such an acceptable form that it may be approved without qualification.

CONSTITUTIONAL CHANGES.

The Administrative Committee appointed a special committee to consider some changes in your constitution. It was discovered that through what possibly was an error in the drafting or copying the amendment adopted at Los Angeles providing for the Administrative Committee the powers were broader than intended, for the wording was susceptible of the construction that the convention assembled could not appoint committees by resolution, nor could it delegate authority to the presiding officer, but that committees working in the interim between conventions could only be named by the Administrative Committee. It is inconceivable that the possibility of such a construction was contemplated by anyone taking part in its adoption and the present Administrative Committee desires no such exclusive power. We have, therefore, suggested the adoption of the following:

> "Be it Resolved, That the last sentence of the first clause of Section 6, Article IV, of the constitution of the American Bankers' Association, be dropped from the constitution, and in lieu thereof a new clause to the same section be added, to be known as Clause 4, and to read as follows: 'Nothing in this section shall impair the right of any convention to create committees and to name the membership in the resolution creating or continuing them or to specially delegate such authority to the presiding officer.' "

Another amendment suggested in concerning the Executive Council. While the wisdom of adopting the present method of making up the personnel by State representation gets more apparent as we watch the effective work and increased interest in the Association, yet there seems to be ground for the criticism that it gives to convening members no opportunity to either compliment the cities or sections in which they meet or to select those who because of special residence or predominating influence might greatly aid in the Association's largest undertakings. Taking this view of the matter, the Administrative Committee recommends that the membership be increased by the election of six members at large, two being elected at this convention and two in each succeeding year.

THE FUTURE.

There is nothing in the whole work of the Association, as recorded in this résumé, not indicating a continued increase of usefulness, and the interest displayed by officials, committees and individual members justifies the prophecy that by the time we come again to this most attractive Southern city our membership may be recorded as above twenty thousand. Under such conditions and with such a bright outlook there could be no better time to call your attention to two apparently questionable tendencies—one being social and one in organization—and yet it is not certain by any means that they are unrelated. The first is the tendency to occupy more and more of the time during conventions in social functions, confined to a class in which too great a majority of those in attendance have no part. This applies to such occasions as the dinners of the Executive Council, Council Club and the Sections. In this way practically every evening during the week is taken, and it is a question whether it would not be better for those engaging in them and for the general good of the Association to have that time given over to general social intercourse.

Are these occasions worth to the participants the disappointment that is found among many who are not permitted to enjoy them, and is it not probable that the exclusiveness of these events, where a few hundreds draw apart from the thousands, has much to do with the occasional out-cropping of such criticism as we hear of "politics," "the machine crowd" and "breaking the line of succession"? For some time in the affairs of the Association the Executive Council was small and the dinners were hardly noticed, but now they are made the prominent events of the evenings. The officers and Council, in my opinion, would do more good by giving such evenings to mixing with all the attending bankers, or taking part only in such entertainment as was given to all. Nothing would be more pleasing to me than to see the next Council take the initiative towards doing away with exclusive entertainments on the official programme.

The second tendency is criticism of our method of selecting officers. There appears yearly some suggestion that the line of succession be broken and a new order of things set up by selecting each year different men for the three administrative offices. Whatever the moving cause of such suggestions, and no doubt they are often made with no selfish purpose, surely no one would seriously propose such a change who had ever been charged with official responsibility in the Association or who had made a study of getting the best results in such an organization. Efficiency should be placed above the desire to hand around honors. Of those taking the other view, it might be asked what appeasement to ambitions would there be in placing only two honors yearly among more than thirty thousand bankers? Such a policy in comparison to the present business-like one seems as foolish as for the executive officers of any bank or large industrial corporation to be changed periodically that the honors might go to the whole board. Under the rule of succession there is only one new member each year to become familiar with the affairs of the Association, while under the other suggestion an entirely new committee would come into the management.

To go to a custom of electing the two chief officers of the Association at the convention each year would in final practice mean the return to what has once been abandoned as a bad custom, the selection of an officer as a compliment to the entertaining city, and with two such compliments that custom would probably be supplemented by giving the second honor to prospective hosts. In such a custom there would be two evils. First the President of the Association would practically be selected by the hosts of the convention, and second, no banker residing in a city not of a size to entertain the Association would have any chance to attain the highest honor within the gift of the organization, thereby confining such honors to less than a dozen cities.

CONCLUSION.

During the three years of official connection with the Association such cordial support and encouragement from my associate officers, councilmen and members has been given to me that my full appreciation cannot be fitly expressed. Deeply sensible of that support and of the great honors that you have conferred, my chief endeavor has been and will be in the future to fit my words and actions to the early promise of my friends, to the expectations of the membership and to the reasonable requirements of the position. Feeling that my obligation to individuals and to the organization, instead of ceasing now has just fairly begun, no one will be found readier to render unselfish service in the future.

President Watts: The guest of honor for this occasion needs no introduction to the bankers of this country. In truth, he needs nothing the bankers or the country can give, but he evidently desires a thorough consideration of his work stripped of the discoloration of prejudice or partisanship, and on the part of the bankers I bespeak for him a consideration of what he would gladly make his life work.

I take pleasure in presenting to you the Honorable Nelson W. Aldrich, Chairman of the National Monetary Commission. (Applause.)

The Proposed Monetary Plan, by Nelson W. Aldrich.

[Senator Aldrich's address in full will be found on page 117.]

On motion of Cornelius A. Pugsley, of Peekskill, N. Y., the convention by a rising vote expressed its thanks to the distinguished speaker for coming to New Orleans and addressing the Association.

President Watts: The Annual Report of the Executive Council will now be presented by Mr. Robinson, of Baltimore, Md., the temporary chairman of the Council in the absence of Mr. Huttig.

Report of Executive Council.

[The report of the Executive Council will be found on page 165.]

L. E. Pierson, of New York: I move that a telegram expressive of our regret that his continued illness has prevented his attendance here be sent to Mr. Huttig.

The motion was seconded and carried.

President Watts: Gentlemen, without objection the convention will adjourn until half past two o'clock. The chair hearing no objection, the convention stands adjourned until two thirty o'clock.

AFTERNOON SESSION.

President Watts: The General Secretary will now present his annual report.

Annual Report of General Secretary.

[The annual report of the General Secretary was then read. It will be found on page 163.]

On motion the report was approved.

President Watts: Next in order is the report of the General Counsel, Mr. Thomas B. Paton.

Report of General Counsel.

[The report of the General Counsel was then read. It will be found on page 166.]

On motion the report was approved.

President Watts: The annual report of the Treasurer will now be presented.

Annual Report of the Treasurer.

[The report of the Treasurer was then read. It is given on page 167.]

On motion the report was then received and filed.

President Watts: Next in order is the report of the Standing Protective Committee.

Report of the Standing Protective Committee.

[The report of the Standing Protective Committee was then read. It is printed on page 175.]

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On motion the report was received and placed on file.

President Watts: I will appoint as the Auditing Committee, Mr. Davis, Mr. Reading and Mr. Graham.

AMENDMENTS TO CONSTITUTION.

The next item of business is a report from the Executive Council on certain proposed amendments to the Constitution. In the absence of Mr. Huttig, this matter will be presented by Mr. Pierson.

L. E. Pierson, of New York: Mr. President and Gentlemen, on page 25 of the official programme you will find the proposed amendment.

The amendment was submitted by Mr. E. W. Clark, of Detroit, Mich., and in substance provides that any national or State bank, trust company, savings bank or private banking firms doing a deposit and discount business may become a member of the Association, etc.

The Council understand that this amendment would eliminate savings banks and trust companies as well as some private bankers, and it accordingly disapproves of the amendment.

I, therefore, move that it be not adopted.

F. W. Hyde, of Jamestown, N. Y.: I second that motion.

President Watts: Is there any discussion? If not, all in favor of the motion disapproving of this amendment will say aye; opposed, no. (Carried.) The amendment is disapproved.

L. E. Pierson: The next amendment that I shall present really covers two or three amendments, all aiming at the same results, namely, to make eligible as a member of the Executive Council, a bank clerk who may not be an officer of the institution he represents, and yet who may have been elected to the Executive Committee of the American Institute of Banking, which is entitled to representation on our Council. It also gives representation to the Secretary of the State Secretaries' Association.

I move the adoption of this amendment.

David Cromwell, of White Plains, N. Y.: I second the motion.

L. E. Pierson: Before the question is put on the motion, I would state that the Council also approves of giving representation to the Clearing House Association, and making eligible to membership in the Council of an officer in the Clearing House Section. The exact verbiage will be found at the top of page 26, at the end of the first paragraph.

(The question on the motion was then put and carried, and the amendment declared adopted.)

L. E. Pierson: The Council recommends the adoption of the amendment in reference to the representation on the Council from the District of Columbia.

R. E. James, of Easton, Pa.: I move the adoption of that amendment.

(The motion was seconded and carried, and the amendment declared adopted.)

L. E. Pierson: The amendment appearing at the bottom of page 27, providing for the selection of six members of the Executive Council, which amendment was proposed by Mr. Watts, is approved, and I move its adoption. (The motion was seconded.)

William George, of Aurora, Ill.: Mr. President, I move that it be not adopted.

President Watts: Mr. Pierson's motion having received a second, you will have to offer your motion as a substitute.

Wm. George: Then, sir, I move as a substitute that the recommendation be not adopted.

M. Goldwater, of Prescott, Ariz.: I second that motion.

(At this point President Watts called Vice-President Livingston to the chair, and he took the floor and supported the amendment.)

President Watts: It seems to me that this is a wise provision, that the membership in the Council should have some fixed and definite number constituting the right to a representative. The convention at Atlantic City fixed the number at 100. There are many States that have not more than 100 banks. From my point of view, if there are only 101 banks in a State I see no reason why there should not be 100 of them members of this association, and if there are 100 banks in any State and they do not care to exercise that right, it seems to me they are estopped from claiming that they are not represented.

As to this amendment, I would say that I had a conspicuous part in the adoption of the present amendment providing for representative government in the affairs of the Association. I believe it has increased the interest of members in the Association. I was a mmber of the Council when it was composed of 35 members, and then later when it was composed of 70 odd members, and I think the larger body did quite as effective work as the smaller body. It seemed that the Nominating Committee selected one from every State, meeting at the annual convention, its duty was merely perfunctory. Its nominations were handed up to it by the State conventions and by a well-founded custom in the Association, of promoting the Chairman of the Council to the first vice-presidency and from there to the presidency. So that in the meetings of the Nominating Committees, there was nothing of much importance for them to do, and often times there was not a quorum present. That was one reason that prompted me to suggest this amendment. Another reason was that if there were one or two men of prominence in the profession whom as a convention, we desired to compliment by appointing them to Council, we could do so.

I cannot see how any objection can be made to these proposals, except on the theory that it will increase the size of the Council, and increase to some extent the expenses.

R. E. James, of Easton: I cannot concur with the President in this matter. Twelve thousand bankers are represented by 59 gentlemen on the Executive Council. In addition to those men, there are sixteen others who represent no constituency whatever; some of them represent one of the Sections of the Association; some another, and so on, and now it is proposed to add six more who will represent nobody but themselves. I think it is very ill advised and I am opposed to it.

President Watts: Is there any further discussion? If not, the question will be put. All in favor of the adoption of the amendment will say aye; opposed, no.

(The result being in doubt, a division was ordered, whereupon the motion to adopt the amendment was lost, it requiring a two-third vote of the members present to amend the constitution of the Association.)

President Watts: Unless there is objection, we will postpone further consideration of the amendment until tomorrow, and proceed with the addresses on the programme. The chair hearing no objection, it is so ordered.

Gentlemen, we are favored in having present the gentleman connected with one of the gigantic banking firms of America, the firm of Kuhn, Loeb & Co. I present to you Mr. Paul Warburg of that firm. (Applause.)

Circulating Credits and Bank Acceptances, by Paul M. Warburg.

[We print Mr. Warburg's address in full on page 125.]

President Watts: Next in order on the programme is an address by Mr. F. H. Goff, of Cleveland, Ohio.

Relation of State and Savings Banks and Trust Companies to Reserve Association.

[Mr. Goff's address will be found on page 129.]

President Watts: I take pleasure in presenting to the convention as the next speaker, Assistant Secretary of the Treasurer, A. Piatt Andrew.

The Relation of the National Reserve Association to the Government, by A. Piatt Andrew.

[Mr. Andrew's address is spread out in full on page 123.]

President Watts: This will be the last address presented today, as the hour is so late.

The convention will now stand adjourned until tomorrow morning.

Adjourned to Wednesday, November 22, at 10 a. m.

SECOND DAY'S PROCEEDINGS.

Wednesday, November 22, 1911.

President Watts: Gentlemen, you will please come to order for the opening of the Second Day's session of the Thirty-seventh Annual Convention of the American Bankers' Association.

We will have an invocation from Bishop Sessums. Please rise, gentlemen.

Prayer by RT. REV. DAVIS SESSUMS, Bishop Diocese of Louisiana.

Almighty God, whose kingdom is everlasting and power infinite; have mercy upon this whole land; and so rule the hearts of thy servants, the President of the United States, the Governor of this State, and all others in authority, that they, knowing whose ministers they are, may above all things seek Thy honor and glory; and that we and all the people, duly considering whose authority they bear, may faithfully and obediently honor them, in Thee, and for Thee, according to Thy blessed Word and ordinance; through Jesus Christ our Lord, Who with Thee and the Holy Ghost liveth and reigneth ever, one God, world without end. Amen.

O God, our Heavenly Father, Who givest every man the work of his calling as a means of serving Thee; and Whose never-failing Providence ordereth all things in heaven and earth; give, we pray Thee, Thy guidance and assistance to those who are assembled in this Convention to deliberate upon financial and economic questions. Enable them truly to realize and faithfully to fulfill their stewardship to Thee, and to be steadfast and true in their positions of trust in relation to their fellow-men. By their examples in their several spheres may they strengthen the mutual bonds of confidence and faith which bind human society together, and by their integrity, righteous dealing and humane good-will may they incite others to live by standards acceptable to Thee, O Righteous Father; and promote the extension of Thy Kingdom over the practical lives of men. Grant them, we beseech Thee, O Lord, the wisdom which will help to avert those crises which unsettle trade; to maintain on sound conditions and equitable principles the business of this land; to abate the evils of speculation; to advance this nation in habits of frugality, simplicity, and towards that wealth of character which is more precious than gold or diamonds. Vouchsafe to them, we pray Thee, O God, that vision of trade and commerce which makes them not merely means of gain, but moral relations for the practice of brotherhood and impels men to seek

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others' welfare as their own. Enlighten them to interpret wealth as a force to be transmuted into the higher forces of education, philanthropy and religion, and each in his place, by seeking first Thy Kingdom and Thy Righteousness, to lessen the struggle of man against man, and bring in the nations to the dominion of the Prince of Peace. From Thee, O God, is the talent and the power to use it. Direct, we beseech Thee, the consultations of Thy servants here assembled and bless their endeavors, that Thy Kingdom may be advanced, and themselves be found acceptable servants in Thy sight; through Jesus Christ, our Lord. Amen.

President Watts: The special order of business upon convening this morning was fixed by the convention yesterday to be the further consideration of the proposed constitutional amendments. What is the pleasure of the convention in this matter?

J. M. Elliott, Los Angeles, Cal.: Mr. President, I move that the further consideration of the proposed amendments be deferred until 11 o'clock Friday morning, and that the regular order be now proceeded with.

Hiram R. Smith, Rockville Center, N. Y.: I second the motion.

President Watts: Gentlemen, you have heard the motion to postpone and proceed with the addresses scheduled for this morning. Are you ready for the question? All in favor of the motion will manifest it by saying aye; opposed, no. The ayes seem to have it.

C. H. McNider, Mason City, Iowa: I call for a division.

E. D. Durham, Onarga, Ill.: Will the Chair please state the question upon which we are voting?

President Watts: The Chair understands the motion made by the gentleman from California to be that the further consideration of the proposed constitutional amendments be postponed and made the special order for eleven o'clock Friday morning, in consideration of the addresses that we are to listen to this morning.

A division is called for on this question. Therefore, those favoring postponement will rise. (130 members arose.) Now, those opposed to postponement will rise. (60 members arose.) The Secretary advises the Chair that the vote is 130 for postponement and 60 against postponement. The Chair, therefore, announces that the further consideration of the proposed constitutional amendments is postponed and made the special order of business for eleven o'clock Friday morning.

The first regular order on the programme this morning is an address upon a subject which is most interesting, I am sure, to the country; and, as a result of the conditions which will be treated under this head, the proposition now before the country has been made. There has been no closer student of economic conditions in this country than the man who has been selected to treat this particular subject, and I take pleasure in presenting to you Mr. John Perrin, Chairman of the Board of the Fletcher-American National Bank, of Indianapolis, Ind.

Trade Fluctuations and Panics, by John Perrin.

[We print Mr. Perrin's address on page 156.]

President Watts: The next speaker is a young man who knows a great deal. If he were to us all that he knows, it is probable we would all be in Wall Street instead of where we are. He has the honor of being the practical head of the second largest trust company in America, and he speaks with authority in matters of finance and he speaks understandingly upon the subject which is before you for discussion today. I have the pleasure in presenting to you Mr. Benjamin Strong, Jr., Vice-President of the Bankers' Trust Company of New York.

"Interest Rates. Earnings, Dividends and Taxation."

[Mr. Strong's address will be found on page 132.]

President Watts: The next address on the programme will be delivered by a man representing the highest type of banking in America. It is because banking in the United States has had such men at the helm that the country has made a progress that is remarkable, notwithstanding the restrictive laws under which it has labored. This particular banker has had much to do with the crystallization of thought not only among bankers, but among all classes of business men, and I am sure you will take pleasure in listening to the address of the Vice-Chairman of the Currency Commission of the American Bankers' Association and the President also of the First National Bank of Chicago, Mr. James B. Forgan, whom I now present to you. (Applause.)

The Mobilization and Control of the Reserves of the Country.

[This address will be found on page 135.]

President Watts: Gentlemen, the next address is to be very interesting. We are to be told the public opinion on the National Reserve Association by the President of one of America's greatest universities; a man who has been observant of public opinion and a man who has shown a marked interest in all public and business questions. I have great pleasure in presenting to you President Schurman. (Applause.)

Public Opinion and the National Reserve Association.

[President Schurman's address appears on page 139.]

President Watts: We will have a short address from George M. Reynolds before we adjourn, and I know that will hold you. (Applause.) I always have the most profound respect and I listen with the greatest interest to men who do things. The man who is to address you now is not only a man who has been doing things, but he is a democratic banker who knows how to stand up and tell you the things that the bankers of this country ought to do in order that this country may accomplish what it should accomplish with its wonderful resources.

I take pleasure in presenting to you George M. Reynolds, President of the Continental & Commercial National Bank of Chicago. (Applause.)

Re-Discounts and Book Credits.

[We print Mr. Reynolds' address on page 152.]

President Watts: I desire to call attention to the fact that we are to have some very interesting addresses this afternoon, when two members of the National Monetary Commission, both residing in the southern part of the country, will speak to us. In addition to that, it is contemplated that Senator Aldrich will take the platform and answer any questions that may be asked him, regarding his proposed plan. Therefore, I hope you will all be in your seats promptly at half-past two o'clock.

Without objection the Convention will now stand adjourned until that hour.

A recess was then taken until 2:30 o'clock.

AFTERNOON SESSION.

President Watts: Gentlemen, the afternoon session of the Second Day's meeting of the Convention will come to order.

We will change the published programme slightly. An invitation was extended to a distinguished banker of Philadelphia to present to the convention the subject of the benefits to the manufacturer and the laborer of the proposed National Reserve Association; a man especially qualified to speak on that subject for the reason that he was the executive officer of one of the largest savings banks in the great State of Pennsylvania, and was also a director of one of the greatest railroad corporations in the land. Unfortunately, illness in his family has prevented his attendance in person, but your President has received a letter from him, in which he enclosed his address and requests that it be read by his fellow-townsman and friend, Mr. A. A. Jackson, Vice-President of the Girard Trust Company of Philadelphia. I take pleasure in presenting Mr. Jackson to you.

A. A. Jackson, of Philadelphia, Pa.: Mr. President and Gentlemen: I know how sorry Mr. Patterson is that he cannot be here, and I assure you that it is only because illness in his family has prevented his attending that he is not in New Orleans at this time.

I am glad to observe, Mr. President, that you have gauged Mr. Patterson's ideas because of his association in the two directions that you have named. Now, gentlemen, if you will permit me to read his words and try to imagine his voice, and not imagine that it is me, I shall be obliged.

The Benefits of the National Reserve Association to the Manufacturer and the Laborer.

[Mr. Patterson's address may be found on page 146.]

President Watts: The next subject for presentation is one of the greatest interest to th ecountry, as a whole, and one of especial interest to the section in which this convention is being held. It is the Needs of the Farm and its Benefits from the National Reserve Association.

It seemed a fitting thing, therefore, to select a banker from this section to prepare and deliver the address upon this subject. The banker who was selected for this purpose has the confidence of every man in the banking business in the South and his circle of acquaintances has broadened beyond local confines until today Joseph G. Brown, President of the Citizens' National Bank, of Raleigh, N. C., is well known and esteemed by bankers all over the United States. I present Mr. Brown. (Applause.)

"The Needs of the Farm and Its Benefits From the National Reserve Association."

[Mr. Brown's address will be found by reference to page 143.]

President Watts: A Congressional district in the State of Louisiana which has honored one of its citizens, a Republican Congress honored him by appointment one one of the most important commissions ever appointed; a succeeding Democratic Congress added to his honors by selecting him as chairman of one of its important committees, and a committee in which you are most interested; and I dare prophecy that the end is not yet. This gentleman has honored us by becoming our guest upon this occasion and he will now address us. I take pleasure in presenting the Hon. A. P. Pujo. (Applause.)

Benefits of the National Reserve Association to the Country as a Whole, by Arsene P. Pujo.

[Mr. Pujo's address will be found on page 161.]

President Watts: Gentlemen, the State of Tennessee has

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in the past furnished to the country citizens of strong convictions and the type is not extinct in Tennessee. There is a man on the National Monetary Commission from Tennessee; a man whom no force could cause to act other than in accordance with his honest convictions; a rugged Tennessean and he will present to you a subject which, to my mind, is a most practical one, and upon its final solution depends the enactment of this legislation. I present to you the Hon. L. P. Padgett, member of the National Monetary Commission, and Congressman from the Sixth Congressional District of Tennessee. (Applause.)

Keeping the National Reserve Association Apart From Partisan Politics and Special Control.

[Mr. Padgett's address is printed on page 159.]

President Watts: In the discussion, this being a discussion that is representative of this entire country, it would not be complete without hearing from that part of the country which is west of the great divide. We have selected a banker who stands foremost in that section, and we are to have the pleasure of hearing from him now. I take pleasure in presenting to you, therefore, Mr. Frank B. Anderson, President of the Bank of California, N. A., San Francisco. (Applause.)

"Relation of the National Reserve Association to the Foreign Trade and Banks and the World's Financial Center."

[Mr. Anderson's address will be found on page 147.]

President Watts: Although the hour is late and Senator Aldrich is going to take a train this evening, he has kindly consented to remain and answer any questions that may be propounded to him regarding the working of this plan.

SENATOR ALDRICH ANSWERS QUESTIONS.

Senator Aldrich: Mr. President, may I say a word first in reply to the gentleman who has just delivered the address?

President Watts: Certainly, sir.

Senator Aldrich: I desire to say that, of course, I did not intend to discuss in my address yesterday intricate questions such as are involved in our foreign exchange system. Indeed, I had neither the time nor the inclination to so do. Now, a great many of the questions raised by the gentleman from California in his address to which you have just listened are administrative; but there is one question that he raised which, in my judgment, is fundamental. He insists that the National Reserve Association shall have a right to protect its discount rate, shall have a right to go into the open market and buy paper, and he contends that that right cannot be made effective without the the possession of that power. I would suggest to the gentleman from California that European banks have stopped absolutely that custom. The members of our Commission were told by the directors of the Bank of England that they had absolutely stopped that custom. It was formerly the custom, when they had to provide for the enforcement of their rate, to buy consols in the open market, but we were told by the officers of the Bank of England that they had discontinued that custom and that they did not go into the market. Practically the same information was given to us in Paris and in Berlin.

But there is another objection which I think is fundamental. It would be absolutely impossible, in my judgment, to pass a bill through Congress, or to get the consent or approval of the National Monetary Commission, to a plan which should not prohibit the National Reserve Association from going into the market and buying private paper. The Second Bank of the United States was swamped because Andrew Jackson said—I do not know and I suppose none of us can tell how accurate those statements were—that the funds of that bank were used in discounting the paper of politicians; that they were used in discounting the paper of favored institutions that were friendly to the Bank. And President Jackson convinced the people of the United States that that great institution was being used for private purposes. Do you suppose it would be possible in this day to permit the management of this organization to decide whether it would buy paper in San Francisco or in New York or in New Orleans to protect its rate? I do not think it is necessary to do it, in the first place; and, in the second place, it would be impossible ever to have such a thing done. I decided myself, and my own judgment was confirmed by the judgment of every person with whom I talked—except, I may say, my friend here from California—that this provision would be fatal to the success of the institution. Suppose, for example, that we had a possible management of this Association that felt very friendly to our friend from California, and that it should send to his bank and buy paper when it was refusing to buy paper anywhere else. How would you convince the people of this country that that great power was not being used as President Jackson said a similar power was used in 1834-5-6-7? We have got to consider more or less generally with reference to this question conditions past and present and conditions for the future. If I believed that we should find it necessary here, where it is not necessary anywhere else, to sustain the rate and give it effectiveness, then I would seriously consider the proposition which has been put forth by our friend from California; but I believe they are beyond our reach on account of their not being necessary, and, more important, because it would justly create criticism which would be fatal to the whole proposition.

Now, sir, I am willing to answer any questions that may be propounded by any gentleman.

Myron Campbell, of South Bend, Ind.: Mr. President, last evening I had the pleasure of enjoying a very pleasant conversation with the Senator, in which he answered very cordially several questions which I put to him, and it has occurred to me that possibly he might be willing that I should repeat those questions, three in number, so that he may himself give you the assurance that he gave to me.

The first question was, What is to be the authorized capital of this institution? It may be one-twentieth of the capital of the subscribing banks. But nothing has been said in the proposed bill as to what the minimum capital should be. I suggest that it might be well to give an assurance that there would be a minimum subscribed capital before there should be any authorization to begin work.

Another suggestion that I made was this: That it probably would be desirable to make at least a tentative geographical boundary for the several districts, to be enforced, at least, until permanent organization was effected, which could only take place when directors were elected.

The other suggestion that I made was that under the suggested plan for directors, it was possible that eight districts might have four directors each, leaving seven districts with only one director. The thought was that it might be advisable to provide that no district should have not less than two directors and in no event more than three directors. This would insure three directors for nine districts and two directors for the other six districts.

Senator Aldrich: As I said to Mr. Campbell last evening, of course, these are matters of detail which the Commission will have to take up. I may say that I think Mr. Campbell's suggestion in reference to the location in the territory of the district in the initial organization is probably what would have to be done. It certainly would have to be done through the recommendation of the Commission and Congress acting favorably upon the recommendation. I take it for granted that the fifteen districts in which the country is supposed to be divided could be easily located territorially. If, for instance, one hundred of us here should decide where those districts should be, why, I suppose ninety-nine of them would take the same location so far as they are fixed by existing centers, and there would be no difficulty about that.

As to the other suggestions made by Mr. Campbell, I will say that I think there is some force in them, but they are matters of detail which, of course, the Commission has got to take up and consider very carefully with reference to suggestions that may be made.

President Watts: Has any other gentleman an inquiry to make of the Senator?

Frank B. Anderson, of San Francisco, Cal.: Senator, my position is a peculiar one. I am a good deal like the Turk who says, "I believe everything you say"; but the only trouble in my mind about what you say is that you do not go far enough. I did not say anything about buying private paper. I have understood from what has gone before in this Convention that Andrew Jackson was buried—that is, the financial system of his time; for the time being, and I also understood from what has been said by the other gentlemen on the Commission that what was proposed was that we were to have something that was scientific——

Senator Aldrich: (Interposing). What do you mean there by "scientific"?

Mr. Anderson: Why, bank acceptances. Now, this plan of yours gives you the power to tighten up the conditions on the banks at will.

Senator Aldrich: What are acceptances except private paper, may I ask?

Mr. Anderson: So far as the banks abroad are concerned, I want to say that the Bank of England does buy in the open market.

Senator Aldrich: I will have to put against your statement, sir, the statements of the Governor and Directors of the Bank of England.

Mr. Anderson: The Bank of England does go out and borrow money in the open market, as I could show you by records that I have seen. So far as other banks are concerned, abroad, they have the right and the power to go out and do likewise if they find it necessary to enforce the rate. They can say, Oh, no, we never borrow in the open market, but you can go and open an account with them and do the same thing through them.

Senator Aldrich: Could the Association in San Francisco come to you and say, Why don't you offer to discount with us?

Mr. Anderson: Well, if they had done that last spring, I would say very frankly that I had trouble enough to loan my own money. Now, another answer, Senator, would be this: That for the purpose of finding investment for your National Reserve Association, I would not be willing to exceed my power to borrow from that Association, because that is the plan which you say will not be endorsed by the subscribing banks.

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Senator Aldrich: You can imagine, gentlemen, the questions that we have had presented to us for our consideration. In response to the last suggestion, I would say that the gentleman should draw a line between good loans and bad loans, and he would have a right to go out into the market and buy the acceptances of a first-class house. But who is going to determine what a first-class house is? There might be a great difference of opinion in every community as to what is a first-class house. Are we willing to give to the manager himself the right to discriminate between houses in California, or in New York, or in Louisiana? One man in New Orleans might think a house was first-class that another man might not think was first-class. There is only one thing that we can do: We have got to follow the line which our friend from Tennessee has laid down; there must be equitable and equal treatment—and we must force equal treatment if you please—to every person and to every corporation in every section of this country. (Applause.)

Robert D. Kent, of Passaic, N. J.: Mr. President, in view of the fact that under the proposed plan a bank can after loaning out all its available funds further increase its loaning ability by obtaining a considerable line of re-discounts, and in addition to that can accommodate borrowers by loaning them its credit by acceptances; and in view of the additional fact that many of us are disposed to overwork a good opportunity, what provision is there to present a serious condition of over expansion and inflation?

Senator Aldrich: I wish that I had time to answer fully that inquiry; and, Mr. President, if I may have the privilege of doing do, when I come to revise the manuscript of this discussion, I will answer it fully.

President Watts: We shall be glad to have you do so, sir.

Senator Aldrich: In none of the European countries is there any limitation whatever upon this matter. There is no limitation either upon the central bank or the joint stock bank as to the amount of loans anhd discounts they may make or as to the proportion which those loans and discounts shall bear to the capital or to the surplus or to the reserves. Those matters are all left to the discussion of the managers of the institutions. Now, today we have in this country no laws which prevent expansion, no laws which prevent inflation. The only provision we have is that a certain proportion shall be enforced between the outstanding demand liabilities of an institution and its resources. In ordinary times, sir, it would be easy to have any of the banks represented by any of these gentlemen change a part of its resources into lawful money or into a credit with a bank in a reserve city or central reserve city; and that would become at once the basis, if you please, of four times that amount in loans and discounts. So there exists today no limitation upon expansion or inflation. A national bank is restricted, of course, in its note issues by the amount of the Government bonds it can take; but so far as discounts are concerned, there is no limitation, and for the first time in legislation of this kind we have proposed a series of limitations not only upon the extension of credits, but upon the inflation of note issues to prevent over-expansion of credit and also to prevent undue inflation of note issues. For the first time in the history of this or any other country, this has been done, and it has been done through an overabundance of caution; because I think, speaking to bankers, I need hardly say that this question of credit and note issues, and, every other great function of a bank, depends in the last analysis upon the character and the ability of the bank managers. (Applause.) They ought not, perhaps, to be matters of strict limitation. We propose in this matter to have a local association and a district association and a National Reserve Association. The managers of those different associations are to be selected by the banks; they are to be selected by local bankers in the local association, in the district association, and in the general association. Now, the function of the local association is to guarantee the paper of individual banks. Do you suppose that in any community in the United States the directors of a local association would willingly permit expansion by over-guaranteeing the paper of individual banks? Do you think it is possible that a district association that is going to have charge of the matters of discount and re-discount of individual banks guaranteed by the local association, or guaranteed perhaps by a deposit in the third case that has been presented—do you believe it is possible that the collective representation of these banks is going to permit over-expansion of credits? I think not. Expansion or inflation cannot take place without the combined assent of all the representatives of all the banks practically. Then beyond that, we have provided a system of reports and examination, which are to be forwarded to the managers of the different associations, and finally to the Governor and Executive Committee of the General Association; and those gentlemen are to sit in judgment and decide whether or not a local association is over-expanding its credit.

I wish that I had time to go into the matter of note issues a little further. We have a lot of limitations. An individual bank cannot have its paper rediscontinued beyond its capital, and it cannot accept paper exceeding half of its capital. A guarantee of the local association can never be greater in the aggregate than the combined surplus of the banks comprising the association. We have more limitations in reference to note issues that exists in the legislation of any country in the world. We have, first, the provision that no note shall be issued at all unless it is covered by one-third gold—and I include in the word gold, both gold and lawful money—with the remainder either in United States bonds or commercial paper. We have, second, a provision which is new and unique in financial legislation, namely, that all liabilities of the Reserve Association shall be covered to the extent of fifty per cent. in gold or lawful money. These limitations apply not only to notes, but to all demand liabilities. If that reserve falls below fifty per cent., then we have a system of graded taxation, an increasing tax, based upon the extent of the reduction below fifty per cent. This, of course, must act as a limitation. Then we have a right—which I think will work—to increase the rate of discount in case there is a tendency to overinflation or overexpansion. If one rate does not answer the purpose, we have a right to put the rate up. That, perhaps, may be the most effective of all. We have another limitation of the note issue which, if the others fail, will certainly work. I assumed in the preparation of this particular feature of the plan, that seven hundred millions of notes, outside of all the other forms of circulation, that we now have, might be considered perhaps the normal amount; and I have said that there ought to be possibly a chance to expand that in crop-moving period two hundred millions, making nine hundred millions in all, and when the note issues rise above nine hundred millions and the excess is not covered by actual gold a tax is levied—first of one and a half per cent. up to twelve hundred million, and, if the amount of the note issue is more than twelve hundred million and the excess is not covered by actual gold, to the extent of 100 per cent. a tax of five per cent. is levied. This certainly would prevent any undue inflation of notes and would immediately bring about a contraction.

This note issue system, you will observe, is a combination of the rules of regulating note issues in France and in Germany, and then it has this new feature in reference to the reserve of fifty per cent. as against all liabilities.

I have no question whatever in my own mind, first, that the management of this institution in all of its forms in the various associations is bound to be conservative, as it represents the combined judgment and wisdom of all the banks of the United States, and that it would prevent undue inflation or expansion; but, in order that there could be no undue expansion or inflation, we have fixed these restrictions and limitations which of themselves, if there was a tendency in either direction, would prevent it. (Applause.)

E. R. Gurney, of Fremont, Neb.: I would like to ask the Senator if, in his opinion, the other extreme would ever arise, when there would come a time when there would be no volume of investment for the National Reserve Association, and when it could not pay dividends?

Senator Aldrich: I do not know whether the gentleman heard Mr. Forgan's address today. Mr. Forgan covered that point in his address. He showed that there never had been any such condition. My own feeling is that the time will never come when in some locality of the United States there will not be a demand for rediscount. It will not all come at the same time, perhaps, but there never will be a time, especially in this community here and in other communities where there is not a surplus of capital, when there will not be a certain amount of paper presented for rediscount. Therefore, I do not think the gentleman's question is really a practical one.

Thomas Branch Adams, of Richmond, Va.: Under the reading of section 38 of the proposed Act, I would inquire whether the amount of accommodation to be extended to any bank would be based at all upon the size of that deposit?

Senator Aldrich: I should say not. Certainly I had no purpose in mind to put in any limitation of that kind.

President Watts: Are there any more questions to be asked of the Senator? Senator, we are very much obliged to you.

Senator Aldrich: I feel, gentlemen, that I ought to apologize for taking up so much of your time.

(Cries of "No, no, we would like to have you talk longer!")

President Watts: It is very pleasing to all of us, I am sure, that after the program which we have prepared upon this particular subject your minds are so well satisfied with its presentation that there are so few questions arising in your mind for the Senator to answer.

The Association will now adjourn until Friday morning.

Adjourned to Friday, November 24, 1911, at 10 a. m.

THIRD DAY'S PROCEEDINGS.

Friday, November 24, 1911.

President Watts: The third day's session of the thirty-seventh Annual Convention of the American Bankers' Association will please come to order.

I suggest, gentlemen, that it is not at all necessary for you to travel under your respective banners this morning, as there are plenty of seats, and I hope you will come up forward and fill them.

We will have an invocation from the Rev. Dr. Leucht. You will please stand, gentlemen.

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Prayer by REV. I. L. LEUCHT, Rabbi Touro Synagogue.

Almighty God, Thine is the might and the power; Thine is the glory and the majesty; Thine is the world of empire; Thy hand raises the people. It is Thou Who sends forth Thy messengers to perform Thy will, leading manhood in the path of virtue, and he that carries the thoughts of enlightenment and civilization has borrowed its flame from the sign of Thy glory.

Those, O Lord, who are assembled here this morning, ask for Thy presence and Thy blessing; they have come from all parts of our land in order to link the heart of this great nation closer and closer to our ideals, to make this country stronger and stronger and to develop our material interests, and He that brings man nearer to man brings him nearer my God to Thee.

We pray Thee, O God, bless these men here assembled; give them light and strength, wisdom, forbearance and council, that their work may redound to the honor of the country, to the civilization of this great Commonwealth and for the glorification of Thine own precious name; and Father, may this Convention promote feelings of good will and sentiments of humanity throughout this land and teach us by example and by word the doctrine of good citizenship, and emphasize the truth, O Lord, that Thou art the God of all; that it is not Thou that erects partitions between man and man, for Thou art the God of all men and all men are like Thee.

The Convention of these men here assembled is now coming to a close and they will return whence they came. O, stand Thou sentinel at the gates of their households that when they return they will find no one missing, no one in peril and no one in pain, and thus be once more re-united in happy, happy homes. And to all of us may come Thy grace; may the Lord bless us; let His countenance shine on them and be gracious to them and lift up their hearts and grant us peace for evermore. Amen.

President Watts: Gentlemen, in the regular order of business the first thing for you to consider this morning is invitations for the next convention.

INVITATIONS TO NEXT YEAR'S CONVENTION.

JACKSONVILLE, FLA., SEEKS CONVENTION.

Secretary Farnsworth (reading): "Jacksonville, Florida, November 23, 1911. F. O. Watts, President American Bankers' Association, New Orleans. We extend to your organization a most cordial invitation to hold your 1912 Convention in this one of the most principal cities of the Southland, assuring you a typical Southern welcome. In case this invitation reaches you too late we desire to be put on record as a strong candidate for the 1913 Convention. Jacksonville Board of Trade, Francis P. Conroy, President, H. H. Richardson, Secretary."

"F. O. Watts, President, American Bankers' Association in Convention, New Orleans. Our board of trade is urging your Association to meet in Jacksonville in 1912. If too late please consider this city as strong candidate for the honor in 1913. I most heartily second this invitation on behalf of the Jacksonville Clearing Association, and hope you will give a friendly lift to our ambitions. Jacksonville is well able to take care of you and promises a royal welcome. (Signed) Jacksonville Clearing House Association, Thomas P. Denham, President."

This seems to be from a namesake of mine. "Fred E. Farnsworth, Secretary, American Bankers' Association, New Orleans. Board of Trade has invited your Association meet here in 1912. Hope you will use your influence to secure it for Jacksonville and Florida. If unsuccessful Jacksonville will be strong bidder for 1913 Convention. C. L. Farnsworth."

ATLANTIC CITY WANTS CONVENTION, TOO.

"Atlantic City, N. J., October 23, 1911. Col. F. E. Farnsworth, Secretary, American Bankers' Association, 11 Pine Street, New York City. Dear Sir: I am enclosing you our formal invitation to hold your 1912 Convention in Atlantic City, and under separate cover am mailing you our Bureau literature. I trust that you will have our invitation presented at the proper time and place at your New Orleans Convention next month, and wish that you would later on advise me as to the time and place of meeting of your Executive Committee, by whom this matter is finally determined, as some of us would like to be present at the later meeting in order to renew the invitation personally. Thanking you for your kindness in advance, and with best wishes, I am, very truly yours, George S. Leonhart."

Then follows another letter on the same subject and the last letter, October 28th (reading): "Col. Fred. E. Farnsworth, General Secretary, New York City. Dear Sir: Please accept my thanks for the information contained in your letter of October 27th. I highly appreciate the kindness in promising to present our invitation at the proper time and place to hold the 1912 Convention of your Association in Atlantic City. Even if next year's Convention should go to Detroit or elsewhere, it will keep us in line for some other time. Should Detroit not secure the Convention in 1912 or be unable to properly handle it, I trust that Atlantic City's invitation and proposition will be favorably considered. You and your Association have been here and know exactly what we can do for you. Again thanking you for your kindness and with best wishes, I am, very truly yours, George S. Leonhart, Secretary-Director."

This is a night letter, received November 21st, to "Col. Fred. E. Farnsworth, Secretary, American Bankers' Association, New Orleans: The Atlantic City Publicity Bureau, representing the Board of Trade, Hotelmen's Association, Business Men's League and local banks, renews its invitation for holding your meeting here next year. We would be highly pleased and greatly honored if you returned to Atlantic City in 1912. We pledge ourselves to assist you in making it a success to all concerned. Please have invitation mailed you presented at proper time and place. George S. Leonhart, Secretary, Atlantic City Publicity Bureau."

CHICAGO LIKEWISE EXTENDS AN INVITATION.

Then, an invitation from the Chicago Association of Commerce.

"The Chicago Association of Commerce cordially invites American Bankers' Association to hold their next Convention in the City of Chicago. (Signed) George M. Spangler, Jr., Manager, Bureau of Conventions, the Chicago Association of Commerce."

I don't suppose it is necessary to read the attractions of Chicago.

BOSTON BIDS FOR CONVENTION IN 1913.

"Boston Clearing House Association, November 3, 1911. At a meeting of the Boston Clearing House Association held this day, all members present, on motion duly seconded, it was unanimously voted that the Clearing House Association, through its Clearing House Committee, extend a cordial invitation to the American Bankers' Association to hold their annual meeting in 1913 at Boston, Mass. (Signed) A. W. Newell, Secretary."

"Boston, Mass., November 17, 1911.

"Fred. E. Farnsworth, Esq., Secretary, American Bankers' Association, New York, N. Y.

"Dear Mr. Farnsworth: I enclose a copy of a vote of the Boston Clearing House Association at the meeting held November 13, 1911, and in accordance I have this day mailed to you a formal invitation to hold the annual meeting of the Bankers' Association for 1913 in Boston. It was understood that the Convention is pledged to Detroit in 1912.

"We hope that our invitation will be accepted and that Boston will be chosen for the annual meeting of the Association in 1913.

"Yours very truly,

"(Signed) William A. Gaston."

Mr. Gaston is mistaken. The Convention is not pledged to go to Detroit or anywhere else; it will be acted upon by the Convention this morning.

"Boston, Mass., November 17, 1911.

"Fred. E. Farnsworth, Esq., Secretary, American Bankers' Association, New York, N. Y.

"Dear Sir: The Boston Clearing House Association extends a cordial invitation to the American Bankers' Association to hold its annual meeting for 1913 in Boston, Massachusetts.

"Very truly yours,

"Signed) William A. Gaston,

"Chairman, Boston Clearing House Committee."

DETROIT GETS CONVENTION.

I don't seem to find in the file here the invitation extended by the Detroit Clearing House last year, or at Los Angeles, extending an invitation to the American Bankers' Association to meeting in Detroit this year, but such an invitation is on file, and was presented, signed by the Associated Banks and the Clearing House, and presented also to the Council in May. But I have letters from others in Michigan regarding this.

From the Governor of the State of Michigan:

"November 14, 1911.

"Dear Sir: In behalf of the people of the State of Michigan it is a pleasure for me to extend to the American Bankers' Association an invitation to hold their 1912 Convention in the City of Detroit.

"Very respectfully,

"Chas. S. Osborn, Governor."

And from the Mayor of the City of Detroit:

"City of Detroit, Executive Office,

"November 16, 1911.

"Mr. Fred. E. Farnsworth.

"Secretary, American Bankers' Association, New Orleans, La.

"Dear Sir: On behalf of the City of Detroit, I extend to the American Bankers' Association a cordial invitation to hold its 1912 Convention in our city.

"The City of Detroit assures you of a cordial welcome, both on the part of its citizens and on the part of its officials.

"I would thank you to place this invitation before your Convention.

"Very respectfully,

"(Signed) Wm. B. Thompson, Mayor."

And from the Detroit Board of Commerce:

"November 15, 1911.

"The Detroit Board of Commerce joins with the other city organizations in extending a most cordial invitation to the American Bankers' Association to hold their 1912 Convention in this city.

"Detroit is noted from ocean to ocean as one of the great Convention Cities in America. It has earned its reputation by successfully entertaining thousands of gatherings during the last few years. Out of this experience has come the ability to provide every element that makes for the success of public gatherings. Our hotels are veterans in the art of handling tourist and convention travel.

"The business sessions of a Convention—while of the most lasting importance—do not furnish the attraction that brings a large attend-

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ance. Ordinarily, business sessions of a Convention might be held anywhere within four walls and under a roof—if the delegates were not too uncomfortable to give attention to the proceedings. But it is during the intervals in the morning, at noon, or in the evening, that the delegates divorce themselves from business absorption and expect entertainment. There is no other city in America which can provide such unusual entertainment and recreation for so little money as Detroit does throughout the summer months. As an attractive city Detroit offers the Convention visitor unexcelled advantages.

"It is our very sincere hope that your Association may accept the invitation and fix upon Detroit as the next meeting place.

"Very truly yours,

"(Signed) Lucius E. Wilson, Secretary."

"My Dear Sir: Supplementing the invitation which the Board of Commerce extended to the American Bankers' Association some time ago, I again want to urge upon your organization the advantages of Detroit as a place for your next meeting.

"At New Orleans this year, I understand, your organization is taking a side trip to the Panama Canal. Even this great ditch, with its potential effect upon American business, may never approach the importance of our own great highway of commerce—the Detroit River. Through this greatest of American waterways, there passes each year a commerce which dwarfs the Suez Canal almost into insignificance. W are proud of this river not only because of its utilitarian features, but because it has done more than any other gift of Nature to make the most beautiful Convention city of America.

"From the bankers' standpoint, Detroit is very interesting. The wonderful growth of the automobile industry in this city during the last five years is a business and banking phenomenon not duplicated in the country's history.

"Detroit will be proud to welcome America's financial genius, and this organization sincerely hopes that you will choose it as your next meeting place.

"Very truly yours,

"(Signed) Lucius E. Wilson, Secretary."

Secretary Farnsworth: As I say, the invitation from the associated banks of Detroit and the Detroit Clearing House has been presented and is on file. That invitation was presented to the Council of the American Bankers' Association at the meeting held in Nashville last May, and by the Council was referred to this Convention.

President Watts: Gentlemen, you have heard the reading of the invitations; what is your pleasure regarding them?

William Livingston, of Detroit: Gentlemen of the Convention. I have no disposition to take up your time, because of the large amount of business that still remains unfinished, but I simply want to add this to the communications which have been read, that if you will favor us by coming to Detroit, I will promise you a royal and hearty welcome. I am sure, without disparagement to any other city in America, that we have all the facilities you can imagine to give you both a profitable and enjoyable time, and I sincerely hope that this Convention will favorably consider my home city, the City of the Straits, sometimes called the "City Beautiful."

J. H. Ingwersen, of Clinton, Ia.: I move you that the invitation of Detroit be accepted and that the Convention of 1912 be held in that city.

Motion seconded.

President Watts: The question is open for discussion, if you desire to discuss it. As many as favor the adoption of the motion, let it be known by saying aye, opposed no.

It is unanimously carried, gentlemen; (applause).

William Livingston: I thank you, gentlemen.

Sol. Wexler, of New Orleans, La.: Mr. Chairman and gentlemen, in view of the importance of the report of the Currency Commission and the Bill of Lading Committee, particularly that portion which refers to foreign bills of lading, and the Central Bureau, I move that these reports be made the first order of business, after voting on the amendments to the Constitution.

President Watts: Is there a second to that motion?

R. E. James, of Easton, Pa.: I second the motion.

President Watts: The question is open for debate. Are you ready for the question? As many as favor the motion that the reports of the Currency Commission and the Bill of Lading Committee be made the order of business immediately upon conclusion of the special order fixed for eleven o'clock will say aye, opposed no. Unanimously carried and so ordered.

President Watts: The next order of business, gentlemen, is the report of Sections. The first report is that of the Trust Company Section.

Is there any officer of the Trust Company Section here with a report? If not, we will pass that for the present.

Next in order is the report of the Savings Bank Section.

Mr. R. C. Stephenson, of South Bend, Ind.: Mr. President and gentlemen, the Savings Bank Section has no detailed report to make at this time, for the reason that a report has been made and filed in the proceedings of the meeting of the Savings Bank Section yesterday and will appear in the printed proceedings.

President Watts: Without objection, the report of the Savings Bank Section will be accepted for printing in the proceedings.

The report of the Clearing House Section is next in order.

Mr. C. A. Ruggles, of Boston, Mass.: The report of the Clearing House Section is as follows:

The Clearing House Section reports excellent progress for the past year. The numerical system is becoming rapidly adopted all over the country and gives promise of working great reform in the handling of transit items. During the coming year we shall continue educational work upon the adoption of Clearing House Examiner among the members of our Section. Several cities are now having the matter under consideration.

It is very likely that within the next year an active campaign will be begun in the matter of collection of checks through a country department of the Clearing Houses by what is known as the "Zone System."

The Section is in an active, healthy, condition, and is in position to further the progress of Clearing House co-operation. By many banks this Section is considered the most important in the Association, being in a position to bring about reforms in banking that will be of great benefit to the banks of this country and we propose to place ourselves in a position to merit the approval of the Association.

President Watts: Without objection, this will also be accepted for printing in the proceedings.

Next in order is the report of the American Institute of Banking.

Mr. Pierce: We have no detailed report to make. I might say that the Institute was organized ten years ago with a handful of bank clerks and with the idea of developing bank clerks from the standpoint of education. Today we have organized in the United States active chapters in most of the large cities, and we have a membership of approximately eleven thousand. Last year we graduated between three and four hundred clerks. One feature which has begun to develop in the past two or three years, is a sort of correspondence school by means of which we can instruct bank clerks in every part of the United States, so that they can avail themselves of the courses offered by the institute free of charge. The instructions being in the form of lectures and forwarded from the Secretary's office. We desire to thank the Association for the interest it has taken in the Institute.

President Watts: Without objection, this report will take the usual course.

The next order of business is the State Secretary's Section.

There being apparently no one here to report for that Section, it will be passed for the present.

The hour of eleven o'clock having arrived, the special order will be taken up, which is the presentation of the proposed constitutional amendments.

CONSTITUTIONAL AMENDMENTS.

Lewis E. Pierson, of New York: The next amendment which was proposed will be found on page 28 of the official program (reading the same).

I move the disapproval of this amendment.

F. W. Hyde, of Jamestown, N. Y.: I second that motion.

C. H. McNider, of Mason City, Ia.: I should like, as the introducer of that amendment, to withdraw it and amend it in this form:

Amend article 3, section 2, by striking from the second line: "1913," and adding in lieu thereof "1914." Also to strike from the ninth line the word "two" and insert the word "one."

I am perfectly well aware that at the present time there is no law under which our present procedure is followed. That is, there is no law saying that a man shall succeed himself in office, but it occurs to me in an association composed of twelve thousand members, that they should be given some voice in the management of the Association, and it is for that reason that I have offered this amendment. There has been a great deal of criticism passed upon this Association because of this rotation in office of a favored few, and I think the best way to dispel that criticism is to adopt this amendment.

William George, of Aurora, Ill.: I second the motion to that amendment.

Hiram R. Smith, of Rockville Center, N. Y.: I have just come from a meeting of the Nominating Committee. I was elected its chairman and I want to say to you in respect to this gentleman who has just spoken that the committee went into the session absolutely untrammeled and the ticket that will be presented to you this afternoon, if you don't like it, why then you have the right to make any nominations you like from the floor. We do not have to nominate the chairman of the Executive Council or the Vice-President, for President. You can nominate whom you choose; you are not tied down to the nominations presented by your committee.

Myron Campbell, of South Bend, Ind.: I think we would be establishing a dangerous precedent if we took from this body the right to choose at any time any man who is qualified for any office that it has to fill. The constitution of this organization as it now stands covers every emergency, I think. There is no reason why the nominating committee should select the chairman of the Executive Council as Vice-President, unless the committee considers him qualified for the position. Nor is there any reason why they should select the Vice-

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President for President, unless they think he is so qualified for the position.

Mr. Chapman: I have been on the committee to revise the constitution of this Association. I have been on the Executive Committee; I have been on the Nominating Committee, and if these gentlemen do not know, they ought to be informed that the common law was handed down to us from custom. Custom makes the law——

Mr. Dismukes: I rise to a point of order that the question before the house is the amendment and not the merits of the main question.

Mr. Chapman: Well, I have finished with what I had to say, anyway.

H. S. Fletcher, of Watsonville, Cal.: I want to say that the amendment to our constitution puts me in mind of the epithet which I recently read, which ran thus: "I was well; I wanted to be better; I went to a doctor; I am dead." (Laughter.) The American Bankers' Association is the most powerful body of the United States, in many respects; and it has attained that position through the present procedure which it follows in the election of its officers, and I hope the present method will continue.

Robert E. James, of Easton, Pa.: I do not rise to discuss the merits of this question, but merely to call the attention of the Chair to the fact that the question before us is not a motion to adopt, and it is not a motion not to adopt; it is a motion not to concur, which will be ineffective and will produce no result, and after we get all through talking we will have to begin over again in order to reach a result.

Mr. Gurney: I rise to say a few words in opposition to this amendment, and I am loath to do so because it has been offered and presented by friends and neighbors of mine.

I am impelled to oppose it because I do not believe it is to the best interests of the Association, nor even in the interests of the gentleman who offered it. It says that no official may be re-elected to his office. Well, that is not so bad. Then it adds: Nor may he be elected to any other office until after a period of a year shall have elapsed. In other words the men who champion this resolution would accomplish a reform by prohibiting promotion. Therein, I differ with them. I believe we should promote promotion (applause). When we find a good man in our business, we promote him. We do not go outside and take in a new man who is unlearned in the business and put him in the highest office.

T. J. Davis, of Cincinnati, O.: Like the last gentleman, I am rather disinclined to take sides against this amendment because I have friends who are in favor of it. However, a little difference of opinion is a good thing sometimes for an organization. I am opposed to this amendment, because I think it is wrong in principle. I do not think that we ought to disqualify any member of this Association from holding office, and that is just what this amendment would do.

Mr. Bailey: If I am in order, I would like to move an amendment to the amendment, namely: Strike out from the amendment "no officer of this Association, except the General Secretary, etc., etc., shall succeed himself," and then insert, "The Vice-President shall not succeed himself in office or be elected to any office in this Association for the period of one year following the expiration of his term of office."

(Cries of "no" "no.")

Is there any objection to my offering that, Mr. President? Is it in order?

President Watts: The Chair would rule that it is in order, if the gentleman cares to press it.

By Mr. Bailey: All right, sir.

President Watts: Is there a second to the amendment?

Mr. Bailey: Yes, I have got a second over here; I attended to that.

A Delegate: I second the amendment.

President Watts: The question is on the adoption of the amendment pressed by Governor Bailey.

A. J. Frame, of Waukesha, Wis.: I am as patriotic as any man in this audience, and am proud of this Association, but I must say, that I think there are those in office in the Association who want to stay in office, and, of course, I recognize the fact that there are those on the outside who want to get inside. Now, I have been on the Nominating Committee, and I know how thinks are run there. One man will get up and say: "I move that we nominate so and so"; another man says: "I second the motion." And then the chairman says: "All in favor of the motion say aye," and they all vote aye, and then they adjourn. Why, it is simply a farce from beginning to end.

A Delegate: I call the gentleman to order. He is not discussing the question before the house.

R. Griffith, of Vicksburg, Miss.: All change is not reform. Now, if we are doing well in this Association, why the necessity for making any change? I beg the members of this Association to leave our constitution as it is without further amendment. (Cries of "Question," "Question," "Question.")

SOL WEXLER AND BILL OF LADING CHAIRMAN.

Sol Wexler, of New Orleans, La.: Mr. President and gentlemen, growing out of the usurpation of authority, on the part of the party that has been in power for so many years in our legislative affairs, there has grown up what is known as "Insurgents." Now, insurgents are of two kinds. One kind is ready to oppose anything and everything; good, bad, and indifferent; the other kind rebels against a minority controlling the majority. Now, to the latter class I belong. Six years ago when this Convention met in St. Louis, it was controlled by a small group of men bounded on one side by the Atlantic Ocean, on the North by the Great Lakes, on the West by Iowa, and on the South by the city of Pittsburgh, and the rest of the members of the Association had absolutely nothing to say. At that time I arose in opposition to the existing method, and my views prevailed and a different method came into vogue. Now, at the present time, a very similar condition exists, only the boundaries have been slightly moved and extended—though not very far. At the present time, the control centers around Chicago, and extends as far south as a moderate sized town in Tennessee—(laughter)—and still includes one very prominent gentleman from New York.

Gentlemen, I claim that there is just as much ability scattered throughout the various States of the West and the South and the Middle West as there is in any particular section. What we ought to do is to have men elected to office who are qualified to fill the office. Do not elect a man simply because he happens to represent some big bank. Why, what was done by the Bills of Lading Committee? They appointed a sub-committee on foreign bills of lading, and they put a man on it from Grand Rapids, Mich., who probably wouldn't know the difference between a set of foreign documents and the *Saturday Evening Post*. (Prolonged laughter and applause.)

J. M. Elliott, of Los Angeles, Cal.: I call the gentleman to order. He is not discussing the question.

Sol Wexler, of New Orleans, La.: Gentlemen, I am about through. But before I take my seat, I want to say this: If you do not do something of this kind, and cut out the politics there has been existing in this Association in latter years, you are going to dismember it. Why, the Trust Company Section today is talking about withdrawing from this body; and I say to you that you will have a Western association, perhaps, or a Southern association, or somebody will be withdrawing and forming a new association.

(Cries of "Question," "Question," "Question.")

President Watts: The question stands in this form, gentlemen. A constitutional amendment has been proposed by Mr. McNider. That was offered in the constitutional way, and having had the notice duly given. That amendment was referred to a special committee appointed by the Executive Council. That committee reported back to the Executive Council, which, in return, has recommended to this body that the proposed amendment be not adopted. In accordance with that report, the chairman of the committee has moved that the amendment pressed by Mr. McNider be not adopted; that it be rejected.

The motion before the house is, therefore, in this form, that if you vote "No," the effect of it will be to adopt the amendment.

All in favor of the question as the Chair has stated it, will say aye; opposed no.

The result being in doubt, a division was called for, and the chair appointed as tellers Mr. Gurney, of Nebraska; Mr. Davis, of Ohio; Mr. Fletcher, of California; Mr. McNider, of Iowa; Mr. Wexler, of Louisiana, and Mr. George, of Illinois.

President Watts: Gentlemen, the tellers have made the count of the vote, and the Secretary will announce the result:

Secretary Farnsworth: The tellers report as follows:

Total number of votes cast, 392.

Those voting in favor of the amendment, 227; those voting against the amendment, 165.

President Watts: A two-thirds vote is required under the by-laws to carry an amendment to the constitution. As two-thirds would be about 261, the Chair declares the amendment proposed by Mr. McNider lost.

L. E. Pierson, of New York: The next amendment was proposed by Mr. Watts, and is to amend the first clause of section 6 of article 4, which is also found in the official program, and I will not read it, but will simply state that the purpose of this is to make clear beyond question, which is not clear today, that the Convention can at any time name the membership of any committee and delegate any duty to them.

This has met the approval of the Executive Council, and I therefore move its adoption.

Mr. Chapman: I second the motion.

President Watts: All in favor of the motion will say aye; opposed no. (Carried.) It is adopted.

L. E. Pierson, of New York: The next proposed amendment was prepared and submitted to the Executive Council by Mr. William George. Subsequently Mr. George consented in the committee to the withdrawal of his amendment and the substitution of one which would seem more clearly to define the membership and the duties of the committee.

William George: I consented to the withdrawal of my resolution, because the Executive Committee thought what I had in mind should be better effected by a by-law than by having an amendment to the constitution.

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PROPOSAL FOR INVESTMENT BANKERS' SECTION TO COME UP IN 1912.

L. E. Pierson, of New York: Then, we offer what appears on page 29 of the official program, providing for the institution of a new section of the Association to be known as the "Investment Bankers' Section." (Reading.)

J. M. Elliott, of Los Angeles, Cal.: I move that that be deferred until the next annual Convention of this Association, and that, in the meantime, the subject matter of the proposal be considered by the Executive Council.

(The motion was seconded and carried.)

President Watts: The next matter that the Convention is called upon to consider is the report of this committee appointed by this body and as a result of whose work a crystallization of thought among the bankers of the country has taken place. Gentlemen, it is now in order to listen to the report of the Currency Commission, which will be read by Mr. Perrine, of Indianapolis, Ind.

John Perrine, of Indianapolis, Ind.: Mr. President and gentlemen. This report was handed to me by Mr. Forgan, the Vice-Chairman of the Currency Commission, who was compelled to leave yesterday for home, and he asked me to read it. The report is as follows:

Report of Currency Commission.

[For Report of Currency Commission see page 180.]

President Watts: What is the pleasure of this Convention, with reference to the report?

On motion of Mr. Hamilton, of Illinois, seconded by Mr. Robinson, of Maryland, the report was adopted.

ALDRICH MONETARY PLAN APPROVED.

President Watts: The Secretary has a resolution which was unanimously adopted by the Executive Council, and recommended to the Convention, which I will ask him to now read.

Secretary Farnsworth: The resolution to which the President has referred, reads as follows:

"Resolved, That the American Bankers' Association hereby gives its unqualified approval to the revised plan proposed by Hon. Nelson W. Aldrich, Chairman of the National Monetary Commission, for the establishment of a co-operative agency of all the banks to be known as the National Reserve Association of the United States.

"We are confident that the high purposes actuating the National Monetary Commission assure the working out of the details in accordance with the sound principles stated in the plan, in such a manner as to gain the confidence and support of all classes.

"A sound banking system will benefit the entire community and is, therefore, non-partisan. We urge Congress to so regard it and to deal with it as an economic question outside the domain of party politics.

"Resolved, further, that the officers of the Association, together with the Currency Commission of the American Bankers' Association, are hereby instructed to submit the Association's approval of the principles of the plan to the National Monetary Commission, and to the committees of Congress to whom monetary legislation is referred."

President Watts: What is the pleasure of the Convention with respect to this resolution?

Mr. Preston: I move that it be adopted.

The motion was seconded.

Myron Campbell, of South Bend, Ind.: It seems to me there are some things in that resolution, if we adopt that bodily, that this Association might care to take into consideration. At least, I feel that it is giving its unqualified approval to all that Senator Aldrich has recommended; that one thing Senator Aldrich proposes to do under this bill is to permit the national banks to do a savings bank business, and I think several States have come to an understanding with them and a good many of them might hesitate to adopt that. If this is adopted, I would ask permission to introduce after that, two resolutions, one of which is—I am not offering these now, but I would like to have an opportunity to do so later—"*Resolved*, That it is the sense of this Association that all legislation intended for the betterment of national banks should be for the equal protection of all deposits and depositors and that we do not recommend the enforced segregation of savings deposits in such banks."

And the other is, "*Resolved*, That it is the sense of this Association that legislation should be speedily enacted that will permit national banks to loan a part of their funds on notes, bonds, and other evidences of debt secured by mortgage on real estate."

If this resolution is passed, I would like permission to offer both of those resolutions.

President Watts: Gentlemen, all in favor of the resolution submitted to the Convention by the Executive Committee will say aye; opposed no. (Carried.) The resolution is adopted.

John L. Hamilton, of Illinois: I suggest that Mr. Campbell prepare his resolutions and get them in proper shape, and then hand them in to the committee, where I am sure they will receive proper consideration.

President Watts: Yes, the Chair thinks so, too, and would suggest to Mr. Campbell that he do that. Gentlemen, we will now take a recess until half past two o'clock.

RECESS UNTIL 2:30.

AFTERNOON SESSION.

President Watts: The report of the Bills of Lading Committee is next in order.

Joseph Chapman, Jr., of Minneapolis, Minn.: I ask unanimous consent that we take up at this time the recommendations included in the President's address, regarding the agricultural work being done in several associations in this country; it will not take more than five minutes.

MOVEMENT TO PROMOTE AGRICULTURAL DEVELOPMENT.

President Watts: Is there any objection? There being no objection it is so ordered.

Mr. Chapman: Several of the Western States now have what is known as Committees on Agricultural Development, and, at a conference held in Minneapolis in October, there were eighty delegates who came to discuss the agricultural development in the United States. The conference was a very interesting one, 10,000 copies of the proceedings being printed and distributed. Now, I deem this a matter which can well be taken up by the American Bankers' Association, and, for that purpose, I offer the following resolution:

Resolved, That the American Bankers' Association heartily endorses the movement started in several State Associations looking towards improved agricultural methods, better farm life conditions and agricultural demonstrative work;

And be it further Resolved, That the President of this Association appoint a committee of seven to be known as a Committee on Agricultural Development and Extension, to assist in this magnificent work.

Sol. Wexler, of New Orleans, La.: I second the adoption of that resolution.

Myron T. Herrick, of Ohio: I would ask Mr. Chapman to include in the wording of his resolution, after the word "agricultural," the words "and financial."

I have found in France, Germany, Austria and in Switzerland that they have a system of farm financing, which has resulted in putting the farm security on a par in the markets of the different countries with municipal bonds.

Mr. Chapman: I am willing to accept the suggestion of Gov. Herrick.

J. H. Ingwersen, of Clinton, Iowa: I would also suggest to Mr. Chapman that he provide in the resolution that the membership of the committee to be appointed shall be taken from the members of the Executive Council.

Mr. Chapman: I do not think I can accept that, for the committee might continue for some time, and the members might not be continued as members of the Executive Council.

President Watts: The question is on the resolution offered by Mr. Chapman, he having accepted the suggestion made by Gov. Herrick.

All in favor of that resolution, with Gov. Herrick's amendment in it will say aye; opposed, no. (Carried.)

We will now take up the report of the Bills of Lading Committee.

Report of Bills of Lading Committee.

[We print this report on page 173.]

President Watts: The Report of the Bills of Lading Committee is before you, gentlemen, and Mr. Kent has the floor.

S. I. Kent, of New York: Mr. President and members of the American Bankers' Association. Mr. Clay Hollister, the efficient Chairman of the Bills of Lading Committee, is, unfortunately, unable to be here today, owing to death in his family, and I have the honor of being called upon to read his report. It is with pleasure that the Bills of Lading Committee can today present its annual report.

(Reading the report.)

Myron Campbell, of Indiana: Before any action is taken on this report, in view of the statement made as to Mr. Hollister's absence, that it is by reason of death in his family, I move that the Secretary be instructed to convey to Mr. Hollister our sincere sympathy in his bereavement which has kept him from being with us.

Sol Wexler, of New Orleans, La.: Mr. President, I would like to have the pleasure of seconding that motion.

President Watts: Gentlemen, you have heard the motion that the sympathy of this convention be extended to Mr. Hollister in his bereavement. All in favor of the motion will say aye; opposed, no. (Carried.)

(At this point the President asked the Vice-President to take the Chair, and Vice-President Livingston took the Chair.)

Chairman Livingston: What is the pleasure of the convention with respect to this report?

DISCUSSIONS REGARDING CENTRAL BUREAU PLAN.

Sol Wexler, of New Orleans, La.: The fact that a committee located in Liverpool has the right to organize a bureau in the United States cannot be in any sense doubted, but that they have

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the right to enlist the assistance of the American Bankers' Association, through a sub-committee of the Association which did not entirely represent the entire American Bankers' Association, is to my mind not correct. It is lending the assistance of the association to a matter which does not concern it, and should not have been acted upon without representation on the part of all those members of this association who might be affected by the action of the committee. I have no quarrel with the association, with the Liverpool Cotton Conference Committee, or with the railroads, but I maintain that in a matter that immediately concerns a large section of this country, the matter should be left over until it could be submitted to all sections of this country and especially to all the members located in the Southern and cotton growing States. That was not done until after the matter had reached the stage where it was about to be put into operation, and at that time, after protest had been made on the part of the Louisiana members to the Executive Council at the Nashville meeting, then some Southern bankers were invited to meet the gentlemen in New York City who had the matter in hand, and at that time we had the first opportunity of voicing our protest to the proposed scheme. Subsequently to that Mr. Haight came to New Orleans, at his own request, to state to us that the matter had reached a definite conclusion and that there was nothing for us to do but to accept it. He was very courteous in his explanation of the plan, and endeavored to remove the objection raised on the part of the Southern cotton interests. About the 1st of September a letter came from the Cotton Bills of Lading Committee of the Liverpool Cotton Conference, showing that the American Bankers' Association had in a measure committed itself to this plan. The letter, accompanying this, addressed to cotton shippers, also made reference to the approval of this association of the plan. The matter had reached such a stage as to be deemed very serious on the part of cotton producers, cotton shippers and bankers. So that a meeting was called in the city of New Orleans to protest against the establishment of a certain bureau along the lines proposed, and at this meeting there were represented the largest exporters of cotton and the largest Southern cotton houses. Among those represented was the Houston Cotton Exchange and the Board of Trade passed a resolution against it. The Savannah Cotton Exchange also opposed it. The Vicksburg Cotton Exchange and the Memphis Cotton Exchange opposed it.

Now, you will naturally ask why it is necessary that we establish a bureau in the city of New York for the validation of cotton bills. Up to the time of the failure of Knight-Yancy and Steele-Miller there was no effort made to have established any bureau of this kind, or any complaint of losses sustained from forgeries. In fact, during the twenty years preceding these two failures there were exported from the United States six thousand million dollars' worth of cotton without one dollar having been lost through a forged document. I defy any gentleman to point to any branch of the cotton business, or any other line of business, in which such a small loss has been sustained on such an enormous volume of business. It is true that these two firms inflicted upon the cotton trade and bankers in Europe and America losses amounting to about $6,300,000, but what was the history of these two firms? One of them, Steele-Miller & Company, located in Mississippi, according to the testimony of a member of that firm here, stated that they started in business in 1907 with a capital of $10,000, which was embezzled from a former employer. Upon that sum of $10,000, in 1908, they did a business of nearly 200,000 bales of cotton, or $16,000,000 worth, and they had no difficulty in selling their bills of lading, or in selling their cotton abroad. Why did they sell that much cotton abroad? Because they sold it from an eighth to three-eighths of a cent a pound less than any other legitimate dealer could afford to sell it for, and during the same period they were buying cotton at higher rates than any other legitimate dealer could afford to pay for it. The foreign buyers were informed of these facts, but they said they were satisfied with it and they were going to continue to buy. They never considered that buying gold dollars at 105 and selling at 95 must ultimately inflict a loss upon somebody. The history of Knight, Yancy & Company was this: They would sell a thousand bales of cotton for delivery thirty, sixty and ninety days ahead of a stipulated grade. They would draw their draft within thirty days for the amount of the invoice, which they made up and attached to a forged bill of lading, and would negotiate this usually through a New York exchange broker, who in turn sold it to a New York bank. When the cotton failed to arrive and the foreigner wrote to know why it didn't arrive, they would give some excuse and ask for a little further delay. In the meantime they would negotiate another set a fraudulent documents, and with the proceeds of those they would proceed to buy the actual cotton of about the grade they had sold, or a little better grade even, and ship it and suppress the genuine document and allow it to be delivered on the forged document. Eventually it had to come to an end. It could easily have been ascertained if these documents were forged, because the cotton did not come forward under the original stipulation upon the forged documents, but upon the weight that the actual cotton happened to be. It also came from different points than it was supposed, and stated to be shipped from. But the greed for a little additional profit in the handling of this business induced these gentlemen to continue in it. After these frauds were discovered, instead of coming here and immediately denouncing the thieves, they allowed them to go, perhaps in the hope that they might be able to negotiate some more documents and then be enabled to ship them their own cotton.

The principle underlying this whole thing is this: Is it right to stigmatize every man engaged in the exporting of cotton, in the handling of cotton bills of lading, because two firms who were never entitled to credit did wrong? Is it necessary to establish a bureau where every man who ships cotton from the Southern States is compelled to come forward and be examined for the purpose of ascertaining whether or not he is a crook? I claim that a business in which the volume transacted during a period of twenty years has been as important as this, in which more losses have been sustained, certainly does not make it necessary for any drastic proceeding of the kind here contemplated.

The next question to be considered in connection with this business is this: What would be the effect of this central bureau? A cotton shipper presents to his bank a draft with bills of lading attached, the first question naturally asked is: Upon whom is this draft drawn? Assume that it is drawn upon a first class banker in Liverpool, or in London, then the next question is, Has this man given authority to draw upon him? Has the credit been established? All that the foreign banker must do is to satisfy himself that the man he is dealing with here is an honest man.

Now, gentlemen, if you want to go into the business of general validation of grain, as well as of cotton, we are willing to go into it as far as the rest of you. As it now stands, the validation plan is a stigma upon a particular line of business, and we are opposing it on this principle. The buying of exchange is simply giving credit. If you do not know with whom you are doing business, you are likely to be robbed. Ought that robbery, though, to rob you of your confidence in honest men with whom you do business?

Another thing is this. This Central Bureau plan is being supported and forwarded in the interests of the railroads. The railroads have established this bureau, and they are paying the expenses of it. And they are not doing that out of generosity, but because the successful operation of the bureau plan would destroy the necessity for making them responsible for the acts of their agents.

I make the uncontradicted statement that many of the bankers in New York have been coerced in falling into line with this Haight Bureau scheme, and I know that there are many New York City bankers who are really opposed to the plan. But the iron fist has come down on them. (Applause.)

If the New York bankers are afraid to buy cotton bills, why, let them buy demand checks of Southern banks. Why should you buy bills of exchange? You are paid for taking that risk, but if you do not want to take that risk you can demand checks at 1-32 of 1 per cent.

The Liverpool Cotton Conference must not be allowed to spread its tentacles in this country, and this is really the beginning of that attempt. The minute you let the Liverpool Cotton Conference interfere in this matter you open the doors for interference in our grain trade and in other lines of trade. We require that they give us paper. If they do not want to give us that paper they can send over the cash. We are not worried about their threat to stop buying our cotton. If they stop buying our cotton their mills will have to close down and their labor will be thrown out of employment and a state of anarchy will prevail in England.

Now, Mr. President and gentlemen, I desire to offer a resolution, which is a resolution that has been passed by all the Southern Cotton exchanges, protesting against the putting into effect of the Central Bureau plan.

Whereas, An organization of foreign cotton buyers and bankers, in combination with certain banking interests in New York City, has undertaken to dictate to Southern cotton shippers and bankers, without the consent and over the earnest protest of the latter, the method of billing export cotton and the terms upon which the same shall be financed; and

Whereas, In the furtherance of said scheme, the said organization and combination have formulated a plan involving the certification of all export cotton lading documents through a central bureau located in New York City, the object of which plan is to secure to the said interests represented by the said organization and combination an extraordinary and unique insurance against the results of their own negligence in dealing with irresponsible persons and firms; and the effect of such plan, should it become generally operative, would be to confirm the common carriers of cotton in their indefensible attitude of denying liability for the acts of their own authorized agents. Now therefore, be it

Resolved, That although we deplore the losses entailed by the fraudulent practices of two certain cotton firms in the recent past, and although we are in favor of any just and legitimate reform in the method of billing and forwarding cotton, still the central bureau plan in question, both in its original and amended form is hereby condemned as being repugnant to sound business principles, in that it proposes to invest bills of lading with a status entirely independent of considerations of the character and solvency of the shipper, discriminatory in that it imposes burdens and hard-

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ships upon the cotton exporters and possibly costs upon the cotton producer, from all of which the shipper and producer of every other commodity is free; offensive to reputable and honorable business men in that it assumes tht all cotton shippers are dishonest until the New York validating bureau has pronounced them otherwise; and finally, the fiat of the central bureau certifying to the virtue of genuineness of signatures would place dishonest shippers in a position of vantage from which they could practice a multitude of collateral irregularity preguant with greater injury to the cotton trade than the isolated danger of forgery. And further

Resolved, That this Association opposes the said central bureau plan as a reflection upon the honor of the Southern cotton merchants and upon the rights of the Southern cotton trade.

(President Watts here took the chair.)

President Watts: The chair must rule, Mr. Wexler, that your resolution is out of order, because no resolution can be presented to this body without first having been submitted to the Executive Council in a constitutional way.

There are two ways, however, in which it may come to the attention of the convention. One is by unanimous consent, and the other is by a two-thirds vote. That is the law of the Association, and the chair so rules. What is the pleasure of the convention?

Mr. Wexler: In view of the fact that the Executive Council of the American Bankers' Association has in a measure acted upon this and have full advice upon the subject, it appears to me that it is proper to bring this up at the present time without going through the usual constitutional course.

President Watts: Whatever the personal views of the chair may be, it cannot override the mandates of the constitution of the Association.

George M. Reynolds, of Chicago, Illinois: Inasmuch as I regard this as one of the most important subjects before us, I ask unanimous consent that the matter be considered now.

President Watts: Is there objection? If not, unanimous consent will be given. The chair hearing no objection we will preceed to consider the matter now. Mr. Kent has the floor.

Mr. Kent: Mr. President and gentlemen of the convention. Having partaken of the wonderful hospitality of the gentleman from New Orleans, it would be my wish that I might say to our friend Mr. Wexler, "Thy will be done" and drop the matter there. Unfortunately, that is beyond our power at the moment without further consideration. There is a third party, an innocent third party, who must be considered. Mr. Wexler's speech has been very interesting, but it did not take up the matter from every point. After the Knight-Yancy failure and the Steele-Miller failure what happened? You were so disturbed that there was a question whether they would accept our cotton bills. The Southern cotton shippers came to New York and wanted to know whether they could float their bills. The Southern bankers took it up with the New York bankers also. New York said we may not be able to buy your bills because if the European bankers will not accept those bills we will be carrying an unknown burden. If we buy bills at sixty days' sight on Liverpool we agree with a foreign discount company to discount those bills on arrival. If those bills are not accepted on arrival we must furnish that Discount Company with other bills, in order to keep our agreement with them. Again, in order to buy further bills we must be able to sell the demand here by proceeds of the discount. If we sell demand made by proceeds of the discount, then when the bills for discount reach the other side we are unable to discount them, and we must cover those demand bills. In other words, there are tremendous costs involved in addition to carrying the cotton. But New York said: While we could not buy those bills, we will co-operate with the South and help you to carry your cotton; we will put money aside and draw and help you until this thing blows over. Then the foreign bankers said: That the American bankers must guarantee the integrity of every bill of lading. That meant during the course of sixty or ninety days every banker would have many times his capital represented in a contingent liability that they would be under the necessity of guaranteeing the bills of lading. That was impossible. The question was what would be possible. We had found out that one thing was possible, and that was that any one who might come there to trade in cotton bills from Europe, or from any part of this country, could after he had established his credit take our money without our knowing it. It does not make any difference whether we financed six billions or one hundred billions to move these forgeries, but what does matter is that those forgeries showed us that we were under a great danger, and that any one could float bills of lading and could stick any of us. There was a temptation to every man shipping cotton, if he was subject to temptation, and this does not hit the honest man—to raise money by means of forged bills of lading. Why? Because he knew positively and absolutely that there was not an exchange buying bank that had any means of checking up those documents. I admit that the foreign buyer should be more careful. This Central Bureau will make him more careful. There is two ways that a dishonest cotton shipper can obtain money fraudulently. First, by means of false bills of lading, and secondly, by shipping short weight or by shipping rags in place of cotton. When the opportunity to forge bills of lading is taken away, there is one thing left. Who would get stuck under that? The foreign buyer. If the foreign buyer buys cotton of a dishonest shipper and he ships him bad cotton, he may never receive the shipment until after he has paid the bill drawn against him. The American buyer of foreign exchange, on the other hand, must be exactly as careful as he always has been. It will not make it any safer for him to buy than it has been in the past, because no bureau will check up the standing of that man and say to the buyer of foreign exchange that he must make a bona fide shipment. The dishonest shipper might draw an a foreign banker when he had no authority to. Every buyer knows that he is always subjected to that danger. He knows that if he buys a bill drawn upon a foreign bank that it will be refused. Consequently, he is always going to be subjected to that danger. So that it will not cause an American exchange buyer to be any more careless than he has been in the past. It is easy to say that every one knew that Knight-Yancy and Steele-Miller were not honest firms to trade with. Yet people lost six million dollars through them. Who were they? They were foreign buyers of cotton, American buyers of cotton, and American buyers of foreign exchange—cotton shippers down in the South sitting side by side with those people, who had made contracts, and, in order to carry them out, they had bought cotton of Knight-Yancy and Steele-Miller and lost their money. I wrote at one time to a banker concerning the standing of Knight-Yancy and the reply came back in effect that it was an honorable concern of long standing, whose bills had always gone through properly. Now, while Knight-Yancy and Steele-Miller caused losses amounting to over $6,000,000, yet during the five years that they carried on these forged documents it is estimated that they floated about $30,000,000 on forged bills. We put up on every transaction safeguards, since we find that it is a dangerous system in any sort of business, and it is the same in this case. We did not establish a central bureau before we knew what the danger was. After we knew what the danger was we tried to meet the point. We did not try to apply this plan to the corn crop or to other commodities. Cotton is shipped during the course of a short time to the amount of $500,000,000. It is due to the great congestion that that proposition is such a dangerous one. In trying to protect ourselves from that danger we are not passing any stigma upon any honest cotton shipper. It is not for us to determine here what action the shipper shall take. The Liverpool Cotton Conference in taking up this matter had to consider what their duty in the premises was, and they thought it best to take this matter up with the cotton shipper and prove to him that the system was of value to the cotton shipper. If the Liverpool Conference cannot prove that it is so, why the cotton shipper will not avail himself of the system, and that will be another matter. It is a question between the buyer and the seller. The buyer is willing to try and satisfy the seller that this system will be good for him. The year before Knight-Yancy failed a cotton shipper in the South who was trying to buy cotton was unable to get more than 200 bales. Why? Because Knight-Nancy were buying cotton with other people's money, and they could pay any rate for it, because the money cost them nothing.

Now, our position before the foreign bankers and the foreign cotton buyers is this: They presented to one of your committees in December, 1910, a plan which they thought and hoped would be of value to all concerned, a plan which was aimed not at any honorable men in the North or in the South or in any other place, but was aimed at the dishonest man. That plan was presented to this committee, and that committee was asked whether it would approve of the plan or not. After examining the plan the committee stated that it seemed to be a good one, although in some details it was not satisfactory.

Liverpool was willing to correct those details. It came to us in February to try and see what could be done to place the plan in operation. An agreement was made with the railroads, and two-thirds of the cotton carrying roads agreed to this, but they did not fall over themselves to do it, as it might seem from what we have heard. One reason why this plan is of value to the railroads is this: If the Stevens Bill passes, the railroads will be responsible for the acts of their agents. Today they have no means of checking up the acts of their agents. Under the central bureau plan every railroad is notified of the issuance of every bill of lading by any of its agents through a special agent appointed by the railroad to receive those notices. Consequently, every road is in a position to check up the acts of its agents. Therefore, the railroads should not oppose the Stevens Bill as they have in the past.

The whole matter was presented in the Liverpool cotton conference by a sub-committee to the regular bills of lading committee which was supposed to be representative. The regular bills of lading committee examined the system and approved of it. They reported to the Executive Council, and the Executive Council approved it. It was not until then that the Liverpool cotton conference acted. But the Liverpool conference was asked to eliminate a number of features in the original plan to meet the ideas of American interests. Liverpool, when this plan was presented as it had come from the Executive Council, approved the plan; they allowed every request that we made, and they said if when you start in with this there are any objections that you want to make, why, we are willing to meet those objections. On that account we

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established this central bureau plan. The first circular sent out undertook to have an acknowledgment sent from the central bureau to the bank applying to the bureau for information. The New York banks demanded that that acknowledgement be eliminated, and that any banker be permitted to go to the central bureau and check up the document that wished to do so. The New York bankers asked that because they saw that the banks of the South must be protected. Every Southern banker ships foreign exchange to New York and expects to get currency from New York from the proceeds, and must know that his bills are going to be paid. If those bills of the Southern bankers went to New York and the New York bankers had to hold them until they were checked up it would be impossible for the Southern banker to work intelligently, and he might even be forced into bankruptcy because of having such an accumulation on his hands. The New York bankers recognized the fact that the Southern bankers must have their bills paid in New York on the day of presentation. Consequently, the New York bankers said: We must not permit the bankers from any section of the country to go to the central bureau and have these documents checked up before we pay for them. In other words, we are willing to take the chances of loss on this bill and that bill that we buy, knowing that it is going to be checked up, and that if it is a forgery the forger will be caught in a few days, rather than force the Southern banker to have any question as to whether his bills will be paid. The New York banker knew that no shipper who might be inclined to raise money fraudulently would be tempted to forge bills of lading and negotiate them when he knew that the forgery would be detected in two or three days. As it is now it takes two or three years, or five or six years sometimes, to catch them. One other reason why the New York banker would not allow the central bureau to advise him whether a bill was good or not, was to protect the Southern shipper. We put that up to the Liverpool conference and they agreed to it. The Southern shipper might have his credit injured if acknowledgments were sent out from the central bureau, because in case of an error on the part of some railroad agent, a bill might have wrong marks or numbers upon it and the central bureau would have to take two or three days to check that error up. That would be an impossible system. Under this system that cannot happen, because the central bureau is not authorized to give out any information to any bank except when absolute fraud or forgery has been found. The central bureau has to trace the cotton and correct every error in the bill of lading before it can report, and then it could not report unless there was fraud. The address of the central bureau is New York City only because the company that was willing to handle it without cost has an office in New York. But you can see that the central bureau is of no more value to New York than to any other city, because New York must take up the notices and mail them every night to the central bureau the same as every other cotton buying center, and if there is an error New Orleans, St. Louis or Chicago would be advised immediately by telegram. I mean, in case there was fraud.

The central bureau has been established along every line that has been found necessary in order to make it fair to all concerned. The American Bankers' Association has through its Executive Council agreed to certain things with the Liverpool cotton conference. The Liverpool cotton conference did not go on with this until the American Bankers' Association had acted. Now after the Association has acted, and after Liverpool has acted, we do not wish to put ourselves in the position of men without honor and say to the Liverpool people: You have established something wherein we co-operated with you, but now before you have an opportunity to get it in working order we will repudiate it. If we take that position we will lose our integrity before the world. That cotton conference was authorized by every foreign body. If it cannot convince the shippers that it is a good thing for them, why, the central bureau will never develop any farther than it has already. If it does convince the shipper that the plan is of value then it will go on. Our work is done. There is nothing for this Association to do, unless we say to the shipper: You gentlemen know your business. Why not let the shipper decide for himself what is best for him to do? We have established the machinery that will enable him to partake of the system if he wishes to. Why not leave it to him to decide one way or the other?

Gentlemen, I have talked at random, but I have tried to give you as much of the history of this matter as I could without going into detail. I met a gentleman from Texas day before yesterday, one of the brightest bankers in the State, and I explained to him the whole detail of this plan, and he told me that he had had no conception of it before. That is the trouble. We have been so taken up with manufacturing sentiment on this question that we have not considered the plan itself. I am willing to go before any committee of Southern men and explain this system to them in detail. If they can show me that it is not all right for them, or if they wish this or that done, I am positive that the Liverpool cotton conference will endeavor to meet their wishes. We are not trying to ram anything down any one's throat. (Applause.)

Myron Campbell, of Indiana: I think we will all agree that the Legislative Committee has made a very exhaustive study of this subject, and I think we all must admit that Mr. Wexler is high authority on the subject. For my own part, I am entirely willing to admit that I am not prepared to vote intelligently on this question after hearing the speeches on both sides. Therefore, I think Mr. Wexler's resolution and the report of the Committee should be referred to the Executive Council for their further consideration. I do not feel like making a motion to that effect, because I have no particular interest in the subject, but that is what I think ought to be done.

A. Breton, of New Orleans, La.: Mr. President, and gentlemen, I desire to say a few words on this matter. I do not rise to criticise the Committee, but I believe that many mistakes have been made with regard to this bill of lading matter. In the first place, it was an oversight to have a sub-committee appointed composed only of New York bankers. In the second place, a mistake was made in having that sub-committee report to the Executive Council without giving the Southern interests a chance to be heard. The Louisiana Bankers knew nothing of the contemplated establishment of a central bureau until they read of it in the newspapers while they were holding their State convention, and then a protest was wired to the Executive Council in session at Nashville, by the Louisiana Bankers' Association, of which I was president, but no attention was paid to this protest.

So far as the modification made in the plan as originally proposed, pointed out by Mr. Kent, they were only made after Southern interests had insisted that they should be made.

J. H. Fulton, of New Orleans, La.: I would like to second Mr. Wexler's resolution. It seems to me that this Association is being dragged into the matter and asked to pick the chestnuts out the fire. I do not see wherein it protects American Bankers. It is like locking the stable door after the horse is stolen, so far as the Southern bankers are concerned.

BILLS OF LADING COMMITTEE ENLARGED.

Lewis E. Pierson, of New York: I offer as a substitute that the report of the Committee be received and the Committee continued, and that its membership be added to by the president appointing two bankers, one from New Orleans, to be Mr. Wexler, and the other also to be from a cotton growing State.

President Watts: The Chair will appoint as the Committee on Agriculture, the following gentlemen:

COMMITTEE ON AGRICULTURE APPOINTED.

Jos. Chapman, Jr., of Minn.; B. F. Harris, of Illinois; Myron T. Herrick, of Ohio; Jos. G. Brown, of North Carolina; Edwin Chamberlain, of Texas; E. R. Gurney, of Nebraska, and W. D Vincent, of Washington.

The next order of business is the report of the Standing Law Committee.

Report of Standing Law Committee.

[The reader will find the report of the Standing Law Committee on page 167.]

On motion, the report was accepted.

President Watts: Next in order is the report of the Federal Legislative Committee.

The report was read by Arthur Reynolds, of Des Moines, Ia., as follows:

Report of the Federal Legislative Committee, by Arthur Reynolds.

[We print Mr. Reynolds' report on page 179.]

On motion, the report was accepted.

President Watts: The next is the report of the Committee on Express Companies and Money orders.

Report of Committee on Express Companies and Money Orders, by Joseph Chapman, Jr., of St. Paul.

[The report of the Committee on Express Companies and Money Orders will be found on page 179.]

On motion, the report was received.

President Watts: Next in order is the report of the Committee on Fidelity and Burglary Insurance.

Report of Committee on Fidelity Bonds and Burglary Insurance.

[This report is given on page 176.]

On motion of Mr. Gurney, the report of the committee was received, and the committee was continued.

This report, I understand, will be handed in to the General Secretary in time for publication in our proceedings.

The next order of business is Communications from the Executive Council.

Gentlemen, the Secretary has two short communications:

Secretary Farnsworth: They are very short.

"By the unanimous expression of the members of the National Association of Supervisors and Commissioners of State Banks, we, the

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following Committee, have been appointed to convey to your Association the fraternal greetings of our Association, and to assure you that the kindly interest shown, and the many courtesies extended to us by your Association, are sincerely appreciated; and a most cordial invitation is hereby extended to your members to attend our sessions.

"Very respectfully,

"(Signed) ARTHUR B. CHAPIN, Massachusetts.
"JOHN E. SWANGER, Missouri.
"WM. P. GOODWIN, Rhode Island."

The Young Business Men's Exchange, on behalf of the citizens of Knoxville, Tenn., cordially invites all bankers who pass through their city on their way home to stop off and visit Knoxville, and see the city and its resources, and you will have a good time.

The President: If there is no objection, these communications will be spread on the minutes. So ordered.

A. D. Swift, of Ridgway, Pa.: I beg to offer and move the adoption of the following resolution:

"Resolved, That the thanks of this Convention are due and are hereby tendered to the several gentlemen who have given time, labor and great ability in elucidating the various phases of the Currency question now engaging the best thought of the entire country; and,

"Resolved, That the General Secretary be instructed to forward to the several gentlemen who have addressed us this acknowledgment of our obligation and appreciation."

President Watts: The next item on the programme is Resolutions.

RATES OF INTEREST ON DEPOSITS.

R. D. Kent, of Passaic, N. J.: I offer the following preamble and resolution:

Proposed resolution offered by Robert D. Kent, President of Merchants' Bank of Passaic, Passaic, N. J.

Whereas, It is the general practice of the National Banks of Central Reserve Cities to pay a uniform rate of interest throughout the year to other banks in the country, regardless of whether money is plentiful and cheap, or in great scarcity; thus ignoring the law of supply and demand; therefore be it

Resolved, That the subject be given consideration by this Association, through a committee or otherwise, to determine whether or not such practice adversely affects to any considerable extent the business interest of the country; and if it is determined that it does so affect them that the result of such consideration be submitted to the Clearing House Associations of the Central Reserve Cities.

A Delegate: I move that that be tabled.

President Watts: Is there a second to the resolution? There does not seem to be a second, and, therefore, the resolution cannot be entertained.

Secretary Farnsworth: The Executive Council reports disapproving of the amendment offered by Mr. Clark, of Detroit, Mich., which appears among the proposed amendments in the official programme.

On Motion of Mr. F. W. Hyde, of Jamestown, N. Y., the action of the Executive Council in respect to this amendment was approved.

THANKS TO NEW ORLEANS.

On motion of Col. Powers, of Louisville, Ky., the following preamble and resolution was unanimously adopted:

Whereas, The deliberations of the 37th Annual Convention of this Association are now approaching final adjournment, it is meet and proper that we should give some expression of our appreciation for the many delicate courtesies so delightfully conceived and lavisly extended to us and to our guests accompanying us whilst sojourning in this beautiful and magnificent city of New Orleans;

Therefore, be it Resolved, That our thanks be and are hereby extended to the bankers, the various committees, and the citizens generally of the city of New Orleans for their earnest, persistent efforts for the comfort and pleasure of this Convention, the ladies and guests. We feel especially indebted to the local committee of the Associated Banks, and the bank clerks, who have so ably assisted the officers of the New Orleans Clearing House Association, and the press, and we also attest our appreciation of the services rendered by the Remington Typewriter Co in furnishing machines and operators for the use of the officials, and our thanks are extended to the telephone and telegraph companies for courtesies extended, and also to the St. Charles Hotel managers for the free use of committee rooms.

NOMINATIONS AND ELECTIONS.

President Watts: The next order of business is the report of Committee on Nominations.

REPORT OF NOMINATING COMMITTEE.

New Orleans, La., November 24, 1911.

For President: Wm. Livingstone, President Dime Savings Bank, Detroit, Mich.

For Vice-President: Chas. H. Huttig, President Third National Bank, St. Louis, Mo.

For Vice-Presidents for the different States and Territories as nominated at Convention of the State Associations and certified to this Association by the Secretaries of the respective State Bankers' Associations:

Alabama: Michel Cody, President Exchange National Bank, Montgomery, Ala.

Arkansas: John Q. Wolf, Cashier National Bank of Batesville, Batesville.

California: F. L. Lipman, Vice-President Wells-Fargo Nevada National Bank, San Francisco.

Colorado: C. C. Parks, Cashier First National Bank, Glenwood Springs.

Connecticut: Jos. H. King, President American National Bank, Hartford.

Florida: T. T. Munroe, President Monroe & Chambliss Bank, Ocala.

Georgia: W. C. Lanier, President First National Bank, West Point.

Idaho: J. A. Givens, President Bank of Nampa, Nampa.

Illinois: Wm. A. Heath, President Live Stock Exchange National Bank, Chicago.

Iowa: Geo. S. Parker, President Live Stock National Bank, Sioux City.

Indiana: John A. Thompson, President The Thompson Bank, Edinburg.

Kansas: John T. Denton, President Grenola State Bank, Grenola.

Kentucky: A. S. Rice, President Southern National Bank, Louisville.

Louisiana: Jas. W. Bolton, Vice-President Rapides Bank, Alexandria.

Maryland: C. G. Osborn, Cashier Farmers & Merchants National Bank, Baltimore.

Massachusetts: E. Elmer Foye, Vice-President Old Colony Trust Co., Boston.

Michigan: A. D. Bennett, President Commercial Bank, Port Huron.

Minnesota: J. B. Galarneault, Cashier Aitkin County State Bank, Aitkin.

Missouri: Henry L. Rozier, Banker, St. Genevieve.

Mississippi: E. V. Yates, Cashier Merchants & Farmers Bank, Macon.

Montana: D. R. Peeler, President Bank of Commerce, Kalispell.

Nebraska: E. J. Wightman, Cashier First National Bank, York.

New Jersey: Adrian Lyon, President Perth Amboy Savings Institution, Perth Amboy.

New York: F. E. Lyford, President First National Bank, Waverly.

North Carolina: Jas. P. Sawyer, President Battery Park Bank, Asheville.

North Dakota: A. J. Hunter, Cashier Union National Bank, Grand Forks.

Ohio: Wm. L. Allendorf, Cashier Commercial National Bank, Sandusky.

Oklahoma: A. L. Churchill, Cashier First National Bank, Vinita.

Oregon: W. L. Thompson, President American National Bank, Pendelton.

Pennsylvania: Montgomery Evans, President Norristown Trust Co., Norristown.

South Carolina: H. W. Frasier, Cashier Peoples Bank, Georgetown.

South Dakota: C. L. Mellett, President Stockgrowers' Bank, Fort Pierre.

Tennessee: J. L. Hutton, President Phoeniz National Bank, Columbia.

Texas: W. H. Fuqua, President First National Bank, Amarillo.

Virginia: Tench F. Tilghman, Vice President and Cashier Citizens Bank of Norfolk, Norfolk.

Washington: E. T. Coman, President Exchange National Bank, Spokane.

West Virginia: Harry W. Chadduck, Cashier Grafton Banking & Trust Co., Grafton.

Wisconsin: Jas. T. Joyce, Vice-President Union National Bank, Eau Claire.

For Vice-Presidents for the different States and Territories where the membership in the American Bankers' Association is less than one hundred:

Alaska: J. E. Chilberg, President Miners & Merchants Bank, Nome.

Arizona: M. Goldwater, President Commercial Trust Co., Prescott.

Delaware: L. L. Layton, President First National Bank, Georgetown.

District of Columbia: A. G. Clapham, President Commercial National Bank of Washington.

Maine: J. F. Percival, Cashier Peoples National Bank, Waterville.

*Nevada: Geo. S. Nixon, President Tonopah Banking Corporation, Tonopah.

New Hampshire: R. E. Smythe, Cashier Pemigewasset National Bank, Plymouth.

New Mexico: H. B. Jones, President First National Bank, Tucumcari.

*Rhode Island: Chas. P. Cottrell, Vice-President Washington Trust Co., Westerly.

Utah: W. S. McCornick, President McCornick & Co., Bankers, Salt Lake.

Vermont: F. H. Farrington, Vice-President Rutland Savings Bank, Rutland.

*Wyoming: John Clay, President Stock Growers National Bank, Cheyenne.

*Canada: Alex. Laird, General Manager Canadian Bank of Commerce, Toronto.

*Cuba: W. A. Merchant, Vice-President National Bank of Cuba, Havana.

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*Chas. H. Cooke, President Bank of Hawaii, Honolulu.

Isle of Pines.†

*Porto Rico: Jos. R. Bruce, Manager Royal Bank of Canada, San Juan.

*K. M. Van Zandt, Jr., Vice-President and Manager Mercantile Banking Co., Mexico City.

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*These names selected by sub-committee of the General Nominating Committee.

†The only member of the American Bankers' Association is the Isle of Pines Bank, Neura Gerona. Bank directories, however, do not give a list of officers of this bank, and, therefore, no nomination has been made.

For members of the Executive Council as nominated at Convention of State Associations and certified to this Association by the secretaries of the respective State Bankers' Associations:

California: For one year, Jas. K. Lynch, Vice-President First National Bank, San Francisco. For three years, W. H. High, Assistant Cashier Anglo and London-Paris National Bank, San Francisco.

Florida: John T. Dismukes, President First National Bank, San Augustine.

Illinois: Nelson H. Greene, Vice-President Peoples Savings Bank & Trust Co., Moline.

Iowa: Arthur Reynolds, President Des Moines National Bank, Des Moines.

Kansas: P. W. Gobel, President Commercial National Bank, Kansas City; J. W. Berryman, President Stockgrowers' National Bank, Ashland.

Kentucky: J. R. Downing, Vice-President and Cashier Georgetown National Bank, Georgetown.

Louisiana: Sol. Wexler, Vice-President Whitney Central National Bank, New Orleans.

Mississippi: F. W. Foote, Vice-President First National Bank of Commerce, Hattiesburg.

Missouri: C. G. Hutcheson, Cashier First National Bank, Kansas City.

New York: Walter E. Frew, President Corn Exchange Bank, New York; Fred W. Hyde, Cashier National Chautauqua County Bank, Jamestown.

North Carolina: J. Elwood Cox, President Commercial National Bank, High Point.

North Dakota: H. P. Beckwith, Vice-President Northern Trust Co., Fargo.

Ohio: R. B. Crane, Vice-President National Bank of Commerce, Toledo.

Oklahoma: L. A. Wilson, President First National Bank, El Reno.

Oregon: J. L. Hartman, of Hartman & Thompson, Bankers, Portland.

Pennsylvania: Robt. E. James, President Easton Trust Co., Easton; Jos. E. Wayne, Jr., Vice-President and Cashier Girard National Bank, Philadelphia.

South Dakota: N. E. Franklin, President First National Bank, Deadwood.

Virginia: Oliver J. Sands, President American National Bank, Richmond.

Washington: Samuel M. Jackson, Manager Bank of California, Branch, Tacoma.

West Virginia: W. B. Irvine, President National Bank of West Virginia, Wheeling.

For member of the Executive Council from States and Territories where the membership in the Association is less than one hundred:

Henry L. Ward, President Burlington Trust Co., Burlington, Vt.

For member of the Executive Council representing the Trust Company Section:

F. H. Goff, Chairman, President Cleveland Trust Co., Cleveland, Ohio.

For member of the Executive Council representing the Savings Bank Section:

J. F. Sartori, Chairman, President Security Savings Bank, Los Angeles, Cal.

For member of the Executive Council representing the Clearing House Section:

John K. Ottley, Chairman, Vice-President Fourth National Bank, Atlanta, Ga.

For member of the Executive Council representing the American Institute of Banking Sections:

Carroll Pierce, Chairman, Vice-President Citizens' National Bank, Alexandria, Virginia.

For member of the Executive Council representing the State Secretaries' Section:

J. W. Hoopes, President Farmers' National Bank, Manor, Texas.

For member of the Executive Council to represent the District of Columbia:

Wm. J. Flather, Vice-President Riggs National Bank, Washington, D. C.

Respectfully submitted,

HIRAM R. SMITH,
Chairman Nominating Committee.

J. O. DUNLAP, Secretary.

W. J. Bailey, of Atchison, Kan.: I move that the report of the Nominating Committee be received, and the action recommended be approved and made the action of this body.

The motion was seconded and unanimously carried.

President Watts: Next in order is the installation of the President. I regret that the hour is so close to adjournment that I cannot give adequate expression to the personal sense of gratification I feel that we have elected as presiding officer of the Association so able and distinguished citizen of Michigan. I take great pleasure in presenting to him this insignia of his office. (Pinning the badge of President on the coat of the President-elect.) Applause.

President-elect Livingstone: I thank you all from the bottom of my heart for the honor conferred upon my State and upon myself. When I look back upon the history of this Association and reflect what great progress it has made, especially in the last four years, during which period it has increased in membership by 3,000, I am impressed with the great responsibility which rests upon me. I ask each and every one of you to co-operate with me, and I promise to employ my best efforts to the end that the Association may go on to still greater progress in the future.

Myron T. Herrick, of Cleveland, O.: Before our retiring President takes his seat, I am commissioned to pin upon his manly breast this souvenir as a reminder to him in the years to come of his incumbency of this office.

(Gov. Herrick then pinned upon the coat of Mr. Watts a diamond badge.)

Mr. Watts: Gov. Herrick, and members of the Association, I thank you.

Joseph G. Brown, of Raleigh, N. C.: Mr. Watts, it is my pleasure to present to you this beautiful silver set. It represents not only the feeling entertained towards you by the members of the official family who have served with you in the administration of this Association, but, as well, the appreciation of the members generally for the unselfish services you have rendered to the Association during the year.

(At this point, there was displayed upon the platform a solid silver table set.)

Mr. Watts: Mr. Brown, and my friends, the members of the American Bankers' Association: I accept this gift with all the more pleasure because it comes to me at the hands of my friend Joseph G. Brown, and also because I know it is given in pursuance of the established custom of this Association to bestow a gift upon its officers who have tried to discharge properly the duties imposed upon them, and I believe that a majority of the members of this organization hold the opinion that I have been guided solely by a sense of duty and a desire to do what I thought was best for the organization. (Applause.)

I thank you all, once again, and wish you long life and prosperity. (Applause.)

President Livingstone: Before bringing this Convention to a close, I desire to voice the regret that I know you all feel that your Vice-President is not able to be with us on this occasion. However, you will all be glad to know that a message has been received from him stating that he is on the high road to complete recovery, and hopes to resume his business activities by the first of January. (Applause.)

What is the further pleasure of the Convention?

F. W. Hyde, of Jamestown, N. Y.: I move that the Convention be now adjourned.

J. M. Elliot, of Los Angeles, Cal.: I second the motion.

President Livingstone: The business of the Convention having been concluded, it is moved and seconded that we do now adjourn. All in favor of the motion will say aye; opposed, no. (Carried.)

Gentlemen, the Convention stands adjourned sine die.

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TRUST COMPANY SECTION

AMERICAN BANKERS' ASSOCIATION

Sixteenth Annual Meeting, Held at New Orleans, La., November Twenty-third, 1911

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The Protector of Property.

By A. A. Jackson, Vice-President Girard Trust Company, of Philadelphia, Pa.

To arrogate to oneself the position of an incorruptible guardian savors of egotism; in an individual such an assumption would be bombastic. There is no reason, however, why there should not stand upon that plane a corporation that because of the guidance of its executive and office staff is possessed of the brains of many individuals rather than those of one, and as against the individual has the benefit in the discharge of its duties of a machinery that is constantly renewed, so that instead of showing signs of weakness it becomes more efficient as its life progresses.

Perhaps it is idle in an assemblange of this nature, where we are of the same calling, to voice sentiments that presumably will be those of us all. It savors of a going along the line of least resistance to talk of the services rendered to the community by our companies; of their integrity, their perpetuity, their many-sided usefulness, and yet it may not be amiss to bring to our minds these benefits possessed; for nothing is so good that it may not be bettered, and in exploiting the usual efficient scheme of existence occupied by trust companies we may find opportunities to make their services even more complete and satisfactory. And here in this Convention is our chance that comes once a year to review what has been accomplished in our field, to scrutinize our present position and to consider carefully what improvements may be made for our own welfare and the benefit of the property that it is our province to protect for others. It is the time for our annual taking acount of stock and for the making of our New Year resolutions, that, unlike so many of those resolves, in our case are to be kept faithfully once they are made after the careful weighing of their merits.

The review of what has taken place in the life of this Section and in the field of our labors during the past year has been told us by our President and in the reports of the committees. Perhaps you will let me say a few words upon the position of our companies in discharging the duties laid upon them, primarily, as caretakers of the fortunes of others, and as to possible betterments for the future, if I may make one or two suggestions and so induce other and further recommendations from our members, I shall be very glad; for here is our opportunity, while we are together, to discuss what may be voiced by any one of us as his thought for the good of the trust company family, that it may bear fruit according to its worth.

As we are all of that family, I assume that we have the clannish feeling that our companies are well equipped to discharge satisfactorily the varied functions that lie within the scope of their business. Let us claim for our corporate selves, therefore, the place that we should occupy by right, and let us prove that the claim is not idly boastful, whether it be made purely as to our administrative qualifications or from a broader and more humanitarian standpoint.

One often hears of the nobleness of the profession practiced by the physician who heals the body and of the comfort given to those in trouble by the ministers of that other profession whose aim is only to do good; not often, however, is it exploited that the trust company in its sphere acts other than as a corporation for profit, and there is prone to be overlooked its functions in keeping the fortune in good health, in endeavoring to restore it when weakened or shattered and in aiding in the quieting of the mind of its clients who may be in distress concerning their mundane affairs.

One of the most hackneyed phrases in our language, to which there is imputed a meaning never meant by its author, is that a corporation has "no soul." This saying —so well suited in its wording to take the ear of the people and to make a catchword maxim—had its origin in the case of *Suttons Hospital*, tried in the ninth year of the reign of James the First at the Michaelmas term of the King's Bench, and reported by Sir Edward Coke in Part 10 of his Reports; a cause argued openly by all the barons of the Exchequer and by all the judges in England (save one, who was ill), including Lord Coke himself, then Chief Justice of the Common Pleas. The Court found for the hospital as a corporation, and the eminent reporter of the case, surely with no thought of sarcasm nor of the taking of his words from the context for their popular mean-

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ing through the succeeding generations, quoted from the findings, "They (corporations) cannot commit treason, nor be outlawed, nor excommunicate, for they have no souls."

But allowing the popular acceptance of the saying—justified in many instances by trespass on the rights and feelings of individuals who may have felt the power of corporate power and monopoly—I submit that our corporations, our trust companies that are not trusts, not only are possessed of *souls*, and show them day by day, but that their *bodies*, impervious to the limitation of mortal life, and if rightly governed, to the decay that works in mortal tissues, stand firm and healthy, housing sane minds, whose energy is devoted to the good of their clients; whose judgment protects the property of those persons whose material welfare is entrusted to them, and whose record, lengthening year by year, disproves the perverted saying of Lord Coke.

In its management of the estates committed to it by wills and deeds of trust by the courts and by individuals, who constitute it their attorney in fact, or in the discharge of other fiduciary relations, the trust company is single-eyed for the benefit of its clients. Looking for its compensation only to its fees, often too small indeed, and to its good reputation, its *cestuis que trustent* need not, fear the use, which is *misuse*, of their funds for its aggrandizement. It puts apart from all other business that it has the holdings of those for whom it stands in the position of a faithful guardian. If rightly conducted it is examined frequently from within by its own people or auditors from without by expert accountants, and in States where there exists a bureau for the purpose, by the Department of Banking. If by some mischance reverses in its other lines of business, or the devastating sweep of a panic—hereafter, we hope, to be rendered improbable by the passage of some beneficent law as the outcome of the bill and plans that are engaging the attention of this whole Convention—if, I say, some such catastrophe involves one of our companies no danger attaches to the funds of the estates held by it in trust. They are separate and apart from its own assets, as free from attachment of its creditors as in well-ordered companies these trust properties are physically separated in their place of lodgment from the belongings of the corporation itself, or from those attaching to its other lines of business.

Being then outside the possible misfortunes that the company itself may suffer (and the record shows that insolvency has come to few of them), an estate in its hands would seem to be essentially free from menace. Although we cannot guarantee, as now and then seems to be the thought of some client that we should, the non-depreciation of the corpus, to which bad days come in common with all other bodies, and which is as sensitive to the fluctuations of values of those bad days, yet we can endeavor to keep it stable and to increase its value by proper means. The physical custody of its assets is safeguarded by efficient devices and the records concerning it are carefully transcribed and open to inspection by the persons interested. Its funds are invested in directions not dictated by the choice, perhaps biased, of one person, but with the consensus of opinion of several heads well used to making such decisions, and in accordance with existing statutes governing the investment of trust funds, or in cases where the trustee is not restricted by the instrument under which it acts to securities prescribed by law, then as thoughtful judgment may decide, in all instances with the desire to gain for the benefit of the *cestui que trust* a satisfactory rate of income commensurate with the safety of principal. For if the corporate trustee exceeds its province in making those investments the court to which it is accountable surcharges it, and by the very fact that as a corporation it is possessed of other assets that may not pertain to an individual trustee, the estate suffers no loss. If then the perpetual corporation, with its safeguarding capital and surplus, efficient management and its machinery for discharging the duties devolving upon it, protects the property that it holds in trust for others, its continued appointment and employment for these purposes should obtain in steadily increasing instances. Theoretically able to handle matters large and small as well as an individual, practically it shows its ability to discharge its duties better and to make a more satisfactory fiduciary than the average individual who lacks the plant that the company has accumulated, the staff of specialists that forms its office force and in most instances the strength of the corporation's assets that are responsible for the proper management of its trust affairs.

But if the trust company has taken, is taking and will take the place once occupied by individuals under Wills and Deeds of Trust, and in other fiduciary capacities, it does not exclude from its scheme of management those individuals who would have been appointed to the positions in question. Sincere in its desire to administer for the best benefit of the family of a testator the property that he has committed to its charge by his will the trust company turns gladly to those persons who, by reason of their former close association with the dead, have knowledge of details that are of benefit to his executor; and the lawyer who formerly often was appointed by his client naturally is retained by the company as its counsel in the administration of the estate left by that client whom he has lost.

The corporate executor and trustee strives to show its beneficiaries that their interests are taken care of by welcoming all aids from proper sources; that it has no complacent self-sufficiency, and that its official staff is made of men who can realize the situation in which stand persons interested in an estate, so that their wishes may be followed where it is possible, and their benefits at all times considered.

Happy is the company which justifies the designation of its title by being in all things "trusted" by its clients: that by its record gathers to itself an increasing number of friends, for what exploitation of its fitness is so effective as a reputation spread abroad by those whose own experience lends weight to their statements? And although the getting together of a large number of estates is a long process, this advertisement by the mouth of friends is an invaluable factor—once started it rolls by its own momentum, gathering weight as it goes. And it should be easy for us to make those friends. With our broad powers we reach and serve so many people in so many ways, taking their money on deposit; lending them funds when they are in need of and in the position to borrow them; housing their securities in our vaults; caring for their fortunes; buying and selling for them; acting for them—individuals and corporations; caring for their affairs in good standing and in insolvency, and administering their estates after their deaths. We stand in relations personal as well as financial to mankind from its birth, when we act as its guardian, to its death, when we execute its will, and then we begin again for the next generation.

But while we believe in the efficiency of the trust company for the discharge of its duty in the broad field of its activities, constant vigilance is needed to maintain that efficiency and to take advantage of each opportunity for betterment for its own benefit and that of the persons with whom it has relations.

At the risk of asking your attention to certain conditions now existing that no doubt have had already your careful consideration, I venture to speak of the propriety of their cure for the greater protection of our properties in trust:

Adam Smith in his "Wealth of Nations" says: "The subjects of every State ought to contribute toward the support of the Government as nearly as possible in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State."

While the book from which I quote was written more

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than a century and a quarter ago, the dictum is as true now as then. The National Government and that of a State could not exist without the contribution of the citizens; the right to do business, to acquire wealth, to live in a community the benefits of which are enjoyed, carries with it the obligation to support that community and the general fabric of the State, without which those benefits would not exist. No one disputes the necessity of, and when equitably disposed, the justification for taxation, by customs and excise duties, by corporate and mercantile license, by real estate and personal property taxes, and by the general tax on citizenship. Under a proper disposition of these, persons real and artificial contribute to the common weal out of their share of this world's goods proportionately as they are blessed with them.

Unfortunately the theory in some instances fails in its application, and that which in the propaganda of Adam Smith should work no hardship to the taxed becomes a burden, unjust, irritating, and in many cases distressful. It is one of these burdens that I have in mind, an irritating situation that confronts our trust companies in the management of estates—the multiplication of charges against inheritances from a descendent who dies with his fortune relating, although perhaps only by a fiction of law, to several of our United States.

In the past year much has been written and said on the subject of the iniquity of taxation of estates—not the charge that brings to the Commonwealth the contribution justly due by a decedent as his last act in support of the Government and his fellow citizens; that of itself is necessary, is sanctioned by laws in many instances proper and needed for the up-keep of the people and their institutions. It is not that charge of which complaint is made, but those taxes, the result of legislation often hasty and ill-considered, occasioned by the cupidity of a State which has seen with envy a sister Commonwealth harvesting large sums by heavy impositions on property laid open to tax by the passing of the owner, or more often occasioned by the desire to work retaliation because that sister Commonwealth has used for the mulcting of a fee property tangibly or intangibly found within her borders before she will let it go from her grasp to the domicile of the decedent.

As we know, the rates of direct and collateral inheritance taxes vary in the different States, and I do not intend to burden you with the reading of tabulated statements setting forth the statutes that exist in various localities. These have been published, and no doubt have been read by many of you. It is upon the general situation, and the need of its betterment, that I venture to plead for the enlistment of your good offices, instancing only the inheritance tax of one jurisdiction that would seem satisfactory to many critics and sufficient for the purposes of the power that has decreed it.

The State of Pennsylvania enjoys the benefit of a statute that with few amendments has been upon her books since 1826. Under it the persons who, by reason of their relationship to a decedent, most need his fortune after they are deprived of his support, receive their inheritances free of the imposition of taxation by the State. The Commonwealth recognizes the injustice of charging any distributive share that goes—let us say—to a member of the immediate family of the decedent who, in theory at least, will be a citizen of that Commonwealth, and under the law will continue to pay to it the yearly contribution that has theretofore been made by the person who has possessed the fortune and is dead. Therefore it does not make an opportunity to enrich itself unnecessarily by seizing a portion of that share in its transit from the late owner to those whom he has left behind, and who by his death, presumably deprived of the support and benefits that he had been accustomed to render them, although by that death they have become possessed in their own rights of the portion of his fortune left them, nevertheless are obliged to live upon the productive power of that fortune without the swelling of it by the earnings of the decedent.

The taxing power therefore exempts the inheritances of these persons but continues its receipts from the capital so divided to them by taxing it annually as theretofore it had taxed it when held together in the hands of the original possessor. The theory is beneficent; the law is sane.

The position of beneficiaries who are collateral in their relation to the decedent, or strangers to his blood, is quite different. The State appreciates that upon their bequests a levy may be made with justice. Their expectations were —we may say—unwarranted; their inheritances a gift from the donor. As to their temporary or continued residence within the Commonwealth there is no theory, nor as to the future contribution to the State by annual taxation. It is but right that at the going out of these portions of the estate of a citizen, the Commonwealth shall have a percentage for its up-keep. But in the State of which I speak, this percentage is fixed at the reasonable tax of 5 per cent., and no matter to what figures the distributive share ascends, nor to what remote degree of relationship or alienation does the beneficiary withdraw, there is no increase in that rate.

Furthermore, having given for so many years the benefits of this law to estates administered in its jurisdiction, Pennsylvania does not meddle with the securities of a non-resident that at the time of his death may be lodged within its borders. If a citizen of another State dies possessed of securities physically in Pennsylvania, that State does not impose a tax before his executor can remove them to the place of his domicile, nor should the decedent have possessed securities of a Pennsylvania corporation the certificates of which are outside the State, does it charge a tax upon them before the transfer is allowed.

With reference to this happy condition of affairs, Mr. Hugh Bancroft, of the Boston Bar, in his instructive manual upon Inheritance Taxes, says: "It is refreshing to find the courts in at least one State insisting that, if personal property of residents held outside of the State is to be taxed on the theory that personal property follows the domicile of the owner, the logical consequence of this theory is that personal property of non-residents within the State is not taxable."

To our cost, or rather to the cost of our estates, we know that this satisfactory situation does not exist in certain other commonwealths, and that under the laws of some of them the fortunes of a decedent unfortunate enough to own securities of corporations transacting business in several jurisdictions, or lodged outside that of his domicile, may be subjected to double, triple or even quadruple taxation, while at least one State a few years ago enacted legislation, the possible effect of which under certain conditions might be to confiscate and more than confiscate a legacy.

The evils of laws inducing double taxation, or imposing it at abnormal rates, have been felt keenly by New York in the flight of securities from her borders after the passage of the law of 1910, and she has promptly applied the cure by the amendment of the current year. No doubt in the passing of time other States will remedy the injustice that may exist in them, not only to inheritors but to themselves, and feel that the theory of fair play and give and take is a good and comfortable one to make a basis of taxation.

In the meantime cannot we, the Trust Company Section, aid in the work by a campaign of education among the legislators?

And if such action be taken, it occurs to me to suggest two other matters that might be brought forward in localities where enactment on the subjects would be of benefit.

One of them is the fixing of what investments shall be legal for funds held in trust. Laws expressed or implied as to this exist, I think, in the majority of the older

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States, but are lacking in others. It is as much for the protection of the trustee as of the estate that certain classes of investments should be designated as approved by the courts for the use of funds under their control. Necessarily these classes may vary in different localities, but as they should embody property that is the least likely to be affected by depressed conditions, an estate should be safe in their purchase, and the trustee which buys them after due examination should be protected by the courts if by some mischance they suffer a depreciation in its hands.

Just as many persons consider that the law equitably provides for the distribution of the estates of intestates and so are content to die without a will, so may others be desirous that the portion of their possessions directed to be held together after death be represented only in such form as is sanctioned by the laws governing the investment of trust funds. Therefore, there should be such laws to direct the trustee where it is without direction in the instrument under which it acts. But, on the other hand, there should not be denied the right of a testator or a donor to permit his trustee in its wise discretion to invest in directions that may appeal to it without the scope of legalized securities and without liability to it for such following of his permission.

And if these two matters of which I have spoken should be taken up with the legislatures, may I suggest the urging of State supervision of trust companies in such commonwealths, rapidly lessening in number, where there is no Department of Banking, so that soon throughout the country there will be no one of our institutions that is not subject to examination under the law.

This Section has an admirable Committee on Protective Laws. It is composed of busy men engaged in the affairs of their respective environments, yet finding time to discharge the duties laid upon them by this organization.

At the risk of burdening them still further I venture to suggest, Mr. President, that the Committee take under consideration whether or not there is value in my belief that there will be served the interests of trust companies at large, that the property in their charge will be conserved and that their reputation will be strengthened by moving in jurisdictions where existing laws are susceptible of betterment for

A just and equitable single inheritance tax.

The designation of classes of investment for trust funds where the trustee is not given discretionary powers by the creator of the trust.

The supervision of companies by the Governments under which they hold their charters.

I do not ask for any resolution upon these suggestions. The meeting may not be with me as to all or any of them. They are but my ideas for the betterment of system where it may be needed by us as protectors of the property of our clients and of our companies, and for the further advancement of our good names.

Registration of Commercial Paper

By Fred. I. Kent, Vice-President Bankers' Trust Co., New York.

One of the great problems of today, which the people are unconsciously engaged in solving, is the right of the individual or combination of individuals to use the great market represented by the public mind. When the world was divided into thousands of comparatively segregated communities, personalities of buyers and sellers of commodities or credit were known to each other. With the dissemination of the thoughts of men, made possible through the telegraph, the telephone and the printing press, the business man is able to reach millions of minds to whom his own personality must be unknown, except as it is reflected through the thoughts of others. Partly on this account his responsibilities are proportionately greater and his duties vastly different than when he lived in and served only isolated communities. Each member of a small community, having an opportunity to judge of his neighbor's ability and integrity, can guide his own actions accordingly, and will succeed in life as his judgment is good or bad. With the growth of population and its increasing density, requiring division of labor and greater interdependence, with correspondingly less proportional personal acquaintance, a public forum is offered to him who would serve his unknown neighbors, and publicity of operation and regulation of methods must take the place of personal contact.

If, therefore, we would have for our market-place the great public mind, we should so display our wares that the stranger can fairly judge of their value.

The needs of the business man and of the people are identical. Both desire good times, which for the business man means demand for that which he has to sell, and to the people the power to buy. As a buyer for his own needs, the business man is of the people, and as a seller for profit, to be used to buy the necessities or luxuries of life, the people are business men. Their interests, therefore, cannot be separated, even though in particular instances, for a limited time only, a small portion of one element may seem to gain something through injury to the other. It is because of this latter fact that the demagogue has his day. His every success, even though it must of necessity be short-lived, has to be paid for by the people. In the formation of laws having to do with the regulation of industry both the business man and the people should be represented, the one as the seller and the other as the buyer. Then fairness to both interests would be possible, and injury done to neither. The popular political idea of the day appears to be that the buyers only should be represented, and not the sellers, except possibly when sellers seem to represent the most votes, and no consideration is given to the fact that every buyer is of necessity a seller, and that his ability to buy will be curtailed in exact proportion to his inability to sell. When organizations of business men can, among themselves, make such rules and regulations as will protect the public, the law need not and should not step in, but when such control is ineffective the requirements should be written into the statutes.

Industrial stability is essential to the comfort and happiness of the multitude. It can only be acquired by the elimination of waste in the growth or manufacture of commodities, waste in their marketing and distribution, and waste in their financing. The efforts of men to stop such waste and profit by it have led to the formation of our great corporations. While the people as a whole look upon waste with complacency, yet when it is turned into profit it becomes a source of discontent, even though a part of such profit may accrue to the public. The demagogue and the muckraker then constitute themselves leaders of the mob, and endeavor to steal, by abuse, the success of the captain of industry instead of trying to make his creation, the corporation, pay for the use of the great public market by fair regulations.

Waste is both positive and negative. When positive it may be turned into profit. When negative it may be prevented, and thus save loss. Greater efficiency in the management of a corporation will save positive waste, and greater protection from inability and dishonesty will prevent negative waste. Business men, through their asso-

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ciations, are constantly working for greater efficiency and greater protection, and incentive for profit is the compelling force which leads them to do so. The results of such efforts are seen throughout the commercial world in changed customs and requirements. Unfortunately men learn more rapidly from bitter experience than from anticipation, hence regulation usually follows primary waste. The registration of commercial paper, which has recently become a part of our financial system, is the outgrowth of such experience. That such registration has been voluntary on the part of those undertaking it greatly redounds to the credit of American business men, but it is only one instance out of many where financial interests, when left to themselves, have changed their methods to better protect the public.

The issuance of commercial paper is the direct outgrowth of the larger firm or corporation, which, having for its market the whole country, requires on the other hand a greater credit than can be furnished locally. It would not be necessary if the funds desired could be obtained from the bankers of the company issuing the paper. Such paper could not be sold if it were not for the facilities furnished by the great public mind, and as a compensation to the people for the use of the market made by them, sufficient additional safeguards should surround the business to protect to a reasonable extent all concerned.

One reason why such a duty falls upon those making use of the public market is that due to its great breadth, fraud, if committed, can assume enormous proportions and result in loss to great numbers of people who have not directly had any voice in extending the credit. For instance, if a large industrial concern places its paper in several hundred banks situated in different parts of the country, and the money is wrongfully used or otherwise lost by those in control of the industrial company, it may mean disaster to many interests, viz., the stockholders of the company issuing the paper, the various companies from whom materials are bought, and their stockholders and others interested, the stockholders of banks which purchased the paper, the depositors of such banks as may be forced into liquidation through the loss, the stockholders of such companies as are depositors in the failed banks, all who sell to those whose buying power is curtailed, and those from whom such sellers buy. The farther away we get from the original borrower, the less severely the loss is felt, except in cases far along the line, where the particular loss was sufficient to cause bankruptcy of some company which might otherwise have survived. Where frauds committed in a single community could only reach a small amount, those perpetrated upon the broad public market can assume enormous proportions. While the amounts obtained through the issuance of commercial paper wrongfully have already been tremendous, in some individual cases being over $1,000,000, yet they have not assumed the proportions possible under our present system by any manner of means. When commercial paper first began to be issued, it was comparatively easy for firms to obtain money in this manner without regard to their standing.

Some brokers, in their anxiety for commissions, induced hitherto conservative men to expand their credit far beyond the point of safety. Failures and losses inevitably resulted, until it was found necessary to put a check upon such operations. A system of auditing was then introduced, in order that those purchasing paper might be able to use their own judgment in deciding upon the advisability of taking it. Buyers of commercial paper then felt safe, for they thought that the risk was reduced to a reasonable one when public auditors were examining the books of the companies issuing commercial paper and were furnishing reports based upon such examinations. It was not long, however, before it was seen that while the auditing system protected the buyer of the paper to a reasonable extent, when all of those in authority who were connected with the issuing companies were men of integrity, yet that it was no protection whatever from such officers authorized to obligate the company as might be dishonorable.

It was found that commercial paper was being issued by some companies through several sources; that certain officers were appropriating the funds which were received from paper put out through special channels; that neither the funds nor the purpose for which they were used appeared upon the books of the company, and that separate bank accounts were maintained to carry deposits made from the proceeds of such paper issued, records or statements of which never reached the company's books or those connected with the company, other than the particular officers who were misusing the money. Any system of audit which might be applied in such cases would not uncover the fraud, for the company's books, if otherwise in order, would balance properly, and the auditor would not have his suspicion aroused. In all such cases the company, while never having received the use of the money, would still be liable for the amount of paper issued, as a properly authorized officer signed the obligations. When such paper became due and could not be met by the companies whose names appeared upon it, they were forced into bankruptcy. Those who had purchased paper upon the audited statements of these companies were really furnished with no more protection than if there had never been an audit. The losses to the multitude directly and indirectly interested were made because the public was not properly protected.

There was always the possibility that our daily newspaper on any morning might give an account of some bankruptcy due to some such cause. The question then was to find some practical safeguard which would effectively prevent frauds of this nature.

The American Bankers' Association has considered the problem from many points of view, and some form of registration seemed to be the only practicable solution. It was found, however, that the different systems of cooperative registration suggested could not be made effective, as they all required independent uncontrollable action of many individual bankers. The plan was then tried of having paper registered by a trust company along the same lines that have so successfully protected the issuance of other forms of security, such as bonds and stocks. This system, having proved most effective, has since been adopted by a number of industrial concerns issuing commercial paper, and it is at present under consideration by the boards of directors of many others. It is doubtful if any security in the form of stock could be listed upon any stock exchange in this country without registration. This protection, which is afforded to buyers of shares of stock, is such a contrast to the methods under which commercial paper is issued that its application to the latter security has been most favorably received by bankers.

First and foremost, the registration of commercial paper by trust companies makes a perfect audit possible, and without regard to any other protection afforded, this in itself would make such registration of the utmost value. In addition to furnishing the means to a satisfactory audit, registration affords those who examine the statement of a company, whose paper is being offered to them, an opportunity to see what obligations have been incurred by the issuing company since the date of the statement. Such information is not public property, but can be obtained by any banker interested. When so obtained, it is a trade secret, and it is safe to assume will be kept inviolate, as other similar matters are which have to be known to bankers.

The detail of the system is quite simple. First and most important, the board of directors of a company which intends to have its commercial paper registered must pass a resolution in regular order, which requires that all promissory notes issued or executed in the name of the corporation, and all promissory notes endorsed in the name of the corporation, other than its own promissory notes, and all drafts and bills of exchange accepted in the name of the

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corporation, must be registered by a trust company, and further, that no paper of such character shall be complete or valid until it has been so registered and such registration shall have been noted upon the paper itself over the signature of an officer of the trust company. The trust company as registrar should be authorized upon the written request of some officer of the company, either treasurer or assistant treasurer, to register upon presentation all obligations of the character already outlined, delivering them back to the company. Signatures of the proper officers should be filed with the trust company for comparison, and no other signature should be accepted by it unless properly authorized. The trust company should be authorized and directed to keep a record of all registrations, including maturity dates, amounts and such other detail as is necessary to identify the paper. The registrar should be obliged to report to the auditor of the corporation in writing on each business day, giving a transcript of the registrations made on the previous business day. The treasurer from time to time, at least twice each month, should present to the trust company all registered paper which shall have been paid and cancelled, and such cancellations should be noted on the records. The treasurer should also, from time to time, file a statement of bills receivable paid, which the trust company shall cancel from its records. The trust company should also be authorized to furnish any bank, banker or trust company, upon request, with a statement of the amount of the unmatured registered paper.

Where interior firms wish to have trust companies in reserve cities register their obligations, they should forward such paper to their brokers for presentation to the trust company for registration and certification and delivery upon payment of the amount of the paper registered. This would not inconvenience either the firm having the paper registered or the broker, as the latter would not need to present the paper for registration until the money was obtainable. This method would also be a great convenience in many cases, as the paper not being valid until properly registered, firms or corporations could, when desirable, file with their brokers obligations which were in order, with the exception of the signature of an officer of the trust company, showing that the paper had been properly registered. Such paper could then be held until its proceeds were required by the maker, who could obtain the funds by telegraph and without loss of time. Unquestionably large amounts in commercial paper are filed with brokers today to be held until needed, and too many firms in the past have lost money through brokers negotiating such paper for their own use, and without the knowledge of the makers. Under the system of registration all reputable brokers would be benefited, as their responsibility for paper filed with them would be practically eliminated. It is only a misconception of the object of registration which would prompt a broker to object to the necessity of having to have paper sent him for sale registered with a trust company and delivered against payment.

With registration carried on under such a resolution, the corporation, while unquestionably responsible for paper which it might issue without such registration, provided it actually received the funds, would not be responsible for any unregistered paper issued by an officer authorized to execute paper in his company's name, wherever there was notice of the company's requirement of registration. If the funds were received and used by the company, the audit would show it, consequently, as the company would not be responsible for such other paper as hight have been issued, the statement of the auditor should be a correct exposition of the company's business at the time it was taken off.

At present the large expense incurred in having public auditors examine the books of firms and corporations is money wasted, in so far as the audit is intended to protect those depending directly or indirectly upon the company in any way whatsoever. The value of a proper audit is more far-reaching than would seem at first glance. Every officer in a company is dependent upon a proper audit for protection against the inability or dishonesty of every other officer, and of the clerks in his employ. The directors of a company are entirely dependent upon a proper audit for proof as to their justification in trusting the officers elected by them, and in being able to intelligently pass upon matters of importance which are put before them for their consideration. The money they have invested in a company is often the least part of the risk undertaken by a director in assuming his duties. If his confidence in the officers is misplaced, or the system under which the company is carried on is a bad one, failure may result, and the director may have a reputation destroyed which had been built up through years of honorable and capable business management. Stockholders are usually influenced more or less when purchasing stock of industrial companies by the personnel of the officers and directors. If these known officers and directors, who may themselves be worthy of every confidence reposed in them, are not able to protect the stockholders, because a way is open to any other officer authorized to obligate the company to obtain funds on the company's credit and use them for the benefit of himself or to speculate for the company, either for the purpose of making money or to cover up losses, it is really a serious matter. The opportunity to raise money by means of commercial paper, by arranging to withhold the funds received from paper placed through special channels, is ever present, regardless of any audit which may be made. When the by-laws of a company require that every obligation intended to raise money shall be registered with a trust company, in order to be valid, both the temptation to put out commercial paper fraudulently and the possibility are eliminated. The protection afforded covers every danger existent with the issuance of commercial paper as such, and the methods under which it is sold. Such dangers include dishonesty or inability on the part of the maker, which causes him to try and float more paper than his business warrants, either by means of unrecorded paper or false statements, or by piling on liabilities after a statement has been published, and inability on the part of a broker who may wrongly advise a client, or who may endeavor to sell forged or fraudulently issued paper.

It has been contended that some bankers, having special arrangements with houses putting out commercial paper, may make direct loans to the institutions without having them registered. No honorable or capable banker is going to deliberately loan money to any concern against paper which he knows will not bind the company unless he can prove that the funds were actually used by the company and were not diverted to the personal use of any officer or other party.

Another objection made to the plan of registration is that while bankers by applying to the registrar trust company could obtain a statement showing the total amount of paper outstanding, yet as they would have no knowledge of the assets represented by the issue, they would be in no better position to judge of the condition of the company than if they did not know the liabilities. To the intelligent banker, who knows the seasonal requirements of the various lines of business in which his investments are made, a statement of liabilities in connection with a basic statement of a firm's condition would be exactly as useful as a complete supplementary but unaudited statement.

The officers of some institutions who are considering the registration of their paper have thought that it would be to their interest to have their auditor register as well, at such times as was deemed necessary, a statement of the uses which had been made of the borrowed money, in effect the assets in a rough way which, together with the liabilities in connection with an original statement issued at the opening of the season, would make it possible

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for anyone interested to render a satisfactory judgment on the condition of the company. Without regard to whether this were done, however, the registration of the liabilities would still make a perfect audit possible, and the statement of a competent public auditor is after all the real basis from which to consider the purchase of paper, provided the honor and integrity of the management are considered safe.

Another objection raised lies in the fear that competitors might be able to obtain information which could be used to the disadvantage of a registering company. It might be true in the case of certain lines of business that some such danger would exist, provided that the competitor could find some dishonest banker who would be willing to obtain the information for him. Such chances, however, are just as great at present, and anyone who could, under a system of registration, find a dishonest banker who would obtain information for him wrongfully could do so today. A management which was bent upon obtaining information concerning some competitive business by fair means or foul could do so better by employing a dishonest clerk or stool pigeon deliberately placed than through a banker whose ability to obtain information vital to his success depends upon his honesty in using it. It might be, however, that in certain lines of business the risks were abnormal, and that it might be wise for those registering the paper not to authorize the trust company to advise bankers concerning the outstanding liability, but instead to authorize them to give such information, when called for, to the regular public auditors of the company. Such auditors then having access to the assets created from the proceeds of paper issued could add to the original statement furnished the commercial paper broker a further statement to the effect that they had obtained from the registrar the amount of outstanding liability shown by its books, and that its assets had been properly increased by the amount. This method in itself would be sufficient to give the protection desired in connection with honorable and capable auditors.

Judging from the number of companies which have already completed arrangements to register their paper with a trust company, and those whose boards of directors are considering it at present, it would seem to be safe to predict that this system of protection will soon be generally recognized as being necessary to those who desire to issue commercial paper. The cost of registration is so small compared to the amount of paper which it would cover each year that it only adds an inconsequential, fractional amount to the average interest rate paid. The cost is, of course, based on the amount of work involved, and increases in proportion to the output of paper. As soon as registration of commercial paper becomes general, the market of those who do not have their paper registered will be confined to the bankers who have means of satisfying themselves that the company is in proper condition. In such cases the market will be exactly as abroad, as it should be, and no injury will be done to any interest.

A trust company is what its name signifies in the best sense of the word. Practically all of its functions, aside from the general banking business carried on by some companies, are to conserve and protect the interests of the public. It stands guard over the rights and property of every individual who has a direct or indirect interest in any of the affairs submitted to its care. It stands between the helpless and the ignorant and those who would, by fair means or foul, injure them. It is the only business organization whose every duty is that of protection. In adding to the functions of a trust company the registration of commercial paper, it becomes more than ever a public servant, for it enables our great industrial firms and corporations to go out into the public market fairly and justly, and borrow honorably the surplus funds of those of our people who have, through their industry and economy, made possible our vast banking system.

The Relation of the Trust Company to the Lawyer.

By Marquis Eaton, of Defrees, Buckingham, Ritter, Campbell & Eaton, of the Chicago Bar.

The banker and the lawyer have always challenged each other to the freest discussion of their many problems of mutual concern. While the functions of their professions are quite dissimilar, the professions are related in many ways: and their historic interdependence has been emphasized through the development of the modern trust company.

The interrelation does not consist, as some writers have conceived of it, in a sportsmanlike division of common spoils among two eager and competing groups. Neither does it consist in any type of armed neutrality—the favorite modern way of temporizing with a new problem until such time as the stronger can successfully invoke the doctrine, "the survival of the fittest."

Competition and interdependence are, for our purposes, terms mutually exclusive. It is the latter term which correctly characterizes the vast majority of the essential and legitimate activities of the trust company and the lawyer.

The scope of trust company organization has been extended so that it now frequently involves five distinct departments:

1. A financial department.
2. A safety deposit department.
3. A real estate department.
4. A bond department.
5. A trust department.

Financial Department.

In its financial or banking department the trust company does not compete with the lawyer to a greater or different degree than does the National bank. The interrelation of the banking and legal profession is the more marked in the case of the trust company than in the case of the National bank, because of the broader powers and wider scope of investment accorded to the former. The lawyer, if he has earned a reputation for reliability and prudence, can, through the co-operation of the trust company, assure every responsible client the financial support necessary to the protection of his legal rights; which protection, by the way, is required less often in litigated matters than in the carrying out of amicable adjustments and constructive plans.

It is true that some lawyers act as bankers for their clients, loaning them money (usually on extravagant security) and otherwise acquiring a personal interest in the plan, adjustment or litigation in which they are professionally engaged; but all that a lawyer can safely do in rendering his client financial assistance can be done better and with greater propriety through the banking department of the trust company. The law office used as a bank is as impertinent and as perilous to the client as the bank or trust company used as a law office. (I have been discussing the propriety of loans to the client. I do not seek to abridge the right of clients to loan money to their lawyers; an altogether admirable expedient for supplementing banks and trust companies in a function which, while they could perform it perfectly, they are sadly indisposed to perform at all.)

The careful lawyer makes it a rule to refer to his banker for adjustment direct with the client the financial

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questions involved in the conduct of his client's business. The banking and investment department of the trust company are of most frequent service in this connection. I have been told, and I believe it to be true, that lawyers introduce more acceptable customers to the banking department of the trust company than does any other professional or business group.

Reciprocally, the wider scope of trust company banking, compared with that of the National banks, gives much more freuent occasion for the employment by the company of the lawyer's technical services.

The trust company, therefore, in its financial or banking department, does not compete with the lawyer in any of his legitimate and essential lines of business, and it does aid him in these lines by occasional direct employment and by constant co-operation with his clients.

Safety Deposit Department.

The safety deposit department is one which is of special convenience to the lawyer. Until it came into popular use his office was the usual depository of wills, title papers, life insurance policies, contracts, stock certificates, promissory notes and bonds. He was always a bailee without hire; held to a limited financial but a strict moral responsibility. Frequently, in an emergency, he was able, after hours of patient search, to find the document which the client claimed to have left with him for safe keeping. This proved that the document had marvelously survived the successive house-cleanings, by means of which he had sought to extend the resources of his always overcrowded office; that it had come through the fire, which had started with a forgotten cigar; that it had been spared by the burglars when they ransacked his papier-mache vault.

Often the lawyer did not find the paper for the reason that he never had it. This did not avail him. His rôle of universal depository made him the logical suspect in connection with every missing document. The custom carried with it no compensation to the lawyer and cost him heavily in time, office space, nerve force and friends. He is today the best drummer for the safe-deposit department. He can and does do a great deal for this department. It can do nothing for him except, in a measure, to take away from him the haunted look which he always wore until his clients began to act on his advice and rent a safety deposit box.

Real Estate Department.

A real estate department is an indispensable adjunct to the business of every trust company. Such a department in a law office argues a lack of law business. Lawyers as lawyers do not compete with real estate agents, individual or corporate, any more than with contractors, merchants or physicians. It is true that the purchase, lease, sale or improvement of real estate involves many questions of law, but such questions are involved in the conduct of all branches of business. The fact that one has been admitted to practice law does not make his loaning of money, dealing in securities and buying and selling of real estate law practice. When so engaged he is a private banker or broker—a legitimate calling, but one not technically associated with the profession of law. A man can complain, as a real estate agent, of the competition of trust companies if as such he thinks he has cause for complaint, but a lawyer ought not to invade the calling of a broker and then complain that the competition he encounters there is competition in the practice of law.

In some States, where trust companies are organized to pass upon and guarantee title to real estate, the business of examining abstracts has been practically monopolized by these companies, which perform these services in connection with the issue of their guarantee policy. I believe this practice marks a distinct advance in the direction of simplifying and assuring the title to real estate. Lawyers who complain of title insurance as competitive have, with their initial premise, lost the argument. The assumption of a risk for a consideration is not law business at all—it is a species of insurance. Under the guarantee policy the liability is absolute and is based on commercial considerations. Under the lawyer's opinion of title the liability is much more restricted and rests on established professional grounds. The customer, in other words, has, through the evolution of the title insurance company, acquired an assurance much more tangible and readily enforceable than that given him under the old system of lawyers' opinions of title. There has been in this evolution no infringement of any professional prerogatives—merely a change of method along progressive and constructive lines.

When a trust company, in its real estate department or in any other department, has legal questions to determine it should, and if it is a responsible, self-respecting concern it always does, consult lawyers rather than doctors, bankers or preachers. The average run of the business of the real estate department is not law business at all, and therefore this department can continue to grow in prosperity and grace with our congratulations and good will.

Bond Department.

Whether the bond department of a trust company is an advantage or a disadvantage to the private bond broker and dealer in securities is not my purpose to inquire. The relation of this department to the lawyer is certainly a helpful one. Responsible trust companies buy and sell bonds of those issues only which are certified by conservative and capable counsel. A bond is simply the final evidence of a sequence of purely legal transactions. The development of this type of security is law business, pure and simple. Traffic in the security after the same has been legally developed is not law business. I will go further, under the protest of some of my professional brethren, and declare that counseling with respect to the investment of surplus funds is not ordinarily to be classed as law business. To be sure the lawyer has performed this function from time beyond memory, but he, like the minister and the doctor, is not limited in his usefulness to strictly professional concerns. I am not seeking to divorce him from any of the personal responsibilities which flow from his confidential relation to his client. I do insist that his interest as a lawyer is limited to a technical examination of the legal history of a particular investment; as a lawyer he has nothing to do with the question of choice among securities legally established. His special fitness for advising precisely the investment which his client needs is assumed more often than it is proved. It is my opinion that in the vast majority of cases he would serve his client best by confining himself to the client's law business, committing the client, with respect to his investments, to the bond department of a well-organized and conservative trust company. I assume that the bond department of every trust company of the type described is dominated by a man of special education and technical experience in the matter of investments. For any one trust company to invite public confidence without such a *specialist* in its investment department is to negative every principle on which the just appeal of trust companies in general is based.

Trust Department.

In my consideration of the financial, safety deposit, real estate and the bond department of the trust company I have endeavored to show that the relation of these departments to the lawyer is not competitive in any sense which gives him a just ground of complaint. I have sought to establish that such functions as the loaning of money on securities, the safe keeping of important documents, the insurance of real estate titles and the investment of surplus funds are, by whomsoever performed, not the service contemplated by the lawyer's exclusive license. You have inferred that it is my view-point that a lawyer

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can complain as a lawyer of competition in such branches of service only as, under his license, he is presumed to possess an *exclusive* fitness to perform.

In the consideration of the final division of the subject, the trust department and its relation to the lawyer, I shall refer to many ties of mutual helpfulness which exist between us and which grow stronger with the years. I shall also mention, with such self-restraint as in this presence I ought to command, certain practices of a few trust companies which are *not* conducive to a mutual good will, but which, on the contrary, grossly violate the rights of the general public. I refer to the occasional encroachment of trust companies upon a field where special and technical qualifications ascertained and certified by the State are, under established public policy, regarded as a prerequisite to service in that field.

The business of the trust department may be roughly classified, with reference to the source of the authority exercised, into three main divisions.

In the first division is comprehended the variety of transactions growing out of the development of the modern corporation and the demand for a better safeguarding of corporate business. The service of the trust company as agent of underwriting and stockholders' syndicates, as depository upon the increase or reduction of capital stock, or under plans of reorganization, or upon the sale or exchange of securities, as fiscal agent for the payment of coupons and bonds, as trustee in corporate mortgages and as registrar and transfer agent of the shares of stock of other corporations, is so manifestly to be preferred to the service of an individual, or, in fact, of any other known agency, that it is now almost universally availed of by the experienced and careful lawyers.

The second of the three branches of trust department business embraces those cases where the confidence is imposed by an individual or individuals to whom the trustee is directly accountable. In this division fall most of the trusts growing out of the private relations of life, designed to be discharged during the lifetime of the creator of the trust. For example, all those cases of trust company control of property during the temporary absence or indisposition of the owner, the management of the separate estate of married women, the discharge of escrow appointments, and, in general, the carrying out of private stipulations and agreements.

Most assuredly the lawyer has no right to object when an individual, seeking either to divest himself of an irksome responsibility or to find some disinterested party to carry out conventional business directions, is attracted by the organization, the responsibility and the permanence of the trust company and its trust department. Neither may the lawyer object if the commission deliberately imposed by the individual is complicated rather than conventional and legal rather than commercial, but in such case he can and ought to insist that the draft of the legal document creating and evidencing the trust be regarded as law business of the most technical character, and that its preparation be accordingly surrounded with every protection as to disinterestedness which the ethics of the legal profession in such cases impose.

At this point, while we are considering the right of the client to the service of disinterested counsel, it seems proper to protest against the practice which has found support in a few trust companies of commanding power, of requiring all legal business in connection with their trusts to be carried on by their private counsel to the exclusion of counsel chosen by those who under the terms of the trust have the direct interest therein.

Nothing but the clearest expression in the instrument creating the trust could warrant such an interpretation of the trustee's privilege or the trustee's duty. Due protection in the execution of its trust should mark the boundary of the trustee's right to insist upon the service of its private counsel. The extension of its right to reasonable protection in the discharge of its duties to the point of forcing into the office of its counsel all business connected with the trust conduces to extravagant and indifferent service. It has been suspected that the practice has in some instances resulted in the favored counsel rendering service to his real client, the trust company, for merely nominal fees in consideration of the business of involuntary clients thus acquired.

Fortunately the practice here condemned is countenanced in but few localities. It cannot be supposed that it will ever win general recognition. It runs counter to all the traditions of the legal profession and it will continue to meet, as it deserves, the vigorous protest of the members of the bar.

The third and final branch of trust department business to be considered is that wherein the acountability of the trust company is to or under the direction of the court. This includes service as executor, administrator, conservator and guardian, as testamentary trustee and as assignee, receiver or trustee of a business either insolvent or involved in litigation. It is in connection with those branches of business which have to do with the courts that the ambitions of certain trust companies have outrun not only their own capacities, but the elementary proprieties. This result has been due, in a measure, to a failure to distinguish between branches of employment which any willing and conscientious agent has a right to solicit and accept, and other branches the right to discharge which rests exclusively in special and technical education, coupled with a direct personal and summary responsibility to the court. With respect to all law business, the lawyer's responsibility is as exclusive as that of the surgeon or physician in their own fields. The trust company has no more right to do a particular thing when the thing itself is correctly denominated law business than it would have to prescribe for the sick or to compound a prescription when those technical functions are properly assigned to the doctor and the druggist. Throughout this paper I have endeavored to apply the simple test, "Is it law business?" and have as to the vast majority of trust company transactions answered the question in the negative. In my opinion the same result is reached when we apply the test to the office of executor, administrator, guardian, receiver, conservator and testamentary trustee The trust company is ordinarily well equipped to accept employment of this character, whereas lawyers are more and more inclined to deem themselves ineligible. What the public has a right to insist upon is that no trust company or other corporation, directly or indirectly, put itself in the position of rendering legal services to any client, whether the client in question be an individual or a corporate appointee of the court. To illustrate: To serve as executor is not law business; but to draw a will involving a complicated distribution of a testator's estate is law business, and nothing else. For a lawyer to advertise for the privilege of drawing an important legal document in the hope of securing additional business through the opportunity thus afforded him might properly result in his disbarment. For a layman or a corporation to advertise for the like privilege, in the hope of the like reward, is not less objectionable because such advertisements on their face frequently disclose that no charge will be made for the self-serving act. Every client when he executes a will, makes an assignment or declares a trust has the right to have—indeed, it is imperative that he should have—capable, disinterested and responsible counsel. The responsibility to which the client is entitled is not merely that responsibility which expresses itself in dollars and in general reputation. It is the responsibility of an officer of the court—nothing less than this—a responsibility unfaithfulness to which involves the sacrifice of the very right to hold one's self out to others as qualified to exercise it.

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Advertising to draw wills free of charge is typical of the class of so-called competition imposed by an occasional trust company upon the lawyers of the community. It would serve no good purpose to multiply illustrations. This one is typical of the thing that all lawyers, including those who champion, utilize and serve trust companies, resent. It cannot be met as competition, since lawyers may compete only with lawyers and then only in accordance with certain wholesome professional standards. It may, however, be fairly characterized to this distinguished and dominant association as a species of malpractice which in the interests of a growing interdependence and intimacy between you and us should be by you subjected to your own rigorous discipline and condemnation.

In its consideration I beg you not to be misled into the assumption that the presence of a lawyer or of many lawyers in the trust company organization renders the company eligible for the conduct of law business for clients. The trust company lawyer is simply the trust company's lawyer. As such he can give to his client, the trust company, the best that is in him in aiding it to a wise, safe and profitable conduct of its business. A multitude of legal questions having to do with the interest and responsibility of the trust company itself are presented in each of the five departments herein discussed. To have and serve acceptably such a client does great honor to any lawyer, but no lawyer should risk depreciation of his professional ideals by consenting to render decoy service for the luring of business to even his most important client. Let the trust company lawyer, and all lawyers, remember that the practice of the law is not a trade open to the community in general. The principles governing the practice of the law are clearly stated in a recent decision of the Court of Appeals in New York State rendered in the case of the Co-operative Law Company. It was there held that a general statute authorizing stock corporations to be formed for any lawful business did not permit an incorporation to practice law; the practice of the law not being a "business," but a franchise and a public service, inseparable from the individual's personal worth. The Court says:

(*In re* Co-operative Law Co., 198 N. Y., 479.)

"The practice of law is not a business open to all, but a personal right, limited to a few persons of good moral character, with special qualifications ascertained and certified after a long course of study, both general and professional, and a thorough examination by a State board appointed for the purpose. The right to practice law is in the nature of a franchise from the State conferred only for merit. It cannot be assigned or inherited, but must be earned by hard study and good conduct. It is attested by a certificate of the Supreme Court and is protected by registration. No one can practice law unless he has taken an oath of office and has become an officer of the court, subject to its discipline, liable to punishment for contempt in violating his duties as such and to suspension or removal. It is not a lawful business except for members of the bar who have complied with all the conditions required by statute and the rules of the courts As these conditions cannot be performed by a corporation it follows that the practice of law is not a lawful business for a corporation to engage in. As it cannot practice law directly, it cannot indirectly by employing competent lawyers to practice for it, as that would be an evasion which the law will not tolerate."

On the one hand, the lawyers must not confuse the issue by complaining of alleged competition in that which is not law business at all, but should limit their protest to the assumption by trust companies of such business as is clearly and exclusively law business. On the other hand, the trust companies should observe in letter and in spirit the reasoning of the decision I have quoted and decline to perform or to hold themselves out as competent to perform any business which is clearly and technically law business. Under such conditions nothing can prevent a perpetual alliance between the trust companies and the lawyers in the benefits of which the community will inevitably and abundantly share.

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Committee Reports—Trust Company Section.

Report of the Executive Committee, by F. H. Fries, Chairman.

To the Members of the Trust Company Section of the American Bankers' Association:

The year just closing has been one of unusual interest and importance to the Trust Company Section of the American Bankers' Association. The membership has increased in numbers and influence, and the officers and respective committees of the Section have had to deal with questions of vital concern to the Section and importance to its members. It now numbers 1,137, and includes approximately 63 per cent. of all the trust companies of the country. It is gratifying to note that a majority of the large and influential trust companies all over the country are interested and active members, and that the Trust Company Section now represents four-fifths of the entire trust company assets of this country, aggregating $5,000,000,000, besides the $30,000,000,000 of property that is estimated to be held in trust by them.

At the meeting held last year in Los Angeles a resolution was introduced looking to an amendment of the By-Laws of the Section, changing the manner of the election of vice-presidents of the Trust Company Section; this amendment has been duly offered and will come up for final action at this meeting. It is thought that this change will enlist more interest and perhaps better organization among the trust companies of the various States, and for these reasons it is desirable that it should be enacted.

At the meeting of the Executive Committee held in Nashville, Tenn., May 2, 1911, the following resolutions were passed, creating the "Trust Company Committee on Legislation":

> "Whereas, Important legislation is pending before the people of this country affecting more or less vitally the interests of trust companies, which may from time to time require prompt attention.
>
> "Now, therefore, Be it Resolved, That the President of the Section be authorized and directed to appoint a Committee of Five (5), to consist of the President and First Vice-President and the Chairman of the Executive Committee and two (2) other members of the Section, in whom shall reside the authority to hear and consider recommendations for pending legislation touching upon or likely to affect the interest of trust companies, and with further authority to make recommendations thereon whenever important legislation is pending before the people of the country affecting more or less vitally the interests of trust companies, which may from time to time require prompt attention.
>
> "Now, therefore, Be it Resolved, That any actions or expressions of opinion on trust company matters as mentioned in the preceding resolution by trust company officers or others interested in such institutions, shall have weight and influence as regards the members of this Section only in so far as they may coincide with and have the express approval of this Committee.
>
> "Further, Resolved, That the name of this Committee shall be the Trust Company Committee on Legislation, and that vacancies shall be filled as they occur by the then presiding President of the section, and this committee shall continue until dissolved by the act of the Executive Committee."

This Legislative Committee, composed of Oliver C. Fuller, President of the Wisconsin Trust Company, Milwaukee, Wis.; L. L. Gillespie, Vice-President Equitable Trust Company, New York City; F. H. Fries, President Wachovia Bank and Trust Company, Winston-Salem, N. C.; F. H. Goff, President Cleveland Trust Company, Cleveland, Ohio; Ralph W. Cutler, President Hartford Trust Company, Hartford, Conn., has found so much important work to do for the Section that it is recommended that it shall become a standing committee of the Section and that proper steps be taken to this end. The necessity for the Legislative Committee of the Trust Company Section was made quite evident when the proposed Aldrich Bill was taken up by your Executive Committee and seriously discussed from the trust company standpoint.

The admission of State banks and trust companies into the Reserve Association raised questions that had to be carefully considered, and along these lines the Committee has done hard and efficient work, as their report will plainly show. They have been received most cordially by the members of the committees of the American Bankers' Association and the National Monetary Commission, and have aided in solving some of the questions that have confronted those who were seeking to solve this important and difficult problem.

The report of this Legislative Committee has been put upon the program that you may hear what has been done by them and see the advisability of continuing the work.

Early in the year it was ascertained that a bill had been introduced in Congress allowing payment of internal revenue and import duties with certified checks on National and State banks, that trust companies had been also named in the bill, but subsequently stricken out. By prompt and diligent work on the part of your officers and committees this injustice was corrected, and it finally passed the Senate with trust companies included. This was especially gratifying because it was a matter in which quite a number of our members were directly interested.

The Committee on Protective Laws has continued its valuable and important work and has added several States to those heretofore reported as willing to protect themselves and their banking institutions against the improper use of the words "Trust," "Trust Company," "Bank," "Banking," etc., in the corporate names of improper and unworthy companies seeking charters. The failure to pass this law in many other States has been due in part to the lack of interest on the part of the officers, directors and stockholders of trust companies and banks who should be most interested in the protection offered. We would like to call the attention of the members to this important matter and ask them to assist in the further passage of this law.

Following the spring meeting of the Executive Council in Nashville, Tenn., the Trust Company Section gave a most notable and enjoyable banquet at the Waldorf-Astoria Hotel in New York City, at which about six hundred and forty trust company officials and their friends were present. The officers of the Association, the retired presidents and present officials of the Trust Company Section and very many men of note and prominence were gathered to hear Hon. Nelson W. Aldrich, Chairman of the National Monetary Commission, discuss "The Relation of Trust Companies to Monetary Reform," and Hon. A. Barton Hepburn, President of the New York Clearing House Association, upon the subject of "Trust Companies and Clearing Houses." The occasion has been spoken of as the most successful of its kind ever given in New York City, while the splendid addresses commanded the undivided and appreciative attention of the entire company.

The presence of so many trust company officials gave opportunity for important committee meetings, and the following day was given up almost entirely to the discussion of the Aldrich Bill and the effort to reconcile all differences upon that subject. The present bill provides for the admission into the Reserve Association of State banks and trust companies upon the same terms and conditions as National banks, and in this respect is largely the result of the efforts put forth at that time.

It is proper to say here that the officers of the Trust Company Section, as early as June last, succeeded in preparing a very interesting and elaborate program for this meeting in which more than one-half the time was to have been given to the very important and interesting subject of the Aldrich Bill. Subsequently the officers of the General Association suggested that it be made the subject of discussion on the floor of the general convention, and that Mr. F. H. Goff, of Cleveland, O., who was to have spoken on this subject for this Section, be transferred to the general program to present there, "The Relation of State Banks, Savings Banks, and Trust Companies to the National Reserve Association." This suggestion was agreed to.

At a recent meeting of the officers of the Trust Company Section it was learned that the meeting of the various Sections had been changed from Wednesday to Thursday. It was also learned that the principal entertainment furnished by the New Orleans bankers had been scheduled for Thursday afternoon, which will necessitate a short meeting of the Trust Company Section, or the members will have to forego the pleasure of the Mississippi River trip. This is the reason that nothing has been inserted into the program to take the place of the paper and the discussion on the Aldrich Bill. Your officers tried to change the day, but were unsuccessful.

Should the members show the same interest in the welfare of the Section as on former occasions, they will doubtless prefer to forego the pleasure of the trip prepared by our hosts and take advantage of the occasion to consider together a matter that concerns them so greatly, especially as they will have had the opportunity of hearing the fifteen well-prepared papers that will have been presented on the floor of the General Association on the two preceding days, and for that reason may be the better prepared to discuss the trust company phase of the subject. Perhaps nothing will be of greater interest, and if so nothing can prevent the meeting from being a success.

Respectfully submitted,

EXECUTIVE COMMITTEE.

By F. H. FRIES, *Chairman.*

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Report of the Trust Company Committee on Legislation, by Oliver C. Fuller.

To the Members of the Trust Company Section:

GENTLEMEN: Your Committee, appointed at the meeting of your Executive Committee, held at Nashville, Tenn., on May 2, 1911, began its duties immediately by submitting to the Currency Commission of the American Bankers' Association a copy of a resolution adopted by your Executive Committee on the same day, which resolution was as follows:

"Resolved, That the Executive Committee of the Trust Company Section of the American Bankers' Association heartily approves the plan proposed for the organization of a National Reserve Association and of the modifications thereto suggested by the Special Committee appointed by the Currency Commission of the American Bankers' Association, at its meeting held in Washington, March 28, 1911, especially that portion of the report of the Special Committee defining the terms upon which trust companies may subscribe to capital stock of the National Reserve Association. This approval, however, being subject to the following exceptions:

"First. As to reserves required to be maintained by trust companies in central reserve cities, and reserves required to be maintained against trust funds not subject to immediate withdrawal.

"Second. As to amount of paid-in capital to be required of trust companies proposed in the report of the Special Committee.

"Third. As to limitations upon character of notes that may be discounted by the National Reserve Association."

Your Committee also submitted a copy of the same resolution on the following day to the Executive Council of the American Bankers' Association, then assembled for the purpose of considering the adoption of a resolution approving the Aldrich Plan of Monetary Legislation, as modified by the Currency Commission of the American Bankers' Association, and the report of the Special Committee of the Currency Commission for extending the benefits of the plan to State banks and trust companies. Your representatives in the Council took the position that they could not vote in favor of such a resolution without an understanding that the report of the Special Committee, about to be adopted, would thereafter be so modified as to meet the objections raised on behalf of the Trust Company Section by your Executive Committee. Having reached an understanding to that effect, the Council members of your Committee voted for the following resolution, which was unanimously adopted:

"Resolved, That the Executive Council of the American Bankers' Association heartily approves the Plan for Monetary Legislation suggested by Hon. Nelson W. Aldrich, as modified by the Currency Commission of the American Bankers' Association; and the principle set out in the report of the Special Committee of the Currency Commission for extending the benefits of the plan to State banks and trust companies. We firmly believe that it is thoroughly practical, fundamentally sound and comprehensive and that if enacted into law it will correct all the principal defects of our present banking and currency system."

Following the meeting of the Council, conferences between members of your Committee and members of the Currency Commission and of its Special Committee were held almost continuously while in Nashville and on the special train en route to New York, in an endeavor to adjust, if possible, all differences in views between the Committees. On the morning following the trust company banquet in New York your Committee and the Special Committee of the Currency Commission held a joint meeting in the Waldorf-Astoria Hotel, which lasted practically all day. That meeting resulted in a tentative agreement between the members of the two Committees on all points at issue, in so far as it was possible to agree, and a Committee of Two, consisting of Mr. John Perrin and the chairman of your Committee, was appointed with authority to revise the report in accordance with the understanding reached. That report, so revised, is dated New York, May 6, 1911, and is addressed to Mr. James B. Forgan, Vice-Chairman of the Currency Commission of the American Bankers' Association. Printed copies may be had on application to your Secretary, therefore your Committee deems it unnecessary to insert herein the report in full, but only that part relating particularly to trust compainies, which is as follows:

"That a trust company which is incorporated under the laws of any State, in accordance with the requirements of which it has been examined and has published statements of its condition, or, in the absence of such requirements of State laws, upon approval of the Executive Committee of the National Reserve Association, may subscribe to the capital stock of the National Reserve Association in the same manner and under the same conditions as prescribed for National banks, and such subscribing trust company shall become a member of a local association and have the same rights and privileges therein as if it were a National bank; provided—

"1. That a trust company shall have an unimpaired surplus of not less than 20 per cent. of its capital, and if located in a city of 25,000 inhabitants or less shall have a paid-in capital of not less than $100,000, and in a larger city a proportionately greater capital up to $500,000 in a city of 500,000 inhabitants or more.

"2. That it shall have and agree to maintain against its demand deposits a reserve of like character and proportion required of a National bank in the same location; provided, however, that deposits which it may have with a State bank, a savings bank or a trust company, in a city designated in the National Banking Act as a reserve city or a central reserve city, whose paid-in capital is not less than the minimum amount required for a National bank in such city, and in the case of a trust company not less than that heretofore specified for a trust company in such city, and which is a member of a local association, shall count as reserve in like manner and to the same extent as similar deposits of a National bank with National banks in such cities. Provided further, that liabilities for deposits payable beyond thirty days, for savings deposits subject to notice of sixty days or more and for moneys held in trust which, under the conditions of the trust, are not made payable within thirty days shall not be subject to the reserve requirements provided for demand deposits.

"3. That it shall agree to submit to such examinations and comply with such requirements as may from time to time be prescribed by the National Reserve Association."

Upon learning that the National Monetary Commission was planning to hold meetings in a number of cities in different sections of the country to hear and discuss suggestions from bankers and others in the several localities, your Committee was called together and held a meeting in New York City on October 10 for the purpose of determining what further action, if any, it should take in the performance of its duty. After a full discussion it was decided to address a letter to representative members of your Section residing in the several cities in which the meetings of the Currency Commission were to be held, giving them the views of your Committee and asking them to attend the hearings and to take such part as to them seemed best in any discussion concerning the relation of trust companies to the proposed monetary legislation.

Besides the formal meetings of your Committee referred to, members of your Committee have had a number of informal conferences with members of the Currency Commission of the American Bankers' Association, members of the National Monetary Commission and others, and desiring to be informed as fully as possible of different views on the subject matter of this report, your Committee has corresponded with many members of your Section, including your Vice-Presidents in nearly every State.

In the suggested Plan for Monetary Legislation recently revised and submitted to the National Monetary Commission by its Chairman, Mr. Aldrich, it will be observed that the conditions upon which trust companies may subscribe to the capital stock of the National Reserve Association are substantially the same as those recommended in the Special Committee report of the Currency Commission of the American Bankers' Association.

Your Committee will not venture so far as to express the belief that those conditions will prove entirely acceptable to all the members of the Trust Company Section. Views will naturally differ according to the differences in the laws and conditions in the several States in which your members are located and in accordance with the character of business done by them, and your Committee feels that with such wide differences existing it would be impossible to devise a plan or to frame a law that would suit all and that it might be impossible to suit some without so far departing from some of the fundamental principles of sound banking as to endanger the whole financial structure. After having given the best consideration possible to the matter, your Committee has reached the conclusion that the plan as a whole ought to be acceptable to trust companies doing a discount business. To the extent that the nature of their business and the laws of the several States creating them will permit, every advantage, privilege and facility afforded National banks under this plan may be enjoyed by trust companies.

Respectfully submitted,

OLIVER C. FULLER, *Chairman*,
L. L. GILLESPIE,
F. H. FRIES,
F. H. GOFF,
RALPH W. CUTLER.

Report of the Committee on Protective Laws, by Lynn H. Dinkins.

New Orleans, November 23, 1911.

To the Chairman and Members of the Trust Company Section:

During 1911, the General Assemblies of forty-two States have been in session, and the General Assembly of the State of Vermont's 1910 Session was held after the Los Angeles Convention, so that your Committee has had ample material to engage its attention. In as much as a large majority of these States had already made adequate provision protecting the use of the word "Trust," and providing for State Examinations, your Committee has endeavored to be of service in various directions in addition to the two features to which its energies in the past had been pricipally directed.

We find that the provisions of the Postal Savings Bank law, which restrict deposits in State institutions to localities in

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which there is State Supervision of Banks, will have a tendency to assist the Committee in securing supervisory legislation in certain of the States which have hitherto opposed such enactments. Another interesting result of Postal Savings legislation is that the Banking Department of some States, acting under instructions from their several legal advisers, have notified the institutions under their direction that it would be contrary to existing laws for them to pledge security in order to obtain Postal Savings deposits. One State, California, amended its banking laws so as to allow savings banks to supply such security.

Among the favorable results obtained from Legislatures in which Trust Companies are concerned, the Committee calls attention: To the new banking laws providing for State supervision passed in Alabama, Idaho and Utah; to section 96 of the California law eliminating requirements that securities deposited by Trust Companies must be registered in the name of the State Treasurer officially.

In Delaware and Florida satisfactory acts protecting the use of the word "Trust" were passed, and in Delaware the supervision of the Insurance Commissioner was extended so as to cover Trust Companies.

In Maine, it was provided that Trust Companies receiving savings deposits shall segregate assets at least equal to the aggregate amount thereof, such assets to be held for the security and payment of such deposits.

Nebraska and Nevada both passed laws authorizing the organization of Trust Companies, defining their powers, duties, privileges, etc.

South Dakota passed a new and improved Trust Company act.

In Wisconsin an act was passed, providing that all records of original entry should be kept in permanently bound books, thus eliminating the use of the so-called card systems.

The Committee was unable to secure desired legislation in Arkansas, North Carolina, Georgia and South Carolina.

During the year, eleven States added to their legal holidays Columbus Day—October 12.

North Dakota has restricted the amount which banks may invest in banking house, furniture and fixtures.

An interesting development of the year was the action of the New York Clearing House in admitting Trust Companies as members without requiring them to hold one-quarter of their demand deposits in cash.

Respectfully submitted,

RALPH W. CUTLER,
F. H. GOFF,
P. C. KAUFFMAN,
E. J. PARKER,
LYNN H. DINKINS,
Committee on Protective Laws.

Report of the Secretary of the Trust Company Section.

To the Members of the Trust Company Section, American Bankers' Association:

Gentlemen: I beg to submit herewith my report for the year ending August 31, 1911.

The financial statement from September 1st, 1910, to August 1st, 1911, is as follows:

CREDITS.

Oct. 6, 1910.	By appropriation of Executive Council.....	$7,500.00
"	" sale of 12 copies Trust Company Laws....	28.52
"	" sale of 8 copies Proceedings 1896 to 1903	23.25
"	" sale of 7 copies Proceedings 1903 to 1908	20.25
"	" received account overpayment of salary..	8.35
"	" sale of 1 copy of State Banking Statutes	.90
"	" received account postage and stationery..	34.85
		$7,616.12

DISBURSEMENTS.

Rent. . . .	$ 660.00
Salaries. . . .	3,636.81
Postage, stationery and printing	453.22
Convention expenses, 1910	378.42
Sundries. . . .	58.12
Expenses of L. L. Gillespie (Chairman Executive Committee)	50.00
Proceedings 1910	1,164.46
Badges for retiring President and new Exec. Committee..	33.50
Executive Committee meeting, Nashville	937.73
Traveling expenses	59.10
Telephone and telegrams	9.39
Department expenses, ice, water and towels	19.57
	$7,460.52

Total credits	$7,616.12	
Total disbursements	7,460.32	
Credit balance		$ 155.80

The book of "Forms for Trust Companies" continues to meet with satisfactory sale. The cost of this publication to date (covering 500 complete books and 500 books printed but not bound), including express charges, descriptive circulars, postage, etc., was $569.56, while the receipt for books sold (394 at $15 each, and 11 at $20 each), has been $6,130, showing a net profit to the Section of $873.28. This amount is applicable to binding the 500 books on hand, which will probably be needed within the next six months.

Your President and Chairman having referred to the Trust Company banquet, it seems proper to say, in order that there may be no misapprehension on the part of our members, that the entire cost of this banquet was paid by those in attendance subscribing for tickets, and that no part of our appropriation was used in connection therewith.

The present membership of the Section is 1,137. It is gratifying to know it is the largest in our history and it should be borne in mind that each year the increase becomes more difficult, since the field from which we draw our members naturally becomes more limited.

You will find in your seats a printed list of this membership by States. States having more than five members are entitled to a Vice-President.

During the year I have endeavored to make the Section of continual benefit to its members, both by correspondence, by articles published each month in the "Journal" of the Association, and by furnishing information to papers interested in Trust Company matters.

Respectfully submitted,
P. S. BABCOCK, Secretary.

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Detailed Report of Proceedings.

Sixteenth Annual Meeting TRUST COMPANY SECTION, Held at New Orleans, La., Nov. 23, 1911

THURSDAY, NOVEMBER 23, 1911.

President Fuller: The sixteenth annual meeting of the Trust Company Section will now come to order.

The meeting will be opened with prayer by the Rev. Dr. Barr, rector of Christ Church of this city.

Prayer by REV. DR. WILLIAM ALEXANDER BARR, Rector of Christ Church, of New Orleans.

Almighty God, in Whom we live and move and have our being—We adore Thee that through Jesus Christ, Thy Son, we have been taught that Thou art to be worshipped neither in the mountain nor in Jerusalem, but in spirit, and that Thou art always around us and in us, and in Thy light we may see light. We thank Thee that Thou art found not only in stately temple, but in all places everywhere, and that on the street, in the office and the counting room, Thy voice is ever to be heard if we have the ear to listen. Thou hast taught us that our life in this world, when truly interpreted, is a trust; that everything we have is given to us to so use as that we shall not be ashamed when called to give an account of our stewardship. Thou hast committed to each of us a talent to be employed faithfully, and if we treat our lives as a trust and are faithful to Thy teachings, it will be made manifest to us at the last that we have made the use of it that Thou wouldst have us to make.

We beseech Thee to guide and direct the deliberations of this body and that each man who participates in this meeting may feel that Thou art present. Direct these men, O! Lord, in all their doings by Thy most gracious favor and may they glorify Thy holy name.

Through Jesus Christ. Amen.

President Fuller: Gentlemen, I take pleasure in introducing the Hon. Charles Payne Fenner, who will welcome us to Louisiana and New Orleans.

Address of Welcome, by Hon. Charles Payne Fenner.

Mr. President and Gentlemen: I appreciate the privilege that has been accorded me to express to you the pleasure which we of the State of Louisiana and the city of New Orleans feel at having you with us on this occasion. I apprehend, however, that by this time you must be too well assured of your welcome to make it necessary or appropriate that I should consume much of the time allotted for the consideration by this Section of the Association of the grave questions which will doubtless be submitted to you at this meeting in telling you what you already know and in repeating what has already been well said on another occasion by the Governor of the State and the Mayor of our city, speaking as they did with the authority which attaches to their respective capacities. Nor do I deem it appropriate that at this stage of your proceedings I should undertake to exploit to you the greatness of our State and city, the extent and variety of our products and our industries, and, least of all, the rare opportunities for safe investment that are here afforded for any surplus capital which any of you may own or control. Assuming that you are blessed with the sense of hearing, even of average acuteness, I think it may be safely assumed by this time that you know all about those things. I might venture, however, in this connection to make one single suggestion, which is, that if any of you up to this time have by chance overlooked among our native products the celebrated gin fizz and the sazarac cocktail, I assure you that they present opportunities for a very safe investment, yielding always a very satisfactory return. (Laughter and applause.)

It is, of course, perfectly natural that we should welcome you to New Orleans and to the State of Louisiana very enthusiastically. We appreciate, in the first place, the compliment which is implied in your selection of this city as the place for holding this great convention. We appreciate, in the second place, still more highly, the privilege which your presence here during this week affords us of personally meeting and exchanging ideas with so many distinguished representatives of the great financial institutions of our land. Belonging as I do to another profession—and I say another profession advisedly because, in my judgment, banking is really entitled to be called a profession—I may be permitted to say that the bankers of this country, or of any civilized country, occupy by reason of the great public responsibilities that rest upon them, and the private responsibilities, a very distinguished position. It is a truism which no man will venture to deny that no permanent success as a banker can be achieved by any man who does not enjoy the confidence of the people in the community in which he lives. Real and permanent success as a banker is, therefore, rightly deemed a sort of patent of ability, and, what is of much more importance, of character. The bankers of a community occupy the position of advisers to their fellow citizens to a large extent, and in your influence upon public sentiment it seems to me that you occupy a position second only to that of the law. Now, a position of this sort carries with it grave responsibilities of both a public and a private character. To the glory of your calling be it said that these responsibilities have been generally recognized and discharged by the bankers of the country. The successful banker must, in the nature of things, be a public-spirited man. He cannot afford to take narrow or selfish views of things. He must be a well-informed man; he cannot afford to be ignorant. Occupying the position of a sort of guardian to the commercial reputation of the community in which he lives he must perforce insist upon a high standard of commercial honor and integrity in his constituents. When, therefore, we have assembled among us leading representatives of the banking interests of the various sections of the country we may rightly congratulate ourselves on the fact that we are entertaining leading citizens of all sections of the country. Hence it would be very strange if we were not glad to have the opportunity of meeting such a body of men.

Finally, gentlemen, we are glad to have you among us because it affords you an opportunity to become acquainted with our people, with their habits of life and thought, with their points of view, their hopes and their aspirations. This is a big country with its vast extent, its varied climate and soil and differing interests. It is not surprising that there should come up occasionally sectional differences. We all of us thank God that the serious differences of the past have been forgotten and outlived; and so far as I can see, we have no better guarantee against a recurrence of such animosities in the future than is afforded by such gatherings as we have had during this week when representative men from all sections of the United States meet together at a common point—now in the South, now in the North, now in the East and now in the West—and commingle together and discuss their common interests. I believe that beyond the specific questions which may be debated and settled wisely at such meetings these gatherings tend to obliterate sectional disputes, broaden our intellectual horizon and inspire a more unselfish patriotism—a patriotism knowing no North, no South, no East, no West, but which comprehends within its scope every inch and every interest of our common country.

With these sentiments, gentlemen, on behalf of the State of Louisiana and on behalf of the city of New Orleans, I extend to you a most cordial welcome. (Applause.)

President Fuller: It is with peculiar pleasure that I introduce to you now a very good friend of the Trust Company Section and a valued worker for its success, and a citizen of your city, Mr. Lynn H. Dinkins, who will welcome us on behalf of the Trust Companies of Louisiana. (Applause.)

Address of Welcome, by Lynn H. Dinkins, President of the Interstate Trust & Banking Company, New Orleans.

Having met with you in many other cities, and having shared the hospitalities of many other regions, I find a keen personal pleasure in bidding the Trust Companies of the United States *welcome to Louisiana.*

Most of the managers of our own Trust Companies believe, moreover, that the commercial expansion of New Orleans and the farming and industrial development of the whole rich, unexploited region surrounding it, in several States, would be hastened if the wealthier Trust Companies in the "finished" parts of the country could be made better acquainted with actual conditions here. No locality in the world has suffered more from crippling traditions than this of ours. Some of these traditions were always untrue; some, unfortunately, were based on solid, obstinate facts, many of which have been entirely removed. Traditions usually survive the circumstances that give them birth, and nothing but free intercourse and actual contact with people, places and things themselves can destroy our old conceptions of them. We, in this part of the country, have some traditions of which we are proud, and the facts underlying them are still with us. The origins of the other conceptions of us are merely part of our history.

New Orleans, itself, has lived 200 years without considerable loss from floods. The rich fields behind the upper and lower reaches of the big river have already been so far protected

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by the extension of a massive system of barriers that destructive overflows have now become unusual events and ceased to be common occurrences.

New Orleans has lately emerged from a mediaeval plane of municipal utilities. She has consummated one of the most comprehensive plans of modern watering, draining and sewering, that has been projected in the United States. The completion of this system has elevated her from the village level to the proper position of a city of the first rank in public sanitation. The same spirit, now fully astir in the State at large, is promoted by Louisiana's Board of Health, with an aggressive resourcefulness, throughout the towns and parishes that has attracted the attention of sanitarians all over the country.

The spectre of yellow fever has been driven into the shades of the past by the establishment of the mosquito theory. The screening of occasional cases of fever, or suspected fever, that have found their way into the port has for six summers kept the city absolutely free of a disease that was once the accepted, commonplace scourge of our people, and the mysterious terror of the rest of the country.

The development of our processes for sanitation, the dissipation of the fear of epidemic, the prevention of flood, have been paralleled by the quick development of a system of common schools that embraces all grades, from the kindergarten to the university, and includes three or four well-equipped agricultural and industrial institutions in the centre and at the upper and lower corners of the State. This, in itself, means more to Louisiana than most of you gentlemen can understand, for the development of the public school, today the first concern with all our parishes, is a much later development with us than in your own commonwealths.

These rapid and radical improvements in the conditions of living for all ages, and for the child in particular, are coming finally to be understood abroad. The past few years have accordingly rendered us the added benefits of a heavy influx of young, active, ambitious, homeseekers who would profit by the natural opportunities we offer to industry and thrift, but hesitated in the old days because of the disabilities our conditions presented to them.

New Orleans and Louisiana, in a word, have advanced further in the past fifteen years, in all the fundamental particulars of which I speak, than in the previous 150 years of their existence. They are finding their pace only today, and they will go faster and further in the next fifteen years than they have come in the past hundred. You will notice many things lacking in our city and our State which your cities and your States possess. This is the best guarantee of the superior opportunities we have to offer. Our people are on the march; they are awake to their needs and determined to do. We started later, but we are moving faster, for such is the law of progress when the spirit of progress is born.

Louisiana's soil, for the most part, is peculiarly rich and fully adapted in its several sections for a very wide range of crops outside of the staples which have, in the past, been its chief productions. The values placed on her lands are so low that it is often possible for a competent and thrifty farmer to make enough profit on the crop of a single season to cover the first cost of his farm. Ours is the last of the great undeveloped areas of the United States to offer itself to the pioneer. It presents conditions in this respect which are unusual in the country at large and not likely to continue with us any longer than the time the facts become fully understood through such gatherings as this.

You know as much as I of our cotton, sugar and rice; you know what our cotton crop has been, how we have suffered with it, and how we have profited by that blight by waking to broader methods of farming. You know that we produce about 350,000 tons of the 2,000,000 tons of sugar that the American people use in a year, that our crop is large this season, and that the price of it is high. You know that our rice crop exceeds that of any other State.

You probably do not know, however, that big fields of orange trees are springing up in growing numbers from the heavy black soil between here and the Gulf, and that this fruit is of very fine quality, by comparison with that grown in other parts of the world. You may not know that the country just above the city has already demonstrated its fitness for variegated trucking that will supply the easily reachable markets of St. Louis and Chicago and the lesser cities of the North.

We have within the borders of our State about four-fifths of all the cypress timber now standing in this country. This cypress, at the present rate of use, will have been worked into manufactures within the next ten years. A cypress tree ages slower than Methusaleh—it does not reach maturity for 900 years. We do not expect, therefore, in our generation, to realize on the next crop; but do feel that we are going to profit richly from the present supply.

The wetting of the dry lands of the West, which cannot possibly equal ours when they are wet, is now the commonplace object of millions of dollars of conservative investment. The drying of the wet lands of Louisiana is a development of only a few years, practically unknown to most of you, but productive of the most positive results to the pioneers who have put their money and intelligence into it. A large part of the overflowed land of Louisiana will be under cultivation in a few years, and every square foot of it, over many great areas, is merely the top to a pillar of rich black soil that reaches down hundreds of feet below—the inexhaustible product of the decomposition of the vegetable and mineral matter laid down through hundreds of thousands of years by the silting of the greatest river on the continent. This sounds, I know, more like promoter's talk than conservative Trust Company talk; but the subject is big. A really big subject requires big talk to describe it properly. To discuss so big a subject as this in little terms is just as unconservative as to discuss a little subject in big ones.

Louisiana is the only State in the Union whose legal processes do not follow the English common law, our jurisprudence, for the most part, is governed by the Roman law. The circumstances sometimes halt for a moment the outsider who comes to do business under the protection of our courts; occasionally it intimidates him. The Roman law, however, as a matter of fact, is simpler than the common law, more easily understood by everybody and more certain in its results. The conceptions of both systems have been blended in cases where modern requirements demand it. I, myself, am a native of the common law State of Mississippi, and have done business in several other common law States. The law of Louisiana suits me, as a Trust Company manager, and I believe the legal department of any Trust Company would be both interested and benefited by a study of our processes. Only one feature of the Roman law operates against our business. Its policy is against leaving estates in trust for long periods, and thus limits, to some extent, this field of our operations.

The fiscal system of New Orleans may also interest you, in that part which cares for the city debt. This whole function is lodged with a self-perpetuating commission, on which only a few of the elective officials of the city are members, these by virtue of their offices. Each issue of our bonds is protected by sinking fund provision which retires them in much the same way as bonds are retired under the present popular serial maturity corporation plan.

You will find us achitecturally behind your own times—but when I came here sixteen years ago there was only one office building in the city, and a majority of the biggest and best of our buildings for this and for other purposes have risen during the past few years. You may find us disappointing in other particulars, but recall the limitations which have checked our development until now, and remember that they are all removed. And, take our assurance for it, those of us who appreciate what you have done and are doing, North, East and West, that there are some aspects and conditions of life here which we would not change if we could.

It is my own opinion that Louisiana offers the investor and homeseeker of today as many favorable opportunities for profit and happiness as any other section in America, and more opportunities than most other sections. For what it is and is not, though, we welcome you again, in the hope that you will enjoy your visit and go back and tell your people that "you came among us and we took you in," and that you rather liked the experience.

Response to Addresses of Welcome and Annual Address of the President, Oliver C. Fuller.

On behalf of the Trust Company Section of the American Bankers' Association, I thank you, Mr. Fenner and Mr. Dinkins, for the welcome which you have so gracefully and cordially extended to us.

The few days that we have already spent in your city, Mr. Dinkins, have given us more than a taste of that open-handed hospitality for which New Orleans is justly famed, and those of us who were so fortunate as to have attended the former meeting of the Association in this city are delighted to be with you again. Your picturesque old city contains so much of interest to every American citizen, her history is so replete with events that are part and parcel of the story of our nation from its very birth to the present time, that a simple invitation to sojourn awhile within her historic gates is a privilege in itself, and you may be sure that we will all return to our homes full of appreciation and of delightful memories of all that we have seen and partaken of while here. To those of us who have not visited your city since 1902 there are many indications that your city has grown and her people prospered greatly in the meantime, and we believe you are destined to enjoy even greater progress and prosperity within the next decade. We sincerely hope that your greatest expectations from the effect of the completion of the Panama Canal will be fully realized and that New Orleans will be in time not only what she now is, one of the great cities of this country, but one of the greatest cities of the world.

The Section of the American Bankers' Association represented by those present here today has made great progress since its former meeting in this city. Our records show that the membership of the Trust Company Section, at that time 422, has steadily increased, until it is now 1137, and the banking re-

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sources of its members, now more than four billions of dollars, have more than doubled in the meantime.

Not since this Section was organized, fifteen years ago, has any year been so full of events of moment to its members as the twelve months following our last annual meeting. Among these, perhaps the one that caused the most apprehension to some of our members was the putting into operation of the postal savings bank, but now that nearly a year has passed since the first of this new class of banks was opened for business those who were most alarmed over the imaginary harm from that source now regard with complaisance this latest innovation of our paternal government.

Some apprehension was caused also by the report of the Secretary of the Treasury to Congress containing a recommendation that National banks be given Trust Company powers, and when shortly afterwards Senator Aldrich submitted to the Monetary Commission the first draft of his proposed plan for a National Reserve Association, in which he provided for two new forms of National banks, one of which was to be in effect a *National* Trust company, your Executive Committee concluded that it was time this Section had a Legislative Committee of its own to look after national legislation affecting the interests of its members. At the spring meeting in Nashville such a committee was appointed, and its report will be read to you later on in these proceedings.

An occasion of very great interest and, indeed, I might say of considerable importance to your Section, was the banquet given under the auspices of the Trust Company Section at the Waldorf-Astoria Hotel in New York on May 5 of this year. The attendance of representative Trust company officers and bankers from all parts of the United States and the addresses, particularly that of the Chairman of the National Monetary Commission on the "Relation of Trust Companies to Monetary Reform," being the first public statement of his views on that subject, made the occasion a notable one and the affair an unqualified success—so great a success, indeed, that it was suggested by many in attendance that such a banquet should be held annually thereafter.

I recommend that your Executive Committee give this suggestion due consideration at its next meeting, and I also recommend that at the same time there be taken up for consideration the question of a suitable time for holding the annual meeting of this Section of the American Bankers' Association.

According to the records, our Section has never had for long at a time any fixed time of meeting. For several years after the Section was organized our meetings were held on Tuesday of the convention week. In 1902 the day of our meeting was changed to Monday. In 1904 it was changed again to Tuesday. In 1909 and 1910 Wednesday was assigned to us, and this year we find ourselves meeting on Thursday.

Since the organization of the Trust Company Section in 1896 four other Sections have been organized, and I believe still another is in process of forming. These so-called "Sections" are becoming so numerous and the Committees of the General Association have so multiplied in number and in importance that it seems impossible to allot to all of them time enough within one short week for their several meetings without overlapping or conflicting with one another or with the meetings of the Association itself. Under the present arrangement a member interested in the work of more than one Section, who desires to attend, for instance, both the Savings Bank Section and the Trust Company Section meetings, cannot do so because they are held at the same time. Consequently neither of them is as well attended as it should be, and as each of them undoubtedly would be if held at different times.

The substantial work accomplished by your Section during the past year will be fully set forth in the reports of your Secretary and of the Chairmen of your several committees; therefore I will not consume any of the limited time allotted to them this morning by dwelling upon matters which you will hear in detail later on.

To my fellow officers, to the members, and especially to the able Chairmen of the committees, I feel greatly indebted for the hearty co-operation and good advice that I have enjoyed in all matters pertaining to the welfare of this Section during the term in which I have had the pleasure and the high honor of serving as your presiding officer.

Gentlemen, I observe that Mr. Watts, the President of the American Bankers' Association, has honored us with his presence this morning, and I am sure we would all be pleased to hear a word from him. (Applause.) Mr. Watts, we will be pleased to have you address us.

Remarks of F. O. Watts, President, American Bankers' Association.

Mr. President and Members of the Trust Company Section: I had not purposed to take any part in your meeting other than as a spectator, but both as an official of the American Bankers' Association and also as a Trust Company official, I am interested in the work of this Section.

I believe it is unnecessary for me to say to those who have been even casual observers during the last four or five years that through close personal association with some of the men charged with responsibility in your section and through a continued interest in what has interested the Trust Companies of America, I have been in full sympathy with the work of the Trust Company Section. It is possible that my actions at times have not been above just criticism, but it is more than probable that if at all times there could have been a thorough understanding there would have been no differences, and that you and the Chairman of the Executive Council of the American Bankers' Association, or as Vice-President or as President of the American Bankers' Association, that we were attempting one common purpose. I believe I may be permitted to say that unfortunately in some instances, at least, the spirit of the American citizen is such that he too often, both publicly and privately, jumps to a conclusion without a thorough understanding. Now, it happened that in the course of my duty I made some recommendations in my annual address. I found there was a misunderstanding by the officers of some of the Sections. I may be permitted to say that I did not contemplate that my suggestions would be immediately fruitful. On the other hand, I did not contemplate that it would take as long for them to bear fruit as our friend Jenkins says it takes for the cypress trees to mature; but I hoped to raise a question which is exceedingly important in the Association and in the Section, and important, too, in the business and economic affairs of this country—the question of duplications. It is a question that must be considered in the future by the administrative officers of the American Bankers' Association and by the Association as a body. I do not for one moment maintain that all apparent duplication is such. On the contrary, nature has shown us that apparent duplications are not such. Apparently nature has made a duplication in the eyes, in the nostrals and in the limbs, but who is not aware of the convenience, not to say the absolute necessity, for those provisions of nature, and who would hastily say that apparent duplications in the work of this Association or in the work of a Section, or in matters of interest, are really duplications. Those questions should be raised, and who should raise them if not the man charged with official authority in the administration of the Association? And when raised they should not be settled hastily or inadvisedly, but they should be settled only after thorough understanding each with the other, and after being put in charge of men representing every interest in the Association, having a common purpose, with open minds, endeavoring to settle the questions right.

It is not often that I notice criticism. I believe that the man who holds an official position of any kind in any organization for a number of years, if he has no critics, why, he has not rendered any permanent accomplishment to the organization. Many of the criticisms of my official acts are probably just, but I believe I can truthfully say that if I have made any errors they have come from the head and not from the heart. With that statement, I call your attention to a criticism in one of the morning newspapers referring to the expenditures of the American Bankers' Association. I shall not undertake to answer it; I merely call your attention to it, having in mind what I stated to our Finance Committee this morning: that if the clerical department would assume responsibility for the expenses under its control, and if the Sections would assume responsibility for the expenditures under their control, and if the several committees would assume responsibility for the expenditures under their control, I as President of the Association would assume responsibility for the expenditure of the funds of the American Bankers' Association. Gentlemen, I believe all of those expenditures have been wisely made. We have spent more each year, it is true, but we are getting more for it. The thing that concerns the Association and its Sections is not what you spend, but to see to it that you get value for what is expended.

Gentlemen, I wish you a successful meeting; I was not expected to take up so much of your valuable time, and I fear that some visitor may say, as did the slumbering husband to his wife when he was awakened, "My dear, are you talking again or yet?" (Laughter and applause.)

President Fuller: I am sure we all appreciate the words of interest and good will expressed by Mr. Watts, and I am sure that none of us have any thought that we have in him any but the best friend.

The next order of business is the report of the Executive Committee.

Report of Executive Committee, F. H. Fries, Chairman.

[The report of the Executive Committee will be found on page 210.]

On motion the report was accepted and ordered placed on file.

F. H. Goff, of Cleveland, O.: Mr. President, in order that we may have a permanent nominating committee to suggest names for members of the Executive Committee, I offer the following resolution:

Resolved, That a nominating committee of five be appointed by the Chair, which shall receive names in writing from the delegates present, and, from which names, the nominating committee shall select five as members of the Executive Committee for the term ending 1914, and which committee shall report back to the Section its action.

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On motion, the resolution was adopted.

President Fuller: I will announce the names of the members of that committee present here.

Isaac H. Orr, of St. Louis, Mo.: Respecting the Committee on Legislation, referred to in the report of the Executive Committee, and a resolution that was passed by that Committee, I desire to offer a resolution substantially carrying out the idea that was in the minds of the Executive Committee. It is only proper to say, I think, that the resolution passed at the Nashville meeting was drawn rather hurriedly in the stress of business. Now, the resolution that I offer is this:

Whereas, Important matters of legislation are coming before the people of this country affecting more or less vitally the interests of the trust companies, which may from time to time necessitate prompt consideration or action,

Therefore, be it Resolved, That the president, the first vice-president and the chairman of the Executive Committee of the Section, together with two members of the Section to be appointed annually by the president, shall constitute a committee, in whom shall be vested authority to hear and consider recommendations in regard to legislation likely to affect the interests of the trust companies, and with further authority to make recommendations thereon and to take suitable action in reference thereto whenever, in their opinion, such legislation may require prompt attention.

And be it further Resolved, That this committee be the official channel of the trust company section for giving public expressions to its policy affecting legislation.

Also, be it further Resolved, That the name of this committee shall be The Trust Company Committee on Legislation, and that vacancies in said committee shall be filled as they occur by the then president, and that this committee shall continue as a standing committee of the Trust Company Section.

J. C. Cutler, of Salt Lake City, Utah: I will second that resolution.

President Fuller: Gentlemen, the resolution is before you. What is your pleasure in respect to it?

R. E. James, of Easton, Pa.: I would like to inquire as to the power that is to be reposed in that Committee. I did not quite understand that. It seems to me, from what I did understand of the resolution, that it is putting into the hands of a committee an exceedingly broad authority. I suggest that the resolution ought to be recalled by the mover and carefully considered, if it aims to confer upon a committee such wide authority.

Mr. Orr: I think perhaps Mr. James looks a little beyond the language of the resolution. The committee is not to originate legislation, but it is simply to consider any legislation that may be tendered. Of course, the power of the committee cannot be broader than that of the Section which creates it. A matter came up in Congress, as to whether or not the government officials should accept checks drawn on trust companies, and an act was about to be passed providing that they could not accept checks drawn on trust companies. Now, whenever another situation of that kind arises there ought to be some committee, with power to represent the trust companies of the United States who would oppose such a measure.

E. K. Boisot, of Chicago, Ill.: I would inquire whether that refers to constructive legislation.

President Fuller: I would state that as the chair understands the matter that Mr. Orr referred to, that was where prompt action was necessary. We had no committee at that time to deal with the matter, and it was necessary through telegram and quick communication to get some of our members to Washington and prevent obnoxious legislation.

T. H. Bowles, of Baltimore, Md.: I think the resolution, of course, is an important one. I am heartily in favor of it, and hope it will prevail.

Mr. Boisot: The resolution may be aimed at an important point, but I think it ought to be amended in one respect, and I would suggest as an amendment that the committee shall have no authority to initiate legislation without first bringing the matter to the attention of this body.

Mr. Goff: I think this is a good amendment, and I will second it.

W. F. McCaleb, of San Antonio, Texas: I would suggest that either we pass the amendment or else that the verbiage of the resolution be changed. I do not think the word "initiate" is a proper one to use there.

J. H. Jones, of Houston, Texas: It is with some hesitation that I would offer any suggestion in opposition to any plan suggested by the executive officers of this section, but it does seem to me that this resolution would be placing in the hands of the committee a power that is quite absolute. It commits the committee to bind this Section conclusively. Now, with over eleven hundred members, and possibly a few over one hundred members represented here, if we appoint a committee and give them this wide power, why, they would be authorized to make a recommendation that would be binding upon the Section. I am a member of my state organization of bankers, and I am on its legislative committee, but I do not recall that we ever had the power given to us to bind the association by our action.

A. A. Jackson, of Philadelphia, Pa.: I would like to hear read the resolution that was passed at Nashville. I was not present at that meeting.

President Fuller: In the report of the committee, which is to be made a little later, that will appear, Mr. Jackson. However, I will ask the Secretary to read it.

Mr. Fries: I naturally feel some interest in this matter, not because I was the originator of it at Nashville, but because as Chairman of the Executive Committee, we have acted under it. The necessity for it was very evident to all who were at Nashville, and the resolution follows almost exactly the language of the original mover. It is open, perhaps, to the objection that has been made by Mr. Jones. But I would say that it was not intended to give the committee any broader powers. The Executive Committee thought, however, that it was time to appoint a committee that should have the authority to express what they believed to be the sentiment of this Section. Perhaps Mr. Jones can make an amendment to the resolution that will cure the defect that he pointed out.

Mr. Jackson: I will withdraw the request I made for the reading of the Nashville resolution.

President Fuller: How would it do to postpone acting upon this resolution until after the reading of the report of the committee which has been acting during the interval? That would give time for gentlemen here to consider the proper wording of the resolution.

R. L. Taylor, of Philadelphia, Pa.: I make a motion to that effect.

Mr. Fries: I will second the motion.

President Fuller: It is moved and seconded that this resolution be withdrawn for the present, and that the members of the Section endeavor to frame a resolution that will meet the objections that have been raised to this one, and present it later in the session. All in favor of that motion will say "aye," and all opposed "no." Carried.

Mr. Jones: I move that the resolution which has been the subject of discussion be referred to the Executive Committee for them to prepare and present another resolution which may meet with the approval of the members here present.

Mr. Taylor: I will second that motion.

President Fuller: All in favor of the motion will say "aye," all opposed "no." Carried.

EXPRESSION OF THANKS.

Mr. Taylor: In view of the recommendation made by the Executive Committee, I offer a resolution, as follows:

Resolved, That the thanks of this Section be and they are hereby expressed to the Clearing House Association and its Entertainment Committee for the very complete entertainment provided for visiting delegates and their families, and especially for the supplemental provision for this Section in furnishing a special boat to carry us on the trip to the sugar plantation this afternoon.

Edwin Chamberlain, of San Antonio, Texas: I second that resolution.

President Fuller: All in favor of the resolution will say "aye"; all opposed, "no." Carried.

Next in order is the report of the Secretary.

Report of the Secretary.

[The Secretary's report is printed on page 212.]

Mr. Jackson: I move that the report be accepted and placed on file.

Mr. Poillon: I second the motion.

President Fuller: All in favor of the motion will say aye; opposed to, no. (Carried.) Next in order is the report of the Committee on Protective Laws.

Mr. Lynn H. Dinkins, of New Orleans: Mr. President and gentlemen, the report of the Committee is as follows:

Report of Committee on Protective Laws.

[The report of the Committee on Protective Laws will be found on page 211.]

W. E. Allen, of Greensboro, N. C.: I move that the report be received and placed on file.

H. L. Ward, of Burlington, Vt.: I second the motion.

President Fuller: All in favor of the motion will say aye; opposed, no. (Carried.)

Gentlemen, we are now to listen to an address which vitally interests every man in the trust company business. There is no relation in life, unless it is that of matrimony, in which persons and institutions come more closely in contact than the relation that exists between the lawyer and the trust company. Mr. Eaton, of Chicago, has prepared and will deliver to us an address on the subject of The Relation of the Trust Company to the Lawyer.

The Relation of the Trust Company to the Lawyer.

[The address of Marquis Eaton on this topic will be found on page 206.]

President Fuller: I will now announce the names of the committee appointed to accept nominations for members of the

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Executive Committee to fill the vacancies which will exist after today. The gentlemen whom I appoint are as follows:

F. H. Goff, of Cleveland, O.
Roland L. Taylor, of Philadelphia, Pa.
R. W. Cutler, of Hartford, Conn.
H. A. Rhoades, of Boston, Mass.
Edwin Chamberlain, of San Antonio, Tex.

Henry G. Aird, of Jacksonville, Fla.: There are several recommendations which were made by the President in his address this morning, which I think ought to be referred to the Executive Committee for them to consider, and, if deemed advisable, carried into effect; and, therefore, I move that be done.

Mr. Ward: I second the motion.

President Fuller: All in favor of the motion will say aye; opposed, no. (Carried.)

At this point a recess of five minutes was taken for the purpose of enabling members to hand in their nominations to the committee just appointed.

Roland L. Taylor, of Philadelphia, Pa.: Having had over twenty years' experience in the relation of trustee to an individual, I desire to express my appreciation of the excellent address delivered here by Mr. Eaton. It is so able an analysis that I think we might almost term it a Rule of Conduct, and I should like to see it printed in pamphlet form under the auspices of this Section.

President Fuller: Do you make a motion to that effect?

Mr. Taylor: Yes sir, I so move.

The motion was seconded and passed.

President Fuller: We will now listen to an address by Mr. Fred I. Kent, Vice-President of the Bankers' Trust Co., of New York, on the Registration of Commercial Paper.

Registration of Commercial Paper, by Fred I. Kent, Vice-President Bankers' Trust Co., New York City.

[Mr. Kent's address appears on page 203.]

President Fuller: The next speaker is a gentleman who needs no introduction to this audience, as he was one of the most able officers the Section ever had. I present Mr. A. A. Jackson, Vice-President of the Girard Trust Co., of Philadelphia, Pa.

The Protection of Property, by A. A. Jackson, Vice-President Girard Trust Co., Philadelphia, Pa.

[Mr. Jackson's address may be found on page 200.]

President Fuller: The addresses that have been delivered today have been so interesting and on such important topics that I am sure you will all join with me in the regret that there are no more to be presented. The remainder of our business will only require a few moments.

I call now for the Report of the Committee on Legislation. As I am myself the Chairman of that Committee, owing to the modesty of the other member of it. I will read the report.

Report of Committee on Legislation.

[We print the report of the Committee on Legislation on page 211.]

Mr. Orr: In connection with the report of the Legislative Committee, with the permission of the house, I would like to take up the resolution relating to that committee which was offered this morning, and that evoked some discussion. I desire to withdraw that resolution and substitute a much shorter and a more simple one.

President Fuller: There being no objection, you may do so.

Mr. Orr: Resolution that I now offer is as follows:

Resolved, That the Executive Committee shall annually at its first meeting appoint a committee of five as a Committee on Legislation of the Trust Company Section. The President, the First Vice-President, and the Chairman of the Executive Committee shall be ex-officio members of such Committee; the other two members may, or may not, be members of the Executive Committee. Such committee shall serve until the appointment of their successors.

I move the adoption of this resolution.

Mr. Jones: I second the motion.

President Fuller: Is there any discussion of the resolution now offered? As there does not seem to be any, the question will be put. All in favor of the adoption of the resolution will signify it by saying aye; all opposed, no. (Carried.) The resolution is adopted.

On motion of Mr. A. A. Jackson, of Philadelphia, seconded by Mr. W. C. Poillon, of New York, a vote of thanks was passed to the members of the Legislative Committee for the work done during the past year, and the able and comprehensive report submitted at this meeting.

R. W. Cutler, of Hartford, Conn.: Reference was made in the report of the Executive Committee to a committee to revise the by-laws and the proposed amendment respecting the election of vice-presidents. If it is in order, I would like to present that report now.

President Fuller: It is in order, sir.

Mr. Cutler: The report of the committee is, as follows.

Whereas, It is desirable that the Vice-Presidents of the Trust Company Section of the American Bankers' Association shall more thoroughly represent the Trust Company Members in their respective States. Therefore, be it

Resolved, That the By-Laws of the Trust Company Section be, and they are hereby amended, to read, as follows: In States having Trust Company Associations, a Vice-President of the Trust Company Section, American Bankers' Association, shall be nominated and elected at the Annual Convention of such State Association. Such election shall be certified by the Secretary of the State Association to the Secretary of the Trust Company Section.

In States not having a separate trust company organization, but having a State Bankers' Association, a Vice-President shall be elected by a majority vote of trust company representatives, whose companies are themselves members of the Trust Company Section of the American Bankers' Association in attendance at the Annual Convention of the State Bankers' Association. Such election shall be reported to the State Convention. Certification of such election shall be forwarded to the Secretary of the Trust Company Section by the Secretary of the State Bankers' Association within a reasonable time after said Convention.

Where a Vice-President for any State has not been named in either of the above ways, the appointment of a Vice-President for such State shall be left to the Executive Officers of the Trust Company Section.

The time of office of the State Vice-President shall begin at the time of the next Annual Convention of the Trust Company Section following such election, and shall continue until the election of his successor.

President Fuller: Notice having been given a year ago of the intention of offering this amendment, and thirty days' notice having been given to the general Association, this amendment to the by-laws of the Section is now offered and is in order.

Mr. Bowles, of Baltimore, Md.: I second the motion that it be adopted.

President Fuller: Is there any discussion? All in favor of the adoption of the amendment will say aye; opposed, no. (Carried.) The amendment is adopted.

Mr. Fries: The American Bankers' Association and the Savings Bank Section have retained the services of their retiring president for three years in the administrative committee, and I think it is a good plan for this section to have a similar provision. I therefore move to amend the by-laws, as follows:

Add to the first paragraph of Section 1 the following, "and ex-Presidents, if still members of the Association, shall also be members ex-officio for three years after expiration of their terms of office."

Mr. Jones: I second the adoption of that amendment.

President Fuller: All in favor of it will say aye; opposed, no. (Carried.) The amendment is adopted.

Gentlemen, the next item on the program is a roll call of States, but owing to the lateness of the hour, and the fact that we have been in continuous session since 10 o'clock, this order will be omitted; but gentlemen who have prepared reports to be given under this head are requested to send them in to the Secretary, and they will be incorporated in the printed proceedings of this meeting.

NOMINATIONS AND ELECTIONS.

Is the nominating committee ready to report?

REPORT OF COMMITTEE ON NOMINATIONS.

For five members of the permanent nominating committee:

Lynn H. Dinkins, President of the Interstate Trust & Banking Company, New Orleans; A. J. Hemphill, President of the Guaranty Trust Company of New York; John H. Mason, Vice-President of the Commercial Trust Company, of Philadelphia; P. C. Kaufmann, Vice-President of the Fidelity Trust Company, of Tacoma, Wash.; Salomon A. Smith, Vice-President of the Northern Trust Company of Chicago.

On motion duly seconded, the Secretary cast a ballot of the Section for the nominations above made, and they were declared duly elected.

President Fuller: I have to announce with regret that Mr. Lawrence L. Gillespie, having retired from the Trust Company field, has resigned from the Section. Mr. Gillespie was one of our most valued members, and we are all sorry to lose him.

Benjamin Strong, Jr., of New York: Mr. President and gentlemen, I desire to offer the following resolution at this point:

Whereas, Mr. Lawrence L. Gillespie, first Vice-President of the Trust Company Section of the American Bankers' Association, has tendered his resignation of that office, having retired from active Trust Company work; and

Whereas, Mr. Gillespie, during his several years' connection with this Section, has always evinced a deep interest in its work, and has been of invaluable aid in bringing it to its present commanding position. Therefore, Be it

Resolved, That we view the resignation of Mr. Gillespie with very sincere regret, and that our best wishes go with him in his new field; and, further

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Resolved, That a copy of these resolutions, suitably engrossed, be presented to him, as an expression of our appreciation and esteem.

On motion, the resolutions were adopted by a rousing vote.

President Fuller: Next in order is the election of a President for the ensuing year. Nominations for that office are now in order.

Mr. Cutler: It gives me great pleasure in placing in nomination for President a man whose rare tact and unfailing courtesy has endeared him to every member of this organization. I have the honor of placing in nomination Col. F. H. Fries, of North Carolina. (Applause.)

A. A. Jackson, of Philadelphia: I am extremely happy to rise and second the nomination of Col. Fries. Those of you who are as bald headed as I am, and can look back to 1904, when Col, Fries made his address on Conservatism before the Convention in New York, will realize that the sentiment he expressed there have been lived and shown by him to all the people. (Applause.)

The President: Are there any other nominations for President?

On motion, the nominations were declared closed.

ELECTION OF PRESIDENT.

On motion, the Secretary cast one ballot bearing the name of F. H. Fries, and he was declared duly elected President of the Association for the ensuing year.

President Fuller: Col. Fries, I take great pleasure in greeting you as the new President of the Section, and in placing upon you this badge of authority. (Applause.)

President-elect: Neither time nor my emotion will permit me to thank you all as I would like to on this proud occasion of my life. I came here as Chairman of the Executive Committee. I have served as Vice-President, and now I am honored by being elected President. Three times honored, I would that it were in my power to thank in adequate language three times. I assure you all that I shall give to the Association, and to this Section, my very best service, and I trust that if I succeed in anything like the measure attained by my predecessors I will be satisfied, and, with your indulgence, I hope you will be satisfied too.

On motion of Mr. Jackson, a vote of thanks was tendered to the retiring President.

W. C. Poillon, of New York: Gentlemen, it is seldom that I have had the opportunity of doing anything that gives me quite so much satisfaction as I have today in presenting a modest souvenir of the esteem and affection in which the members of the Trust Company Section of the American Bankers' Association hold the retiring president of this Section. It is in order to express our earnest wish that his cup in future will always be full to overflowing of all these good things that make life worth while to men whose chief aims in life have been to be of service to their brothers, as has our honored President.

Mr. Fuller, in the name of the Trust Company Section, I present to you this loving cup. (Applause.)

Mr. Oliver C. Fuller (retiring President). I cannot express my appreciation adequately for this unusual token of your esteem, but I assure you that I will ever treasure this beautiful gift, as one of my most valued possessions. It will ever carry me back in memory to the delightful associations that I have made in this organization. Again, I thank you, most sincerely. (Applause.)

President Fries: Nominations for vice-presidents are now in order.

Mr. Taylor: I desire to place in nomination for Vice-President of the section, a gentleman who will fill the office with dignity and honor—Mr. William C. Poillon, of New York. The nomination of Mr. Poillon was seconded from various parts of the hall.

President Fries: Are there any other nominations?

On motion, nominations were declared closed.

On motion, the Secretary passed one ballot bearing the name of William C. Poillon, and he was declared duly elected first Vice-President of the Section for the ensuing year.

President Fries: Before we adjourn, the Secretary has an announcement to make.

Secretay Babcock: I have been asked by General Secretary Farnsworth to give this notice:

In accordance with the notice in our regular printed program, and with the notices which have been mailed to all the Bankers' Associations of the several States, by President B. F. Harris, of the Illinois Bankers' Association, who is also Chairman of its Committee on Agriculture and Vocational Education, I am requested to invite all of the officers and agricultural representatives, and as many of the members of this association as desire, to attend a conference of bank-farmers, or those interested in better agricultural methods and education, to be held Thursday evening at 8 o'clock in the Convention Hall, St. Charles Hotel.

A number of State associations have shown great interest in this matter, and this conference should be well attended, with very beneficial results.

On motion, the Section adjourned sine die.

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SAVINGS BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Tenth Annual Meeting, Held in New Orleans, La., November Twenty-third, 1911

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The Ethics of the Savings Bank.

By William E. Knox, Comptroller Bowery Savings Bank, New York.

It was with a very real sense of my own shortcomings that I ventured to accept the invitation with which you have honored me, for my experience has all been gained in the service of the mutual or trustee savings banks. My knowledge of stock savings banks, such as it is, has been gained at second hand. What I have to say, therefore, while in a broad and general sense it may be applied to all savings banks, is particularly applicable to the mutual and trustee savings banks as we have them in the East. Like many other things which have found their way westward across the Atlantic, they have lingered for a while in the Eastern States; but will, I hope, eventually find their way into every part of the country where they can find communities to serve, and that, in time, will mean everywhere.

It is true that the stock savings banks are doing their duty well, and proving to be a real help in the conservation of the savings of their communities. Conscientiously managed, they are and will continue to be of great benefit to their constituents.

But if in the East, where we are sometimes charged with selfishness and a desire to turn everything to profit, we can find men willing to act as savings bank trustees without pecuniary reward, we are not imagining a vain thing when we cherish the hope that South and West equally unselfish men will be glad to take up the same work.

A year ago, in the city of Edinburgh in Scotland, the centenary of the establishment of savings banks was celebrated. Not only from the United Kingdom, but from all the British possessions, from many of the great nations of the Old World, and from Canada and the United States, delegates representing the savings banks assembled to do honor to the occasion. Here in the United States we, too, are rapidly approaching the completion of a century of benificent effort in the same work. It may be that we, when the hundred years are rounded out, shall celebrate the founding of savings banks in our own land.

Looking backward over the hundred years, we are impressed by the evidences we find of devoted service, of unremitting labor, and of ceaseless vigilance, and by the final record of splendid achievement.

Our American savings banks, as they stand to-day, are a monument to the integrity and devotion of those who labored for their upbuilding.

From modest beginnings, they have grown with the growth of the nation, increasing in usefulness, until they are now among the main forces that make for prosperity.

It was not by chance that our savings banks have grown and prospered; they are the result of thought and care, of wisdom and of work.

The dictionary defines Ethics as "the science which treats of the nature and grounds of moral obligation, and of the rules which ought to determine conduct in accordance with this obligation." In view of this definition, let us look at the motives that have actuated the savings banks, at the moral standards that they have raised in the conduct of their business, and at the essential principles that have guided them.

At the risk of repeating an oft-told tale, let us see what spirit actuated the men who started the first savings banks. One of the earliest of them proposed "an institution for the benefit of the wage-worker who might deposit his savings and withdraw them again, in part or in whole, as he might require, with interest according to the time they had been on deposit"; and this institution was designed to take the place of almsgiving.

Another was started with the avowed purpose of being "for the special benefit of the more dependent of the industrial classes, for the collection and increase of their small savings." And another, "that persons of small means should have the opportunity, which had before been wanting, to place the small savings which they were able to lay by where they may draw interest without danger of loss."

The founders of the oldest savings bank in New York, The Bank for Savings, stated it as being their object "to assist the laboring poor to preserve a portion of their earnings for old age, and to give them provident habits, and by promoting among them a spirit of independence, economy and industry."

We see then that all these plans were meant for the encouragement of thrift, and were calculated to help the poor

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to *help themselves*. In every case the need was recognized of a *secure* depository for the savings of those who were willing to save. The way to encourage thrift was to hold out the certainty that the results of thrift and self-denial would be safely held against the time of need. And this security was to be offered to those least able to take care of their own savings.

It was evident to men of broad mind and philanthropic views that there was a real need for institutions of some kind to care for the savings of the poor, and it opened up an opportunity for service of a new kind.

Given the opportunity, men were not wanting in the early days (nor are they wanitng now) who were willing to give their services, without any hope of reward other than the knowledge that they had been able to help their less fortunate neighbors in an effort to better themselves.

As we look back over the records of our savings banks we are more and more impressed with the fact that they have won their place in the confidence and respect of the public principally because their trustees have been, and are, men who have themselves not only won but deserved the confidence and respect of their communities. Your savings bank trustee is your true altruist. He is actuated by a desire to serve his community in a practical way, and to the conduct of the business of the bank he brings the equipment of brains and energy that has given him his personal success. He gives to his duties as a trustee the same zeal and diligence that he bestows on his private affairs, being, if anything, more particular in matters affecting the savings bank than his own. He carries with him into his work a sense of his stewardship, a realization of his moral obligation, a knowledge that his neighbors and associates in the community have entrusted to his keeping, not only their savings, but their hopes for the future. With such a sense of his obligation strong upon him, is it any wonder that he is jealous of the good name of his bank, and that he uses every means to foster its interests, that he labors always with the welfare of the depositor, and that only, in view? It is as though he had laid to heart and put into practice Paul's exhortation to the Romans: "Be not slothful in business—fervent in spirit—serving the Lord." It is a long time since these words were written, but we have yet to discover any better way of serving the Lord than by serving our neighbors.

In their beginnings savings banks were merely voluntary associations of public-spirited and philanthropically inclined persons. The scope of their operations was limited; but through their agency much good was accomplished, and best of all, a definite start was made.

We learn as a fundamental principle, if we follow the tradition of the savings banks, that we are bound to foster the small depositor. It was for him that the savings bank was created, and it is to his service that it should be devoted. The man whose earning power is but little above the requirements for bare necessities is he to whom every encouragement should be given.

The hopeful thing about the small depositor is his spirit of self-reliance, his willingness to deny himself in the present in order to make the future more secure for himself and his dependents. It is no easy matter for the average savings bank depositor to save. Every dollar is the result of stern self-denial. If it be earned by the sweat of his brow there is a considerable amount of perspiration superinduced in the effort to keep it. Many a time it is harder to keep than to get. A single dollar certainly does look lonesome, and five or ten of them do not make much of a crowd. The day when the slow accumulation of dollars will amount to a respectable sum seems far off, and the calls for spending are apt to be clamorous, and yet for most wage-earners a little at a time, and that steadily, is the only way in which to save.

We see to-day Great Britain and Germany driven to the experiment of old-age pensions. It is to be hoped that the remedy may not be worse than the disease, for it certainly would seem that the result must be the encouragement of shiftlessness and an added burden on the thrifty.

If every worker could be induced to save what he now wastes or dissipates there would be small need for old-age pensions.

With every dollar that such a depositor saves he strengthens the barrier between himself and possible want in times when work is not to be found. With every increase in his little fund he adds to his self-respect. And the day comes when he is able to breathe a little more freely, as he faces the future, when he can afford to make a venture perhaps in an untried field that holds out larger opportunity. Without his savings to rely on the venture would be impossible and the opportunity lost, but with them to help a new day dawns, bright with hope.

It is interesting, especially in our Eastern cities, to watch the depositors that flock to our savings banks. In addition to the American workingman and woman, every quarter of the globe sends some addition to the cosmopolitan crowd that goes to make up the depositors in any of our savings banks.

They come from Canada on the north, and from the Central and South American republics. Not only the great nations of Europe, but every petty principality as well, is represented. Asia and Africa send their quota. American missionaries serving in Syria and China send their little savings home to be cared for. How they do it out of the salaries they sometimes get is a mystery. It is not the get-rich-quick spirit that impels them to their work, of that I am certain.

If all our depositors should talk at once, each man in his own tongue, the confusion of speech at the Tower of Babel would be faithfully portrayed. But however they may differ in their origin and speech, from whatever race they spring, they have one common motive in this land of ours, and that is the pursuit and capture of the elusive American dollar. And in the aggregate they manage to overhaul and lay hands upon a good many of them.

The foreigner whose children attend the public school gets some idea of what it means to be a citizen of a free country. The foreigner who deposits his money in a savings bank has given hostages to fortune. He becomes, as his deposit grows, more and more interested in our institutions. He learns that it is his money that is building schools and bridges, docks and streets, houses and water works, and so he comes to take an intelligent interest in public affairs. He comes to look upon the savings bank as a place where he may go for advice and counsel.

The savings banks are not only doing a beneficent work in inculcating habits of thrift, in gathering and conserving wealth which might otherwise be wasted, or else lie unproductive, and in furnishing capital for many legitimate business enterprises; but, especially in our larger Eastern cities, with their great influx of alien peoples, they are keeping step with the churches and the public schools in helping to make good citizens of those who seek our shores as immigrants.

The fostering of this spirit of independence and self-reliance in its depositor is one of the fine things that our savings banks are doing. The feeling that our depositors are being helped to look with more hope and certainty into the future, and that the haunting shadow of poverty is being banished, is no mean reward for our effort.

While the small depositor should in every way be encouraged, there is a class of would-be depositors who should not be welcome. These are they who would make of the savings banks a temporary convenience for the deposit of large sums, attracted by the high rate of interest, and who usually withdraw their deposits in times of financial uneasiness for the purpose of buying securities that are selling cheap. The savings bank was not created for the convenience of these, who properly belong to the investor class. While the savings banks are willing to serve those who need their help, it is not fair to them to burden them with

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the task of making investments for those who are quite capable of making their own investments. Nor should any savings bank permit accounts of the "in-and-out" variety. Depositors who withdraw their money in driblets to make payment of small household items only add to the expense of conducting the bank, and interfere with the comfort with which legitimate savings bank depositors should be enabled to conduct their transactions.

To insure at all times and under all circumstances the absolute safety of the savings bank, the accumulation of an adequate surplus is a matter of vital importance.

If it is the duty of the wage-earner to save out of his earnings, when he is prosperous, for the security of his family, it is equally the duty of a savings bank to save out of its earnings, and to do so religiously until it has accumulated a surplus sufficient to protect its big family of depositors against any possible loss. And this surplus should be *adequate*. Opinions may differ as to just what percentage of a savings bank's deposits an adequate surplus is.

During the past decade we have seen a tremendous growth in savings bank deposits, accompanied at the same time by a steady decline in the market value of even the best securities, so that to-day the percentage of surplus to deposits is much smaller than it has been. If we could be sure that the securities we hold would soon advance in value, we might not pay much attention to the matter. But we are neither prophets, nor the sons of prophets, and cannot see into the future.

There is but one way in which to strengthen our surplus, in the face of growing deposits and diminishing values, and that is, to live well within our income. This is a doctrine that has been preached lately from the house-tops, and it may be well that we take heed.

In the nature of the case it is generally the fact that the older and better established banks, the banks having the firmest hold on the public confidence, have the largest surplus. The surplus of a savings bank is a matter of slow, and ought to be a matter of *steady* growth, until such time as it is adequate. During the last ten years, while the deposits in our savings banks have been growing prodigiously, bond values have been steadily diminishing, with the inevitable result that many of our banks do not show as great a percentage of surplus to-day as they did some years ago.

One of the reasons for the decrease in the strength of the surplus is undoubtedly the competition for deposits which unfortunately has arisen among many of the banks. It is quite natural in any business conducted for profit that one should keep a keen eye on his rival. It is not only natural but laudable that one should have the ambition to do as well as his neighbor, that there should be a desire to build up a business that by its bigness may command respect.

But among savings banks there should be no such competition. It is foreign to the spirit of the savings banks that there should be any spirit of rivalry among them. A spirit of emulation in every effective service we can render to our communities we may honorably cherish; but the savings banks should not, for the mere sake of bigness, swerve one hair's breadth from the most conservative line of action. We are all engaged in a good work, which ought to be done in a spirit of philanthropy, and it should be a matter for rejoicing and congratulation when a sister institution does its work well and is enabled to extend its beneficent services to a larger number of depositors.

It is impossible to touch upon the subject of the savings bank surplus without being led to a consideration of dividends.

It is not *always* the bank that pays the largest dividends that is the best bank. It is easy enough to conceive of a bank that might pay dividends almost up to the limit of its earning capacity, so gaining the approval of the unthinking depositor. The deposits in such a bank would grow, but its growth in deposits would be out of all proportion to the growth of its surplus. In such a case as this it almost inevitably follows that the desire to increase the income of the bank leads to laxity in the making of investments. The question, How much will it pay? is apt to take the place of the question, How safe is it? In the time of stress, when the pinch comes, there is little or no surplus to fall back upon, the investments that looked so attractive, viewed from the standpoint of income alone, are found wanting, and the last condition of that bank is sure to be worse than the first.

No effort to increase the income of a savings bank by making mortgage loans upon inadequate security, or by the purchase of questionable securities returning a high rate of interest, is ever justifiable.

The laws of many of our States have imposed upon the savings banks wise restrictions as to investments, and the best of our banks have gained the confidence of the public by a conservative interpretation of even these rigid laws.

The savings bank does and should offer safety with small interest return as distinguished from less security and a larger return. It is not organized as a business enterprise, nor should it engage in any form of speculation or money-making in a business sense. And yet it is not, as some have miscalled it, an eleemosynary institution. It is a philanthropic, or benevolent, *not* a charitable institution. Each depositor bears his share of the necessary expenses of the bank, and the trustees no more consider their work charitable than is the work of citizens who, for example, serve on school boards.

Every trustee, every officer, every employee of the savings bank not only realizes that he has a great aggregation of wealth in his keeping, but he has ever before him a picture of the thousands upon thousands of depositors, the mechanic at his bench, the clerk at his desk, the laborer with his pick and shovel, the sewing girl bending over her machine, and with them the army of dependents, the old and the sick and the widow and the little children.

Once upon a time St. Paul considered it not beneath him to boast that he was a citizen of no mean city, and we may be pardoned if we boast a little (it may be modestly) that we are engaged in no mean business. For if there is anywhere a service which calls for the employment of the best that there is in a man, the best of head and heart and hand, with the least of selfishness, that service is the service, whether as trustee, officer or employee, of the savings bank. And the reward for that service is not wholly paid in salaries. Much of it comes in the form of grateful recognition on the part of those benefited. I like to think of savings banks, not in terms of dollars and cents, but in terms of widows and orphans cared for, in terms of uninformed (not ignorant) people helped and guided. I like to think (and it raises one's opinion of men in general to think) that our active business men, engrossed as they are in their own affairs, with the many demands upon their time, can yet find time to give of their thought and endeavor for the service of the public. Our savings banks have won the confidence and esteem of their depositors, because the depositors in them realize that they are actuated by no selfish motives, but are acting solely in the interests of the people.

For a hundred years they have done their work well and wisely. They have held high the standards of integrity and conservatism, they have shown no trace of selfishness or self-seeking in their work, they have won and will keep the respect and confidence and esteem of the people whom they serve.

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Departmental Banking Laws—Regulation and Segregation.

By J. F. Sartori, President of the Security Savings Bank of Los Angeles.

A careful survey and study of the growth and development of capital stock banking in the United States leads to the conclusion that the tendency is to generalize and not to specialize.

The theory is entertained and the ideal may be, that each institution should be organized to do either a commercial, a trust or a savings business; that it should be closely to a distinctive line, confine itself strictly to its chosen field, and that a bank of one class should not encroach upon the legitimate functions of a bank of another class. Whatever the theory may be, the practice is steadily and rapidly growing to transact all of these three kinds of banking either directly or indirectly, through a stock control, by means of a trustee plan, or through a holding company.

Let us first divide or classify banks as follows:

First: Purely mutual savings institutions.

Second: Capital stock banks, which latter, notwithstanding their corporate names, may be divided into commercial, trust and savings, according to the character of business transacted.

Mutual savings institutions are an eastern—you might say, colonial, state product. Their field of operation is practically confined to the old and populous New England and Eastern States, and they have on deposit, roughly speaking, one-half the savings of the country. Although laws have been passed providing for their organization in a few other states, they do not multiply and are not a popular form of banking in the South or West.

It is the purpose of this paper to deal particularly with capital stock banking, to show its drift toward a dual or departmental business, and to advocate and urge national and state laws legalizing and regulating such business, compelling the segregation of assets and giving to the creditors of each department a first or prior lien on the assets of each respective department.

The numerous tables of statistics compiled for the National Monetary Commission, published in 1910, when carefully analyzed prove the following statements:

1st. That the three classes of capital stock banks are yearly and constantly encroaching more and more on the distinctive functions of each other.

2nd. Total individual deposits increase according to the general or dual character of business done—the class of banks encroaching most, increasing most rapidly, and the class encroaching least, increasing least rapidly.

3rd. The percentage of growth is in favor of trust companies, followed by state commercial banks, national banks and savings banks, in the order named.

4th. Capital stock savings banks, now carrying $113,000,000 demand accounts, have increased from 1896 to 1909 as against the mutual savings banks in the proportion of 2 to 1.

5th. There are now in excess of—

$113,000,000 demand deposits in capital stock savings banks.
864,000,000 savings and time deposits in state commercial banks.
876,000,000 savings and time deposits in trust companies.
743,000,000 savings and time deposits in National banks.
1,917,000,000 demand deposits in trust companies.

6th. This encroachment and departmental growth is not confined to any section of the country. It is the practice in the New England and Eastern, as well as in the Southern, Western and Pacific Coast States, consistently and rapidly growing from year to year.

7th. In 1896 the individual deposits subject to check or demand exceeded all the savings and time deposits 28½ per cent., and in 1909 exactly 28½ per cent., thus showing that notwithstanding the growing encroachment upon one another's functions, the growth of these different classes of deposits continue in the same proportion.

Furthermore, it is well known that in the cities where the large National banks are not directly doing a dual business, receiving no savings deposits, many of them are indirectly doing such business either through control of allied institutions or by means of the trustee plan whereby the stock of the two institutions is held in exact proportion.

Throughout the country 2,500 National banks are now directly receiving savings deposits and conducting savings departments without legal authority and without segregation; many others are issuing time certificates of deposit.

In the smaller communities there is an active demand for the right to make loans on real estate, and such loans are frequently made in a roundabout way.

These digressions are made from the powers granted by the National Banking Act; laws are circumvented and various devices resorted to, in order to hold and increase business and check the more rapidly growing state institutions.

Thus it is found necessary for National banks to enter the field of the trust company and savings bank in one way or another. That laws should be enacted, both national and state, to authorize directly, properly regulate and supervise, without destroying or revolutionizing all these forms of departmental banking, is self-evident.

Departmental regulation and segregation laws have been partially recognized and provided for in several of the leading states—New Hampshire, Michigan, Connecticut, Rhode Island, Idaho, Texas, Ohio and Massachusetts. In many other states (except California) banks are doing, quite generally, two and often all three kinds of banking, intermingling assets without any such legal requirements and restrictions.

Statutory enactment has been proposed and considered in others, for instance, New York, without results to date, and on careful examination of all the state laws it will be found that only in one state—California—has legislation been enacted covering the subject in all its most essential features.

In California a complete new banking act was passed by the 1909 Legislature, and went into effect July 1, 1909. Preliminary to the drafting of this act, the Legislative Committee, assisted by a committee of bankers, made an exhaustive investigation of the national and of the state banking laws. There proved to be much chaos, confusion and lack of uniformity. It was found that quite generally, throughout the country, a dual or departmental business was being done, to the extent and in the manner hereinbefore shown, mainly without adequate legal provisions for regulation or segregation, except partially in a few states.

That in California about three-fourths of the banks were doing such dual or general business, intermingling assets without regulation or compulsory segregation.

To legislate separately for each class of banking, compelling each bank to select and adhere to its distinctive line, was considered revolutionary, impractical and contrary to banking practice.

It was, therefore, decided to follow along the lines of least resistance, recognize conditions and provide for departmental banking regulated, with assets segregated.

The distinctive features of this California Bank Act are all essentials in the drafing of departmental laws, without each of which features such banking cannot be fully regulated and properly conducted or equitably liquidated in case of failure.

They are as follows:

1st. The classification of banks according to the character of business done, as savings, commercial and trust, legislating for each class separately so that a distinctive business can be done if desired.

2nd. Articles of incorporation must provide, or be amended to provide, the kind of business to be done, one, or any two, or all three.

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3rd. Capital and surplus must be apportioned to each department, and there must be a minimum capital depending upon the population and the character of business organized to be done. A trust company must have a paid-in capital of at least $200,000, and every bank having a trust department must have at least $200,000 set aside as the capital stock applicable to that branch of its business. For obvious reasons, not necessary to mention here, trust companies should have a large capital devoted exclusively to the safeguarding of such business.

4th. Capital and surplus must be increased in a reasonable proportion as deposit liabilities increase; each department should in every respect be practically a complete bank within itself.

5th. The assets of each department, including the invested capital and surplus, must be held solely for the repayment of creditors of each department, and the surplus, if any, must be applied to the other liabilities of the bank in case of liquidation.

6th. No department shall receive deposits of another, but may sell to another, for actual value, securities legal for the purchasing department.

This latter provision is highly important to prohibit the pyramiding of cash and deposits, as the practice prevails in departmental banking, when it is done through the ownership and control of other institutions.

7th. The business must be done in one building, or at least in adjoining buildings.

Without the foregoing essentials departmental banking and segregation laws are not complete and will not be fully effective in practice.

Such banking should be supervised by one authority, either state or national, so that reports and examinations of the entire business can be made at one time, which is rarely done in cases where National banks own state institutions, or vice versa.

The conflict of authority, the possible transferring back and forth of investments in anticipation of examinations and reports made at different times, and the pyramiding of cash and deposits, are potent arguments against departmental business done through the control of other institutions organized and transacting business under other and conflicting laws.

Furthermore, if savings deposits are given a first lien on the savings assets, it is quite clear and reasonable that the creditors of other departments should be given a first lien on the assets of said other departments, in order to avoid confusion in case of liquidation.

There should be no difficulty in defining the functions of the different classes of banking, as in practice they are quite well understood.

There may be question as to the character of a time certificate of deposit, whether commercial or savings. In California a certificate due at a certain fixed date with a fixed rate of interest would be issued by the commercial department, and a certificate marked on its face "subject to the rules governing savings deposits," or "subject to conditions of agreement with depositors," would be issued by the savings department. In either case with the knowledge of and at the option of the depositor.

The much discussed subject of segregation has been for several years so fully and ably considered by this savings section and by the Association of Supervisors of State Banks, particularly with reference to savings assets, that nothing of further value could be suggested here.

Of its equity there can be no question, and that the practice of intermingling savings, trust and commercial funds is ethically and practically unsound must be conceded.

The advocates of segregation are quite content that savings and trust funds should be invested, under carefully considered limitations, on approved local securities, and even to an extent on approved commercial paper, according to the decree of each state government, but they strenuously insist that such investments should be set apart and held, first, for the security and repayment of such funds. The fact is that hundreds of millions of savings depositors in many states of the Union are in commercial banks and trust companies and are not loaned on securities legal for savings banks in the same state, hence the lack of interest in the subject of segregation by trust and commercial bankers.

Although a banking reform full of merit, this movement for segregation has been opposed by the trust section and has not, to date, been favorably considered or recommended by the Executive Council of the American Bankers' Association.

The leading commercial and trust bankers of the United States, confident of the safety of their own depositors—hesitating about incurring the inconvenience and slight expense of keeping separate books and segregating assets, unwilling to invest savings deposits in the, perhaps, restricted and legal securities for savings banks in their respective states, will take no active interest in recommending or proposing segregation laws, until they become alive to the necessity of departmental banking laws, both national and state.

Realizing, moreover, the limitations of the National Bank Act, which gives them no power or authority to assume savings or trust functions, and finding it necessary and profitable to transact such business, admitting, in fact, departmental evolution, the officers and principal stockholders of many National banks at first acquired individual stockholdings in allied institutions, but finding such alliance or partial control inadequate for the free interchange and diversion of business, they are now organizing trust and savings institutions under trustee or holding methods. By these devices conflicting laws can be taken advantage of, and a character of business done indirectly which is directly prohibited.

The policy and legality of organizing and conducting these trust or holding companies are already questioned by the government, and their ultimate divorce from the parent corporation is almost a foregone conclusion, when the trend of the decisions and public sentiment against trust development are considered.

National banks in the commercial centers, therefore, desiring to continue doing a departmental business, may soon, of necessity, be compelled to urge a revision of the National Banking Act granting them both trust and savings powers.

But why resort to these subterfuges and endeavors to circumvent the law? Why wait until trustee schemes and holding companies are declared illegal? Why not recommend and urge national departmental laws with both trust and savings powers, with proper regulations, so that National banks can directly, without evasion, meet conditions and demands of the business?

If demands and conditions are such that more than 2,500 National banks find it profitable and desirable to conduct savings departments, many others to control trust and savings banks, and practically all of them—except those who have protected and fortified themselves with side institutions—to pay interest on time deposits; if, also, thousands of National banks in the smaller communities find it necessary to make time loans on real estate, and direct power is not now given them to transact this trust and savings business, why not amend the National Banking Act to meet these demands and conditions squarely?

The first suggested plan for monetary legislation submitted to the National Monetary Commission recommends "That there shall be established another class of National banks. Such banks may have savings departments with power to transact a savings business. Another class of National banks shall be authorized which shall, in effect, be national trust companies to exercise all the functions and have all the privileges which are given to trust companies by the laws of the various states."

After the most thorough and scientific examination and investigation ever made of banking conditions in the United States, as well as in the commercial world, a national departmental banking act is here practically recommended.

From the press reports of the revised plan for monetary legislation suggested since this paper was written, it appears that savings departments for National banks are again

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recommended with authority to make real estate loans. No reference is made to trust departments.

The successful and growing invasion by the trust companies of the commercial and savings field must be conceded.

If they can continue this invasion without proper regulation of their business in departments, without segregation of assets, in many states without proper restriction as to reserves, and without competition, and if they can participate at the same time in the benefits of a National Reserve Association, no form of banking will suffer greater loss of business and prestige than the national banks.

If holding companies are to be divorced and this general and popular form of trust banking is to continue unrestricted, and unless both trust and savings powers are granted to and may be exercised by National banks with, of course, the proper necessary capitalization, how can National banks in the large cities successfully compete against the banking facilities offered by these trust companies?

This is a pertinent question which should be considered by the currency commission of this association—it should be considered by the National bankers unless well assured that they can indefinitely continue in such business with certainty and safety by means of this legal subterfuge of a holding company.

It may also be of interest to inquire why this trust feature was eliminated from the recommendations. Those opposed to the granting of trust powers to national banks are quite ready to argue the bogy of non-constitutionality.

If by act of Congress National banks can legally do a commercial and savings business, receive deposits from the public, make commercial and real estate loans, it can safely be asserted that by the same authority they can legally do a trust business.

For the future welfare of National banks, therefore, both trust and savings powers should be granted them.

This phase of the suggested plan for monetary legislation should not be overlooked by the savings section. It should not be sidetracked, but should be urged along with currency reform to bring about a complete banking and financial system. Here is an opportunity, in a direct and practical way, to attain at least greater uniformity of savings laws and savings segregation.

The act could provide that the investments of the assets of the savings departments must be made according to well defined state banking laws, provided such laws comply with general regulations, to which the state banking acts must conform, and subject to the approval of the Controller of the Currency, if the National banks of such states desire to transact a savings business.

Independent national trust and savings banks will not serve the purpose, demands or convenience of national banking if holding companies must be divorced and stock ownership or control is denied to parent institutions.

The exigencies of the case will call for the granting of trust and savings powers to the parent corporation with the logical exercise of these powers in segregated and regulated departments, and as there will be no disposition to let go of these important and profitable adjuncts to the business, resulting eventually in scattering and inequal stock holdings, national bankers will favor and urge the enactment of such laws.

They will be a wholesome and powerful incentive for the enactment of similar legislation, with carefully considered provisions for savings investments in many states.

State banks would nationalize unless similar state laws were enacted, because the prestige of regulation and segregation safeguarding time and savings deposits, when understood by the people, would bring increased patronage, and a failure to pass such laws would mean loss of business.

Such national legislation would also exercise a potent influence toward uniformity of laws for every class of banking. If, therefore, this savings section, having so earnestly considered the subject of uniformity, and having so long advocated segregation of savings assets, with such small encouragement on the part of other banking interests, would accelerate and bring about these reforms, it would seem advisable, when supporting plans for monetary legislation, also to advocate and urge the speedy amendment of national as well as state banking acts to provide for departmental banking, regulated with assets segregated.

The Savings Idea and the People.

By E. St. Elmo Lewis, Advertising Manager Burroughs Adding Machine Company, Detroit, Mich.

To paraphrase one of Emerson's sayings—"A man can see in a thing, only so much as he knows about it," I am constrained to think the reason our people have not appreciated their savings banks more, is because they haven't been able to reduce to terms of their own understanding, the real value of the savings bank idea.

Probably every one of the gentlemen before me to-day will admit that he knows that his bank ought to have more depositors than it has; that his chief concern is to devise means and methods by which he can serve his public better. The truth of the matter is, however, that he hasn't solved the best way to do it. This is entirely due to two things, which any careful analysis upon the part of an open-minded man, will probably demonstrate:

First—That the savings bank man has accepted the principle that he is a servant of the public, only as a theory.

Second—The public has looked upon the savings bank idea as a good thing for those who need it, but haven't been able to see that they need it.

The savings idea is not a national idea with us.

The savings bank man has made a distinction between theory and practice, when, in reality, there is no difference between a good theory and good practice, except to say that practice, being slower witted, does not take advantage of a good theory as quickly as it should. Until the savings bank men realize they are here as an economic necessity, representing the principle of the conservation of human effort, and that in order to conserve they have a duty for which they must fight, educate, plead and teach the people, saving will not become a national trait. In other words, the savings bank today is a necessary part of the economy of the republic. Properly managed, and realizing to the fullest extent its real object, the savings bank idea can prevent a percentage of pauperism, defer the day of old-age pensions, and reduce the economic waste expressed in almshouses and charitable institutions, and even retard the growth of those socialistic tendencies which puzzle and confound the optimist.

The difference is elemental and fundamental. It is the difference between a passive conservation, and an aggressive conservation. The savings bank man is generally willing to fight for deposits, to carry on an aggressive campaign of education among those who needed it most, provided he didn't hurt his dignity, sacrifice the approval of the conservative idea of management which is embalmed in the winding sheet of sacred tradition. He hasn't performed his full duty or realized completely the ideal of service to the community, but he has taken care of many of the people who have trusted him, yet he has not visibly enlarged his field of usefulness. Any savings bank that does not do this

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good, and grow, is an impediment to the growth of the savings idea.

The policy of "leave well enough alone" must of necessity, give way to the philosophy which says—"Do good today, but do better to-morrow," and it is in this philosophy that America has thrived. Postal savings banks, because that idea was better advertised than the savings idea was advertised, have been established. It was said the postal savings banks were necessary—but we did not show what the old method could do or had done.

I propose, therefore, if this review of the situation disagree with you, as I know it must, to leave that part of it entirely to your own observation and investigation. The best thing for you to do is to take a vote among 10 per cent. of the population of any ward or territory from which you have no accounts. Ask them ten questions, or one, but make the burden of the question what they know about the personal value of a savings bank to the individual user and tell them to give you the information out of their heads, and not out of the encyclopedia. If the result is not startlingly illuminating of a condition in your own community which pleads for education, you have a cause for great congratulation.

Doctor Wm. Wood, who was at one time president of the Bowery Savings Bank in New York, and a publisher, said to me when I asked him why he advertised: "I believe it is the bank's duty to advertise. We haven't any need for deposits, because we are the largest savings institution in the United States, but we have a duty to perform to the New York public." That was illuminating. The question asked right away, "How are you going to educate the people? How can this aggressive attitude be adopted and carried out?"

I do not want to be entirely autobiographical. However, I must explain that during the past seven years I have been intimately acquainted with the processes by which successful advertising has been accomplished for a number of banks, savings, trust companies, state and national banks. In the process of getting acquainted with effective methods, I have obtained an insight into the mental attitude of the average bank official. Any bank is but the financial expression of a personality. You can talk about one-man banks as much as you please, but in every bank there is one man whose influence is felt, who dominates most of the situations, and no matter whether he meets with his Board of Directors and has their approval or disapproval, he is the motor of the institution. The first thing that must be done before getting business for a bank, is to get that member of the institution wanting business, and thinking right about it.

The first essential, therefore, is the right kind of a personality in the bank, and that personality must realize that he has a duty, as Doctor Wood expressed it, to the public, to make that public see in every way he can the value of the service his institution offers to that public.

Second—He must be willing to spend his brains and his money to realize that ideal.

Third—He must be open-minded to the experience of all business in getting business for his bank.

Fourth—He must have expert counsel in the operation, unless he has had some successful personal experience in advertising.

Fifth—He must have discipline in the institution, to make every man, woman and boy in that institution realize the intent and purpose of the advertising, and play up to it. In other words, he doesn't want to have the glad hand in his advertisement and the glassy eye behind his counter.

Sixth—He must have a policy of the bank which is understood by every man in it, and have it distinctly understood that no man will be permitted to hinder—while all are expected to help in realizing that policy in practice.

So far, we have dealt in generalities. Let's get down to brass tacks. I could tell you a hundred stories, but I am going to tell you one which illustrates the aggressive conservation policy. It is the story of a little bank in a little town near the great city of New York, i. e., Washington, New Jersey.

Hon. Jos. B. Cornish, the head of the Cornish Piano & Organ Company, a concern that has sold millions of dollars of instruments to the people of this country through mail order advertising, and a man who has been a conspicuous success in all enterprises with which he has been connected, was elected president of the First National Bank of Washington, New Jersey.

Mr. Cornish probably had as much of a regard for his individual dignity as the next man, but it had been a continuous affront to his business sense, to see the First National Bank spending money in the local publication. So, when he became president of the bank, and responsible as an executive officer, he one morning called the cashier of the bank into his office and told him that among the bank's extravagances there was one which particularly annoyed him as a business man, and that was its senseless advertising. "I don't know of any business so badly advertised as banking," said Mr. Cornish. "No other business that is of more interest to the people, and no business that ought to get better results from good advertising. The whole scheme of bank advertising seems to be based on a supposition that it is a favor to the newspaper publishers, without interest to the general public, and as a consequence, absolutely without results to the bank." The cashier, while I have no means of determining his individual feelings on this occasion, no doubt, felt that Mr. Cornish was outraging all the sacred traditions of "conservative banking"—do you recognize that term?—and with many misgivings watched the methods of the new president. No doubt he spent several sleepless nights wondering what this business man would do with a bank, when he did not realize that "banking was different."

Here let me interject one question: Is banking different? Is there one single, solitary principle of good business that can be applied to the making of buttons that isn't equally applicable to banking?

Mr. Cornish, to return to our story, proceeded at once to make an appropriation for advertising, with a definite purpose—to get the money that he knew was being stored in the hiding places in their territory.

Mr. Cornish didn't attempt to write the advertisements, because he knew he couldn't, which shows how unusual a man Mr. Cornish was, because among all the things that is a common weakness of men, is the idea they can do three things. Any man can run a newspaper better than it is run. Any man can run a hotel better than it is run, and he can write his own advertising better than anybody else can. As a matter of fact, of course, none of these things are true, and it is one of the peculiarities of human nature, that just because a thing isn't true, doesn't stop some man from acting on the idea that it ought to be true in his case, because, as Ribot, the great French scientist and psychologist, said: "There are more false facts than false theories in life."

Mr. Cornish knew he couldn't write the advertisements; he knew the cashier couldn't write them, and he knew there wasn't a man in the bank that could write them. He said, however, that he knew of a paper at Hackettstown, New Jersey, that had been carrying for a number of months short, snappy editorials on financial subjects written by a man who apparently knew what he was talking about, and knew how to get at the common man with financial information and make it interesting to him, and he said that he wanted the editor of that paper to write the advertisements because he believed that man could get the point of contact.

"The point of contact" is that quality in the advertisement which makes men, in looking at it, realize that there is something in it that is of interest to them. Did you ever stop to think about it? The next time you look through the paper you will notice that every time the word "Savings Bank" appears on a page of print, your eye catches it, and

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in glancing over a column, you will see the words "Savings," "Investments," "Per Centage," etc., pop out and fade away again, until you will have to look carefully through the column to see it again. Why? Because your eye catches these words in a page of cold type ten times as quickly as you can any other word. Did you ever realize that but few besides yourself were interested in it? Then, why do you run the word "Savings Bank" in great big type and the story in little type? Because you are writing the advertisement to yourself. That's the point of contact. The two great big points of contact in advertising savings are:

First—The man who has money and wants to keep it safely and at work at the same time.

Second—The man who ought to have money, but has not realized it.

The salesman who goes out to sell a product and fails, may blame it on the customer, but as a business man running a business employing salesmen, you don't continue to employ that kind of a salesman. You know that the reason he failed to get the order was because he couldn't sell the man. The reason you don't get the money in your locality—as much as you ought to get—is because you don't sell the man.

Mr. Cornish recognized this. I have been told one story, of a hundred that could be told, about this First National Bank of Washington, New Jersey. Down near Burlington, New Jersey, a rich farmer, who hadn't any faith in banks, went into town one day, and when he returned he found his housekeeper locked in the garret, his safe opened, and $3,500 in money taken. This incident came to the newspaper in the due course of time, and the First National Bank of Washington ran the story under the caption—"Where Are Your Treasures Stored?" The cashier of the bank said, "The advertisement appeared on Thursday, and on Sunday morning I noticed an old fellow who lived in a dilapidated old house along the canal two or three miles outside of town, passing the window two or three times, carrying a milk pail, covered with oats, the way the farmers carry eggs to market. Pretty soon his sister came in with him, and between them both I found out that they wanted to see me privately, and I took them to the directors' room. There they told me that they had been reading stories about robberies, and they had concluded to take their money to the bank. The pail of eggs was nothing but about $900 in gold coins, some of which were very old of date. They came back in the evening with another pail of eggs, and there was a total of $1,900, which has since materially increased."

In this same bank, an old couple who have a balance of $3,600 come every six months to have the interest added, and their greatest enjoyment in life apparently is to watch their accumulations grow—because of this advertising.

For years they had seen the stereotyped advertisement:

First National Bank,
Capital and Surplus $100,000.00.
3% Interest Paid on Accounts.
We Solicit Your Account.

but it apparently had not "reached" the old people at all. The story of the robbery, and the point of contact, did get the business. In the same town, there is a village cobbler with more than $5,000 on deposit, who could not be induced to exchange it for a 6 per cent. farm or a 4 per cent. government bond. He has his shop papered with the ads. used by the bank.

I am going to read you a few of the advertisements, then I am going to tell you the result. These advertisements were furnished by Mr. Charles Rittenhouse, proprietor of *The Hackettstown Gazette*, Hackettstown, N. J., who has been doing the work for the First National Bank of Washington, New Jersey, for five years. I have never had the pleasure of meeting Mr. Rittenhouse, but I happen to know something of the success of the bank. These advertisements are taken from the regular line of copy that has produced such remarkable results in this comparatively small territory. Every advertisement, you will notice, tells a story—mainly about people—and did you ever realize that people are always more interesting than things to other people? Mr. Hill recognizes it, and his personality is worth several millions of dollars to his railroad interests. Carnegie realized it; and latterly, Mr. Geo. W. Perkins in his speeches and his work before the American public, trying to create a more tolerant public attitude towards big business, is realizing that personality is necessary; that secrecy sanctifies nothing; that the trouble with big business is not that it has been so criminal as it has been so secret. People dislike secrecy. The man who is not willing to live in the open generally has a reason for living in the dark, and has generally a dark reason. This is human nature, and you have to take human nature as you find it.

Here is an advertisement entitled "A Foundation of Dimes." Let me read it:

A Foundation of Dimes.

It was a good many centuries ago that the wise men cautioned against despising the day of small things. It is a homely and familiar topic on which to point a moral. Over in New York today there is building the highest building in the world on a foundation of dimes! The man who is doing this is the man who discovered and developed the 5 and 10 cent stores. He has shown that he was practical and he was probably ambitious to become one of the world's merchant princes. Necessity led him the longer and less conspicuous route. He did not "despise the day of small things"; of a moderate start, and the business world has marveled at the large things accomplished.

John Dobson, the carpet king, who died in Philadelphia the other day, with upwards of thirty millions of accumulations, was a mill boy at $5 a week. His labor was his capital, and every work day must yield its toll of profit, which was carefully husbanded against the time of opportunity.

The practical question for the young men and women of today is: Does the labor, which is perhaps your only capital, yield a profit? Are you the best clerk in the store, the best mechanic in the shop, the best hand on the farm? There is no other way to the office or agricultural opulence. Is the labor you put in your work producing you a profit when the weekly or monthly settlement comes? Both capital and labor must produce a profit if it is wisely expended. Does that PROFIT show on a bank book at the end of each settlement period? The

OLD FIRST NATIONAL BANK OF WASHINGTON

has no higher mission, no greater privilege, than conserving and safeguarding the profits of your labor, keeping them profitably employed against the day of opportunity.

Better be safe than sorry!

You notice how the writer gets at the small sum by telling the story instead of that platitude that has been worked overtime—"Save Your Pennies and Your Dollars Will Take Care of Themselves."

Most of you have bitten on something that didn't pay. There is no necessity, however, of trying to make it out that our financial age is the most immoral of any. So here is a little talk under the title of "An Ancient Swindle." Some people say you shouldn't refer to swindling operations in a bank advertisement. Why not? Aren't you trying to educate the people the way swindlers are operated, in order to show them the safe place for money is in a bank? You will notice, too, that this advertisement is not dignified, and that's the reason people read it. Which would you rather have—dignity at ten cents a line that nobody reads, or a story that everybody reads, at half a cent a head?

An Ancient Swindle.

They pulled an ancient swindle out of the past in Vice-Chancellor Stevens' court last week. It seems that thirty odd years ago some of our easy-money forefathers promoted what was to have been known as the "Central Fire Insurance Company" of Pennsylvania. The promoters pulled the public in as far as they would go and then, to make a showing of assets, the managers bought one share each of several strong railroad companies, raised the certificates to 100 shares each and transferred the raised certificates to their company, and the $700 invested figured as $70,000 in the assets of the company! A lot of people put their money in the stock of the company, but they never got any of it out because the promoters wanted money, not an insurance company.

So you see the promoters of today did not have anything on our grandaddies. It was the ever new scheme of separating honest people, with a penchant for taking a chance, from their provision and earnings. And the daddies came to realize, as you have come

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to realize, that there is the largest measure of SAFETY in some strong bank (under government supervision) like the

OLD FIRST NATIONAL BANK OF WASHINGTON,

paying the return that safety dictates and principal and earnings yours to COMMAND.

Better be safe than sorry.

Every once in a while Mr. Rittenhouse works in a little bit of philosophy. Now, philosophy isn't as bad as it sounds. Each of us has a philosophy, whether we know it or not. You have a view-point towards the world and the hereafter, which is an expression of your individuality, which some people like or dislike, and after all is said and done, your philosophy, therefore, is nothing more nor less than a coherent statement of what you like or dislike, believe in or wouldn't believe in, would do or wouldn't do, and that together is the only important thing in the world about you as a man.

Here is a little sermon under the title of "The World's Blessing," which talks about work, and you will notice also that personality is run into it again. It talks about the philosophy of Jacob H. Schiff—probably some of you know of him:

The World's Blessing.

"Work has become the blessing of the world. There is no greater happiness than that obtained through honest work. I do not pity you your hardships; I envy you your opportunities."

That is the summary of the philosophy of Jacob H. Schiff, one of the great captains of finance and development. Work for work's sake plus happiness, plus health, plus provision; that is the conclusion of the Schiff philosophy. There is nothing in this world that is worth doing that is not inspired by an aim and purpose. The aim is to be useful, to have a part in life's activities; the purpose in that provision for age, for sickness, for those dependent on us. No man can avoid this responsibility and he must meet the personal question: WHAT PROVISION ARE YOU MAKING, and what care are you taking of that provision? A man isn't true to his obligations, to his responsibilities! The most inspiring and helpful thing in this life work is to sit down and discuss these matters in the sacred confidence of home.

To provide and care for the provision! In its care we can be of service, in fact, that is the confidential relation the

OLD FIRST NATIONAL BANK OF WASHINGTON

seeks with its patrons. We offer you every facility for safety, of convenience in banking and the interest return of government bonds, the highest class investment the world knows anything about.

Do you agree with Schiff?

To show how Mr. Rittenhouse works a news item into an advertisement, I want to read this advertisement under the title of "The Laughing Dollars." You will notice by indirection how he gets the advertisement in for the safety of a bank:

The Laughing Dollars.

There was a bill before the last legislature of Pennsylvania, and it is to be re-introduced this winter, that has for its purpose the protection of the people against bogus mining, real estate and other fraudulent commercial schemes. It provides prison punishment for offering for sale the securities of any fraudulent concern. The introducer of the measure claimed that in his own county tens of thousands of dollars' worth of stock of this sort had been sold, and most of it to men and women of limited means, and more limited information and business experience. Possibly the riotous days of "alkali" and "cornstalks" are ended in Pennsylvania, but what of the commercial bunco games that are being worked in where they tickle the credulity of men and laugh with his harvest of dollars?

Are your dollars so loosely held that they can be tickled into laughter by the peddler's wand, give up their toll through the bucket shop, lured into "securities" of prospective value, or are they having their part in the development of the community in which you live, are they safe in some strong bank, like the

OLD FIRST NATIONAL BANK OF WASHINGTON,

where government supervision, the integrity of management, and more than ——— of assets guarantee their return to you, principal and interest, ON DEMAND? Verily it is

Better to be safe than sorry!

I believe you will admit that this is treated in a way to make people read it. The remarkable part of this series comes out in the fact that many of these advertisements have actually been reprinted as news items in publications throughout the country. For instance, the "52 Per Cent. Flagg" article was reprinted in no less than seventeen newspapers as a news item. It shows the public interest, and the fact that Mr. Rittenhouse has developed the point of contact with the public mind, and people read the First National Bank's advertisements to keep in touch with the average man's little world of dollars and cents. Now, what effect has it had in dollars and cents on the First National Bank? It has made the people of Washington and the surrounding territory believe in its admonition that "It is Better to be Safe than Sorry," and they have commenced to understand what it means to have money at command, principal and interest. The individual deposits of the First National Bank have grown steadily from $385,000 in 1906 to over a million and a half—in 1911. Senator Cornish recently said: "I don't believe any of us know how valuable and effective that series of bank advertisements has been. I believe it is a discovery in bank advertising, and shows a talent and gift for such work which Mr. Rittenhouse himself does not appreciate at its true value."

Take these advertisements and read them. Put them down alongside of the advertisements that you use in your own publications. Look at them with a fair and open mind, and tell yourself the truth, and answer the question—Isn't it a fact that ten people will read such advertisements where only your own people read one of yours?

It is a fact that the average man whose money you ought to have doesn't care how big you are—he wants to know how safe.

It is a fact that the average man whose money you ought to have doesn't care how many million dollars you have, but he wants to know what you are going to do with *his* money.

It is a fact that he wants you to evince an interest in *his* particular problems.

It is a fact that *he* wants protection from the sneak thief, the embezzler and the fakir.

It is a fact that you can get the most confidence by a process of education, and by educating the man against get-rich-quick propositions, grafters, stock promoters, you get his mind unconsciously bent towards you, because you become a friend, protector and guide, and that's what he is after.

To accept this philosophy of aggressive care for the other fellow's money is too much to expect of the man who has been steeped in the idea that he is doing the depositor a favor, and his whole force act on that principle. A merely honest man, passive, cold, indifferent, has no weight in the community beyond eminent respectability. The term merely "honest man" is too often a polite way of calling a man a fool. The good book says, "To him who hath shall be given," but let us not forget that while Christ was a meek and lowly spirit, he whipped the money changers out of the Temple, and that he preached a gospel; that he went up and down among the Jews and Gentiles, preaching a gospel. He didn't sit in his house and wait until the people came to him to be saved. In fact, he enunciated the creed of the salesman who is king of the world. On one memorable occasion he told a man, "Go and sell," and his selling is nothing more nor less than educating a man to think about a thing as you think about it, and so keeping a savings bank involves an obligation as well as a privilege. The trouble with most of us has been that we have been concerned so much with the privilege that we have forgotten the obligation. The obligation is twofold, to be safe and sane, and solicitous.

I commend to your careful consideration a method which has assisted very materially in lessening bad practices in other lines, and that is co-operation upon the part of all savings banks in the work of educating the public to a realization of what a good investment is. Man will forever risk something in quests for buried treasure. He will forever attempt to find gold where unprincipled adventurers swear it is. We have materially lessened the heart-breaking quests by the spread of knowledge with respect to even the far corners of the world. Co-operative publicity has found its best expression in the work done

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by the Pacific Coast cities in the development of immigration; in the Swiss Railroad's advertising in this country to obtain tourists for their lines in Europee; in the development of the Ceylon tea business in this country; in the development of immigration for the Canadian West, so the savings banks would be developing the trusteeship feature of their work if they would co-operate for the purpose of educating the people in right investments.

First—By a process of injecting aggressive educational work of the kind I have already shown, in their daily paper advertising, especially at a season when they know fake advertising of various kinds is being locally developed, either through the mails or in the advertising columns of their daily papers.

Second—Inasmuch as no one bank or set of banks locally can reach all sections, there ought to be a co-operative fund which would call for but a few dollars from each of the savings banks in the country, for the purpose of doing general educational work. The publication of articles such as appear in the *Saturday Evening Post* and other publications of a similar character by financial experts, and then these reproduced in pamphlets attractively printed, could be furnished to the contributing banks and to others at a minimum charge, to be distributed in the territory threatened by the invasion of fake investment sharks.

Third—Many articles could be written specially for such a campaign and their insertion could be obtained in the better class of local papers.

Fourth—Inasmuch as one swallow does not make a spring, one article on fake investments will not kill or interfere with the 20 per cent. grafter. It will be necessary to continue the fight for years, for the simple reason that there is a new generation of grafters born every day.

Fifth—This work could be done from a central office, probably under the direction of our efficient general secretary.

There are just a few things that you will have to guard against:

You will have to guard against distributing the kind of articles that nobody but a bank man will read. If you select a man to write your advertising as is at present written, to write articles on investments and to educate people in the proper method of making investments, you will probably find nobody reads them. You will have to focus the investment truths on the minds of the people whom you are trying to interest, and that calls for an entirely different kind of a camera than the average financial writer carries.

You will have to guard against confining your advertising to the publications that reach the kind of people in whom you are not interested, i. e., the kind of people who make $10 a week.

You will have to guard against a desire to talk about yourselves, because your bank and your thoughts, your ambitions, your financial interests, are not a particle of interest to the man keeping six children and a wife on $15 a week. You must talk to him from the standpoint of his interest, and you will probably have to hire some man who is familiar with it and who can write material that will get to that kind of people.

The grafters of this country thrive on the man of small fixed income, who has not a reliable guide to help him make investments. He looks after it himself and has not been considered big enough by the bankers to cultivate. He is the man, however, who in the aggregate supports the savings bank, and who yields up his millions to contribute to the fake investment shark.

With the changing of this policy it does not mean that we will sacrifice one single iota of those high ideals which we are endeavoring to serve. We must be conscious in the daily work that the idea of savings banks is wrapped up in that old motto of the Black Prince—"Ich Dien"—I serve. It is a selfish service in your behalf as well as the public—don't let's befog it with altruism. That service pays you, for it pays in either preferment, position, money or in doing the kind of work that you like to do. Talk to your public in language they can understand, about things that they see, and hear and do, about their mistakes and successes, about a more efficient life, where those who do not waste have the happiness of not wanting. It requires no prophet nor seer to understand that the rewards will come to both beyond the dreams of 3 per cent. a year.

Efficiency of Supervision of Banks.

By Hon. Arthur B. Chapin, Bank Commissioner for Massachusetts.

Efficiency is a word that has been much in evidence of late, and when applied to the supervision of banks represents a most essential qualification.

The object of supervision of banks is to ascertain that the deposits are safe, that the laws are complied with, that the responsibilities are realized, that the obligations relating to the investment and safeguarding of funds are fully performed, and, finally, that the public interests are protected in such a way as to create a feeling of confidence in the public mind.

It is impossible at this time to treat of the requirements of proper supervision except in the most general way. Different conditions require different treatment; the failure of directors or officials to perform their full duties requires a greater measure of supervision than is necessary where those clothed with responsibility appreciate their duties and give the proper time and attention to their exercise. In most of the States the legislatures have put out a sign, "Banks Supervised," which tends to create a feeling of confidence among depositors that their money is being carefully looked after by the State, and that, so long as a law relating to supervision remains on the statute books, it is safe from loss. Thanks to the fact that honesty is the rule among bank officials and bank employees, and that as a rule surplus accounts have taken care of losses resulting from lack of zeal or experience, comparatively few depositors have suffered losses; and in general they have been lulled into a feeling of security by the words, "State Supervision." They do not know that too often what they consider a safeguard is ineffective, is merely a friend of the "dummy director," is really supervision in name only; and then when losses occur the man who holds the position of supervisor is flayed by the press and the public.

In my opinion legislatures are primarily to blame for attempting to create confidence in the minds of the public by inadequate legislation and then failing to make supervision effective by appropriating the necessary money or furnishing a sufficient force of men to do the work properly. The statement of the Comptroller of the Currency, Hon. Lawrence O. Murray, before the National Monetary Commission, applies to savings banks and other institutions under State supervision as well as to National banks. He said: "The supervision which we have been able to give banks under the law as it stands has been ineffectual and inefficient and disastrous. Either the Government ought to be able to draw a law and work under it efficiently or it ought to stop trying to supervise banks."

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From a purely theoretical standpoint the supervision of banks, or, in fact, the governmental supervision of any form of industry, is unnecessary. Those who have been chosen to direct affairs and who have been clothed with the powers and responsibilities of management, and the employees who have duties to perform, ought to do their work properly; and the banks' own organization and directors ought to be sufficient to insure that result. If human nature were constituted differently, and if each individual employee, officer and director performed his duties honestly and to the full measure of his capacity, it would not be necessary for the Government to assume any of the functions of oversight, but experience has shown that there must be some supervisisory function exercised from the outside to protect those interested; although in England the idea still exists that public opinion is the best censor of banking practice and is sufficiently strong to hold every bank of standing to sound principles. However well this may apply to their joint stock banks, where directors have a selfish interest, it has not been found sufficient for trustee savings banks whose soundness must depend upon the watchfulness of trustees.

The experience of the Commonwealth of Massachusetts illustrates what is necessary from a practical standpoint. While the same principles have been found to be essential for the National banks, the experience of Massachusetts applies especially to its State banking institutions, of which the savings banks are the oldest examples. These are what are kncwn as mutual savings banks, which have prospered in the older States of the Union. They are not owned by stockholders, but are chartered bodies of incorporators, each body constituting a self-perpetuating board, electing trustees whose duty it is to direct the affairs of the bank, and who choose the managing officers and employees. In our savings banks the depositors have no voice as such in the election of those who shall manage the bank, though in the co-operative banks, which are building and loan associations, the depositors must be shareholders and are the electors of officers and directors.

The savings bank system of Massachusetts dates from 1816, when the Provident Institution for Savings in the town of Boston was incorporated. This is the oldest chartered savings bank in the United States and the largest one in Massachusetts, having over fifty millions of dollars in assets belonging to over one hundred thousand depositors.

It may be of interest in this connection to state that there are about five hundred institutions and agents at present under the supervision of the Massachusetts Banking Department, with assets of over one and one-fourth billion of dollars, of which over nine hundred millions are in the savings banks. As the supervision of trust companies and co-operative banks is more or less the same as in other States, this paper applies especially to the $900,000,000 assets of savings banks.

After the first savings bank was chartered others were soon organized, and the legislature considered that some publicity should be required; so the first step in supervision was taken in 1834, and each bank was required to file annually with the Secretary of the Commonwealth a statement of its condition. No effort was made to verify the correctness of these statements until 1838, when the legislature concluded that, on account of the gross mismanagement of some of the banks, the State should exerise some supervision, in order that definite knowledge might be had in regard to the accuracy of the statements and that thus confidence might be inspired in the minds of the depositors and of the general public. A board of three savings bank commissioners was therefore established, with the functions merely of visitors, who should annually call at each bank and make a superficial inspection of its affairs. This board made its first report in 1838, and said in part: "The attention of the commissioners in the examination of savings institutions has been directed especially to investments and the system of accountability as provided for in the by-laws and as carried out in practice. An examination of the individual acounts would be a work of great labor and of little advantage." Experience has since shown that such a trial balance of the depositors' ledgers, while a work of some labor, is an absolute necessity under any plan of effective supervision; for such supervision should include determination of a bank solvency or ability to pay its debts, and to be content to examine its assets without enquiring as to the liabilities as shown by its accounts with its own depositors seems hardly less than absurd.

In 1843 the Board of Bank Commissioners was abolished and the inspection of savings banks discontinued, though statements of condition were made to the Secretary of the Commonwealth, and the law required the trustees of each bank to provide for a semi-annual audit. After eight years, however, the legislature again decided that supervision should be exercised by the State and again established a Board of Bank Commissioners, with the same powers of visitation and examination of savings banks as those conferred by the acts of 1838. In the first report the new board said: "Of the general conduct and condition of these institutions we are able to state that they are in a safe 'condition' for depositors, and in their 'general conduct' they are in the main accomplishing the benevolent purposes for which they were created." Of the twenty-seven savings banks then in operation and visited by the Commissioners they state: "We have found but two institutions all of whose investments were made strictly in conformity to law." They saw that this was remedied, however, without any losses resulting to the banks therefrom.

The system of bookkeeping in the early days was unsatisfactory. In their report of 1865 the Savings Bank Commissioners said: "The system of bookkeeping and that regulating cash receipts and payments in our savings banks will bear no comparison for safeguards against fraud with those of some of the institutions of the same kind in Great Britain. Indeed, in one of our large banks, no verification of the general deposits account by the amount due individual depositors, as shown by the ledgers in which the separate accounts are kept, has been made since the bank was organized many years ago. In one of the largest banks of England, having 42,000 depositors, the depositors' passbooks go through the hands of five several clerks on receipt of each deposit, and of four on account of each payment, and a monthly audit of every case transaction is made by a professional accountant." But it was not until twenty-four years later, in 1889, that the law of Massachusetts required a savings bank to take an annual trial balance of the depositors' ledgers.

In early years the Commissioners in their reports called attention to the fact that too often the entire responsibility was thrown on the treasurers of the banks, the trustees making only the most formal examinations. They declared that the weakness and danger arose not from defects in the system but from neglect of such thorough and efficient supervision by the trustees of the details of management of the banks as would tend to secure faithfulness on the part of the clerks and treasurers, who receive and have the custody of its funds. The trustees must be looked to mainly for this security. In 1871 attention was again called to this weakness, and the annual report said: "Experience in all moneyed institutions teaches the necessity of frequent and thorough examinations of every item of business involving the receipt or payment of money, and in no institution is this exact supervision more needed than in the savings bank. Without it a system of fraud may be carried on for years, or until some accident reveal its existence. This supervision can only be carried on by the trustees. It is negligently performed in so many cases that the evil should be met by additional legislation declaring the duties of the trustees in this particular."

The next year the department again tried to arouse the

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trustees to become active, and to provide for frequent and thorough examinations. "Reputation for the highest integrity," said the Commissioners, "has been found not a sure guarantee for honesty in financial affairs, and the most disastrous cases of defalcations are generally those least suspected."

But in accordance with human nature, trustees continued to be indifferent and could not be aroused to the proper performance of their duties, especially in having proper audits made of the books. So it was that last year (1910) the legislature concluded that the experience of Massachusetts had proved that the system of dividing the responsibility for supervision between the trustees of the savings banks and the State, having been carefully tried, had been found wanting; and the result has been legislation which centralizes all the supervision in the hands of the State Banking Department.

While but seven savings banks in Massachusetts have been forced to suspend on acount of defalcations, in the ninety-five years of their existence, suspensions in every one of these seven cases could have been prevented if the trustees had provided for proper audits of the accounts. There would have been dishonesty without a doubt, for neither legislation nor supervision can make all men strong enough to withstand temptation. After the discovery of each defalcation, legislation was enacted to prevent its recurrence; but in each case the method of auditing the books was committed to the trustees, and the responsibility placed with them, until last year.

Experience having demonstrated the need of greater supervision, each new law increased its scope and created additional safeguards, always tending more and more to its centralization in the hands of the State. Very early the State limited the investment of deposits to certain classes of securities which should be reasonably safe; then it commenced to prescribe safeguards by legislation, putting responsibility for the enforcement of the law on the trustees. Now all the power of supervision is in the hands of the Bank Commissioner, who must see that the requirements of law are complied with.

While there is no question that the efficiency of supervision is greatly increased by these requirements, the expense is greatly increased to the State and to the banks, for they, the banks, must pay for the audits by the certified public accountants approved by the Commissioner; and the question is at once raised as to how far the State should go in increasing its own and the bank's expenses solely for the purpose of ascertaining whether officials are honest and observing the laws, especially as the percentage of dishonesty and failure to observe the laws is relatively very small.

It is already whispered that supervision has become too great a burden in the matter of expense, and that it would be preferable for the State to confine its supervision to the minimum, and to establish a guarantee fund for the protection of depositors in general, in addition to the guarantee fund which each individual bank is now required to maintain. This would be in the nature of an insurance fund to protect depositors from losses resulting from misappropriation of their funds. Such insurance would put too great a premium on careless management, and would tend to lessen that eternal vigilance which is the price of good banking. I do not believe that the result of a State guarantee would prove as advantageous in the long run as the present system, even with its increased cost. The recent failure of the Carnegie Trust Company of New York raised the question of the efficiency of the New York State Banking Department. The facts as stated by the Superintendent of Banks show that the department followed the affairs of that company over a year, trying to save it from failure; and that during that period four million dollars of doubtful assets had been turned into cash, and the claims of depositors had been reduced from fourteen to seven million dollars. The wisdom of its course is shown by the fact that, when the end came, the loss to the depositors, both actual and proportionate, was far less than it would have been at any time prior thereto. The failure of the company was not due to the dishonesty of the employees, but to losses resulting from what would seem to be a violation of the laws of sound finance by the management of the bank.

More recently still the Union Bank of Brooklyn has brought up the question of efficiency of supervision over the acts of directors. In general, some of the largest losses have been incurred by banking institutions through neglect of trustees or directors to see that its officers took no improper risk or otherwise abused their trust. This can be remedied, in my opinion, only by the State taking the final step in efficient supervision, which will permit the immediate suspension and removal of trustees and directors who evidently fail to appreciate their responsibilities. The removal must be done quietly, without the publicity of the courts, which would alarm the public, and under proper safeguards which would prevent the power being abused on account of personal animosity. The State of Kansas has given its Commissioner this power, by prescribing that if he finds any officer of a bank dishonest, reckless or incompetent, he may order the directors to remove the officer; failure to comply with his order cancels the bank's authority to transact business until it is complied with.

A most important step in this direction was taken last year by the State of Massachusetts, when it enacted legislation providing that, "The Commissioner shall have power to recommend the removal of a trustee, officer or employee who in his opinion has abused his trust or has been negligent in the performance of his duties, and upon such recommendation the trustees may remove or discharge such trustees, officer or employee. The trustees shall act upon such recommendation within thirty days after receiving the same."

In one aspect supervision by the State has been considered an unnecessary exercise of its power, and bank officials have sometimes opposed any increase of powers which seemed to them to place them under suspicion. It has been only by actual demonstration of a need therefor that the legislatures of various States have been led to increase the supervisory powers. It must be remembered that legislation must be enacted to strengthen the weak conditions as they appear; and while those officials who have the requisite ability and faithfulness may not need supervision, public confidence in all is shaken when the weak places are disclosed; therefore legislation, to inspire confidence, must be equally exacting for all.

The experience in the savings banks of Great Britain has been similar to ours, and the need of supervision has been demonstrated there and acknowledged, though it has not yet reached the point of efficiency that it has with us. There savings banks were introduced at about the same time as in Massachusetts, but it was not until 1891 that any outside supervision was attempted, and then only after experience had clearly shown its need. Several disastrous failures of trustee savings banks in 1887 resulted in the appointment of a Select Committee of the House of Commons to enquire into the management of savings banks. This committee recommended the formation of a commission with powers substantially the same as those of the present Inspection Committee of Trustee Savings Banks, which consists of seven members appointed for a term of four years, one member by each of the following: The Governor of the Bank of England, the Council of the Institute of Chartered Accountants, the Council of the Incorporated Law Society and the Chief Register of the Friendly Societies, and the other three chosen by the above four from nominations made by the savings banks having not less than $2,000,000 of deposits. Their duties are to appoint persons to inspect the books and accounts of trustee savings banks and to examine, ascertain and report to the committee from time to time whether each bank

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has complied with the requirements of the acts and rules relating to the security to be taken from its officers, to the accounts of the bank and to the conduct of its business. The Inspection Committee makes an annual report to the National Debt Commissioners. It is well to bear in mind that the Government does all the investing of deposits, allowing the banks 2¾ per cent. interest; of this amount one-fourth of one per cent. goes for expenses and the depositors receive 2½ per cent. The risk resulting from making investments by the banks is therefore eliminated.

In Canada there is at the present time no supervision by the Government, though a law has been framed and was presented to the last Parliament for such a purpose. In England, outside the trustee savings banks, and in France there is no Government supervision as we understand it; but there has been considerable agitation with regard to supervision in Germany in the last few years. The only returns made publicly in any of these countries are the published statements of condition, but there is no attempt at verification of the accuracy of these returns by the Government.

The first step toward efficient supervision in this country must be the enactment of proper legislation. This can be best accomplished by the co-operation of the bankers with the State Banking Department for the passage of proper laws. It is much better for this Association to favor specific legislation in accordance with the best experience than to leave the initiative to the different States until bank failures and heavy losses compel them to consider the safeguarding of deposits by State regulation and supervision. Each loss results in a blow to the public confidence and increased power for the postal savings banks, which, on account of their smaller interest rate, should not supplant savings banks, but should supplement them by educating the people to save; afterwards they will deposit their money where they can get a larger return, if they have confidence that their savings are being properly safeguarded. The first requisite in the conduct or management of a savings bank is the safety of the principal. This consideration should take precedence of any question of income; and the false cry that the savings of the people should be invested to develop real estate, or for any purpose except for its own absolute security and its return to the depositor on demand, should be treated with the contempt that it deserves.

In considering how the requisite safety may be assured the depositor's money, I am of the opinion that the best results will be obtained by the passage of legislation providing for the centralization of supervision in the hands of a single State commissioner or a single State board, which should be given great power, not only that its powers of remedying evil practices may be effective, but that it may be able to act quickly and to prevent impending losses before it is too late . The need of such power was demonstratel recently in Massachusetts, where the department had taken action to prevent impending losses, but the court refused to sustain the action of the department and rules that "It would be going too far to say that, because a banking institution might become insolvent at some future time or suffer an impairment of capital, it was therefore hazardous to the public who might at that time have funds in its custody and so should not be allowed to continue its business"; and yet within a year the department was enabled to obtain legislation which closed the bank in question. It is doubtful, however, if the depositors will receive any dividend, but fortunately the bank is not a large one.

In Massachusetts at the present time public confidence in the savings banks is strengthened by supervision in three different form:

1. *An annual report* from each bank of its transactions and of its condition in a form prescribed by the Bank Commissioner.

2. *An examination* at least once a year by State examiners from the Commissioner's office, "to ascertain whether it has complied with the provisions of law."

3. *An audit* at least once a year at the bank's expense, in manner and form prescribed by the Bank Commissioner, by public accountants selected by the trustees subject to the Commissioner's approval. The law prescribes that this shall be "a thorough examination and audit of the books, securities, cash, assets, liabilities, income and expenditures, including an accurate trial balance of the depositor's ledger." The accountants' report of their audit is made in duplicate, one copy for the Commissioner, the other for the auditing committee of the bank's trustees. At the next meeting of the trustees the auditing committee is obliged to "render a report which shall be read, stating in detail the nature, extent and result of such examination and audit."

The law as above quoted provides for determining liabilities by requiring examination of the depositors' ledgers, which may or may not agree with the actual liabilities of the bank as stated upon its passbooks in the hands of its depositors. Such possible disagreement has been recognized by the State, and more than twenty years ago a law was passed requiring that savings banks once in three years shall, by advertisement and otherwise, call upon depositors to send in their passbooks for verification by disinterested authority within the bank. In most cases such efforts bring in but a small percentage of the outstanding passbooks and the State has provided another opportunity for requiring verification of liabilities in a different way.

The Commissioner has been given the right to "prescribe the manner and form of keeping the books and accounts of such banks, the extent to which they shall be audited and the manner of safeguarding the money and securities"; thus the Commissioner is in position to prescribe such form of constant internal audit as he may think desirable, in addition to the periodical external audits by public accountants. The best method of verifying liabilities is by having the passbooks constantly compared with the books of the bank, when presented in the ordinary course of business. All that is necessary is that the entry in a passbook made by one employee shall form the basis on which a second employee makes an entry on the books of the bank; and that the second employee shall thereupon return the passbook to the depositor without its going back to the one who made the entry in it. This plan can be carried out in practice in small banks as well as in large ones, since there are few banks so small that the treasurer does not have at least one clerk. Even one man, however, can handle the matter safely, provided his assistant is a machine of the sort now actually in use in the Union Dime Savings Bank in New York for the purpose. This machine stamps the amount of the deposit or payment on the passbook and at the same time registers the number of the book, date and amount inside the machine, under lock and key. Another system which has been used by English savings banks, and to some extent by small banks in this country, is an annual showing or publication of the number and amount of every account in the bank, with the idea that thus all depositors may verify their own passbooks; but in view of the size to which some of our banks have grown and the extent to which depositors are scattered, I do not believe that the expectation that each depositor will thus verify his account provides an effective check. It may be said that, with the most thorough audit, both internal and external, it will not be possible to stop all leaks, and that there will always remain places where verification is impossible; but at least the opportunities for dishonesty should be and will be greatly reduced, and employees will be kept from temptation by making dishonesty as difficult as possible.

The auditing of the savings banks at their own expense by public accountants has imposed a considerable burden, which I believe could be materially reduced without detract-

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ing from the thoroughness or efficiency of the audit, if conducted by accountants in the employ of the State Banking Department, who would devote their entire time to such duties. These audits could then be made concurrently with, and constitute a part of, the annual examination of the banks, the Banking Department thereby insuring, as far as possible and in a uniform manner, full and complete knowledge of all the business and affairs of the bank at a specified date, and avoiding a duplication of labor which, to some extent, must necessarily prevail under the system as now divided. I believe that any supervision undertaken by the State should be recognized as for the benefit of all its citizens, and should be a part of the expense of State administration, especially in view of the fact that the savings banks pay taxes into the State Treasury of nearly two million dollars annually. Experience tends to show, in New York State for example, that assessment of the expenses of the Department upon the banks is unsatisfactory both to the banks and to the Department, introducing, as it does, a source of friction and tending to produce in the banks a desire to hurry the examiners so as to reduce their expenses. The State of New York now assesses on the banks the cost of the Banking Department, but Governor Hughes, as well as different Superintendents of the Department, have recommended that this system be abolished and that the State pay the entire expense.

The human equation of the examiner is a most important requisite for the success of supervision or all laws will be unavailing. He must have good judgment, good tact and some presence, together with practical banking experience, in order that he may be able to obtain the information he desires without causing friction. I do not believe a civil service examination will qualify the best men unless political considerations dictate the appointments, in which case civil service examinations will produce better qualified men than the politicians.

To sum up: Efficient supervision requires proper legislation providing for the centralization of oversight in the hands of some disinterested branch of the State Government, such as the State Banking Department, which should have an adequate force of capable assistants and a sufficient appropriation to make such examinations as may be necessary to ensure the safety of deposits, compliance with law, and also to make an audit of the books for the protection of the depositors, all of which should be done so thoroughly and effectively as to inspire confidence in the minds of the public. I would also favor vesting the State Banking Department with strong powers for the safeguarding of deposits, together with authority to recommend to some proper tribunal, which could act without publicity, the suspension and removal of any person whose connection with the bank may be detrimental to the depositors.

It is not the purpose of this paper to give the impression that the State Banking Department should attempt to dictate the business policies of the banks, or endeavor to supersede the management in any respect. The trustees of our savings bank are men of ability, who have the confidence of the community and who give their time and judgment without compensation; though in my opinion they too frequently confine their attention and interest to playing the part of quiet listeners to the record of transactions at the required meetings, and delegating all their powers to the officials in charge.

The success of our banks will always rest upon the honesty, good judgment and able management of those who have been entrusted with the active charge of them. The functions of management and supervision are entirely apart and distinct. The able manager, who desires to conduct his bank in accordance with the requirements of law, need have no fear that the supervision can be too strict or searching. Let bank officials co-operate with the banking departments to make supervision so efficient that deposits may be secure, that officials and employees may be faithful, and that the public may have the fullest confidence in our institutions for savings which have become such powerful factors for the welfare of the people.

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Committee Reports—Savings Bank Section.

Annual Report of the Executive Committee, by Rome C. Stephenson, Chairman.

The past year has been one of unusual activity on the part of the Executive Committee of the Savings Bank Section of the American Bankers' Association. A few weeks after the convention adjourned at Los Angeles, Mr. William Hanhart, who had served the Section so efficiently and satisfactorily as its Secretary for a number of years, died suddenly at his home in New York City from the effects of an operation. It was fortunate, however, that during his years of usefulness he had thoroughly trained an assistant in his office, who was equipped to carry on the work without interruption, until a successor was chosen to fill the office. The officers of the Section and members of the Committee were freely consulted, and after a careful and painstaking investigation Mr. William H. Kniffin, Jr., of Brooklyn, was selected to act as Secretary until the spring meeting of the Executive Committee, at which time the appointment was ratified. Mr. Kniffin was thoroughly acquainted with the great and valuable work that had been accomplished by his predecessor, who had often consulted and advised with Mr. Kniffin concerning various phases of the work, so that the latter was enabled to take charge of the duties of Secretary in an intelligent, energetic and forceful manner, and practically all the work that had been undertaken and planned by Mr. Hanhart has been carried out, together with many plans that were conceived by Mr. Kniffin.

During the meeting of the Executive Council, at the Hermitage Hotel in Nashville, Tenn., in May, 1911, two important meetings of the Executive Committee of the Savings Bank Section were held, which were attended by Messrs. Robinson, Johnson, Teter, Sartori, Gurney, Palmer, Ravencroft, Remmel, Kniffin and Stephenson. General regret was expressed by the members present over the death of Mr. Hanhart, and suitable resolutions were prepared, adopted, engrossed and a copy thereof sent to the family of the deceased.

Upon the invitation of the committee, Mr. James B. Forgan, Vice-Chairman of the Currency Commission of the American Bankers' Association, made an address upon the proposed plan of establishing the National Reserve Association and the proposed changes therein, whereby Mutual Savings Banks, State Banks and Trust Companies would be enabled to obtain practically the same benefit therefrom as would ensure to the National banks. The matter was presented by Mr. Forgan in a plain, clear and convincing way, and when he had completed his address it was the unanimous opinion of the committee that the plan so ably presented should be cordially endorsed, and suitable resolutions giving such approval were prepared and adopted.

It was brought to the attention of the committee that the book of forms, which had been prepared by Mr. Hanhart, was meeting with an active sale. This book of forms was compiled by Mr. Hanhart after years of patient and incessant work and investigation and it contains forms for every conceivable condition that might arise in any savings bank, and the forms are those that are used by the most progressive and successful savings institutions of the country. It is especially gratifying to know that so many of the banks have availed themselves of the opportunity to procure these books, which are sold through the office of our Secretary.

A committee was appointed, consisting of Messrs. Robinson, Palmer and Kniffin, to visit Mr. J. H. Thiry, of Long Island City, for the purpose of taking up the work of the school savings banks, so that the grand work that had been accomplished by Mr. Thiry along those lines could be perpetuated and fostered after his death.

The matter was suggested by Mr. Kniffin that it would be appropriate to celebrate the Savings Bank Centennial in 1916, and a resolution was adopted, endorsing such a celebration by an appropriate program, that was outlined by Mr. Kniffin.

Before the adjournment of the meeting all the business and financial matters of the executive committee were fully discussed, a detailed report was made relative to the receipts and expenditures and the manner in which the accounts are kept and vouchers for all expenditures filed and a committee was appointed to audit the financial books of the Secretary and report thereon.

When the Postal Savings System was about to be placed in operation, a number of the mutual savings banks of the country made application to the Board of Trustees to be made depositories therefor, and the authorities at Washington held that there was considerable doubt, as to whether mutual savings banks, organized without capital stock, were eligible to act as depositories under the law which created the Postal Savings System. A ruling of this character had a far-reaching effect among the mutual savings banks, and upon the request of the Secretary of the Savings Bank Section Thomas B. Paton, the general counsel of the American Bankers' Association, prepared a thorough and exhaustive brief upon the subject and presented it in such a clear and convincing manner that the authorities have within the last ten days decided that mutual savings banks of the character mentioned are eligible to receive deposits from the Postal Savings System to the amount of one-half of the amount of their surplus. The work accomplished by Mr. Paton was thoroughly appreciated by the executive committee, and it has been expressed in a resolution which was unanimously adopted by the committee at its first meeting in New Orleans.

Every member of the committee has shown a keen interest in all the plans and suggestions that have been made for advancing the interests of the members of the American Bankers' Association. It seems to be the sentiment of this executive committee that the way is clear to obtain the passage of the bill, which has been so heartily approved by the experienced bankers and Statesmen of the Monetary Commission, but that in order to accomplish the desired result, that it is necessary that the work be carried on harmoniously and without friction. That it is essential that a united effort be made by practically all the bankers of the country for the passage of the bill that will be presented to Congress, for the creation of a National Reserve Association. The members of the Savings Bank Section and the executive committee thereof are well organized for the work, and it is the general belief that they will contribute in no small way to the efforts to obtain safe, conservative and practical currency legislation.

Report of the Committee on Methods and Systems.

To the Members of the Savings Bank Section, American Bankers' Association.

GENTLEMEN: Following the custom of past years, your Committee on Savings Bank Methods and Systems (heretofore designated the Auditing Committee) has addressed a series of questions relative to the methods and practices of savings institutions and banks operating savings departments, with the idea in mind of ascertaining the prevailing practices and to make such recommendations and suggestions as seem pertinent to this occasion.

The inquiry this year was composed of twelve questions and was addressed to 1,900 member banks and and all non-member banks in the Eastern and New England States, making about 3,000 banks in all. Over 800 replies have been received, and we beg to present herewith a review of the answers, with such comment as we are agreed will tend to promote the efficiency of the savings bank management.

Respectfully submitted,

CHARLES E. SPRAGUE,
President Union Dime Savings Bank, New York.

VICTOR A. LERSNER,
Assistant Cashier Williamsburgh Savings Bank, Brooklyn.

W. R. MEAKLE,
Secretary Paterson Savings Institution, Paterson, N. J.

W. H. KNIFFIN, JR., *Secretary.*

No. 1. In using the **balance passbook**, what efforts, if any, are made to ascertain that the extensions are correctly made before the passbook is returned to the depositor?

The balance passbook is coming into universal favor and the old-style book with debits on the one side and credits on the other is now used by but a small proportion of the savings banks of the country. The reasons for the popularity of the balance passbook are: First, the general satisfaction it gives the depositor in enabling him to ascertain the correct balance at any time without being obliged to make the footings and subtract across the pages; second, because of the ease with which the bank employees can check the passbook balances with the ledger accounts, which are now largely in the balance form. The main danger of the balance passbook lies in extending the balance in haste, with no other check than human accuracy. About 25 per cent. of the banks still depend upon the teller to be careful in his extensions, the only check being a second mental calculation.

Undoubtedly the most efficient safeguard in this respect is to post the transaction on the ledger while the depositor waits; this, of

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course, necessitates delay and additional clerk hire and is in operation in but few of the large banks, the Bowery Savings Bank of New York being the most notable example. In the latter case, however, withdrawals only are posted while the depositor waits. Many banks pass the transaction through two hands and therefore have a double check, but subject to human fallibility nevertheless, which in such a case is not apt to be a serious factor. Thirty per cent. of the banks report that they verify the balances each time the book is presented, but not in all cases, however, after the extension has been made, which is the point of greatest weakness inasmuch as it permits the book to get out with the last extension incorrect. This is a serious matter if not corrected at once, since the depositor is quite likely to take it for granted that the last balance in the extension column is the correct amount due him, and an error, if of long standing, is not always easy to correct. Where the extension is not verified after being made, a most excellent system, and one which the committee can heartily recommend, is as follows: Provide a space on both the deposit ticket and the withdrawal slip for the insertion of the balance as it is after the teller has made his entry, which amount is checked by the bookkeepers in posting; therefore, if error has occurred the book can immediately be called in and rectified. This, of course, will permit the book to get out for a short time (not over three days) with an erroneous balance, but the idea has so much of merit in it that is worthy of wide adoption. If this system is used some attention should be given the addresses of the depositors, which in the case of withdrawals can be written with the signature. Many banks still compare balances only when the interest is added, which opens the door for an error to exist for six months or longer, and about 25 per cent. of the banks still adhere to this system. One bank reports comparing for all withdrawals of $25.00 and over, or when the payment called for apparently reduces the balance to a minimum amount, and also on books not having the last interest added. One bank reports proving the work by taking the old balance from the new, the difference being the amount of the transaction just made. A few do not extend the balance for deposits, but verify on withdrawals. Where there is no adequate check on the extension of the balance, and none can reasonably be made other than the teller's accuracy, the Committee recommend that somewhere on the book in plain sight be printed a notice to this effect: **"The balance shown in the balance column is memorandum only for the convenience of the depositor and is not guaranteed to be correct until passbook is presented for verification at the bookkeeper's window."** This might well be incorporated in the by-laws, but however used, it is notice to the depositor not to place too much dependence upon this feature.

No. 2. In paying withdrawals on the old-style debit and credit book, how do you ascertain that the balance on the book is sufficient to pay the amount called for without keeping the depositor waiting an undue length of time?

The old-style book is not, as above stated, in common use, but still finds its place in some of the largest banks of the country, for the reason that no adequate system has yet been devised of making rapid extensions without the danger of error, as already indicated. In making payment on this class of books 70 per cent. of the banks report that they compare with the ledgers before making payment. One half state specifically that they use the balance book and a larger proportion than one-half no doubt use the balance form. Many banks refer to the ledger only in the case of withdrawals, while a few depend upon the teller to strike a mental balance. A few compare if the draft reduces the balance to a small amount; others post at the time and therefore run no risk of overpayment. Where the notice of withdrawal is enforced, the correct balance is, of course, ascertained during the interim between the notice and the withdrawal. The usual method with the old-style book is to carry the balance in lead pencil, which can easily be altered by the would-be manipulator, and these figures should not be depended upon without further verification.

No. 3. Where small amounts are called for, apparently closing the account, do you make any effort to ascertain if the amount is correct and will not leave a small balance?

The accumulation of small balances in savings banks is not generally desired, the intent being that the depositor shall have not only all the money he has deposited, but all the interest his money has earned. This is but a matter of corporate honesty. The only way small balances can be absolutely prevented on passbook accounts is to acertain the ledger balance before paying. Depositors in savings banks wishing to close their accounts usually so state, and it is quite the common rule to compare all books where the account is to be closed. If the book comes in for collection and the balance called for is erroneous, the full amount is usually paid, or the depositor advised that there is a small balance remaining. Over 70 per cent. of the banks report that they make an effort to prevent small balances accumulating, which efforts consist of: First, comparing all books that go through the bank; second, by comparing all withdrawals; third, by posting all checks before payment is made; fourth, by requiring notice. Probably 2 per cent. encourage small balances to hold the account and act as "seed," and therefore make no effort to close accounts where the balance is not called for in full.

No. 4. How do you prevent the accumulation of small balances, less than the amount required to draw interest?

Savings banks generally accept deposits of $1 and upwards. In a few cases as low as ten cents is received. Interest is frequently paid on $1 accounts and a deposit of $1 therefore comes within the interest rule and is not considered a "small balance." To prevent small accumulations below the $1 limit only one method is absolutely sure and that is to compare each account before paying. Twenty-five per cent. of the banks report that they do not prevent them, treating them as in a measure binding the depositor to the bank. A limited few will take anything on deposit, while fully 50 per cent. insist upon closing the account unless an interest-bearing amount (frequently $1.00, but in some cases $5.00) is left. The treatment accorded petty balances is as follows: First, carry them along as open ledger accounts, which is a decided disadvantage; second, close them out into a controlling account of petty balances; third, notify the depositor to draw the amount or add enough to it to make it an interest-bearing account. Some banks carry the petty accumulations into profit and loss or expense account—in a measure confiscating them.

No. 5. Do you make any effort to prevent duplication of accounts, including the abuse of the trust and joint account through which more than the legal limit is deposited, apparently in other names, but in reality the money of one person? If so, how?

The reason for the duplication of savings bank accounts is well stated by the court in the case of Beaver v Beaver, 117 New York, 421: "We cannot close our eyes to the well-known practice of persons depositing in savings banks money to the credit of real or fictitious persons with no intention of divesting themselves of ownership. It is attributable to various reasons—reasons connected with taxation; rules of the banks limiting the amount which any one individual may keep on deposit; the desire to obtain high rates of interest where there is no discrimination based upon the amount of deposit, and the desire on the part of many persons to veil or conceal from others knowledge of their pecuniary condition." To this may be added the confidence some people have in their favorite bank—a confidence which induces them to evade the rules of the bank, openly at times, and often by subterfuge, in the endeavor to place all their savings in its keeping.

The abuse of the trust account is well illustrated in the case of Washington v. the Bank for Savings, 171 New York, 466, in which an old woman had $30,000 in savings banks largely in fictitious trust accounts. In many of the States there is no legal limit for deposits, and many banks having savings departments establish no arbitrary limit, taking all that is offered, while others use discretion in accepting large amounts. The limit of deposits runs from $2,000 in Maine, Vermont and Massachusetts to $5,000 in New Jersey. Connecticut limits the deposit to $1,000 in a single year with no maximum, while Maryland has no limitation at all. Fully 50 per cent. of the banks report that this is not a troublesome element, inasmuch as they are not restricted by law and welcome large deposits as a matter of growth, and therefore make no effort to limit the amount received. As a rule, in such States as New York and Massachusetts, where there is a legal limit, and therefore a temptation to circumvent the law, banks endeavor to prevent duplication of accounts by asking if the depositor has another account at the time of opening a new account, and also by reference to their indices. Some banks in indexing names make note of duplications and when found require the depositor to close out the surplus accounts; but where the accounts are voluminous and the names liable to duplication, such accounts cannot be avoided by any process except ascertaining the identity of each depositor—an obvious impossibility. Less than 5 per cent. of the banks refuse joint accounts, while very few decline trust accounts. Others allow a joint account after the limit has been reached on a single-name account. Thus, in the Bowery, a depositor who has a joint account may have an individual account, and vice versa, and any number of trust accounts for members of the immediate family or relatives; but duplicates, if discovered, are corrected. Each bank must decide this question for itself, and no broad rule other than care and inquiry can be recommended. In small places it will not be difficult to overcome this feature, while in a large city it is quite impossible. The only sure method would be to carefully compare all new names with those on the books, scrutinizing closely joint and trust accounts, which would require the attention of one clerk for the greater part of the time. In cases such as life insurance legacies and other moneys of like character, the limit can safely be extended, if not regulated by law, and if the amount is very large may be divided among other banks. Many banks make it a point to watch the large accounts.

No. 6. Do you make any systematic effort to verify all passbooks, and if so, when and how?

Except in those States such as Massachusetts, which requires verification every three years, New Hampshire every four years, and Vermont every five years, such verification is, of course, compulsory and more or less simultaneous throughout the State; otherwise savings banks do not as a rule endeavor to verify all passbooks within a given time, although in the course of two or three years, a large number of books are usually verified. Many banks verify all the books that come in, but do not endeavor to prove all outstanding obligations of this character. The most common method is to give notice to the depositor on the book itself, or on the cover, to present the book frequently for entry of interest, and balances are verified only when the books are presented in response to this notice. **It should be a fixed rule in every bank handling savings accounts not to allow a book to come in without ascertaining if the last dividend has been added,** at which time the balance can be checked. The most complete automatic verification of all passbooks is the Schenectady plan, now in use in several parts of the country, which briefly stated is: Once every three years the passbook numbers and balances of all accounts

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are published in the daily press and widely distributed, making it possible for each depositor to be his own auditor and check the balance as he finds it advertised. The Committee would recommend that in semi-annual dividend notices passbooks be called in for the entry of interest. Many depositors would do this if their attention was called to the importance of it, and all depositors failing to present their books during a period of three years should be communicated with, and if not presented in five years a systematic effort should be made to locate the book, and in order to do this some check must be made on the ledger account to indicate when the last entry of interest was made.

No. 7. In making up your balance sheet or report, how do you arrive at the market value of your bonds and stocks?

The true condition of all financial institutions as judged by liquidating values depends upon the valuation placed upon the securities subject to fluctuation. If this were not an important factor it would not so universally be made the test of solvency. It is important that in judging one bank against another this test shall apply equally to both, and it cannot be equitably applied unless both banks shall have a uniform method of arriving at values. In some States, notably in New England, the values of certain securities, such as bank stocks and railroad bonds, are designated by the banking department, and all banks are required to appraise their securities by these quotations, thus making uniformity the rule and leaving it to the banks to place their own values on other securities.

Three methods are found which typify the usual procedure in bond valuations: First, to ascertain by published quotations the current values of such securities as are matters of public record. The reliable quotation sheets of daily or monthly periodicals will give this information, and as to securities not listed, the offerings of bond houses may be taken as a fair indication of current quotations. The second method is to periodically submit a list of the holdings to two or more reliable dealers, asking them for the current prices of the same and selecting the one which seems to be the fairest. Third, to depend upon the bank officers' judgment or estimate, which at best is a mere conjecture. Many banks pride themselves upon the fact that they immediately reduce all bond holdings to par and are therefore not over-concerned about market values, but so many reports require market values that some attention must necessarily be given to them. The Committee recommends that where the bond holdings are of any considerable magnitude that a list be submitted to their brokers at report time, who will gladly place quotations on the same without charge.

No. 8. How do you dispose of accounts which become "dormant" through lapse of time?

The disposal of dormant accounts is regulated by law in some States, and where the law has stepped in and taken care of this matter it necessarily follows that the law is obeyed. Thus in New York, all dormant accounts of twenty-two years' standing are reported to the banking department and nothing further is done in the matter. In Massachusetts, according to the new law which has just been declared constitutional, accounts of thirty years' standing are taken over by the State and held subject to the action of the depositor. Most banks regulate this matter by by-law, stipulating that after a certain period undisturbed accounts shall cease to draw interest, or will be "closed"; and if by the term "closed" is meant carried into profit and loss or some other account the practice would be illegal, for it would be "confiscation of property without due process of law," and the Committee recommend that such by-laws be amended to read simply "shall cease to draw interest."

Quite generally banks endeavor to prevent the accumulation of dormant accounts. These endeavors are in the line of advertising, following up inactive accounts, and in other ways tracing the depositor whose account seems likely to become quiescent. This inquiry, however, has to do specifically with the disposal of the accounts on the bank's books. Twenty-five per cent. of the banks report that they allow the account to remain in its original place, some paying interest for the full time, and others discontinuing the same after a period determined by themselves. Dormant accounts of small amount are closed out into a controlling account for the purpose of eliminating these odd balances from the ledger. A few banks carry the dormant balances into profit and loss or such other account as may be determined upon and make record of the balance for future reference.

No. 9. Do your officers verify the bond and mortgage loans by physical examination of the papers and endeavor to ascertain in other ways that the amounts called for are correct? If so, how?

The law in many States and the rules of the banks in many cases require that the obligation in the mortgage loan, whether bond or mortgage note, shall be passed upon by the examining committee or by whatever name this body may be called, and 50 per cent. of the banks reply that such an audit is periodically made. The trouble with such auditing is that as a rule it is hastily done and by those not in position to do it full justice. No exhaustive effort is made to determine that the papers are complete and the unpaid obligations in the same amount as called for on the books of the bank. The banks reporting no audit of this kind are few indeed. Many banks are now employing certified public accountants for such work, and in Massachusetts an audit by such person is compulsory. In cities where clearing house examinations obtain and savings banks come under the clearing house supervision, these papers are passed upon by: first, the bank officials; second, the clearing house, and third, the State authorities, and in many States the State audit is carefully done. The Committee recommends that the audit by the trustees be accompanied by an examination as to the endorsements of partial payments, and that in sending out interest notices provision be made for the borrower to verify the amount of his own obligation. This can easily be done by stating in the interest notice that interest on a specified amount at a certain rate will be due on a certain date, and the borrower can be depended upon to act in the matter. The Banking Department of the State of Massachusetts is now verifying every mortgage loan within its jurisdiction by communication with the borrower—a very commendable piece of savings bank supervision.

No. 10. Have you ever had to send bonds or call in mortgages in whole or part to satisfy the demands of your depositors?

The answers to this question are a revelation and refute the arguments often advanced in support of the proposition that a savings bank must sooner or later cash in its bonds for the purpose of meeting the demands of its people. **Six hundred and fifteen banks out of eight hundred and eleven reply that they have never had to sell a bond or call in a mortgage for such purposes, and those which have been obliged thus to do have done so under conditions such as obtained in 1893 and 1907.** Many banks admit that in the reduction of dividends or some other change of policy they have sold bonds to meet withdrawals, but this has been anticipated when the step was taken and cannot be classed as selling securities under pressure. A very few—probably less than twenty-five—report that they have called in mortgages in whole or in part to meet withdrawals, and we may safely conclude that savings banks as a whole operating with a fair margin of cash reserve need not be over-apprehensive on the question of selling securities to meet withdrawals.

No. 11. What has been the general effect of the notice of withdrawal upon deposits and depositors when enforced?

Fifty per cent. of the banks report that they have never been obliged to enforce the notice of withdrawal. One bank in Massachusetts, in operation ninety-three years, states that they have never had occasion to fall back on this safeguard, while another in New York in business sixty years has had a like experience. The panics of 1893 and 1907 are perhaps the only occasions where this has been widely used, and where used with proper explanations the effect has been good. There are banks, notably in Pennsylvania, which require notice on all withdrawals, and therefore never experience any undue comment on this feature of the business. A few quotations on this question may be interesting from the human interest standpoint.

"General acquiescence."

"Increases the crowd and decreases the deposits."

"Badly scared and the notice scared them more."

"The depositor takes his medicine, but with a wry face."

"The depositors treated us nicely, but a few kicked."

"During the panic we were scared blue."

"Where there is competition the rule is demoralizing; otherwise the public get used to it and arrange accordingly."

"Everybody usually wants all their money."

"Ultimately all the notices are withdrawn."

"Timid during the next crisis."

"Depositors disappointed. Few get mad. Restrictions removed—confidence restored—things go on as usual."

"Will never use it again unless the notice is general."

"Made us a lot of friends."

"Bad. Carried us nearly to liquidation."

"Shows strength rather than weakness."

"Bad. Sign of weakness."

"Creates uneasiness—reduces deposits—increases withdrawals."

"Always serves its purpose. Out of one hundred ten withdraw."

"Depositors perfectly satisfied."

"Depositors regard it as a reasonable precaution. The impression is that the bank is entitled to notice."

"Three or four depositors got fresh in 1907 and we asked a notice of them just to show them."

"Notice does no harm."

"Educated the depositors in savings banking more than anything that has occurred at any time before or since."

"Dissatisfied at first, but general calming down."

"In 1907 the depositors were better educated and behaved very much better than in 1893."

"In 1907 all savings banks in Connecticut asked notice, which was accepted by the depositors without question."

"Not well received."

"No ill effects.

"Decreased deposits."

"Had a reassuring effect."

"As a whole not good; they are 'distrustful.'"

"No detrimental effects."

"Apprehensive in case of future withdrawals."

"Helped stop the run."

"Unsettling."

"Stopped the run immediately in every case."

"In the long run a salutary effect."

"Depositors much more reasonable in 1907 than in 1893."

"Excitement over in a few days."

"Only 200 out of 8,000 depositors filed notice. We were sorry we required it."

"Splendid results. Saved the bank. No bad effects."

"General effect not good—always regretted it."

No. 12. How rapidly can you handle people at the counter, and what is the secret of your success in this respect?

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The speed at which the depositors can be attended to is far more vital in banks in metropolitan cities than in small or rural towns where it seems to be expected that a social chat with the depositor shall ensue. In the large banks there is a constant struggle to get the line cleared off without employing too many clerks, which would greatly add to the expense.

One feature which is becoming prominent is to require or encourage, depositors to make out their own tickets. Not only does this save the tellers' time, but furnishes valuable evidence in case of dispute.

The use of special machines for making entry in passbooks is mentioned. The speed can be doubled by an amanuensis working the machine after the teller has checked off the ticket; also the division of the accounts into groups, either alphabetically or numerically, each group to have its own ledger, its own signature, etc., all closely accessible. This appears to be unusual in America, though known in Germany and Holland.

If while the depositor is in line to draw, his ticket can be verified as to balance and signature, so that he can be paid as soon as he reaches the window, this will make the act of payment as prompt as that of the receipt of deposits.

A careful reading of the replies to this question demonstrates that the consensus of opinion is that the handling of crowds is merely a matter of window space and clerical force. The banks which are the most successful in handling their people do so by a system of units, each window being a unit, and as the crowd increases increasing the number of windows with proper attendants so that there will not be congestion at any one window; and this seems to be the solution of the whole question.

A few comments relative to this subject will be timely, to wit:
Eliminate red tape.
Plenty of clerks and strict attention to each depositor.
Clear heads, tact and ability.
Simple and effective machinery.
Do not gossip.
Keep money in the proper shape.
Use automatic coin changers.
As to speed it varies:
One bank reports 2 transactions a minute.
Another 50 an hour by one teller.
Another 100 an hour at the receiving teller's window.
Another 400 transactions from 8:45 to 3:15.
Another 450 in a business day with one teller and one bookkeeper.
Another 425 deposits with four clerks in two hours.

Report of the Secretary.

To the President and Members of the Savings Bank Section of the American Bankers' Association:

The period which has elapsed since the Los Angeles Convention has of necessity been one of re-adjustment. The death of the late Secretary, already alluded to in this Convention and of which we are vividly reminded at this time, has necessarily brought about some changes in methods, but I hope none in aims or ideals. As I have followed him in his work and come into close contact with it in detail, I am more than ever convinced of his genuine worth as an administrator of great things and an indefatigable and efficient worker in the small things which go to make up the greater. And while I have tried to be a worthy successor, I have sought at the same time to carry out the spirit of the Section as it appealed to me, and to lay a plan for future activities which would afford an outlet for our energies for some time to come.

Since coming with you on the first of March last, my aim has been to get a grip upon the work as a whole as fast as possible; to devise definite methods of development; to interest the non-member banks in the work the Section aims to do; to be useful and helpful as occasion has arisen, and in all things to remember that we are here to serve, and only as we serve can we grow, and the larger our growth the more efficient should be our service, and the more generous withal.

Each member of the Section has been communicated with three times in the course of six months, while the non-member savings banks have twice been solicited for membership—once through the medium of a little pamphlet explaining the work of the Savings Bank Section and again through the medium of the school savings bank pamphlet, both of which have met with ready acceptance and have resulted in bringing in at least thirty members, some of them large institutions and eminently desirable on account of their strength.

The Vice-Presidents.

Mention should be made at this time of the very efficient services of our vice-presidents, especially in some of the States. They have at all times been ready and willing to co-operate in promoting the welfare of the Section, and some of these officers have, at no little expense of time, sent out personal letters to all non-member banks soliciting their co-operation, and with a considerable degree of success.

Membership.

The membership of the Section as of September first, 1911, stood at 1,888, being a net increase of 115 banks for the year, and it will not be long before we number in our department over two thousand banks. (The present membership is 1,907.) It is greatly to be desired that all of our largest and strongest savings banks shall become interested in the Section, and definite efforts have been made to so shape our work as to appeal particularly to them; especially is this true of some of our great New York City savings banks which heretofore have not honored us with their support. We can have no more laudable ambition than to bring our work up to such a degree of efficiency that on its merits alone, it will appeal to every bank whether large or small; and just as soon as we become an indispensable factor in the work of the savings banks of this country just so soon shall we be able to enlist the support of every institution that does a savings bank business.

Expenses.

The expenses of the Section have been well within the appropriations, $7,242.57 having been expended out of a total of $8,250 allotted to our work, the items of which are as follows:

Appropriations	$8,250.00
Expenses from July 1st, 1910, to September 1st, 1911	7,242.57
Balance	$1,007.43

Detailed expenses for 14 months (July, 1910—September, 1911.)

Rent	$630.00
Book of Proceedings	1,809.42
Petty cash and sundries	257.26
Salary of secretary	1,500.00
Postage	345.00
Stenography and typewriting	1,256.00
Printing and stationery	474.53
Convention expenses	330.50
Committee expenses	639.86
Total expenses	$7,242.57

Book of Printed Forms.

Total receipts to date (September 1st, 1911)	$8,332.10
Total expenses to date	6,481.55
Balance on hand September 1st	$1,840.55

It has been my aim in our department of the Journal of the American Bankers' Association to present matters of general interest, aside from the mere routine work of our Section, and to give it somewhat the nature of a medium of suggestion as well as a medium of the news pertaining to the progress of our work.

After a bit of experimenting, our financial system is now in smooth working order, with a duplicate scheme of vouchers not heretofore in vogue, which makes it possible to retain a duplicate in the Section office and to file proper receipt with the parent organization.

The clipping service has been eminently satisfactory, and will in time place in our files a vast amount of interesting savings bank matter of no little importance in future years. This should be kept up and improved as the work progresses.

Future Plans.

Five things should engage our attention in the years to come, and they are broad enough in their scope and important enough in their effect to merit our consideration:

First, the extension of the school savings bank system, as already alluded to by President Robinson. I regret that the Women's Christian Temperance Union has become the beneficiary of Mr. Thiry's vast collection of school savings bank information; but this will not prevent the Section lending the weight of its endorsement to this work. How important is this work will be seen from the fact that the Massachusetts Banking Department is endeavoring to institute this idea in every school district in the State, and at their request, our treatise was placed in the hands of the chairman of every board of education throughout that commonwealth. A committee consisting of men interested in this particular work should be appointed, whose duty it shall be to stimulate interest in this work and systematically compile data regarding its extension.

Second, the proper celebration of the savings bank centennial in 1916, for which due provision should be made, by inviting the participation of the mutual savings banks of the country, both in furnishing historical matter and in the necessary expenses attending such a gathering. I would suggest that the various State bank organizations be asked at no distant date to co-operate in this movement and that an earnest effort be made to gather all the historical data as soon as possible so that the early history of savings banking shall be available for such a purpose. A committee "centimentally inclined" to such a work should also be created in the near future.

Third, the Book of Printed Forms, of which there are less than fifty copies remaining, should be brought down to date, considerably enlarged and a new edition printed. Forms sufficient for such purpose are in the office properly filed, and work on this should be begun at once.

Fourth, I would suggest that a model set of by-laws covering every feature of savings bank management be drawn up and distributed among the banks. This is an important part of savings bank management and should engage the careful thought of all savings bank officials who are interested in making the terms of their contract complete and comprehensive, and it should be the function of the Section to furnish a guide in such matters.

Lastly, believing that the work of the Section should be largely educational, a set of stock pamphlets should be prepared and offered

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to the banks for educational advertising purposes at cost. The first of these has already gone out, viz., the school savings bank pamphlet; the second should be Mr. Knox's paper on "The Ethics of the Savings Bank," followed by a treatise on the proper audit of a savings bank covering somewhat the same ground as Mr. Chapin's paper to be read today; another on the value of the savings bank to the community; another on the bank and its depositors and the good it can do for them individually, etc., and with these scattered broadcast by our members good results cannot fail to follow.

I shall be glad to co-operate in carrying out any or all of these ideas and my aim shall ever be to be helpful and earnest in the work of the Section, fully believing that it is a unique field worthy of careful cultivation, and with such cultivation will produce results eminently satisfactory to all concerned.

I desire to express my deep sense of gratitude to President Robinson for his unfailing kindness and courtesy, both as an official of the Section and as a friend; to the members of the Executive Committee with whom my intercourse has not been so close, but has been all that could be desired; for the honor you have conferred upon me, and the opportunities opened to me, and I sincerely hope it may be but the beginning of a long and useful work together in endeavoring to fulfill the fundamental purpose of the savings bank, aptly described a century ago, and as true now as then—to promote habits of thrift and industry among the masses.

Report of Law Committee, by Lucius Teter, Chairman.

Owing to the fact that the old Law Committee of the Savings Bank Section cleared up all of the matters that were on hand, and the further fact that no new matters have been referred to us this year, our report is exceedingly brief.

There is but one item of interest that we can mention and that grows out of the fact that the chairman of your committee is a member of the Law Committee of the American Bankers' Association.

You will be interested in knowing that the splendid work done by last year's Savings Section Law Committee in connection with the study of segregation of savings deposits has been actively continued by the Law Committee of the Association this year. The details of that Committee's actions will be reported by the Chairman of the Association's Law Committee, but as you are particularly interested in this point I might say that not only has the Committee corresponded with bankers throughout the country and made a study of various segregation laws, but has had several meetings where that question was carefully discussed by the members of the Committee.

Furthermore, the Committee held hearings in Detroit and Cleveland, at which times bankers from the States of Michigan and Ohio appeared before the Committee and important discussions were devoleped in reference to this subject.

The Association's Committee has been active in securing the passage of various laws of interest to bankers generally, reports of which are made by General Counsel Paten.

Three of these Acts have peculiar interest to savings bankers:

(1) An act to punish derogatory statements affecting banks.

(2) An act relating to payment of deposits in two names.

(3) An act relating to payment of deposits in trust.

Respectfully submitted,
SAVINGS BANK SECTION LAW COMMITTEE,
J. F. SARTORI,
F. B. STEVENS,
LUCIUS TETER, Chairman.

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Detailed Report of Proceedings.

Tenth Annual Meeting SAVINGS BANK SECTION, Held at New Orleans, Nov. 23, 1911.

New Orleans, La., November 23, 1911.

President Robinson: Gentlemen, the hour has arrived which has been set apart for the opening of the Tenth Annual Meeting of the Savings Bank Section. I am sorry to call the meeting to order when so few are here, but the exigencies of the case demand that we start at once.

It is the custom of our meeting, honored by long usage, to open our proceedings with a few words of thanksgiving and prayer for divine guidance. We are engaged in a serious work today, gentlemen, and I think that if at the start we put ourselves in right relations with the giver of every good and perfect gift we will do our work very much better.

I now take pleasure in introducing to you a fellow-townsman, who will lead us in invocation, the Rev. Robert S. Coupland, D.D., Rector of Trinity Church, New Orleans.

Prayer by REV. ROBERT S. COUPLAND, D.D.

Almighty and Everlasting God Who doth command the man of burden—Grant, we beseech Thee, that Thy blessing may rest upon us, Thy sons, whom Thou hast set in the business requirements of life that they may minister for the public good and the public welfare of this whole nation. Give them such strong convictions concerning personal integrity and personal influence, and such boldness in doing right, that their methods and their examples may never be questioned. So direct them that they may in all their dealings, exemplify the consistency of the Christian religion and always give the first place to Thy law and Thy commandments and by their exalted lives may Thy church be honored and many souls turned to righteousness; through Jesus Christ, our Lord.

Almighty God, in whom we live and move and have our being—We, Thy creatures, render our humble praise for Thy preservation of us from the beginning of our lives to this day, and especially for having delivered us from any dangers of the past night. To Thy watchful providence we owe it that no disaster has come to us, but that we are brought in safety to the beginning of another day. For these, Thy mercies, we glorify Thy name, humbly requesting Thee to accept this, in the name of Thy Son, our Savior, Jesus Christ. Amen.

O! Lord, bless us and keep us; the Lord make His face to shine upon us and be gracious to us; the Lord lift up His countenance upon us and give us peace, both now and ever more. Amen.

President Robinson: Gentlemen, the City of New Orleans, through Mr. G. Ad. Blaffer, the Vice-President of the Commercial-Germania Trust & Savings Bank of New Orleans, is now ready to give us a few words of welcome. I take pleasure in presenting Mr. Blaffer. (Applause.)

Address of Welcome by G. Ad. Blaffer, Vice-President of the Commercial-Germania Trust & Savings Bank of New Orleans.

Mr. President, Ladies and Gentlemen:—I regard it a special privilege to speak a word of welcome on behalf of the bankers and citizens of New Orleans to the gentlemen composing the Savings Bank Section of the American Bankers' Association, now in convention assembled.

It was in the year 1902 that this Section of the Association was organized at the Convention held that year in this city, and I had the honor of acting as secretary at the initial meeting, whereby it might be said that I recorded the birth of this Section, and I assure you that I have since followed its growth and development with a keen interest.

All banking relations are predicated essentially upon a confidence in the integrity and ability of the banker, and thus the trust is one which demands a strict and honorable fulfillment by him. But the savings bank has reposed in it a special confidence, which carries with it added responsibility and corresponding gratification.

It is this department of the banking institution which comes into more immediate touch with that which is most vital to every man, his home and his family, and it is this department which also stands in close relation with many individuals with whom the other banking interests rarely come into contact, and promotes in them the principles of thrift which go to make success and good citizenship.

I deem it a great pleasure to welcome to our city this body of men engaged in such a splendid work.

May I be permitted to say that we, not only the bankers, but the people of New Orleans, are proud of our city, and also of the reputation which it enjoys, of always, at every opportunity, welcoming the stranger and greeting him with the warm hand of true and cordial hospitality.

You will find, I trust, many things to please and interest you. We are cosmopolitan; our streets reflect the colors of many nations, and many tongues commingle to attest our international measure. Our history and our geography are unique and interesting; the glories of Bunker Hill are reflected in Andrew Jackson's victory at Chalmette.

Our commercial conditions are such that while we are content with our present, we have set ourselves with a more abounding hope to achieve the promises of the future. Our progress in the past has been of such a character that it encourages us with this larger hope. Our substantially satisfactory and encouraging condition is not the result of causes which make but a momentary or passing success, but has come from sound and healthy causes, of a character which spells permanency, and therefore, seems to justify our hopes and confidence in a still more prosperous future.

Our resources have become obvious to our brethren of other communities, and they are uniting with us in the development of them. Our geographical location, at all times admittedly favorable, has in a sense now become strategic. We are the veritable front door to the great Pan-American continent, opening lines of communication for commerce and friendly intercourse with all the centers of activity in the known world.

New Orleans has long been recognized as the first port of entry to the Southland, but this fact is now imbued with a new significance and enlarged possibilities.

It might not be graceful in us to lay claim to a warmth of hospitality for our citizens in excess of that possessed by other people in other places, but if, as I have ventured to intimate, that is the reputation of our city, we will try to prove our right to it, and even to add thereto, and I assure you, gentlemen of this Convention, that there is no reservation in this declaration of the warmth of the welcome we extend, and I beg you to take it not as a mere formality, but with the fixed determination on our part "to make good."

We greet you as fellow-workers in a splendid work; but more than that, we greet you as friends, in the desire that you shall feel during this Convention that you are not with us merely, but of us, and we trust that from this meeting shall go not only recollections of pleasant, congenial relations and associations, but an inspiration that shall have as its fruition the growth of individual effort and the expansion of the usefulness of the savings banks of the United States.

We bid you a most hearty welcome.

Response to Address of Welcome by President Robinson.

Mr. Blaffer, these cordial words of greeting fall upon appreciative and responsive hearts. We are not strangers to Southern hospitality and all unite in saying, I am sure, that New Orleans has lived up to the highest traditions. Though we are all unknown to you, sir, friends of but a few days—and some of but a few hours—your sincere ring strikes us as music and we feel that the ties of brotherhood have brought us together, not for selfish enjoyment, but for the purpose of performing useful service to our age and our generation.

For nearly a week now we have enjoyed the graciousness of your fellowship, and your charm of manner has stolen our hearts. We have enjoyed the sights of your French quarter—after a while, I suppose, you will have to change it to Little Italy, for it has changed its complexion—repeatedly we have ridden in your conveyances, to your palaces of industry; we have been entertained by your beautiful women and gallant, courteous gentlemen. All have impressed us, and yet, if I were to be asked, what of all things impressed me most, I should say that your genius for entertaining the strangers within your gates has impressed me more profoundly.

I hope these words of mine will not be looked upon as any formal discussion. It is said that when the heart is full a single word is enough. I am sure you can see, Mr. Blaffer, that our hearts are overflowing, and that, overflowing with appreciation for many kindnesses, we accept your kindly hospitality. (Applause.)

Annual Address of Edward L. Robinson, President.

Gentlemen of the Savings Bank Section:—

The issue which today overshadows everything else affecting our interests is Currency Reform. Purely technical matters growing out of our special line of work can be subordinated for the moment to the necessity of helping along legislation which will transform our present archaic monetary system into a simple yet comprehensive

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plan suitable for the growing needs of our great country. To this end we have been asked to make the sacrifice of yielding up the sole use of an entire Convention day and to share this Thursday of Convention week with the other Sections in order that the parent body might devote an additional day to the study of this important subject.

I took the responsibility of committing our Section to a loyal acquiescence in the request made of us by the Executive Officers and I am sure that you will endorse my action, for I believe that until this grave problem is solved correctly no permanent or healthy advance can be made in general trade and we cannot prosper unless our people prosper. We lack confidence in the present methods of issuing currency and we should all work together for the purpose of creating a sentiment which will compel our law makers to put aside political expediency in order that patriotism may do her perfect work.

Many of our members are deeply interested in the work of sister Sections which are meeting today, and matters of paramount interest to some may compel their attendance elsewhere; should this result in a division of our forces we will cheerfully make the necessary contribution of our strength in order to promote the welfare of our common cause.

I shall now outline briefly the more important happenings of the past year in the prosecution of our work:—

It was known to some of us that the shadow of a grave sorrow was impending at our last meeting in Los Angeles; the sweet tempered, accomplished and versatile Secretary of our Section, and the author of its being, a brother to Savings Bank men everywhere, and to many of us a warm and tender personal friend—William Hanhart—was even then fighting an uneven battle with a mortal malady; he completed his labors in connection with our Annual Meeting, returned to his home in New York and afterwards visited your President to map out the programme of the current year; he held a firm grip upon your affairs until about the 1st of last December, when physical weakness compelled him to lay aside his labors; a few days thereafter our cause was bereft of its stanchest champion, its wisest counselor and its most devoted friend.

The Executive Committee at its meeting in Nashville last May appointed a Committee to prepare Resolutions upon his death; these Resolutions will be submitted to you later on in our proceedings.

The selection of his successor received the earnest attention of your Executive Officers and on March 1st, by their appointment, Mr. William H. Kniffin, Jr., assumed charge of our office; we believe we have found in him a worthy successor, one who is not trying to fill the place vacated by his lamented predecessor, but is faithfully "walking a highway of his own"; let us give him our unstinted sympathy and support.

The personnel of our standing Committees has been largely altered; it is hoped that this policy will tend to widen the area of our usefulness by interesting a larger number of our members; to the experience of those who have long been in our work we have tried to join the fresh and enthusiastic interest of the younger element of our membership and we confidently look for good results from the labors of our several Committees.

The title of the Auditing Committee has been changed to "Committee on Savings Bank Methods & Systems," a more correct designation of its functions; this change was made by your Executive Committee at its meeting in Nashville, but I assume that your approval of this action is necessary. In connection with the work of this Committee it may not be out of place here for me to give emphasis to the earnest plea which this Committee has always made for systematic methods of accounting and for all other safeguards which will win for our banks the unquestioning faith of the people.

It is gratifying to report that by recent action of the Executive Council a close and useful bond of fellowship between our Section and the parent body has been effected, whereby the Chairman of our Law Committee, becomes ex-officio a member of the Standing Law Committee of the American Bankers' Association; this connection will always assure us of sympathetic consideration when our special legal needs demand the co-operation of our brethren engaged in other branches of banking; we also believe that possible friction created by the overlapping of interests will be minimized; as an example: our views of the Segregation of Savings deposits are now apt to be studied more carefully, and as our attitude upon this important subject becomes better understood it will be seen that we are not seeking to destroy but to build; on the other hand, our representatives will perhaps learn at first hand some of the difficulties in the way of immediate action; we will all become better neighbors, each of us learning the difficult lessons of patience and forbearance.

Our Membership Committee has a task which justly should be borne by many rather than by a few; its special aim has been to interest the larger Mutual Savings Banks; we cannot hold out to them the promise of any special benefits, but we base our plea upon the higher ground of the duty which the strong owe to the weak; our programme today is enriched by the wise counsels of an officer of one of the largest and strongest of that important class; we hope that the ripe fruits of his experience may be shared in a generous degree by us all; if our Section enjoyed the support of the larger Mutual Savings Banks of New York and New England our prestige and influence for good would be immeasurably increased; these banks would in turn acquire from touching elbows with their brethren in remoter sections, warmer hearts, wider horizons and broader viewpoints; with their aid we can constantly improve the quality of the service we are trying to render to the Savings Bank cause.

Let me also refer briefly to three other matters which received the favorable attention of your Executive Committee in Nashville; the first is the subject of School Savings Banks; this work was begun many years ago by Mr. J. H. Thiry of Long Island City; he had labored long, earnestly and successfully. A Committee representing this Section was appointed to confer with Mr. Thiry relative to the perpetuation of his unselfish work; unfortunately before the Committee could arrange a conference Mr. Thiry died; he had, however, often expressed the desire that the Savings Bank Section should succeed to his labors and many of our members feel that we should organize and maintain an agency to propagate this educational force. I am happy to report that our office is already equipped with literature and other helps for the formation of these little Savings Auxiliaries and I trust that we will today commit ourselves to an energetic support of the System as a whole; to that end I recommend that the subject of School Savings Banks be placed under the care of a special Committee or entrusted to one of our present standing Committees.

The second matter is the celebration of the Savings Bank Centennial in 1916; while this is a long time off, I do not believe it is too early to give the subject earnest thought at this time, as it is of unusual historical importance; if we devote the intervening time to a study of conditions which gave birth to the Savings Bank idea we will be apt to give more of our energies to the work of enlightening the masses of our people upon the benefits accruing from a sane, temperate and prudent use of their earnings; we owe an important duty to our fellow men; one, two or ten talents have been entrusted to our keeping and this capital should earn interest; it is said of the founder of Savings Banks, Dr. Duncan of Ruthwell, that his great endeavor had been to help the people help themselves, not merely to "relieve poverty but to cure pauperism," for as another has said, "if you confine yourself to the relief of poverty you do little; dry up if possible the springs of poverty, for every attempt to stem the running stream has signally failed." By concerted action we can do much of an educational nature towards solving our social problems; I trust that the advent of this Centennial may witness heroic uplifting efforts to mitigate the distresses of poverty through implanting broadcast the seeds of self-denial, industry and thrift.

The third and last matter has already been adverted to; I refer to the so-called Aldrich plan of currency and banking reform; one Section is as deeply interested in the discussion of this matter as any other branch of our Association; it is hoped that our members will do their full share in holding up the hands of those who must bear the brunt of this conflict; efforts are being made to include Savings Banks in the active membership of the proposed local reserve associations, but whether we participate in the benefits directly or indirectly we will all profit through the inauguration of a sound financial policy.

In conclusion may I express the hope that this day's work may inspire us with increasing enthusiasm in our chosen field of endeavor, may assist us in solving some of the problems which confront us in our daily tasks—may give us a correct viewpoint as to our responsibilities as public men—may enlighten our understanding through a new vision of privilege and opportunity.

President Robinson: Gentlemen, the report of the Executive Committee by Mr. Stephenson, is now in order.

R. C. Stephenson: Mr. President and Gentlemen: I have prepared a detailed report of the proceedings of the Executive Committee, but I know that it is desirable that the programme be completed in this Section by 12:30 at least today, and therefore I will not take the time to read this report, but it will be printed in the proceedings of the convention and you will afterwards have an opportunity to read it.

There is one matter, however, in the report that may be of some interest to those who represent Mutual Savings Banks, and this is that a number of the Mutual Savings Banks made application to the government to be made postal depositories; and there was some doubt in the minds of those in charge of the Postal Savings system as to whether Mutual Banks were eligible to become depositories, but through Mr. Kniffin, Mr. Paton, the General Counsel, did prepare a brief upon the subject and this was very carefully prepared and it showed by a splendid argument that within the last ten days those in authority had decided that the Mutual Banks are entitled to become depositories to the amount of one-half of their surplus; and with those remarks I will put in my report and we can go on with our programme. (Applause.)

Report of the Executive Committee.

[The report of the Executive Committee appears on page 233.]

President Robinson: Gentlemen, the report of our Secretary is merely a formal paper, and if there is no objection I will proceed with the rest of the programme simply having this spread upon our records. If there is no objection it is so ordered.

Report of the Secretary.

[For Secretary's report see page 236.]

Now, the next item of business is the report of the Law Committee, Mr. Lucius Teter, of Chicago.

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Report of the Law Committee, by Lucius Teter.

[We print the report of the Law Committee on page 237.]

President Robinson: The item on our programme is the report of the Membership Committee by Governor Herrick. Governor, I don't know whether you have any report, but will you say something to us? (Applause.)

Myron T. Herrick: I think, Mr. President, I ought to be discharged for neglect of duty. I am situated somewhat as the boy said his father was when the new teacher came to town. He came across the small boy and said to him, "Is your father a Presbyterian?" And the boy said, "Yes, dad is a Presbyterian all right, but he ain't working at it very much just now!"

I didn't appreciate that I was a member of the committee and therefore haven't any report to make. I would like to take an opportunity to say this, in relation to our interests in the so-called Aldrich plan: You can build a railroad from Chicago to New York—supposing there were none there and you thought it advisable to build the railroad—to connect those two cities; and certain people directly interested would join together to build that railroad, and we, as other persons, did not live there, we might not care to undertake the burden of building that railroad—the earlier ones not having been successful—but we would know that we would be interested quite as much as those who were carrying the burden and doing the work should the work be accomplished; and I feel very strongly that this Reserve Association plan should be adopted, that all we would want to be a member for would be accomplished, because it is a success. And if it should be a success and is of value, of course, these recurring periods of panic that have obtained in the last years would be done; we would have no more of them. If it did not accomplish that and was not successful, then we would not care about it. However, I am of the opinion it would have been better to have left it as it was, but I really think it does not make any difference. It is in the nature of our business to be interested in the matter of transfer of credits and circulation. We get currency enough. That seems to be the trouble with these currency famines. There is no difficulty whatever, it appears to me, it is like it was in 1907 and 1893, when there were great demands on us. We couldn't get the currency, that was the difficulty; but through some foolish rumor someone started a run upon the bank in which I am interested and we found several thousand people around the place, but it did not disturb us at all, because some of the banks were ready to give us all the help we wanted.

It seems that our savings banks would bear that same position to the whole situation. Knowing that there cannot be a currency famine in the country, that trouble being averted, why, there is really no need for us to be connected with that association. That would be my individual opinion after studying the question for some particular time, of mutual banks to the Reserve Association.

Pardon me for taking the time to say this, but I think that is the situation; and so far as the membership of the committee is concerned, I hope the other members will be able to make an intelligent report. I have none. (Applause.)

President Robinson: The next item upon our programme is the report of the Committee on Methods and Systems. This report, gentlemen, you will find is in pamphlet form in your seats, and by common consent we will omit it.

Report of Committee on Methods and Systems.

[Report of the Committee on Methods and Systems will be found on page 233.]

Lyman S. Catlin: I was going to make a motion that the report be received and placed on file, and I do make that motion.

President Robinson: Gentlemen, you have heard the motion that the report of the committee be received and placed on our records. All in favor of the motion will say aye; opposed, no.

Motion carried.

President Robinson: At this time, gentlemen, it is necessary to appoint a Nominating Committee. As you perhaps well know, we are not able to have an afternoon session. As a general thing, our Nominating Committee reports after recess at the afternoon session, but it becomes necessary at this time to appoint that Nominating Committee and ask them to retire and deliberate, and at the end of our meeting, after the addresses have all been delivered, we will ask for the report of that committee.

I ask the following gentlemen to please serve as a Nominating Committee:

Mr. W. F. McLane, Cashier, Hennepin County Savings Bank, Minneapolis, Minn.;

Mr. George E. Edwards, President, Dollar Savings Bank, of New York, and

Mr. Lyman S. Catlin, Bridgeport, Conn.

RESOLUTIONS UPON THE DEATH OF MR. HANHART.

At this time, gentlemen, we will take up the report of the Special Committee that was named at our meeting at Nashville to prepare suitable resolutions upon the death of our distinguished late Secretary, Mr. William Hanhart. Mr. Teter is the Chairman of that committee, and we will be glad to hear from him at this time.

Lucius Teter: Mr. President and Gentlemen: In recognition of a long and efficient service, and in appreciation of a warm personal friendship, we, the officers and members of the Savings Bank Section, American Bankers' Association, desire to express our deep sense of loss in the death of our late Secretary and esteemed friend, William Hanhart.

Mr. Hanhart was in a large measure responsible for the organization of the Savings Bank Section at the American Bankers' Association Convention held in New Orleans in 1902, and became the Section's first Secretary, which office he held continuously until his death. Mr. Hanhart brought to the worth a well trained mind, a long experience in the savings bank field, a singular capacity for constructive work, and gave himself with enthusiasm and devotion to the upbuilding of the Section with never a thought of compensation adequate for his labor.

His ideals of the savings bank as a thrift agency were of the highest order and he stood for all that is worthy in the conduct of such an institution. He was an executive of ability, a forceful writer and a statistician of rare achievements.

As a friend and fellow worker, Mr. Hanhart was kind and considerate, given to doing little things for others that endeared him to all with whom he came into contact, and in his death we feel that we have not only lost an able officer, but a sincere friend, and hereby extend to his wife and family our deep sympathy in a loss we have mutually sustained.

E. L. ROBINSON,
J. H. JOHNSON,
LUCIUS TETER,
Committee.

Lucius Teter: Mr. President, I move you, sir, that we adopt this resolution by a rising vote.

Motion seconded.

A rising vote was taken and the resolution was unanimously adopted.

TITLE OF AUDITING COMMITTEE CHANGED.

President Robinson: The motion, gentlemen, to change the name of our old Committee on Auditing to the Committee on Methods and Systems is now in order.

G. Ad. Blaffer: Mr. President, I move that the title of the Auditing Committee be changed to read the Committee on Methods and Systems.

(The motion was seconded and carried.)

President Robinson: With reference to the recommendations contained in the President's Address, concerning the Savings Bank Centennial and School Savings Banks, if it is your pleasure to make a motion, I will be ready to hear it.

R. C. Stephenson: Mr. President, I move you that the matter of the Savings Bank Centennial in 1916 be referred to the committee on Savings Banks Methods and Systems.

(The motion was seconded and carried.)

President Robinson: That disposes, gentlemen, for the most part, of the business that occurs to my mind. Later on we will have an opportunity to take up any business that may come before us.

It gives me pleasure, gentlemen, to introduce to you as the first speaker of the day, a gentlemen connected with one of the largest, if not the largest, Mutual Savings Banks in the United States. For a few years it maintained the prestige of being the largest Mutual Savings Bank, but it seems within the last few years that one of the other banks has forged ahead with reference to the matter of deposits, but not with reference to its assets.

I take pleasure in introducing to you Mr. William E. Knox, the Comptroller of the Bowery Savings Bank, of New York, who will speak to us on "The Ethics of the Savings Bank." (Applause.)

The Ethics of the Savings Bank, by William E. Knox. Comptroller of the Bowery Savings Bank, New York.

[Mr. Knox's address may be found on page 219.]

President Robinson: Mr. Knox, you have held up to us very high ideals, sir. We thank you for them and we trust that your ideals may be a prophecy of what we may all become.

President Robinson: Our next address is upon "Departmental Banking Laws—Regulation and Segregation," by Mr.

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J. F. Sartori, President of the Security Savings Bank, of Los Angeles, California.

I take pleasure, gentlemen, in presenting Mr. Sartori, who will now read his paper. (Applause.)

Departmental Banking Laws—Regulation and Segregation, by J. F. Sartori, President of the Security Savings Bank, Los Angeles.

Mr. President and Gentlemen: I feel like apologizing for expressing an opinion on the subject of one of the phases of the proposed new monetary reserve plan, which is supposed to give National banks a right to do a savings business in departments, and to give them the right to make loans on real estate.

Now, this is a matter of great importance to all the savings banks of the country, both mutual and capital stock. I think it is a matter of great importance for this Savings Section to consider. The question is whether this business is to be used in the ordinary way, or whether it is to be done in departments regulated with assets segregated. In this view of the case, I think the paper I am about to read is germane to the subject.

[The address of Mr. Sartori appears in full on page 222.]

(Applause.)

President Robinson: Thank you, Mr. Sartori, for the able presentation of the matter.

Our next item is an address on "The Public and the Savings Bank Idea," by Mr. E. St. Elmo Lewis. We will be pleased to hear Mr. Lewis now.

The Public and the Savings Bank Idea, by E. St. Elmo Lewis.

Mr. President and Gentlemen of the Savings Bank Section: I am going to preach the subject this morning from the standpoint of the other side of the counter. I am not a banker, although I have been brought a great deal in contact with bankers during the last ten or twelve years, particularly. It happens, too, that within the last twenty years I have handled the advertising and the publicity of asset for a good many banking institutions. I am going to talk this morning on several phases, as it affects the public, of the savings bank idea; and if I take a rather radical stand it is because these are new things. I will ask your indulgence while I read this, because I have been rather careful to dot my i's and cross my t's before an audience of this kind.

[The address of Mr. Lewis is given on page 224.]

President Robinson: Thank you very much, Mr. Lewis, for that splendid paper, sir.

Gentlemen, we have with us, I happen to notice, the President of the American Bankers' Association, Mr. Watts, and if he will be good enough to come forward at this time and say a few words to us we would feel under obligations to him.

Gentlemen, it is hardly necessary to say to you that the Savings Bank Section has never had any better friend than Mr. Watts.

Remarks of Mr. Watts.

F. O. Watts: Mr. President and Gentlemen of the Savings Bank Section of the American Bankers' Association: In becoming a guest of this Section this morning, I did not contemplate that I would be called upon to make any speech. I merely purpose, as an official of the American Bankers' Association, to show my interest in this Section of the Association and by my presence here indicate to you that you had my very best wishes. It has been my pleasure this morning, earlier, of calling on another Section of the Association and expressing to them a similar sentiment. I said to them that if a casual visitor to this Association, who was a constant attendant upon the various meetings of the main Association and the sections, were to come in here, he might be justified in giving the same expression that a slumbering husband did after awaking, to his wife—when he said, "My dear, are you talking again or yet?"

I think, under the circumstances, Mr. President, I may be excused from doing much talking. I feel like saying, however, that in my duties as President of the American Bankers' Association I may at times have done things and said things and suggested things that did not meet with the approval of the Savings Bank Section, or of every member of some other Section, or every individual member of the American Bankers' Association. In other words, gentlemen, I do not feel that my action has been above criticism and just criticism, but I do feel, Mr. President, that you and the members of this Section, and I hope of the Association at large, will give me credit for having only the purpose to do those things for the best interests of the Association; and I give you, gentlemen, credit in all your doings, credit for being guided by the same purposes. As an individual, I fear that it is too often the case that we conclude without understanding and trust that if both in the future forget and cease to be an official of the American Bankers' Association, that we may be all hereafter sure that we understand before we jump at any conclusions.

I have made some suggestions during my term of office which were apparent of observation and experience, some suggestions that I did not contemplate would have that fruition at this time or a year or possibly two years. They, in the final analysis, gentlemen, had to do with the duplication and the work of the bankers of America, including under that term every member of the American Bankers' Association. I do not desire to have it concluded that apparent duplication is always a duplication, but on the contrary, as I called attention a few moments ago, in the Trust Company Section, Nature often has an apparent duplication which we know is not such, in the eye, the nostril and the limbs. We know very well how essential each eye and each limb is to the perfect performance of our duty, and so, I would desire only to call your attention to a possible trend of things in the continued organization of Sections, and even in carrying on the work of the present Section, and let all those interested in the American Bankers' Association and all those interested in other Sections of the Association have their best men to consider all these subjects to the end that the time may come, after a perfect understanding, that the organization known as the American Bankers' Association, composed of the eyes and the limbs, representing various Sections, has the most perfect organization in existence; and its actual duplication in work, or in expenditure of its funds, is by a wise consideration, after a thorough investigation and understanding, reduced to a minimum.

Gentlemen, I did not contemplate occupying so much of your time, and I thank you and wish for you a most prosperous meeting. I hope that your Section may continue to go on and in the future years the growth in the savings bank business of this country may be equal to that of the country itself. I thank you. (Applause.)

President Robinson: The next item upon our programme is an address by the Hon A. B. Chapin, the Bank Commissioner of Massachusetts, upon "Efficiency of Supervision."

I take pleasure now in introducing Mr. Chapin, who will address us on this subject.

Efficiency of Supervision, by Hon. A. B. Chapin, Bank Commissioner, of Boston, Mass.

[Mr. Chapin's address is printed on page 228.]

President Robinson: Gentlemen, we are under many obligations to Mr. Chapin for this splendid paper, and in addition to that Mr. Chapin has consented, in the event of our having sufficient time, to conduct a symposium on "The Internal Audit of a Savings Bank." I am very much afraid that if we should attempt this we would not have an audience sufficient to justify Mr. Chapin to undertake this work, so under the circumstances we deem it best to omit that from our proceedings.

THANKS TO NEW ORLEANS.

H. P. Beckwith, Fargo, N. D.: Mr. Chairman, at this time I should like to offer a resolution, realizing that this is our last meeting, as follows:

Whereas, We, as members of the Savings Bank Section of the American Bankers' Association, having participated in and partaken of the generous, whole-souled, true Southern hospitality tendered us by the bankers of New Orleans and the New Orleans Clearing House during our present stay in their city;

Therefore, be it Resolved, That a rising vote of thanks from this body here assembled be tendered the New Orleans Clearing House, the New Orleans bankers, and the different affiliated committees for the elaborate entertainment given us and for their untiring efforts in our behalf to make our short stay in their city interesting, pleasant and profitable.

R. C. Stephenson: I move to amend the resolution as offered by also including the gentlemen who have contributed to this excellent programme and to tender to them our appreciation in a vote of thanks.

The amendment was accepted and the motion was seconded and carried unanimously.

NOMINATIONS AND ELECTIONS.

President Robinson: We will now receive the report of the Nominating Committee, Mr. McLane.

W. F. McLane: Mr. President, your Committee on Nominations are pleased to submit the following report:

REPORT OF COMMITTEE ON NOMINATIONS.

For President: Alfred L. Aiken, President of the Worcester County Institution for Savings, of Worcester, Mass.

For First Vice-President: R. C. Stephenson, Vice-President of St. Joseph County Savings Bank, South Bend, Ind.

Three members of the Executive Committee, to serve three years: G. Ad. Blaffer, Vice-President Commercial-Germania Trust & Savings Bank, of New Orleans, La.; William E. Knox, Comptroller of Bowery Savings Bank, of New York; N. W. Hawley, Treasurer of Farmers' & Mechanics' Savings Bank, Minneapolis, Minn.

Regarding the nominations for Vice-Presidents for the several States, no opportunity has been afforded the members to make recom-

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mendations to this Committee. We therefore suggest that the members make such recommendations to the Secretary of the Association and submit same to the Executive Committee for approval.

W. F. McLANE,
GEORGE E. EDWARDS,
LYMAN S. CATLIN,
Committee.

In this connection, I might say that a few suggestions for Vice-Presidents have been handed to the committee since the report was written, and they will be turned over to the Secretary of the Association.

President Robinson: Gentlemen, you have heard the report of your Nominating Committee; what is your pleasure.

(It was moved and seconded that the nominations be closed. Carried.)

It was moved and seconded that the Secretary cast the ballot of this Section for Mr. Aiken for President of the Savings Bank Section of the American Bankers' Association. Carried.

President Robinson: Gentlemen, just before my departure from home I received a letter from Mr. Aiken. Prior to that I had a short conference with Mr. Aiken in New York, in which he stated it would be absolutely impossible for him to attend this convention on account of the illness of his wife, and he asked me to express his regret to this Section.

The next order of business is the election of Vice-Presidents.

It was moved and seconded that the Secretary cast the ballot of the section for Mr. Stephenson, of South Bend, Indiana, for Vice-President. Carried.

President Robinson: Mr. Stephenson, it gives me a great deal of pleasure, I assure you, not only as an officer of this Association, but as your friend, to invest you with the insignia of this office. I am very sure a man of your high ideals will adorn any office to which your friends may elevate you. I congratulate you and the organization, and I bespeak from the organization their co-operation and support.

Vice-President Elect Stephenson: Mr. President, and Gentlemen of the Section, I certainly am not insensible to the honor which has been conferred upon me by selecting me as Vice-President of this Section, and I certainly will do all I can to advance the interests and perform the duties of this office in a way that will reflect credit upon it if possible to do so. In my efforts to be as brief as possible, all I will say at this time is, thank you.

In the absence of Mr. Aiken, I would suggest that Mr. Robinson continue to act as Chairman until the meeting adjourns.

President Robinson: Gentlemen, the next is the election of three members of the Executive Committee.

Mr. Miller: I move that the President cast the ballot of this Section for Mr. Knox, Mr. Hawley and Mr. Blaffer for members of the Executive Committee of the Savings Bank Section of the American Bankers' Association.

(Motion seconded and carried.)

President Robinson: It gives me great pleasure to announce that Mr. Blaffer, Mr. Knox and Mr. Hawley are duly elected as members of the Executive Committee of this Section of the American Bankers' Association for the term of three years.

I am well acquainted with these gentlemen, and I congratulate you all upon their election to this important office.

Now, gentlemen, there is another office, with reference to filling vacancies.

It was moved and seconded that these committees be appointed later on.

Motion carried.

President Robinson: Gentlemen, this ends the business of our meeting, and I cannot refrain at the very end from expressing just a few personal words to you, who have so credibly and generously supported me in my work. I think I can say without fear of contradiction, and my heart prompts me to say, that I have not done any work with a greater pleasure than I have the work that has fallen to my lot as President of this Section.

Gentlemen, a motion to adjourn is now in order.

Lucius Teter: Several of the gentlemen here have suggested that a motion be offered, which it gives me great pleasure to offer. Mr. Robinson has given us an unusually good year in this Section, and it gives me great pleasure in offering a resolution to Mr. Robinson for the various painstaking services he has given us the last year and to express the hope that in the future years he will stand in as close relation to the Section as he stands.

(The motion was put by the Vice-President Elect, after being duly seconded, and was carried unanimously.)

President Robinson: Gentlemen, I thank you for this motion.

Moved and seconded that we adjourn. Carried.

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