

BANKERS' CONVENTION SECTION

OF THE COMMERCIAL & FINANCIAL CHRONICLE.

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Vol. 99.

NEW YORK, OCTOBER 24, 1914.

No. 2574

THE CHRONICLE.

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Terms for the CHRONICLE, including *all* the Supplements, are Ten Dollars within the United States, Thirteen Dollars (which includes postage) in Europe, and Eleven and a Half Dollars in Canada.

WILLIAM B. DANA COMPANY, Publishers
Front, Pine and Depeyster Streets, New York

INDEX TO ADVERTISEMENTS

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THE CONVENTION AND PROBLEMS OF THE DAY.

One might perhaps have imagined that the convention of bankers, at Richmond, would have devoted its public discussions primarily to consideration of those novel problems in finance and industry, which have been so suddenly thrust upon this country by the European war. It is, however, a striking proof of the magnitude, obscurity, and baffling scope of these new problems, and of the almost complete lack of precedent to guide us in solving them, that the formal speeches at the convention did not undertake to grapple with them. This seems to us to have been both wise and prudent; for in a very unusual degree our most experienced bankers and business men are moving slowly in these matters, are taking little for granted,

and are trying to make sure of the ground into which they are moving at one moment before they plan the next step.

One may be sure that, in the conversation of the Richmond delegates with one another, views were freely exchanged on all these topics, and that, through such private comparison of impressions from all parts of the country, the bankers came away with a clearer conception of the real situation and of the general policies which must be pursued. But that does not alter the fact that American bankers, like the American business men as a whole, are feeling their way in this extraordinary situation. Such problems as the meeting of our foreign indebtedness in the market for exchange, if our European creditors should choose on a larger scale than hitherto to exact payment for maturities and not to grant renewal; as the reopening of the stock exchanges while the attitude of European investors in our securities is still in question; as the financing of the cotton crop, of which so large a part may remain unsold this season, and as the promoting of our export trade, so that American industry may gain in shipments, to new directions in the outside world, what it has lost by war embargo on its usual outside markets—these are questions which must be slowly, patiently and prudently solved. The most important forward step thus far taken in restoring financial stability is unquestionably the cooperative action of the banks of the United States to meet immediate and present problems, like the saving of New York City's foreign credit and the insuring of payment on exchange for our immediate accruing foreign indebtedness. Our banks have already done, through this concerted and patriotic action—for concerted action of this sort did involve to many banks large sacrifices in their ordinary lines of activity—all that the European nations have done through the direct intervention of government, and in many cases more. That this was accomplished here without the aid of government should distinctly enhance the subsequent prestige of American finance.

Naturally, this aspect of the matter directed the open discussion of the Richmond convention to the impending problem of the introduction of the Regional banks under the new Federal Reserve law.

There can be little question that, had these Regional banks been in active existence when the war broke out, they would have helped very largely toward simplifying the relief expedients; first, because of the natural leadership of their officers and directors; second, because of their direct power in the way of protecting and concentrating credit. The banks have thus far acted individually or collectively. Now, however, it seems to be an early probability that the formal and regulated concentration of their resources is impending, with such careful safeguards as must necessarily be placed around the process of subscription to the new Regional banks' reserves and to the opening of their business.

Mr. Reynolds, President of the association, touched pointedly on this impending change in the banking system in his opening address. That address has been described in some despatches as an attack on the Federal Reserve Act. The description is scarcely fair. Mr. Reynolds frankly criticized certain features of the law which were the focus of legitimate dispute during the process of enactment. Every one knows that the measure is not perfect, and that certain defects may hereafter have to be either modified or removed. But Mr. Reynolds with equal frankness stated that "the benefits of the operations of the new system will become apparent with the lapse of time." That it "was not enacted to meet impending emergency," and that, therefore, "too much must not immediately be expected," since "the change will be gradual and should be regarded as an evolution in the banking business"—these are wise words of warning to those who expect an instant and total change in the situation as the result of the new system's introduction. Mr. Reynolds also pointed out, what is a matter of much importance in our present difficulties, that a great deficiency in our existing banking system has been its "inability to establish or maintain a foreign exchange market." The new system, he believes, "opens the way to supply this long-felt want;" adding that, "while a single central institution could more easily control the exportation of gold by the operation of such a market, yet by proper action the Federal Reserve Board may so co-ordinate the business of the twelve Reserve banks as to produce the desired result."

All this is fair, frank, and wise. Mr. Reynolds called attention, however, to one gravely serious defect in the law which may call for immediate consideration. He thus described it:

"It has been popularly supposed that with the opening of the Federal Reserve Banks, Government funds would be deposited in those banks, and the independent treasury system and its consequent expense, both to the Government and the business of the country, would be a thing of the past.

"A careful reading of the law, however, discloses the fact that its authors had no such intention, and that if Government funds are deposited in these banks, or if they are appointed fiscal agents for the Government, it will be at the discretion of the Secretary of the Treasury alone, and that the

bill does not provide for the abolition of the present system.

"It is a just criticism of the measure to say that it does not take the Government out of the banking business, and that it confers upon one of our government officials an extraordinary power and discretion, unwarranted by the spirit of our institutions and repugnant to republican principles.

"There is no reason why the funds of the Government, taken from the people by taxation, should be handled in other than a business method."

Mr. Carter Glass, perhaps the most active among the legislative authors of the bill, speaking to the convention, frankly admitted the force of Mr. Reynolds' argument. He agreed "that some secretary might do wrong," and he "believed the reserve law should have provided that the Regional banks carry the deposits and act as fiscal agents of the Government." Mr. Hamlin, governor of the Federal Reserve Board, confined his comments on that matter to saying that the lending power of Regional banks "may be greatly increased by the deposit of public moneys which the Secretary of the Treasury is authorized to place with the Reserve banks." But this statement merely emphasizes what is perhaps the greatest weakness of the existing provision. He is authorized, but not required; in other words, he still retains the long-continued discretion as to placing public deposits where he will with individual banks. What the effect of this dispensing power of the Secretary of the Treasury has been in recent years is known to every one. It has served at times a useful purpose—which, however, can hereafter quite as well be served through the holding of these funds by the Regional banks. On the other hand, we have not at times been spared such assertion of autocratic dispensing power on the Treasury's part as was certainly calculated to instill in many thoughtful minds uneasiness as to the lodging of such authority in the hands of any individual. We hardly need to particularize, but the inference is clear that this power was dangerous, even before the strong grounds for making deposit of such funds with the Regional banks entirely mandatory had superseded other considerations.

Mr. Hamlin's conclusion regarding the present general situation deserves notice. That "our present difficulties do not appear to arise from scarcity of actual money;" that "the real difficulty would seem to be one of credit," in which "mutual trust and confidence have been disturbed," is a fair diagnosis of the situation. Adding that "ordinarily such a situation would quickly adjust itself," the Governor of the Federal Reserve Board supplements that statement with the warning that "we should see to it that the remedies proposed are not worse than the disease itself." To avert such a result as that (of which there has in the last two months been far more danger than most people imagine) will largely be the duty of a properly administered system of Regional banks under the supervision of the Central board.

BANKING AND THE LARGER CITIZENSHIP.

An address under the caption of this title was read before this year's Bankers Convention. It was written by President E. K. Graham, of the University of North Carolina. It is well worth a careful reading for its suggestiveness and wholesome inspiration. It applies, in fact, to a much larger field than its title indicates. It really concerns "Business" rather than "Banking," "and the Larger Citizenship." This does not diminish its value, but it gives occasion to apply its theme a little more particularly, and to point out some of the more definite and immediate relations in which banks and bankers stand to the community.

These need not be novel or unusual to be worthy of note. On the contrary, the fact that they are in large degree universal and involved in the very nature of public banking only makes their enumeration more important.

Civil society is everywhere facing new conditions; not merely those created by the war, but those arising in the world of to-day, the world of thought as well as the world of economics and of government. Banks are in a position of special responsibility in view of these changes; not that the main functions of the banks are to change, though important modifications and developments are in progress; but because bankers are looked up to as leaders in the business world. As a class, they are worthy of the confidence placed in them. Individual dishonesty or malfeasance has not sufficed to disturb this confidence. Their position is well established. The way is open for them to exercise most efficient leaderships to-day. It cannot fail, therefore, to be worth while to call attention to the path that lies open to them because of the nature of their business and the functions which are specifically theirs.

To understand these functions as they pertain to the life of the people, we must look away from the great metropolitan banks. They are the ones upon which attention centers ordinarily when banks and banking are discussed; it is the bank in the smaller town, the country bank, that must be looked at when we would understand the real situation, and apprehend the functions of the bank and the position of the banker in the community.

One has only to take his stand at the counter of the country bank and observe the business of the day to discover these. Here is a merchant who wants a note discounted; here a new business man who would open an account; here a farmer who has awakened to the need of some modern machine or improved stock; here a bright young man, perhaps fresh from one of our many agricultural colleges, who wants to buy some land; here a citizen who would build a new house, or another to inquire about securities; here a teacher who wishes to invest her savings; and so on in endless variety.

At once it appears that the bank is there to give a sense of stability to the community. It is a kind

of providence, to meet immediate need for money, but also to counsel, to instruct, to understand, to co-operate in all helpful ways with all comers. As so received and dealt with, they go away with a new confidence and a new sense that, in a measure, the community is backing them up.

Here is not only help for the individual as a member of the community, but also there is the beginning of a community interest, the preparation for a community self-consciousness that prepares the way for that community action of which President Graham makes so much in his paper. The banker who may think that he has neither the knowledge nor the time to take leadership in that larger movement, finds that here, in the conduct of his business, he is making valuable contribution to it.

That he is a chief agent in promoting thrift is obvious. All who do business with the bank know that its officers watch carefully the individual life of their customers. They are in constant conference about them with their neighbors, and that not at all for gossip, but to be able to determine a basis for credit, and with the mutual interest of promoting their prosperity.

It is not so obvious, but in this the bank is strengthening the character of the individual citizen. It is not only holding the individual to a sense of his personal responsibility for his public conduct and his business methods, but also for his private habits; and, indeed, his inmost character, for all this goes to make up his standing, not only with the bank, but also in the community. Few people associate the bank with the church, except that the banker is expected to make generous contributions for its support; but here is a direction in which the support of the bank, though little recognized, is constant and most effective, in that for which the church stands.

Equally true is it that the bank in the exercise of its functions is developing the sense of property in its obligations to society. The banker is guided in the loans he makes, not only as the late Mr. J. P. Morgan said, by the character of the borrower, but perhaps even more by the use for which he wants the money. If it is for investment or expenditure, which will be obviously of benefit to the community, or if the borrower is known as a large-minded, public-spirited citizen having the respect of all, that may be the determining fact. At once the bank becomes known as promoting the investment, or appreciating, and therefore as to a certain extent, partaking of the character of the customer in the one case, and in the other promoting the best interest of the community. In doing this by the use of accumulated money, it is a perpetual vindication of capital and an illustration of its constant service.

In the same direction it is always possible for the bank to open for the community ways to larger and broader interests. The banker is more closely in touch with the outside world than most of his

fellow business men. He is compelled to be largely informed, and ought to be especially intelligent. Because of his position, also, he is apt to be the first one approached by those who have plans of introducing new forms of business, or new industries, or of improvement of any existing conditions. Upon him more than upon any other citizen it depends whether or not the community is to gain new enterprises, or to secure better conditions. Should he be small-minded, self-centered, even in his bank, or unintelligent, he may be, as unfortunately some rich men are, a serious hindrance to the best interests of the community, so that his funeral, when it comes, is a widely felt relief, or, on the other hand, he may be the very best citizen. As such it is easy to see that his position is one that any large-minded man may well covet.

All this leads us to emphasize the fundamental fact, which unfortunately is sometimes denied, and often overlooked—namely, that the public banker is the administrator of a public trust. His charter, if it does not distinctly state this, always implies it, and the State, both by its legislation and its oversight, affirms it. The money brought to the bank by depositors is not placed there for the banker's private use, or for the shareholder's profit, though incidentally both, within certain legally prescribed limits, may occur. It is held primarily for use of the depositor so far as he may from time to time need it, and beyond that for loaning to other depositors having need for it. For this accommodation the borrower pays interest. That interest con-

stitutes the sum out of which the expenses of the bank are, in part, paid, from which a protective surplus is accumulated, and a certain amount is contributed, in addition to what the bank may earn by some other incidental forms of service, to the profits to be paid to the stockholders. The strict bank of deposit does not, as a rule, pay interest to depositors on open account. They find their compensation in the convenience and security of the account, and the basis of credit for such loans as they may need.

If this strictly fiduciary relation is recognized by the directors and officers of a bank, it will govern the relations of the public to the bank, and will secure for them a personal treatment which will keep the way open for constant and helpful service.

In its larger aspect the bank holds a peculiarly intimate position of trust, having in its care the money of the individuals who separately make up the public, and who having no organic financial relation with the public, are provided for in that relation by the State through the officers of the bank.

Bankers, of course, know this, but unfortunately the public, perhaps because of traditions coming from early days, or of unhappy individual experience, do not know it. It is unfortunate for all concerned where this ignorance exists. Happily the Bankers Convention in the breadth and intelligence of its discussions is doing much to remove it.

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BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

40th Annual Convention, Held at Richmond, Va., Oct. 14 and 15 1914

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The Genesis of the Federal Reserve Law.

By CONGRESSMAN CARTER GLASS, Chairman of the Banking and Currency Committee of the House of Representatives.

I am not quite sure that I would not have paid the American Bankers Association a greater compliment, or if I would not have rendered them a greater service, by declining rather than by accepting the invitation to appear here this afternoon to address you upon the subject of the Federal Reserve Act. It is no credit to a public speaker, and less of a compliment to his audience, for him to come upon a serious and important occasion without due and careful preparation. But, gentlemen, the fact is that for the past ten months I have been exercising my wits in the direction of keeping things done to such an extent, keeping things from being done, that I am rather rusty and confused as to what already has been accomplished. And it is scarcely necessary that I should say to you, who are familiar with legislative processes, that at times it is of vastly more importance to keep things from being done than it is to do things.

Then, again, I am somewhat embarrassed at the idea of coming as a layman in the presence of experts to expound to the banking fraternity the various provisions of an act that relates almost exclusively to their line of business. And I scarcely think I shall venture in any great detail upon that task this afternoon.

It has occurred to me that I might occupy the time assigned to me with a more or less interesting discussion of the side lights upon the Federal Reserve Act, in a narrative way; and what I shall say will be more or less a repetition of what I have already pretty generally said throughout the country, and I am afraid will not be very enlightening to a large part of this audience.

You will very readily understand that, for the last fifty years, since the enactment of the National Bank Act, you have been compelled to conduct the banking business of this country in a straitjacket. There has been no elasticity, there has been little scope for initia-

tive; in short, we have had in this country a banking system that by the best bankers has been pronounced barbarous in its operation. It has made us for years the scoff of European critics, both the practical banker and the text-book writer, because of its inefficiency; and I have so frequently said, and here I repeat this afternoon, that the progress and prosperity of the American people, and the achievements of the American banker, have been made in spite of our banking system rather than because of it.

There have been many efforts at modification, and amendments and reformation, all of which until recently have failed. As pointed out by Governor Hamlin, we had the effort made at Indianapolis eighteen years ago by the Indianapolis Monetary Commission, which drafted a bill which was introduced in the House of Representatives, and found its inevitable place in the archives of the Banking and Currency Committee room. Then we had the Walker bill, introduced by a distinguished chairman of the Banking and Currency Committee from Massachusetts; then we had the Fowler bill for asset currency, and upon that some degree of progress; but the action of Congress was interrupted by the introduction of what is known as the Vreeland and Aldrich bill, or rather the introduction of the Vreeland bill and the Aldrich bill; the one denounced by Senator Aldrich as utterly useless and the other denounced by Congressman Vreeland as altogether vicious, were united into the Vreeland-Aldrich bill, which was pronounced by observant members of Congress, who claimed to have some knowledge of the subject, as totally inefficient as it was in its original form. It was foreseen that with its tax of 10 per cent. upon the issues under it no bank on earth, that was not already prepared to fly the signal of distress at the masthead, could ever avail of its provisions. But

when the Vreeland-Aldrich bill was passed one good thing was done in connection with that legislation: the Congress appointed a Monetary Commission of distinguished gentlemen, and this Commission went abroad, and went throughout this country, taking testimony, and at a cost of nearly two hundred thousand dollars—approximately, I think \$196,000—assembled one of the greatest libraries upon finance that was ever assembled on the face of the earth. And I don't know who else had access to it in the preparation of the Federal Reserve Act; I simply know that I did not.

Then came a more vehement agitation for currency legislation, and to some of us the idea occurred that if the great Clearing House organizations of the large money centers, and, indeed, of all communities of the country, managed to rescue the country from the throes of panic, why might not institutions of a kindred nature, given clearing functions, together with larger banking functions, prevent panics coming at all? And upon that idea the present Banking and Currency Committee of the House of Representatives set to work, and without going into great detail, the Federal Reserve Act now upon the statute books is the result of that effort. We found, upon investigation, that there were two fundamental defects in the existing banking and currency system. One was the inelasticity of the currency, with which all bankers are familiar, and that there was the vexatious nature of our National Reserve system; and we conceived the notion that if we could devise a system that would correct those two serious and fundamental errors of the old system that we would go a far way toward a solution of the problem, and this, we think and confidently hope, the new Federal Reserve Act will accomplish. Under the old system the currency was absolutely rigid and inelastic. We had gone for years on the presumption, the currency being based upon the Nation's indebtedness, that we never needed any more currency than could be measured by the national indebtedness, and, on the other hand, that we never needed any less; when, as a matter of fact, we frequently needed more, and perhaps just as often needed less. Yet it was rigid, practically measured by the aggregate of the 2 per cent. United States bonded indebtedness. In other words, I can best illustrate it by saying, take any given community—Richmond, Virginia, for example—and if the aggregate capital of the national banks of this community, under the old system, was thirty million dollars, that measured completely—completely indeed—the ability of the national banks of the city of Richmond to respond to the commercial and industrial needs of the community, albeit that might be twenty times thirty million dollars. That being true, whenever stress and urgent need came upon the country there could be no response to the commercial needs of any active business community. That being true, instead of pursuing business prosperity, times came when business prosperity actually caused wreck and ruin throughout the Republic. When the country banks, responsive to the local demands, would begin drawing out their reserve funds with the reserve and central city banks, and those banks, in turn to respond, compelled to call in their loans when rates of interest were mounted higher and higher and pretty soon we would find ourselves in a financial cataclysm, banks closed down, business and industry paralyzed and want and misery and deprivation spread broadcast throughout the land.

Then, again, and now we have undertaken, gentlemen, to correct that inelasticity, to give you a currency not based upon the nation's indebtedness, but a sane, sensible, scientific currency based upon the commercial and industrial requirements of the country, responsive automatically to those requirements, issuing forth when business is active and being withdrawn when business is slack. Based upon the short-time plighted faith and ability of American merchants and manufacturers and business men to respond to their individual and corporate

obligations. And there is nothing more secure on earth, not even your Government bond, than that sort of security.

Then you had a fictitious reserve system. I like to talk to people who do not understand these things, because then I will be telling them something they don't know. Presumptively, we had a reserve of 15 per cent. for the country banks and 25 per cent. for reserve in central reserve city banks, but in reality they did not have any such reserve, because the law permitted the country banker to deposit a greater part of his reserve with the reserve city bank, and in turn permitted the reserve city banker to pyramid the reserve further by deposit in the central reserve city bank. Nevertheless, that system resulted in withdrawing the reserve funds from all the country and centralizing them in the great money centers of the country; put there upon a nominal rate of interest to be used by the banks in a great money center, and those banks, in order to recompense themselves, used those reserves in the maelstrom of Wall Street speculation rather than to promote the general business interests and prosperity of the country. I am not saying this in a critical sense; I am stating it as a matter of fact. So that in the great banks of New York City alone last March there were deposited \$893,000,000 of the reserves of banks outside of that great money center, whereas New York was loaning the banks of the country only \$187,000,000 on that date. There is an impression abroad that the balance of the country is dependent upon New York, but the fact that I have cited shows that New York is dependent upon the balance of this country.

It was that system, the concentration of the reserves of the country almost at a single center, to be used in speculative enterprises in the slack season, and unresponsive to demand at an urgent time, that created almost every panic that we have ever had in this country, and which we sought to protect.

Well, we think we have devised a system in this Federal Reserve Act whereby over a period of years, without any shock to normal business or banking operations would draw in these reserve funds from the great money centers and gradually impound them in those sections of the country where they originated and where they belong, and where they may at all times respond to the business necessities and industrial requirements of the various sections of this country. I say we have spread the operation over a period of three years in order that there may be no disturbance to the normal business of the country.

Now, then, we have taken this through a system of regional reserve banks, twelve of which are in process of organization under the statute. The banks, as you know, are to be presided over by a Board of nine directors, three of them selected especially to represent the banking interests, three of them selected to represent the varied business interests of the community, and three appointed by the Federal Reserve Board at Washington to represent the people of the United States.

These banks are to be owned and operated by the member banks of the United States, the National Banks being required to subscribe a certain percentage of their capital and surplus to the capital stock of the regional reserve banks, and State Banks and Trust Companies becoming members are permitted to subscribe the same amount to the capital stock.

The capital stock of the Regional Reserve Bank is to bear 6 per cent., is to receive a 6 per cent. dividend from the earnings of the bank. All earnings in excess of that shall first be applied to afford a surplus fund in order to strengthen the regional reserve banks, and when these 6 per cent. cumulative dividends, free of all taxation—national, State or municipal—shall have been paid and the surplus fund accumulated, all earnings in excess shall go to the Government of the United States.

Then we provide a Federal Reserve Board to super-

wise the entire Federal Reserve system, composed of seven members, two of them, to wit, the Secretary of the Treasury and the Comptroller of the Currency, ex-officio members, and five to be appointed by the President of the United States for a term of ten years.

The Regional Reserve Bank, you will observe upon reading the law, has confided to it all of the strict banking functions. The Federal Reserve Board has confided to it complete power of examination and supervision, and only upon the rarest occasions, and that under severe restrictions, the single banking function. So that the Federal Reserve Board under this system does not interfere in the slightest degree with that spirit of independent banking which has grown up in this country. It does not interfere with the strict banking operation of the individual bank at all. It just has broad powers of examination and supervision; it is strictly an altruistic commission for the benefit of the banks and of all the people of this country.

As I have indicated, and as you know, State banks may become members and National banks must become members.

We have appointed a Federal Advisory Board, to be selected by the Regional Reserve Banks themselves, with authority to meet in Washington and to advise with the Federal Reserve Board upon all matters considered by that Board. We have invested these Federal Reserve Banks with an almost unlimited power of re-discount. The individual bank, after discounting its commercial paper, may, upon indorsing that paper, pass it up to the Regional Reserve Bank and get its paper re-discounted at the prevailing rate of rediscount initiated by the Regional Reserve Bank, subject to the approval of the Federal Reserve Board. You will note that the individual bank has an almost unrestricted opportunity, regardless of its capital, to obtain these rediscounts. In other words, a bank capitalized at \$100,000 may be accommodated to as great an extent as a bank capitalized at \$500,000, or \$1,000,000, if it has this short-time commercial paper at hand.

Then we give the Regional Reserve Bank a limited open market operation. That power was somewhat analogous to the operation of the Bank of England in being able to go out in the open market and loosen up money conditions in order to enforce its rate of discount.

The act permits the Secretary of the Treasury to make these Regional Reserve Banks the fiscal agents of the United States Government and to deposit with them all of the Government current revenues except the trust funds.

We then provide for the refunding, over a period of thirty years, of the Government two per cent. bonds into Government three per cent. bonds without the circulating privilege, and we provide for the issuance during that period of three per cent. Government gold notes. This is gradually to retire the bond secured currency and put us upon a commercial basis currency.

We think we have greatly improved the bank examination system of the country. We have a provision that gives National banks the right to loan a certain percentage of their funds, particularly their time deposits, upon real estate, something that the National banks, under the National Bank Act and the interpretations at Washington, had never been able to do.

Finally in order to promote our foreign trade and dissipate the disadvantages under which America, for years and years, has been operating, we have authorized banking institutions with as much as a million dollars capital to establish branches in foreign countries.

If I may notice for a little while some of the objections to this bill, and at the same time indicate how they were met, I think this audience will have a better understanding of the Federal Reserve Act. In the first place, it was objected by the banks that the regional reserve banks should be exclusively in control of the banking com-

munity. It was argued that all the directors of the regional reserve banks should be selected by the banks themselves without restriction, the statement being that the regional reserve banks were owned by the member stockholding banks and that therefore only the banks should select the directors and look to the operation of the regional reserve bank.

It was pointed out in response to that that this was a great national system proposed to be established, not alone for the advantage of the banks but equally for the advantage of business and for all the people of the United States. It was pointed out further that the United States would perhaps be the largest individual depositor in the regional reserve bank. Indeed, when this argument had to be met, the draft of the bill required that these banks be made the fiscal agents of the Government and required that the Government's current revenues should be deposited with those banks. Therefore, it was contended that the people of the United States, through their Government, being the largest depositors with the regional reserve bank, should be represented upon the Board of Directors by the appointment of three Class C directors, and it was so held by the Congress.

It was contended that the banks should select a certain proportion of the Federal Reserve Board, and by many it is so contended now. Gentlemen, that seemed a plausible and a fair proposition. The fact is that it fooled me good for a while. I did not hesitate; gentlemen, I did not hesitate from the beginning to the end of this chapter to stand for the banks when I thought the banks ought to be stood for, any more than I hesitated to stand for the American people when I thought they should be stood for.

I thought the banks should have minority representation of their own selection upon the Federal Reserve Board, and so contended, and when the President of the United States said to me that he did not approve the proposition I did not sleep one wink that night, and next morning, before leaving my room at the Raleigh Hotel, I sat down, undeterred by tidal consequences, and wrote a letter to the President saying to him that I thought his decision was fundamentally wrong and politically inexpedient. I hope he has torn the letter up. Next day there came to Washington a committee of great bankers—George M. Reynolds of Chicago, John Perrine of the Pacific Coast, my distinguished Hebrew friend Sol Wexler from Louisiana, Festus Wade of St. Louis, and others—to convince the President of the United States that he was wrong and that the bankers were right in their contention. I headed the procession up to the White House. Still undeterred by tidal consequences, rather proud of my men, the first time I ever felt wealthy in my life—I was with George Reynolds, who had boasted of being one of the twelve men who controlled the credits of this country—I led the procession to the White House.

The President gave us audience, cheerful and cordial. I presented these gentlemen. The President knew my views, so it was not necessary for me to state them, but they presented their views with all the persuasiveness of which they are capable—and you know what that means. Already convinced in my own judgment, I was delighted at the tactful and logical way in which they presented the argument; but presently the President of the United States turned and said, "Gentlemen, I challenge you to point to one government board, in this or any other civilized country, upon which private interests have representation." There was just such an intense silence in the President's room as there is in this hall right now.

Not one of those gentlemen answered, and I could not answer. I was converted. I am convinced that the President was right.

On the floor of Congress this same contention was made, and I responded that it should be written into the law as well that railroad presidents and general mana-

gers of railroads of this country should have representation upon the Interstate Commerce Commission, which is to regulate and manage them, as to say that the bankers as such should select representation upon a Government board which is to regulate and manage them. Ah, but the response was, "Do you contend that the Interstate Commerce Commission has the same power over the railroads that the Federal Reserve Board has over the banks?" "Yes, infinitely more power over the railroads than the Federal Reserve Board has over the banks. They make a rate upon petition; aye, they can initiate rates for the railroads that bind them, however much they may object."

"Ah, but," said one of the critics, "can they take the property of one railroad and use it for another?" Yes, and they do it every day of the week. They take the rolling stock that one railroad has bought with the money of its stockholders and apply it to the use of some other railroad. They make a joint traffic rate that may not be compensatory to my railroad, but nevertheless I have to endure it. I took that Interstate Commerce Act and gave a recital of the powers of the Interstate Commerce Commission, at which Congress itself, although it enacted the law, was amazed. They were incomparably broader and more stringent over the railroads than the powers of the Federal Reserve Board over the banks.

What are some of these powers of the Federal Reserve Board? I say to you here—and I challenge you to interruption and contradiction—that there is scarcely one power given by law to the Federal Reserve Board that has not been exercised more or less by a single public official of this Government for thirty years. What are the powers of the board of specialists, say? One was the power of the Board to suspend all reserve requirements for a period of thirty days, and renew the suspension for a period of fifteen days. You bankers know that that is a power that has been possessed and exercised by the Comptroller of the Currency under the National Bank Act. for fifty years. There is not a banker in this audience who may not permit his reserve to go down tomorrow—I do not know that there is one who has not done it—and the only power on earth that could make him restore his reserve to the legal requirements is the Comptroller of the Currency, and he can only do it upon thirty days' notice. So that there were objections to a power to be exercised by the Comptroller of the Currency with six associates that had been exercised for fifty years by the Comptroller of the Currency alone at his own sweet will.

Then there was vehement objection to that part of the Act which authorizes the Federal Reserve Board to permit or compel one of the regional reserve banks to rediscount the discounted paper of another regional reserve bank. They said that was confiscation. No, it was not confiscation. There was not an element of confiscation about it. The Board was not permitted to require one bank to take the property of another without compensation, not at all. It was authorized to compel one bank with surplus funds and redundancy of funds to come to the assistance of a bank without it, upon prime commercial security and at a rate of interest above the normal prevailing rate. That is not confiscation. But, gentlemen, it is analogous to a power that has been possessed and exercised by the Secretary of the Treasury for fifty years under the National Bank Act. The Secretary of the Treasury to-morrow can deplete every Government depository in New York and transfer the funds to New Orleans, or can take the Government funds out of the national banks of New Orleans and deposit them with the national banks of San Francisco or of Boston. It is a tremendous power, a power that your President here to-day said is repugnant to republican institutions.

I wonder that was not found out long ago.

It has been possessed and exercised by the Secretary of the Treasury alone for fifty years. Gentlemen, in 1907,

when the Secretary of the Treasury, at his own discretion, took \$43,000,000 that had been collected from the American people by taxation and deposited it at Washington, and he took \$43,000,000 of the people's money and deposited it with the banks of New York to save the situation there, you did not hear a chirp or a word about "power repugnant to republican institutions." The Secretary of the Treasury did right then. But I agree with the President of the American Bankers' Association that some time we may have a Secretary of the Treasury who would do wrong, and we ought to jealously guard the functions of that great position and the liberties of the American people. I wrote it into the bill, not that it might be optional with the Secretary of the Treasury to make these regional reserve banks, not that it might be upon his discretion that the public funds might be deposited with those banks, but that he should make them fiscal agents and that he should deposit the people's money with them. I believe now it ought to be the law.

Then some other objections were offered. There was objection to the note issue provided by this bill. One of the distinguished members of the American Bankers' Association, the greatest banker in the Western Hemisphere, said that it was fiat money, that this Federal Reserve note was fiat money. Gentlemen, there is not an element of fiatism in these notes, not a suggestion of it. What is fiat money? Fiat money is money that relies upon the government alone for its value. Is that a correct definition of a Federal Reserve note under this act? The gentleman who so characterized it cannot appeal to a lexicographer in the civilized world to justify his definition of these notes.

They have a gold reserve of 40 per cent. behind them to begin with. In addition to that, they have a secondary reserve of 100 per cent. short time commercial paper. In addition to that, they are made a first and paramount lien upon the assets of all the regional reserve banks, including the double liability of the member banks. In addition to that, they have the unqualified endorsement of a nation of ninety-five million free American people. Fiat? When that gentleman was denouncing these notes as fiat, the greatest international banker in America, who has since been made a member of the Federal Reserve Board, was in Washington protesting to me that they had too much security behind them. Mr. Warburg, then and since, has insisted that the secondary commercial reserve should be reduced to 66 2-3 per cent.

They said this system provided for amazing inflation. Indeed, one critic in Chicago was proclaiming that the Federal Reserve Act afforded a dangerous amount of inflation on the very same calendar day that another distinguished banker before the Senate Committee was proclaiming that it provided an amazing amount of commercial contraction. It could not provide both at the same time, gentlemen, and as a matter of fact it does not provide either at any time. It provides for a reasonable amount of expansion, and the law would not be worth the paper it was written upon if it did not provide that. That is what it was intended to provide, to be responsive to the business activities of the country, to the requirements of commerce and of industries, but no inflation.

But, if you gentlemen will pardon me for frankness, this criticism was leveled at the Federal Reserve Act. by the gentleman who swallowed down without a grimace the Aldrich bill, that provided for six billions of dollars of expansion. This was demonstrated in a public address, and yet you gentlemen gulped it down. Before the Banking and Currency Committee it was put into the *Record* that when the American Bankers' Association unanimously endorsed the Aldrich bill, the paper upon which it was printed had so recently come from the press that it was not yet dry; and it was asserted that not 5 per cent. of the delegates present had read the bill when they endorsed it. And yet there was a bill that provided

that the notes of the Central banks should be used by the individual banks as reserve, and Mr. Hurlburt, of Chicago, demonstrated to a mathematical certainty that it involved an inflation of six billions of dollars; and yet gentlemen who were willing to endorse that sort of a measure criticise us in Congress for this bill. We have not undertaken in this law to do away with the sanctity of the individual banker. We have made every safeguard against inflation. A gold reserve of 40 per cent., a secondary reserve of 100 per cent., the serious and solemn obligation of the individual banker to his stockholders in discounting paper, the serious and solemn obligation of the directors and managers of the regional reserve bank in scrutinizing the discounted paper before it is rediscounted, and then in the last analysis the banking experience and observation and solemn duty of the Federal Reserve Board to pass upon it in the third degree, are the safeguards we have provided against inflation.

We have provided a 10 per cent. tax upon regional reserve banks that undertake to pay out the notes of any other regional reserve banks.

Every device suggested to us by banker or layman, that appealed to the judgment of Congress, is here embodied in this bill. The House was even criticised on the Senate side, it being said that the bill provided inflation. And pray, what did the Senate do to correct the inflation? They accentuated every possible danger. They provided that Federal Reserve notes should be used as reserve in the individual banks. It proposed a system of domestic acceptances which Sir Edmund Walker testified before our Committee would wreck any country on the civilized globe. It proposed that the denominations of the notes should be as low as ones and twos. That august, that grave and senior body, thus undertook to guard against inflation.

Then we put a provision in the bill to revolutionize the exchange and collection system of the country; and I want to tell you that I did it. I know it is not exactly popular among some bankers, but, gentlemen, I contended, and I still contend, that no banking institution has the right to erect toll gates upon the highway of commercial progress, charging constructive interest, charging in excess of actual cost for collection and making it a stated source of advantage and of revenue. Some banks are going to lose that, but they are going to gain infinitely more under the new system by the increased facility of dispatching business and by the increased confidence of the public, and it is going to save millions of dollars to the commerce and industries of this country. We had to fight for it—had to fight for it in committee, had to fight for it in caucus, had to fight for it on the floor of the House. When we passed it in the House, the Senate, yielding to the clamor, struck it out, but when it came to conference we put it back and there it is, and I am proud of it.

I could detain you, gentlemen, for hours with interesting things of that sort, but I will not do it.

There is a popular superstition that the Senate greatly improved the House bill. I will tell you what gave it currency and how it got abroad. There were a lot of distinguished statesmen who began to criticise this bill as soon as it went over from the House to the Senate, and they gave it Hail Columbia, Happy Land, and then, after they were compelled to take the House bill without one single solitary one of its fundamental provisions altered, they said that the Senate had greatly improved it. Let us see how the Senate improved it. They first authorized domestic acceptances. Imagine 25,000 banks, scattered over a great country like this, making domestic acceptances, incurring liability without a dollar of reserve behind them, and contingent liabilities at that. Is there any wonder that Sir Edmund Walker said that it would wreck the finances of any country on the civilized globe? Nothing like it prevails anywhere on earth in a civilized or uncivilized country. And yet that is one of

the things that the Senate did to improve the House bill, but we threw it out without any hesitation.

Then they put in a provision to take the Government's earnings from the Regional Reserve Banks to guarantee the deposits of the national banks—guaranteeing deposits with somebody else's money. We threw that out.

Then they provided that these Federal Reserve notes should be used as reserve by the individual banks. The House thought we were on a gold basis, but that proposed to put us on a paper basis. Talk about fiatism! We threw that out. We required instead that the earnings from this system accruing to the Government of the United States should be used to put behind the greenbacks now outstanding, so that in a few years they will be as gold certificates, dollar for dollar, and there will not be one element of fiatism in any of our American money.

The Senate did one good thing. It increased the gold reserve from 35 to 40 per cent. behind the notes and provided a graduate tax over all that the banks should fall below that. I wanted to do that in the House. The Banking and Currency Committee of the House and the House itself would have done it, but the suggestion was made, "You had better let those fellows in the Senate think they had some hand in this thing." But as if ashamed of having done that one sound thing, the Senate then went to work and reduced the reserves of the individual banks to such an extent that we would have had inflation, and the house conferees would not stand for it.

As I have said, they struck out that provision of the House bill relating to exchanges at par and collections at cost, and we put it back.

There was one other thing that we left to the Senate, which we would have done in the House, and the Senate did not even do that. That was the establishing of branch banks. We supposed they would do it, but they did not do it, and the House conferees, Mr. Corbin and myself, had to do it when the thing came to conference.

The Senate provided that no director of a regional reserve bank of Class B should be a stockholder in any bank. They would have gone to the almshouse to get the directors for the regional reserve bank.

I do not think that holding bank stock is any disqualification. I wish I had all mine paid for. The House, of course, struck that out.

I want to say to you, gentlemen, that there is not a single solitary fundamental provision of the House bill from beginning to end that was altered by the Senate, and yet because a few people, politicians or statesmen, wanted to save their face and their reputation for consistency, it has gotten abroad that the Senate greatly altered the House bill, and as notable a gentleman and publicist as Mr. George Harvey, of the *North American Review*, has solemnly written it into that magazine in the current number that the Federal Reserve bill as it passed Congress could not be recognized as the House bill as it passed the House. He has taken up this myth and spread it abroad. It is a superstition. All the Senate did was to raise the salaries of the members of the Federal Reserve Board from \$10,000 to \$12,000, which we supposed they would do, and we gave them that to do, and to increase the gold reserve, which we supposed they would do and which we were determined to do if they failed to do it. There is not, as I have said, a serious proposition in the Federal Reserve bill as it passed the House of Representatives that is not there to-day, but if we had concurred in the provisions put on it by the Senate of the United States, I do not know what sort of an estimate the banking communities of America would have put upon us.

There is one other criticism that I want to refer to briefly, and that is that we did not consult with the bankers of the country about this thing. I am ashamed to tell you how much we did consult with them. The fact

is that the bill is based upon a previous hearing at which the greatest bankers in America attended and gave testimony, and at which representatives of all interests in this country attended and gave testimony; and after the bill was drafted it was submitted to expert bankers in all parts of the country before it was introduced into the House. I am telling secrets now, but that is a fact. The bankers were not ignored. I have gotten a great deal of reputation of one sort and another out of the thing. I have heard myself described as a patriot and a statesman, and Governor Hamlin put the capstone to the eulogistic references this afternoon by saying that I am a genius, and I have gone around appropriating it all with good grace. It never has feazed me except on one occasion, and that was when I was given a public reception at my home, and I stood upon the stage and looked over that audience and saw boys with whom I had fought chickens and robbed apple orchards and things like that; and to have myself, in the presence of an audience like that, described as a distinguished citizen made me feel a little foolish. But when I get where I am not known I rather enjoy it.

But, gentlemen, in all seriousness, after everything is said, I want to say to you here this evening that the man who deserves supreme credit for this Federal Reserve Act is the President of the United States, Woodrow Wilson. After that statement I may in all sincerity, and without any exhibition of immodesty, declare that in my judgment it is a legislative miracle, and it was wrought by a supreme patience and unexcelled patriotism, and by a courage that was never exceeded by any public man in any public forum of the earth. I watched him through that trying ordeal. He was perfectly willing to listen to advice, but so passionate in his desire to serve his people that he could not be swerved from the path of duty as he saw it before him. There the credit belongs, and there I most willingly accord all praise! And let me say to the American bankers here assembled, if you gentlemen could know what has been kept out of this bill you would have a greater appreciation of what is in it. One reason why I was doubtful of accepting the invitation to be here was that I knew I ought to be at my post in Washington, and besides I am fined for coming here. But look at the suggestion which we have to meet, and with which we have to contend there, that the Government shall go into a valorization scheme for the benefit of a single commercial commodity, that the Government shall buy cotton; that the Government, which to-day is engaged in framing a measure to tax the American people in order to raise \$100,000,000 to make up the deficiency in the public Treasury occasioned by cutting off imports, shall also tax the American people to the extent of \$250,000,000 in order to guarantee the price of a commercial product. And I, a Southern man, Chairman of the Banking and Currency Committee of the House,

am upbraided and reproached by my colleagues from my section for not being willing to wreck the fabric of American credit in order to subserve that interest. In the last hours of the fight they wanted to include tobacco, because I come from one of the greatest tobacco-growing Congressional districts in the United States. I told them if they would put in newspapers, one of which I own, I would not support a proposition of that sort. Every patriotic American citizen has the greatest sympathy for the cotton growers of this country. There is not anything that might in soundness and sense be done that any man would not do, whether he be from Massachusetts or from Mississippi, from Virginia or from California; but it is preposterous to talk about doing things so foolish and so unprecedented as that. Not only is it foolish to suggest them, but it is almost unpatriotic to suggest them, and they will not be done.

That leads me to a concluding thought. Gentlemen, there are some people who are in this world but not of it. There are persons who are disposed to deride politics and to exhibit a contempt for public men who, without discrimination, they characterize as politicians. I want to stand here and bring against that class of my fellow-citizens an indictment of responsibility for the maladministration of government, and for any bad legislation that we may have put upon the statute books. They are not confined exclusively to bankers, but you have a large percentage among you. They are men who toast their heels before their andirons in the evening, in complacency and indifference to public affairs, and then on the morrow complain that ward politicians have run politics as only ward politicians can or will run politics. I feel like saying to the average American citizen of that type, whose wail is heard abroad in the land when anything is done that does not suit him in Congress, "You are responsible." If these men would attend to public affairs, if they would take pride and a patriotic interest in the politics of their country, as it is their duty to do, there would be less demagogues in public life and less bad legislation on the public statute books. After all, the demagogue is worse than an assassin any day. I am no better than other men, but I reverently thank God that in my public career I have always done what my judgment dictated, and I have never asked whether it was popular or unpopular.

Now I thank you for your very courteous and gracious invitation, and even more for your rather apparent interest in what I have said. I wish I could have withdrawn my thoughts from matters that were immediate and imperative at Washington, that I might better have prepared a succinct and cogent exposition of all the provisions of this Federal Reserve Act, but that was impossible, and I hope you will appreciate that I was trying to serve my country there, and for that reason could not do better here.

Preparing the Federal Reserve Banks for Opening.

By C. S. HAMLIN, Governor of the Federal Reserve Board.

In behalf of the Federal Reserve Board, I wish to express my thanks for this invitation. The deliberations of your Convention will be watched with interest by all students of finance, and the country expects to receive from it most valuable suggestions in the determination of the many problems pressing upon us for solution. I feel, however, that my function to-day must necessarily be for the most part that of a listener.

The present crisis, caused by the European war, must bring home to all of us the real interdependence of nations, and the fact that commercial disaster suffered by one nation must necessarily, in the long run, be shared by the others, and that enduring peace is a condition to be sought for by all.

The duty of the Federal Reserve Board is to administer the law as enacted by Congress, and I know we shall all listen with the deepest interest to the distinguished member of the House of Representatives, the Honorable Carter Glass, who will shortly expound that law to you. The genius and painstaking industry of Mr. Glass, Senator Owen and the Secretary of the Treasury was in large measure responsible for it, and no man in the country is better able than he to explain it.

The Federal Reserve Act, while the immediate result of the legislation of the present Congress, represents by no means a sudden flash of financial revelation out of a clear sky; it rather stands as the culmination of discussion and debate spread over many years. While it was a party measure, it was not a partisan measure. On final enactment it received the support of many who were glad to forget political differences.

The cornerstone of this legislation was laid by your Association when, in 1894, it advocated the so-called Baltimore plan of currency reform. Following this came other plans—that of Secretary Carlisle, of the Indianapolis Monetary Convention, the so-called Fowler plan, and many others. Next came the legislation known as the Aldrich-Vreeland Act, now on the statute books, but amended.

None of these plans seemed to satisfy the present needs and problems of the American people, and finally there was evolved the plan prepared by the National Monetary Commission. After long, continued discussion, it became evident that the people distrusted the centralization which they believed to be involved in this plan, and no action was taken upon it.

As a culmination of all these efforts came the Federal Reserve Act, which became law December 23, 1913. Under its provisions the member banks will be assisted by the Federal Reserve Banks in furnishing the credit to the farmer, the merchant and the manufacturer. When in complete operation the funds of the people deposited under the national system will be brought together in the vaults of the member banks, and in the twelve Federal Reserve Banks. The assets of these Federal Reserve Banks, and the Government deposits which may be made in them, will be pledged to strictly commercial uses, and cannot be used for speculative purposes. The money of the people will be kept in circulation and a system of note issue is provided which will in the truest sense be both elastic and safe. I believe that the soundness of this legislation will soon be apparent to all.

In this connection, also, I wish to acknowledge the fine spirit many of the banks and bankers of the United States have displayed in helping to restore the present

disturbed financial conditions resulting from the European war.

The American people have demonstrated to the world the inherent strength and soundness of the resources of the United States, and our determination and ability to discharge every international obligation in gold or its full equivalent.

To this end the country has had the benefit of the statesmanship and sound leadership of the President of the United States, the trained judgment of the Secretary of the Treasury, and, as well, the able co-operation of the Comptroller of the Currency. Furthermore, the crop-moving money, and the legislation authorizing increase in the so-called Aldrich-Vreeland currency, have gone far toward re-establishing normal conditions.

Our present difficulties do not appear to arise from the scarcity of actual money, or its equivalent in bank notes. There seems to be an ample supply in the United States, and much more can be issued, if there is a real need for more. For example, the total of Aldrich-Vreeland notes throughout the United States available for issue amounts to over a billion two hundred million dollars, while there have actually been shipped to banks only a little over \$340,000,000; in the Southern States alone there are available about \$169,000,000, while there have been shipped only between \$50,000,000 and \$60,000,000.

The real difficulty would seem to be one of credit. Mutual trust and confidence have been disturbed. In addition, as to certain great crops, the demand has temporarily greatly decreased in consequence of the foreign war, and as a result value has left its moorings—the cost of production. The problem, normally, can be worked out only by a diminished supply or an increased demand. Ordinarily, such a condition would quickly adjust itself, but the suddenness of the shock of war has led to many plans being initiated, most of which depend upon assistance from the national Government. We should see to it that the remedies proposed are not worse than the disease itself, for no remedy, even if efficacious for the immediate problem, can be justified if, in the end, it can only add to our commercial trouble and perhaps even shake the foundations of our national credit.

Fortunately, the United States treasury is in sound financial condition. It possesses ample funds of gold and ample power to increase the gold reserve, should it ever be necessary. The Federal Reserve Act has added to the powers of the treasury by providing that the Secretary may issue gold bonds to maintain the parity of all forms of money issued or coined by the United States, as well as to strengthen the gold reserve, and it is believed that no Government on earth to-day is better equipped than the United States to deal with any financial emergency.

The Federal Reserve Banks are quickly approaching the time of opening and operation. The directors are all elected or appointed, and as soon as certain necessary preliminaries have been accomplished, such as the election of officers, securing of headquarters, appointment of the necessary clerical force, and other preliminaries, their doors will open for business. There is to be a conference in Washington on October 20, at which committees representing the directors of the various reserve banks will be present and report as to progress, and it is hoped that then an authoritative statement may be made of an early date when the banks will open.

It should be remembered that the reserves to be paid

into the Federal Reserve banks will not reach their maximum until after the expiration of three years. At the opening of the system, however, the reserve banks will begin operations with a paid-in capital of about \$18,000,000, and reserve deposits of about \$250,000,000, of which latter not exceeding one-half may be paid in in commercial paper discounted by the member banks. It has been asserted that the assets of these banks when they begin operations will give only a limited lending power. It should not be forgotten, however, that this lending power may be greatly increased by the deposits of public moneys, which the Secretary of the Treasury is authorized, at his discretion, to place with the Reserve banks as fiscal agents of the treasury; practically all of the Government revenues, excluding trust funds, could be so deposited and the Government debts paid by check against such deposits. Moreover, the Federal Reserve Act largely increases the lending power of the member banks by reducing their required reserves. One can state with confidence that the Federal Reserve system at the outset will increase the lending power of the national banks and the Federal Reserve Banks by some hundreds of millions of dollars, and at the expiration of three years this will be very largely increased, at which time the reserves will all be kept either in the vaults of the member banks or of the Reserve banks.

An amendment is now pending in Congress, under which member banks may keep all their reserves in the Federal Reserve Banks. If availed of by the member banks, and to the extent availed of, this will greatly increase the lending power of the Federal Reserve Banks, thus tending to put these banks at the opening more nearly in the position they would be in after the expiration of three years, and increasing their power to cope with present abnormal conditions.

Some people may be of the impression that the organization of these banks has been proceeding very slowly, but I think some of the difficulties which have had to be solved will be realized when we consider, for example, the choice of Government directors, of which there are three upon the Board of each Federal Reserve Bank. It was necessary to secure as directors men of ability, experience and high standing, who could and would agree to attend directors' meetings and to devote to these banks, at the expense of their own private affairs, the time neces-

sary for their proper management. The vast area covered by the reserve districts has made this an intensely difficult proposition to work out. For example, the reserve district of which Dallas is the Federal Reserve city covers an area of over 430,000 square miles—more than double the area of the German Empire, excluding its colonial possessions. This district has a population of nearly six millions of people, being greater than that of the Netherlands, Sweden or any South American republic, excepting Brazil and Argentina.

So, also, the Federal Reserve District of which San Francisco is the Federal Reserve city, has an area of over 683,000 square miles. This area exceeds the combined areas, excluding colonial possessions, of the German Empire, France, Italy and Great Britain.

Similarly, the population of the Chicago district is greater than the combined populations of Sweden and the Netherlands, or of Belgium and Switzerland. Finally, five of the twelve Federal Reserve Districts are larger in area than the German Empire, excluding its colonies; four of the Federal Reserve Districts are larger than the total areas, excluding colonies, of France, Italy, Belgium, the Netherlands, Denmark and Switzerland.

There are many important questions, arising under the law, which are now pending before the Reserve Board, and which are receiving its careful consideration. Among these are clearances of checks, the definition of eligible commercial paper, and many other important questions. It is impossible for me to touch upon these here. I may say, however, that we want light thrown upon them, and any suggestions emanating from your body will be carefully and conscientiously considered.

In this connection, I want to emphasize the necessity of establishing branches of our national banks in foreign countries. We have already approved applications for two branches in South America and one on the Isthmus of Panama, and we feel that along these lines our financial energies should operate to the great benefit of agriculture, commerce and the manufacturing industries of our country.

In conclusion, I wish to say that the Federal Reserve Board is fully mindful of the trust and confidence imposed in it, and we shall use all our energies in so administering the law that it shall redound to the best interests of the greatest number of the people of this country.

The Will of the People.

By MARTIN W. LITTLETON, of the New York Bar.

MR. LITTLETON: Mr. Chairman, Members of the Association, Ladies and Gentlemen:

I take it that you have little excuse for asking some person, so to speak, from the outside, to come before you, except in the fact that, after all, it may relieve your attention from the business to which you are daily devoted when you are at home. In other words, if a voice from the outside can be justified in this assembly, it must not be upon the ground that he comes to talk to you of the affairs with which you are familiar, or to suggest to you things with which you are acquainted, but rather to speak to you from the point of view which he occupies, and from the point of view of the outside world.

Strangely enough, in our country, yet so young, we are grouping ourselves in professions and businesses to such an extent that one can scarcely see over into the other, or understand it. So my justification for what little I shall say or suggest is the fact that I come from another profession to talk about something which is somewhat removed from yours.

Our Government, whether it may be satisfactory under one administration or another, and whether it may represent your or my political faith, after all, is our Government, and it behooves us, at as frequent intervals as the occasion will permit, to inquire a little into the things fundamental, the things which are controlling, the things which are dictating, the things which are finally ruling its policy.

There is no doubt any longer in the mind of the average man that the phrase, "The will of the people," in some form or other, after some method or other, is finding its expression in the affairs of the governments of all the world. There is no doubt that even now, with the frightful situation which Europe presents, which all can deplore, and about which all should keep quiet, there is no doubt but even that, as we see it, reddened with the blood of a great war and blackened with the ruin which follows it, is still, nevertheless, an extension, or will be an extension in the finality of this single phrase which has been assigned to me as my subject to-day. A great writer has said, perhaps only when mankind

are perfectly wise will the expression of a general will be perfectly exact; perhaps only when mankind are perfectly good will such a will itself be perfectly good. He has also said that that is no reason for a disinclination upon our part to see if we can make effective the doctrine of the American Government, and when I say the doctrine of the American Government I mean that doctrine whose influence has washed itself back upon the shores of the Old World to be felt in every nation of the earth.

What is the will of the people? That phrase is coeval with the earliest times of the Continent and of England. It found its frequent use in the Revolutionary period of America. It found its great revival in the Jacksonian period of our country. It finds its accentuation and emphasis in our own period to-day.

We ask ourselves politically and sociologically what is the will of the people? Is it that volatile factor with which you and I are acquainted in our own cities and towns, which we meet currently about our cities and towns? Is it that thing which we call in the community "The sentiment seems to be that way." Is that the will of the people as commonly expressed and commonly understood?

Let me call your attention to what I think was as philosophic an utterance on that subject as I have been able to find. You know that in the English Government they are divided into the Conservatives, the Liberals, and the Unionists. A very excellent and clever English writer has said:

If one reads through a political column in a contemporary newspaper, it gives one thought to notice how few current political terms carry in themselves any definite meaning. Take such words as occur most often—"Liberal," "Conservative," "Unionist." Now, it may be contended that a reading of political history will show that men called, for instance, "Conservative," have been standing, as a matter of recorded fact, for some definite political or economic principle. But such a principle, if it does exist in the minds of men called "Conservative," is not contained in the meaning of their name as it stands. The Conservative may no doubt claim to conserve what is good, the Liberal to free men from what is evil, the Unionist to join men for a common end. But so far the three principles are nothing but complementary and compatible, and the citizen has to read history in order to find out where exactly the principles of these claimants did in practise clash, or what particular things important men of either name believed worthy of being conserved, or abolished, or promoted. He will find, for instance, that the Unionist, so far as he did stand for something more particular than a belief in union for common ends, was in fact a Liberal who did not agree with certain other Liberals that a particular sort of self-government ought to be given to a particular body of people at a particular time. But such a fact as it stands implies no principle from which the Unionist may deduce why and when men ought to unite, none from which he may deduce what type of industrial government ought to prevail in England now.

From names like these the citizen will turn in despair to seek that of some fairly definite thing which all parties profess to think good. If he is reading a newspaper he may find such a thing under the name "Democracy"—which seems to mean as it stands, "The rule of the common people." He will notice that all parties base their claim to support upon the soundness of their Democracy; he will also notice that in practise the will of the common people is not done. From these two facts he will be bound to infer either that Democracy must mean something definite, or else that the claims of all parties must be questioned.

Having reflected thus far he will examine more closely, we shall hope, the first elements of politics and morals—in order to discover, if possible, what precisely are the

real implications of "Democracy," whether it is good or evil, and how it can be farthest promoted if it is good, or most readily abandoned if it is evil.

One of the more important facts among those that the inquirer may first recognize, a fact that should be all but self-evident, is that the actual experiencing done by one mind or spirit is not the actual experiencing done by another, and that therefore it cannot depend, as a whole, on the direct causing or determining of that other. Therefore it is not that good which is or may come to be "in" his fellow that the citizen should try to promote directly, but the conditions of that good.

For his friends that he knows well he may be able, as a private man, to promote the good "in" them far less indirectly, and very much farther (with a similar expenditure of energy) than he would be able to promote the good "in" those that he knows hardly or not at all. Those, on the other hand, who may be affected by the end at which he aims in a public capacity will almost all be persons that he does not know well.

Let us agree to mean by the word "State" in the present context that body or bodies in a community by which laws are passed and executed.

The acts of a body of men (if such acts there can in strictness be) are either the sum or else the result of the acts of its members as such. The members of such a body or such bodies in this country are separate persons, each aiming, as member, at ends which apply to the whole community; that is to say, to human beings almost all of whom he knows hardly or not at all.

It follows, therefore, that the normal function of the English State ought to be at most not more than the maintenance of that part of the more external conditions of the best possible life which no effective unit can maintain with equal public profit. More than this it ought not normally to attempt.

The next question which naturally occurs is, "What citizen in particular ought to make the laws?" Ought the community to be governed by one man? If so, which one? By a few? If so, which few? Or ought it to be governed by all? And if so, how? and in what precise sense? We find ourselves involved at once in the apparently eternal controversies which turn about such words as Monarchy, Aristocracy, Democracy, Theocracy, Plutocracy, Oligarchy, Ochlocracy, Timocracy, Bureaucracy, and so forth.

Let us see how some of the controversies express themselves in our own day.

Looking at contemporary practice, we see in our own country that one particular man is called the King, that the act of passing laws is done by a few men, and that of these few almost all say that they are true Democrats. We also find it difficult not to suspect that the will of the common people is not done.

Examining current theory, we notice such terms and phrases as "the will of the people," "freedom to choose representatives," "government by the best," "government by experts," "specialists in the art of government," and so on.

Let us begin by distinguishing the main aspects of law-making. First of all, there is the disposition of things which it is the purpose of the law-makers to bring about; secondly, there is the expression of this purpose in an actual bill or detailed proposal; thirdly, there is the execution of this purpose in the administering of the law by the executive officers of the community.

Take the last aspect first. What particular citizens ought to be the executive officers? Obviously those who can execute or administer the law so as best to achieve its purpose. So far as they are executive officers only, they ought not to determine the purpose itself; though the policeman may rightly, in his non-executive capacity, criticise the purpose of the law he has been executing, or vote against those who made it. In his executive capacity he ought to be, in comparison with the average

citizen, a man of exceptional or distinctive abilities or experience—in short, a specialist or expert.

Again, what citizen in particular ought to undertake the expressing of the purpose of a bill? Obviously those who can do the best—specialists and experts in those special and particular sorts of knowledge which the details of the bill demand. So far as they are public servants, their office is to express the purpose of the law-makers and they ought not, therefore, to determine the purpose itself.

Let us ask lastly what particular citizen ought to determine the purpose of a law—to determine, that is, what disposition of things ought to be brought about in a community when, as is the case with England, it consists of persons almost all of whom would not be well known to the members of any body of men few enough to deliberate together effectively in a council chamber.

It ought to be recognized quite clearly at the outset what it is that the law-maker is required to do. The normal function of the State, we discovered, is to maintain that part of the more external conditions of the best possible life which no other effective unit can maintain with equal public profit. The law-maker ought therefore to be that sovereign power (whether one man or more than one) whose knowledge includes the best employable insight both into what persons ought to be and also into what they are. In other words, the knowledge of the law-maker ought to be the best employable knowledge of human good and of human nature.

Where is this sort of knowledge to be found?

The believer in Absolute Monarchy holds that it is to be found in some one man. Such a belief does not bulk very large in current theory, nor do most supporters of our own limited monarchy contend that one man ought to determine the ends of national life. And it is worth while remembering that the ancient kind was very often an expressor of national purpose, or even an executive officer. Very often a tribe desired victory over its enemies (deeming it, perhaps, a condition of the best possible life), and one particular man was best able to achieve it. It was only so far as a tribe did not distinctly desire victory that the kind who won it was determining by himself the ends of the State's action.

Believers in Aristocracy would contend that the required knowledge is to be found in some few—that is to say, that the best employable insight into human good and human nature resides in some ostensible minority, which ought therefore to determine the ends of the State's action independently of the judgment of the other members of the community.

Against this the Democrat believes at the least that on any civic question involving that of the goodness of an end the deliberate judgment of a determining majority of the citizens is, as a rule, better than the like judgment of any other ostensible body in the community. He therefore desires the directest possible action of this judgment on the determination of the purposes to be expressed in laws. He would contend against Aristocracy: First, that human beings are not so made that the best employable insight both into their nature and into the good of which they are capable can reside in any body of possible law-makers other than a determining majority of the community; secondly, that even if it could so reside, such a body is not ostensible; thirdly, that even if it were ostensible to the student, it could not get laws passed and executed except so far as it were permitted by a determining majority.

In our own country when we search the names in modern political affairs of those which classify you and me and our neighbors, we find that after we get beneath some acute superficial subject, we all come back and claim the root and branch of the philosophy of our Government, so far as we can, and that is that it is based upon the will of the people of our country. That phrase has been used and misused and abused until it has be-

come more or less the song of the demagogue or the object of derision by the Bourbon. On the one hand, the Conservative has come to despise it because it has been misused. On the other hand, the so-called Radical has come to love it because he thinks it expresses something which will reach the heart of the average man. I propose to deal with it, disregarding my politics and your politics, and caring not one whit whether I agree with you or you agree with me, because I take it you wish me to say what I thought, and not what you thought I thought when I came here.

All governments nowadays, with the exception of possibly a few, have either actually or professedly adopted a form of organized public expression; that is, they have endeavored to furnish a channel through which the popular judgment and the popular will and the popular wish might find its adequate expression. They have not succeeded, not one, simply because the machinery by which those things are done is necessarily inadequate and necessarily ineffective.

All mankind have accepted the essence of democracy, and by that I mean the essence of the thing of which I have just spoken—that governments must be ruled by the consent of the governed. I say all mankind have done so. All of the Anglo-Saxon mankind at least have done so. The difficulty is not that you and I should agree upon the general principle. You would not relinquish your interest in your government even though you failed to exhibit on occasion after occasion, as I do. You would not surrender your right to participate in the affairs of your city, of your State and of your Nation, even though indifference overcomes you and lethargy sometimes besets you in the exercise of that privilege. You would not if you could, and I believe you could not if you would, surrender the obligation as well as the duty to do for your city, your town, your State and your Nation, at least in the maximum of its crises, the service which seems to you to be best for your country.

The difficulty is we do not disagree upon the fact; that the rule by the people of the country is, after all, the rule to which we are committed. What we disagree about is how that rule is to be applied, how that agency can be made most effective; and in the end the great principle of government by you and all your class, and government by me and the class to which I belong, and government by somebody else's class, is to be made effective to the end that certain great things shall be preserved.

The man to whom I was referring a moment ago, a little later on in the article which he wrote, made this observation—he speaks, for instance, about the making of laws:

"It is at this point that perhaps it ought to be noted that in England to-day the law-passers," as he calls the Parliament, "are not the same body of people as the law-makers." Those who make a law include all those whose action and influence determine the action of the law-passers in voting on it, but those who actually do vote on it constitute, owing to the area and population of the modern national-state, a very small fraction of the community. It is not within the scope of this chapter to ask whether in a city-state such as Periclean Athens the normal function of the State might safely differ from that which we discovered it ought to be in this country to-day, but so long as a whole nation cannot meet in the market-place to discuss and vote on laws, it must at some point express its corporate will through some machinery of representation. It is therefore the modern nation-state, and England in particular, that will be now considered.

Returning to the first objection of the Democrat, we can rest assured that it certainly does not amount to a contention that any judgment of any majority in any community must necessarily be right. Political sovereignty may rightly repose in a power that is not only

fallible, but even capable of deliberate evil. Obviously, it must so repose if human beings are to exercise it at all.

We may now leave this first objection for a moment, since although it is one that must compel the assent of any responsible inquirer who will reflect deeply and candidly on his own nature and on that of his fellows, the Aristocratic theory may more briefly be refuted by the second and third objections of the Democrat. Those are: that even if there were such a body it is not ostensible, and that even if it were ostensible to the student, it could not get laws passed and executed except so far as it were permitted by a determining majority of the community.

To the latter of these two objections the Aristocrat might reply: First, that if there did exist such an ostensible body it would be justified in using force (for instance, the help of foreign mercenaries) to make its judgments effective on the conduct of the State; secondly, that we do find in our country to-day that few men can get passed and executed laws which do not express the purpose of a determining majority, that these few may not be the best few, but that if the best few could be pointed out they, too, could so dictate the ends at which the State should aim.

The Democrat would rejoin: First, that to the fulfillment of any purpose which involves the good "in" others, the account of their feeling and the assent of their will are so necessary that even such laws or institutions as would otherwise succeed must fail, in the absence of such an acquiescent temper in the governed, to promote for the best possible life even that part of its conditions whose maintenance is the normal function of the State; secondly, that the government of such a coercing body could not be stable.

Also, thirdly, that even in our own country to-day the few who determine the ends of the State do find it necessary to claim that they are governing "by consent." Even, therefore, if these few were the best few, as the Aristocrat desires, they could only get laws passed and executed so far as they could persuade a determining majority so to allow them. But in strictness a government is Aristocratic only so far as it prescribed the ends of the State's conduct independently of the judgment and will of a determining majority. This, without using force, no few could completely or permanently do—though the behavior of our modern Parliament does show, it may be admitted, how far a few, not the best, may take advantage of a nation's lethargy.

Turning to the second original objection of the Democrat (that no minority is ostensible which possesses the proper insight to fit it for determining by itself the ends of national conduct), the Aristocrat might urge that there have lived men in the past whom peoples have called in as dictators, and kings or oligarchies on whom nations have relied to express the national will.

The Democrat rejoins again that it was the people who did call in the dictator, and that it was the national will that they wanted expressed, not that of one man or a few independently of it.

Since the Aristocratic theory is thus provable unsound, let us return to the creed of the Democrat. He believes that on any civic question involving that of the goodness of an end the deliberate judgment of a determining majority of the citizens is, as a rule, better than the like judgment of any other ostensible body in the community. He therefore desires the directest possible action of this judgment on the determination of the purposes to be expressed in the laws.

The creed as it stands is, of course, only the very minimum basis of the democratic faith. Some democrats believe in "the divine right of the people to govern wrong if they please," for just as free-will, they contend, is granted by God even to agents who may abuse it, so the mere fact that a people act wrongly is no ground for

their being prevented from determining their own life. To discuss this might involve the question whether freedom is a means or an end, and it will be enough to say here that although some Democrats may feel that the suggested minimum understates their conviction, it is certain that no man is a Democrat who does not accept as much.

In our own country we adopted in the Revolutionary period a general doctrine, a doctrine that all governments derive their just powers from the consent of the governed.

This was the Revolutionary period. This was the period in which democracy was used as a destructive agency; a period in which it was enough to inflame, to excite, to arouse, and then to use whatever spirit of democracy there was to overthrow or to resist the power of the Government which was then over us. We never dreamed, my friends, in the Revolutionary period, which was just exactly eleven years before the adoption of the Constitution, we never dreamed then about how the organized public opinion or we never dreamed how the organized will of the people, we never thought how we can make the will of the people effective, we never thought how we can enlighten the will of the people, we never thought how we can be relieved from its dangers and yet enjoy its blessings.

Our whole purpose in the eleven years between the Declaration of Independence and the adoption of the Constitution was devoted to the use of the aroused will of the people to overthrow and to get rid of a government of which our ancestors had grown tired, and to set up another Government of some sort. The distinction being that Government had not been organized, and was not, indeed, organized until we reached the Constitutional period.

Now, it has been said that the Revolutionary period represented the radical period and the Constitutional period represented the reactionary period. I do not like either one of those words myself, because I think they have served more purpose to confuse modern politics than almost any two words you could employ, but they have been written down as being descriptive of those two periods. It has been said of the Revolutionary period that men then followed Samuel Adams, Patrick Henry, Otis, and that Otis and Samuel Adams followed Locke, and that the English writers as in the previous revolutions of the century sort of laid the foundation for Revolutionary doctrine. The fact, however, is that no man during the exact Revolutionary period, even the men who framed the Declaration of Independence, conceived of the method, when they had gotten rid of the Government, would employ the will of the people as the great agency for Government. After the Revolution was over, after our country had had its independence, after the long cherished point had been reached, after this and other places which produced Revolutionary characters had relaxed into a period of contemplation and silence, after no longer the seas were swarming with English vessels, and no longer our Coast was riddled by English ships, and we had come to the question of how we were going to use the great power we had achieved, how shall we take this Continent, how shall we take this great agency, known as the will of the people of our country, and make it an effective agency for the government of our country?

Those men organized under the ARTICLES OF CONFEDERATION, which failed, hopelessly failed, because shot through and through with jealousies; because each State suspected the other, because each State suspected the general Government, because each State held in its hands the purse and the sword, because it commanded everything that meant power and energy and strength on the part of the Government, and, like a house of cards, it went, and went rapidly.

Our first President, Virginia's first President, the man about whom you all know because he secured a lot in his

tory where nothing but veneration and gratitude could reach him, who sprang from the bosom of this old commonwealth and who for eight weary years led the striving revolutionists—he saw what his eyes, dimmed with tears and his heart heavy with the burden, that the Government after all that had been reccued from the power and influence of a country that had threatened us with taxation and burdens was now about to fall to pieces.

Eleven years had elapsed since another great Virginian had set on fire the political literature of the world with a great Declaration of Independence. Twenty years had elapsed since, with flaming eloquence around these very hills, there had been made the declaration that our Government must resist the agencies of other governments. And now the time had come to say what, after all, will we do with the liberty, what will we do with the democracy—gone the Kings with their glittering crowns, gone with the towers, gone all the agencies of the old world, and nothing left us but the memory of Sir Edward Coke; nothing left us but the subtle wisdom of Montesquieu—what shall we do, after all now, that we have the power, with this Government? Our articles of confederation have broken down. The States are powerless, the Nation is powerless, our treasuries are empty, the sword has fallen from our hands; discord is running through and through the councils of our Nation; what shall we do now to preserve and make effective the great principle for which we have contended, which we have vindicated, and which we have appropriated to ourselves as the everlasting charter of human rights?

That was the period of American history that tried men's souls. It was glorious, indeed, to have fought in the Battles of the Revolution. It was splendid to have been able to be in the outbreak of the Revolutionary spirit, but it was more burdensome still to be confronted with the problem of how we will organize the public will, or the will of the people, and make it effective. Men were not mistaken in those days. They held no chimerical ideas that in the mass you can find initiative, or you will find people who will attend to public business. They understood that, as the King had ruled in other lands, we must have something to take his place. They understood that, as the cabinet had been master in other countries, we must have something to take the place of that cabinet. They understood that, as there had been some sort of common consent of rulership in the old country, we must have something to take its place. And so there ensued what was called the reactionary period in American history. Called reactionary, I know not why. I have before me a volume of a most eminent author, a most estimable gentleman, who has chosen to use that phrase. I would not dispute with him upon any grounds of scholarship or authorship, but I would dispute with him if he undertakes to characterize the period of constitutional discussion and constitutional adoption in this country a reaction on anything, because it was the most progressive and far-reaching of all the things that were done in the history of the American Government. The period ensued, and the question arose; What will we do to organize Democracy? You and I agree on Democracy generally, but we may not agree upon how it may be organized. You and I agree that the will of the people shall rule, but we may not agree on how that will shall be ascertained, and what kind of a will shall rule. I, for one, find all the pages of the earlier literature of our country, brilliant as they are, having but one note running through all of them, and that is, it is not the volatile will, it is not the sudden will, it is not the transitory will, it is not the hot impulse, but it is the settled and enlightened will of the country that was written down as the basis of Democracy in this country, and was intended to rule.

How did they go about it? They had to have a constitutional convention. I hope you will bear with me on what seems like old things now, because a frequent recur-

rence to the fundamental things governing our country is but an inspiration to keep us straight on the path that was intended that we should go.

They were confronted with the question of preserving three things, without which every civilization is stripped of its blessings and every period of human history is robbed of its attraction, life, liberty and the pursuit of happiness. These were the things which had to be preserved; these were the things upon which other governments in other periods and other influences had encroached; these were the things which they had been denied; these were the things against which it seemed that the mother country had most offended. And so it was in some form to make secure certain, definite great rights. First off, we should have participation in our Government. In other words, in some form we should ascertain the public will, and do the public will. We should ascertain what the will of our country was, and do that will, as agents of it.

But there were certain other things which our fathers saw, and which we to-day cannot fail to recognize. There were restraints which they not only desired to impose upon the Government, but they desired to impose upon themselves; there were restraints which they had found ought to have been imposed upon the King, but, not having been imposed upon him, if any other government should be erected here, it must be a government that must suffer those restraints to be imposed, and also restraints upon themselves.

Now, my friends, you have heard talk about the rule of the majority. No man doubts that the determining will of the majority in this country, in regard to all questions that have not been put beyond the reach of the majority, is absolutely the solemn doctrine of our republic. But there were certain things which they said they intended to submit. Not to leaders alone, not to makers or to writers, but to the people themselves on the adoption of the Constitution, adopting it for the purpose of saying there are certain great principles which stand for the civilization of which we are the exponents. My life, my liberty, my pursuit of happiness; the things which I may acquire, the things which I may do, as Rudolph Von Erringe said in his wonderful little book:

"My property is but the periphery of my person. I have transfused my blood, my muscle and my brain in it until it has become the boundary line of my personality. The man who assails that assails me, because it belongs to me," speaking essentially of his private property.

So, then, they were confronted with preserving certain rights which antedated the Constitution. They were confronted with preserving certain rights which should not be disturbed, except in a certain way; and those rights may not be embodied in the great trinity of rights which were expressed by Mr. Jefferson when he wrote the Declaration of Independence. It was expressed in New Hampshire; it was expressed in Vermont; it was expressed in Massachusetts; it was expressed in all the New England States, in Virginia, in all of the original States: Life, liberty, and the pursuit of happiness. These things should be locked up and securely imbedded against what? Not only against the encroachments of those from without, but against the sinister advances and influences of those from within; not only against the man who would rain his blows upon the outside of the Government, but against the man who, inside his Government, would undertake to dismantle and destroy the Government and undermine those principles.

What is my life if I may not go forth in conquest of the earth's surface in security? What is your life if you may not go forth unharmed and unhindered and reap the benefits of your labors. What is life here, or elsewhere, if I may not go out, captain of my soul, within the orderly pursuit of my business and achieve all I can achieve and bring home all honestly I can bring home

and say: "This is the result of my labor and my trials and my tribulations?" They were trying to write that into their government.

And so, in attempting to make their Constitution they wrote certain great rights, which are expressed in short phrase, but without which the stability, the future, the endurance of the government under which we live would have been imperilled, as the old articles of Confederation had imperilled the first.

This Declaration found its expression in the Constitution of our country. I know now how unpopular it is in certain quarters to speak of the Constitution of the country. I know how men say: "Oh, well, what has the Constitution to do with it?" I know how men say: "We live in a different age." I know how frequently that expression is made. I have heard men say: "I am not bound by the Constitution; it was not adopted during my period of time." Let me remind you, my friends, that the Constitution which exists to-day came from your fathers, your grandfathers, and each generation has acquiesced in it, and each generation has had an opportunity to change it, and until they change it, it stands as the expressed will of the people of this country.

So you ask me what the will of the people is? I tell you the first and final, and sublime will of the people is found in that document which was held stable and in check the great agencies of this great Government. You ask me what the will of the people is? I tell you, you will find it in that document which was vitalized by the philosophy of that great jurist, whose little home sits over here in the city of Richmond, now with the banner gayly fluttering there, and the plain tablet on it: "The Home of John Marshall."

Men have searched all about and said: "I am going to do the will of the people." I have heard it in Congress and out; I have heard it on the stump, North, East, West, and South. "I desire to do the will of the people." Most of them are trying to do the will of the people sitting in front of them; I believe in doing the will of the people that wrote it in the Constitution.

A strange thing occurred within the last ten years. You would think it was incredible, but as a matter of fact, our courts were put on trial. Now, I have had as much quarrel with the courts, personally, as anybody else. I think they have decided more of my cases wrong than of most anybody's cases I know of. (Laughter.) But you have heard men high in authority saying that the courts are frustrating the will of the people; that the courts are in the way of the expression of the will of the people; that Democracy cannot attain its highest point, because those archaic institutions are sitting in the way of this great flood of public opinion that would fain rush on.

Now, what does that mean? Suppose the general assembly of Virginia had passed an act and the courts take up that act, and they say: "This act is contrary to the constitution of Virginia." The people who believe in that act say again: "The courts are frustrating the will of the people. The people elected the Legislature. They sent them there. They intended that the Legislature should pass that act. The Legislature did pass it, and now the courts are standing in the way of it." Then the cry goes out, "The courts ought to be put under some sort or surveillance or recall, or something of that sort," and that cry has gone from State to State and from place to place, until it became almost subversive of the dignity and honor of the judiciary of this country. Now what was the real philosophy of the thing? The judge sat on the bench. Over here was the constitution of your State of Virginia, a constitution adopted how? It was the sublime, the solemn, the expressed will of the people of Virginia. It was the highest example of the ascertained will of the people of Virginia. It was the only known force of the will of the people of Virginia on the subjects to which it related. It was the only way in which you

could search into the hidden domain of the will of the people of Virginia on the subjects to which it related. The courts said: "This act of the Legislature did not come into existence at all. It could not come into existence at all. Why? Because the registered will of the people in the constitution was here first and forbade its existence. No matter how many acts of the Legislature might be passed like it, they could not come into existence so long as the will of the people was thus expressed in the constitution of the State." And forsooth there were men who said, "The courts are frustrating the will of the people," when, in fact, the courts were defending the will of the people, and were enduring public shame and abuse for defending the will of the people against acts which attempted to frustrate that will. The same illustration may be applied to Congress. Suppose the Congress of the United States should pass an act which in a measure diminishes the interest you and I have in the common properties which we own. I do not say they would, and I do not say they might not. But, suppose they did. How would we find out whether the thing which we had before it was passed was still ours or not? We would naturally address ourselves to that tribunal to which we are accustomed to go to seek redress. Now, when the court says that act of Congress is invalid, why is it invalid? Not because the court says so; not because the judge says so; not because the judge wishes it so; not even because the whole bench wishes it so. It is because, coming from the lips of the sainted dead, they wrote into the Constitution of the country, and you adopted it as your will, that it was the will of the people of this country that no such legislation as that should be passed; therefore, the courts became the vindicators of the will of the people as expressed in the Constitution of the country.

Now you say, how do you ascertain the further will of the people. I want, if I can, to leave with you only one idea—and if I do that I shall be successful—that the live, the vital, the stable, the everlasting, the enduring thing about our Government is the will of the people, and that will of the people, enthroned and unassailable, is found in the organic law of our land, in the nation, and in the State; and if, desiring to supplement that will by legislative act they choose their public servants and send them there to do it, that is their right, always having regard for this, that as to certain things they have settled them until such great revolutionary time comes, when they choose to unsettle them. If they want to amend the Constitution of the United States they must do it in that way which solemnly, earnestly searches the will, the judgment, the conscience, the heart, the very soul of men, and not in some transitory passion to the solemn will of the people as written into that great document.

Now I hark back to what we started with. Democracy, the love of the rule of the people may be universal. I belong to the people just as much as the men who protest that they belong to them more than I do. But I believe it my duty, so long as I shall contribute my little to the public service, to see if I can so direct public opinion and help to direct it that the truth, the enlightenment, the justice, the patriotism, and the service of my country may be the sole consideration by which I am guided.

Now having set up this great framework in your State and in your nation, this is the will of the people, running back from here, clear back to Madison and Monroe and Hamilton and Jefferson and Franklin and all the illustrious men; yes, running back to the Civil War, and after the Civil War running back to those who in turn adopted it.

Now, how is public opinion otherwise expressed? How do we ascertain the will of the people in any other way? By the acts of our legislatures and our courts consistent with the hitherto expressed will of the people in the Constitution. Supplemental legislation of different kinds,

new policies and the new order of things go on from year to year. The people express their will by choosing the men whom they wish to express their will for them in these public places, and thus grows up the great body of statute law apart from the Constitution of your country. That statute law represents the supplemental will of the people as it has been expressed, consistent with the sublime, the more solemn expression of it in the Constitution of the State and of the nation. Thus there grow up the two sources of the ascertained will of the people, and the only two sources by which that will is ascertained.

Now I plead for one other thing only, and that is that as we are committed to the great doctrine of government by the people, that doctrine is not to be rung as changes in a political meeting, but to be talked of amongst bankers; because our institutions which you represent have been washed up on the shore by the great wave of public opinion, whether you consult it or agree with it or not. The great business upon which you are engaged to-day is to try to ascertain how and in what way these changes take place in your laws governing your business, and how the inscrutable processes of public opinion have brought it about, not always accurately, but you are committed to it. It is your doctrine. It belongs to us, and unless we are willing to enlighten and direct and guide, and be brave and honest in front of it we may as well abandon the project of our Government and turn it over to the mob at last. I complain of the conservatives. I am a conservative, but I complain of them and I have a right to complain of them, because, with the finest page of doctrines ever given to men to promulgate, with the finest creed ever written for men to support, with the finest argument ever put upon the lips of men to utter, with the most splendid resources to convince the world of the justice and stability of their cause, with every instrument in their hands for public education and public enlightenment, they have left the demagogues and the what-not go about the country and take judgment by default against them. One of my friends said he thought the conservatives had got too cowardly to fight and too fat to run. Conservatism is an affirmative doctrine and not an empty negation. Conservatism comprises all the admissible evidence which can be introduced to prove the cause of our present civilization. Conservatism refuses to discard experience and to accept experiment. Conservatism refuses to turn from the tried and tested things, and to follow, under the influence of a superheated imagination, the course of other men who would take us into untried fields. Conservatism is not something to make men retreat. It is something to make men attack. Conservatism is the affirmative doctrine of the civilization under which we live. Why, I said the other day that representative government was the finest example of human progress the world had ever seen, and a man said to me: "That is reactionary." I said: "What is reactionary?" He said: "The rule of the people is the progressive thing." I said: "The rule of the people? Do you mean that the people shall make the laws in the town meeting?" He said: "Yes." I said: "You mean that all the people shall gather together in some way and make the laws and run the Government?" "Well, yes, as far as they can." "And you call this progressive, and you call me a reactionary, because I believe in representative government. Do you know what you are? You are harking back to the exploded doctrine of Athens, and I am progressing to the illustrious service of the great statesmen of America who for the first time wrote that doctrine of representation into any government in the history of the world." He said again: "You are a reactionary, because you are asking the courts to hold that legislative acts are unconstitutional." "You say I am a reactionary; and how would you have it?" He said: "I would have it so that when the Legislature or Congress passes an act it would be the sovereign act of the will of

the people of the country." I said: "And what would become of your constitution?" "Oh, they will determine, whether it is according to the constitution or not." "And that you call progressive, and you call me a reactionary." Never until first you destroy that instrument fashioned by the genius of the early statesmen shall that great tribunal set up as the keynote of the arch of a great government be thrown down, never until we turn our backs on Madison of Virginia and Varnum of Kentucky and Marshall of Virginia and Wilson of Pennsylvania, and all the glorious minds who carved the very light of their genius upon the structure of our institutions, and finally determined that the Supreme Courts of the States and of the nation should ultimately determine the constitutionality of an act of Congress. Never since man set his foot upon the sands of time had it been dared to be suggested that such a doctrine could prevail; and yet I am called reactionary.

Gentlemen, the will of the people is your will and my will and the will of our neighbors and our brothers, high and low, rich and poor. The heart of the people of this nation is sound to the core. Men do not wish to do wrong in the majority. Men do not wish to inflict evils in the number. It is the exception. Men do not wish to have this Government go astray. It is the exception. There is in every man, native or foreign born, old and young, rich and poor, a spark which, if but once lighted, a flame which if but once burned, will continue to keep alive a blaze on all the altars of human liberty and just government. It behooves you, it behooves me, and every man who lives beneath our flag to preach the true doctrine of that American Government and the significance of its institution.

I have but one speech to make. I have almost made up my mind if I could make another, I would not; and that is to speak for nothing but the institutions of my country. I have but a short time to stay, as you have, in the transitory events of this world. Those who have gone before us have left their shafts white and beaming in the night. They have left their inscriptions written and carved against all the rain-washing influences of time. They have done it because they served their country. I believe with you and your homes in your own respective cities and towns, if you can but take the instruments that lie in your hands to spread the gospel of American institutions and American living and American learning and the doctrine which underlies our great Government, that service will surpass any of the public services which men can render who have been elevated to public office. Ours is a glorious country, made still more glorious as revealed in the full light of the cataclysm and conflagration of Europe. Ours is a country now in which it is a wonderful thing to be a sovereign, because somehow you feel that no man can take the sword in his hand unless that hand has been clasped to the sword by the common judgment of the common sense of mankind.

Believing so, I say that every man should constitute himself a missionary to make the country understand the questions which the country is to meet if, after all, we embark upon this great project with a minimum of one hundred millions of bleeding hearts and throbbing brains and aspiring and burning ambition. This republic is teeming with the energy and the glory of a great light.

As that influence is exercised, as it is stabilized and made strong, as men go out to tell the truth and as the world understands what the truth is, to that extent is our republic secure, and its security therefore rests with every man who has an agency in his hands for its education.

I hope, I believe, that the great century that is coming will, after all, so far as this side of the world is concerned, record a very resplendent reach of time in which liberty and peace ultimately—ultimately, because dictated by the judgment of mankind—will build their kingdoms in the hearts of men and will gather the harvest

of genius and toil in which Reason must strike from the hand of Force the sword of hate and take from the heart of the world the germs of grief, in which conscience must, after all, smite the thoughts of wrong and fill the mind with mercy's sweet refrain, in which under this great democratizing influence of ours we shall be lifted

to that place and follow that course towards which all the nations of the earth will look, marching down the era of time that illumines the pathway leading to destiny, beyond the reach of our poor impoverished vision, but happily within the province of God. I thank you.

The Case of the Lost Million.

By JAMES M. BECK of New York City, formerly Assistant Attorney-General of the United States.

Mr. President and Gentlemen of the American Bankers Association:

I suppose that in the first place a sense of curiosity may have been aroused by the announcement of your president as to the title of the address. I sincerely hope that I have not wakened any false expectations on the part of any member of this Association that somewhere in this present day there is a million lying loose which you could add to your deposits. The million to which I have reference belongs to an old standing and famous controversy that figured in the diplomatic intercourse of this country and which is closely interwoven with the earlier financial history of a new republic and indeed with the very conditions under which this great nation of ours became a sovereign State.

Perhaps I should apologize to this body for intruding on a serious convention with even an historic theme, but I did so upon the assumption that speaking as I was in the closing hour of the Convention, perhaps you would welcome something more than a mere abstruse discussion of some technical financial problem or some discussion of a politico-legal and therefore current interest. So far as the technical problems of finance are concerned, I am afraid that my position is very much that of Charles James Fox, the English statesman, who once admitted his ignorance of finance by saying that he had not the slightest idea what consols were except that they were something that were always going up or down, and that he generally preferred them to go down because he noticed that when they were depressed a similar state of mind characterized his great political rival, William Pitt.

Perhaps I could match that same story of ignorance on the part of a man in public life with a story that I heard some years ago. Perhaps I owe you an apology for introducing an historical subject with a story, but there is a distinguished member of Congress, now a member of the Senate, of whom it was told that in the days preceding the McKinley election he predicted from one end of the country to the other, wherever he appeared upon the rostrum, that there was some mysterious parity between wheat and silver, and that as silver went up wheat would go up and as silver went down wheat would go down; but after the election, unfortunately for his prediction—and he is not the only political prophet that has occasionally done that—wheat continued to rise and silver continued to fall. Meeting the Senator one day in a club a friend said: "How do you reconcile your prediction with subsequent events?" He said, "There is nothing inconsistent. Subsequent events absolutely demonstrated all I said upon the stand." His friend said, "Where is that wonderful parity between silver and wheat of which you spoke?" He said, "It is this: Don't you see that if wheat continues to rise and silver continues to fall they will be on a parity per bushel?"

Let us consider the situation at the beginning of the Revolution. That revolution was an act of sublime audacity. It is very hard for us to-day, in this hour of our acknowledged power and almost invincible strength, to appreciate that no reasoning man could, at the beginning

of the Revolution, regard as more than a remote possibility the triumph of our cause. So much was this the fact that, if we were able to take the utterances of the great leaders of the Revolution at the beginning of the struggle, we would find that there was hardly one who did not disclaim any purpose whatever of separation from the mother country.

The desperation of our cause was not due to the lack of fighting men. We had in this country, it is computed, about 2,100,000 white inhabitants, and, assuming that half of these were men, it left a homogeneous population, descendants of pathfinders and pioneers, men accustomed, for the most part, to the musket and to hardship. As a result, we had a population that ought to have been able to have placed in the field at least 50,000 men, and even with the meager facilities of transportation we would have been, if other things were equal, invincible to any force that England could send against us.

But apart from the fact, which we now in our patriotic pride are apt to ignore, that the people of the colonies were by no means agreed as to the policy of the Revolution, a very considerable proportion dissenting from it, and still another proportion adopting a shifting attitude of waiting for the issue of the struggle as it proceeded, there were then many other circumstances which we must take into consideration. We had at that time not a single manufactory of powder in this country. It had been the policy of the lords of trade which governed the colonies to strangle American industry, and as a result there was at the time the American farmers fired the first shot on the village green at Lexington, not a powder mill in the United States. There were, so far as can be accurately stated, only two manufacturers of muskets, and those painfully inadequate to carry on any campaign of even short duration. The result was that while at that first shot that went around the world, sixteen thousand men before that week was out had gathered at the gates of Boston and besieged Gates' army, yet they were not only without tents, and obliged to live in rude huts, constructed of sand and dirt; and without uniforms, but they did not have powder enough to last more than a few months.

The Massachusetts Committee of Safety made an accurate estimate of the existing supplies for the hastily improvised army, and here it is:

On April 19, 1775, the Committee could only count twelve field pieces, 21,000 firearms, 17,000 pounds of powder, 22,000 pounds of ball; and for food, 17,000 pounds of salt fish and 35,000 pounds of rice. Such was the destitution of the army in that which is the food of an army—namely, powder and shot.

As these statistics show there was barely a pound of powder apiece for each soldier, in a war that might last, as it did last, for years. So destitute were they in the wherewithal to fight, that Washington, when he assumed control at Cambridge, had kegs of sand labeled "powder" rolled into the camp in order to delude his soldiers into the apparent security that there was plenty of ammunition. That was the main reason why Washington's rap-

idly mobilized army of 16,000 minute men shrank nearly to 3,000 after his leaving the siege of Boston and was defeated in New York, and fled in orderly retreat into New Jersey. That was so plainly the fact that so great a man as Franklin—the wisest man in the eighteenth century—actually advocated the use of bows and arrows in order to fight the invader. While the idea was absurd in the extreme, it showed the desperation of the cause, that so great a man could gravely advocate that with bows and arrows and scythes and farming implements, they could face the trained grenadiers of the British army. And Washington—the great hearted, leonine, magnanimous Washington—greatest in soul of all men since the tide of time began—so clearly recognized the desperation of the cause that, to quote his own language, he says: "We must then retire to Augusta County in Virginia. Numbers will repair to us for safety, and we will try a predatory war. If overborne, we must cross the Allegheny Mountains." So that all that that man, whose courage seemingly never failed him, could see in the immediate prospect, was that there might be, as in the case of the Boers in South Africa, a great trek across the mountains into the unbroken wilderness.

It is recorded that men later went about the streets of Philadelphia and begged the pendulum off the clocks in order to turn them into lead bullets, and the remotest settler upon the outskirts of the wilderness would give up his powder horn in order that the few ounces of the indispensable commodity could be given to the general store, and some complained that they were left defenseless from the savage foe. Where could these brave men look for any relief? What probability was there that any nation would aid them? Remember that not only was England then the first power of the world, and no nation would without the greatest hesitation challenge that power by openly helping us; not only had we disclaimed any attempt to separate, and therefore any invasion by any foreign power would be as if England was to-day to interfere in our mining war in Colorado, or as if we would interfere in the present strife in Ulster. There was also this very substantial reason that France, as every other European country with the exception of Switzerland, was an absolute monarchy, and why should their governments encourage in the smallest degree our revolt against authority. How then, did it come that France, laying aside the prejudice against the English Colonial yeomen, who had climbed with Wolf and his English grenadiers the heights of Abraham and wrested the Canadian Empire from France, come to help us?

My client, may it please the court, Pierre Augustin Caron, was the first and most potent factor in reversing France's policy and making her our ally. Long before Franklin reached Paris, late in 1776, and before there was a suggestion of an open alliance—France was secretly helping us; but this was due to my client, for whose claim to gratitude I am pleading at the bar of this court. Caron was the son of a watchmaker in the city of Paris, and himself a watchmaker. He was not without education. His father was a man of intellectual force and varied accomplishments, and his four sisters were accomplished musicians. When the day was over, Caron, working as he did from seven in the morning until six at night, at the bench in the shop, the evenings were spent in literary work, and, especially in musical pleasures, in which all the family were proficient.

When young Caron, who received a very limited school education, was twenty-one years of age, he invented an improved escapement to a watch, which made it possible for watches to be made far smaller than had ever before been possible. In an imprudent moment he showed his invention to a rival watchmaker, and was surprised to find a few weeks later in the Journal of the Academy of Sciences of Paris the announcement of his invention made by his disloyal friend, as his own.

At a time when justice was administered with slight

regard for human rights, and frequently bought and sold, an unknown watchmaker of twenty-one would not have thought that he had very much opportunity for redress against his rival for stealing his invention. This young Caron was, however, a man of unusual attainments, and he wrote a memorial to the Academy of Sciences so cleverly worded that he not only persuaded them to look into the case, but, like Byron after writing Childe Harold, he awoke to find himself almost famous in a night. A committee of inquiry was appointed, which reported in favor of young Caron, and he thus won in his first contest a signal victory.

This probably suggested to his mind that possibly there might be a larger career for him than at the watchmaker's bench, and for this there was abundant reason. He was a man of more than ordinary personal beauty, of engaging presence, brilliant and witty in conversation, with a mind that even in his last days and during all his troubles never failed in effervescent gaiety, and gifted with the pen to a degree so remarkable that his writings are to this day among the classics of French literature.

The day of the commoner was then dawning in France and penetrating even the court of Versailles, so Caron determined to try to climb the slippery ladder of court preferment. He went to court at Versailles, Louis XV. being King, and opened his career by presenting the King with a watch, and followed this up by presenting the King's reigning favorite, the Marquise de Pompadour, with a watch so tiny that she could wear it as a ring upon her finger. She and the King were so delighted that they gave the young watchmaker an audience, and, presuming on this familiarity with the court, he assumed the title of watchmaker to the King.

With this first start he waited an opportunity for a larger field of usefulness. Louis XV. had four daughters that were very fond of music, and young Caron could play, with a great deal of proficiency, the flute, violin, and also an instrument that was comparatively new in France, the harp. When the young princesses heard that, they sent for Caron, and asked him whether he would not teach them to play the harp, and thereby he became for the princesses a kind of *arbiter elegantiarum*, a kind of purveyor to the royal pleasures of the young ladies, and whatever they desired to arrange in the way of social pleasure of any kind, or in the matter of studies, was arranged through young Caron, although he was simply a commoner.

Then, looking about for further opportunity, he found it in the wife of an officer in the court, who was known as the clerk of the King's kitchen. As you may remember, Louis XV, as his father, the so-called Sun King, always dined in public. The result was that the serving of the table was a pompous ceremony—two guards went ahead, and then came the comptroller of the King's kitchen, and then various lackeys with swords to their sides, and thus a little army, accompanied the King's roast until placed safely upon the royal table. On the death of this clerk of the kitchen, Caron married his widow and gained the late husband's position.

At that time he was a comparatively poor man, and to live in a court as luxurious and profligate as that required a considerable expenditure of money. It so happened that there was at that time a rich contractor named Duverney, an army contractor and banker, who had made a great fortune. Duverney, following in the manner of a great many financiers of the present day, determined to build a philanthropic institution that would attest his public spirit, and so he built on the Champ de Mars, where you could see it to-day, if you were so fortunate or unfortunate as to get into Paris under present conditions, a military school. He was very anxious to have Louis XV. give his school the prestige of a royal visit, but the indolent and luxurious King refused to do so. Finally Duverney heard of this resourceful Caron who was making such marked headway

at court, and he enlisted his good offices to arrange the royal visit. Caron took it up first with the princesses, induced them to visit the school, and then influenced them to ask their royal father to do so; so that finally Louis, accompanied by the more intimate members of his family, made a visit of state to the Duverney school.

Duverney was so pleased with Caron's resourcefulness that he took him into partnership, and young Caron rapidly became rich, in the manner of those days, when army contracts were enormously swollen with inordinate profits.

In the court, where almost every man had noble blood in his veins, Caron was naturally subject to all manner of insults, and was not liked by many because he was a commoner. It was still regarded as the height of presumption for a commoner to penetrate within the sacred precincts of that court. On one occasion a group of courtiers wanting to insult him, one of them took out his watch and said: "Will you be good enough to repair my watch? It is out of order." Caron, knowing that the man intended to insult him, said: "Be it so; but I have not practised my art as a watchmaker for several years. I fear I have grown somewhat awkward, but I will try." He then deliberately let it drop, and it broke into a thousand pieces, whereupon, bowing sardonically to the courtier, he walked away.

Another courtier, who was an expert swordsman, challenged him to a duel, and it illustrates the fine chivalry that existed even in that most profligate period, that, after this man deliberately picked a quarrel with Caron and agreed to fight in a lonely part of the royal forest, without seconds or witnesses, because of the strictness of the laws against the duelling in France, that after Caron had run his challenger through the breast and saw blood gushing from his wounds, he was sure, as the man was sure and as it proved, that it would be fatal, and the man told him to fly, inasmuch as it meant almost certain punishment in the Bastille for Caron, Caron refused to do that without first trying to send this man succor, even at the possible expense of his liberty. He went to the nearest town, aroused the surgeon in the middle of the night and told him where he would find this wounded man and then betook himself to Paris, in order to determine what his next step would be. The man lingered for nine days, and although he was pressed by all his family and friends to reveal the man who had given him the fatal wound, he died with it a secret. The fine chivalry of this dying man thus protected Caron from punishment. Caron, not knowing this, finally determined to go back to court and face the music. He went to the princesses, whose closest friend he was, and told them the difficulty he was in. They spoke to Louis XV., who, in his indolent way, said: "Oh, well, arrange it anyway you please, only do not let me know anything about it." The result was Caron escaped any punishment.

Now comes the second great contest in Caron's life that gives him interest as a litigant. You will find here, gentlemen, an article to the judiciary that is not only famous in the history of France, but which perhaps never had an equal, considering the unequal odds against which Caron pleaded.

I should first explain that Caron, having bought a fictitious title, had assumed the name by which he is best known in history. Henceforth he was Pierre Augustin Caron de Beaumarchais, and he is now known in the history of the stage and literature simply as Beaumarchais.

His partner, Duverney, having died, leaving a nephew, whom Caron had befriended and whom Duverney had disinherited, and another nephew to whom the estate was bequeathed, who therefore had a great grudge against Caron and who was a very influential man in the French court. His name was Count de la Blache. Upon his uncle's death de la Blache alleged that Caron was indebted to his uncle's estate, and Caron produced

a receipt which showed that, far from owing Duverney's estate anything, there had been a mutual cancellation of debits and credits, and in point of fact the Duverney estate owed him about 15,000 francs.

La Blache charged that the instrument was a forgery, and instituted a suit against Beaumarchais to cancel the document as fraudulent and forged, and to recover a very large sum of money. Beaumarchais took up the litigation, and in the court of first instance he secured a judgment in his favor, but an appeal was taken to the highest court in Paris, known as the Parliament of Paris. That Parliament had a sinister name, because it had been recently constituted. The old Parliament of Paris was one of twelve similar Parliaments, having both legislative and judicial duties, and it was the only organ through which the voice of the people could reach the court. But under Louis XIV. the Parliaments were rarely called into session except for judicial purposes, and when Louis XV. became King, he became so annoyed and embarrassed by the occasional complaints that welled up from the submerged people through the Parlement de Paris, that shortly before the Duverney suit he had abolished the old Parlement de Paris and substituted for it by a Parliament constituted by his own royal minions. This was called Meaupeau Parlement. It was the custom of that time for the Parlement to delegate one judge, called a reporter, to whom the litigants came successively, and had personal interviews, but in addition to these personal interviews and investigations, such controversies were conducted by a kind of trial by newspaper or pamphlet in the form of so-called memorials, which passed from litigant to litigant, and which sometimes attracted public attention, especially when they were well written.

Beaumarchais thus found himself face to face upon this appeal before a corrupt court, the Meaupeau Parlement, against an antagonist who stood very high in the French court, and had behind him the prestige of the Duverney millions.

Beaumarchais lived in a period when justice, as I have already said, was as freely bought and sold as any commodity. The Court of France was a court constituted by the minions of the King. Beaumarchais was told that it would be impossible to have a personal interview with the judge whom the court had delegated as reporter, whose name was Gozman, unless he would first pay to the judge's wife 200 louis and give an extra 15 louis for the judge's secretary. While it may shock us—and I am not trying to justify Beaumarchais, for under the customs of the times bribery was a common occurrence in France, and that was the only way to get the interview—he gave to Madame Gozman the 200 louis and the extra 15 louis for the secretary. Then he had his interview with Gozman, and two days later Gozman decided the case against him and held that the receipt given, if not technically a forgery, was nevertheless a spurious document, which meant social ruin to him.

With that the frail lady of the judge, possibly scenting danger, returned to him the 200 louis, but failed to return the 15 louis, on the ground that she had not received it but the judge's secretary had. Beaumarchais then went to the judge's secretary and asked him whether he had received the 15 louis. The secretary replied that he had not. Thereupon the resourceful Beaumarchais sent a demand to the judge and his wife, demanding the immediate return of the 15 louis or he would make trouble; and the judge, knowing that he was now in danger, felt that the surest way was to openly face the charge, and he went before his brother judges of the Meaupeau Parlement, upon whose fidelity to him he felt that he could count, and charged Beaumarchais not only with being the forger of the Duverney receipt, but also the briber of a judge, and Beaumarchais was obliged to face that added charge.

There was not a lawyer in Paris who would defend

him, because the aristocracy and the Parlement de Paris were behind the corrupt régime; but Beaumarchais placed his reliance in that which was becoming a new force in French society. He had public opinion against the whole Meaupeau Parlement, and without stopping to count the cost he commenced to launch against the whole Meaupeau Parlement a series of charges, just as Zola impeached, in our time, the military tribunals, and, as we will see, with the same result. He used philippic after philippic against the French judicial system, and showed its unquestionable corruption, and as a result of his efforts all Europe became tremendously interested in his mighty struggle. Each memorial was succeeded by another with more biting wit and sarcasm, in which this man, with his back to the wall and no advocate to defend him, simply branded his accusers and judge with judicial infamy, and finally, as I have said, all Europe was stirred with the excitement caused by the Beaumarchais trial. As a consequence when, after seven months of these attacks and counter-attacks, it was announced that the Meaupeau Parlement would render its decision, all Paris was on tiptoe to learn what the Meaupeau Parlement would do with the problem they had before them. It was no longer Beaumarchais who was on trial. It was the highest court in France.

A great crowd gathered around the court room. Finally the judges tried to solve the difficulty by one of those judicial compromises which have rarely been effective in the history of litigation. Upon the whole, their decision was not unreasonable. They condemned Gozman, their colleague, *au blame*—that is, to be dismissed from the bench. They condemned him and his wife to civic degradation. This carried with it absolute incapacity to hold any public office, and ordinarily it would have meant social ruin to Beaumarchais, he being likewise condemned to civic degradation.

When Beaumarchais came out of the court room, it being the procedure of the time that he had to go down on his knees before the court and have this terrible degradation inflicted upon him, the great crowd cheered him with enthusiasm; and as the judges came out they were hooted and hunted to their very doors until, as was subsequently said by, I think Louis XV., when one of the judges complained to him that they could not go to court without molestation, and Louis XV. said, "Well, you had better go in dominoes."

Thus Beaumarchais became for the time being the most talked of man of his day, supplanting in popularity men like Voltaire and Rousseau, who had sowed the seeds of public liberty by their previous writings. A man so useful as this was not going to long remain in the shadow. Louis XV. had far too much need of him.

In the meantime Beaumarchais had reached the conclusion that another effective way to destroy a rotten institution was through the stage, and for this purpose he wrote a comedy, of which all of us have heard, and to which some of us have listened in the form of an opera. He wrote *Le Barbier de Seville*. Having lived for a short time in Spain he had acquired some knowledge of the Spanish character, and in the characters of the comedy, in *Rosina*, and above all, in the character of *Figaro*—*Figaro* being his mask, because Beaumarchais himself was the witty, resourceful, irrepressible, *Figaro* from the beginning to the end of his life—he presented so directly and plainly in his comedy his own struggle for justice that the censor at first refused to allow it to go on. However, after several years of adverse action by the censor, it was finally produced in 1775, amid universal *eclat*, and it simply pilloried not merely the judiciary of France, but the court itself, so that he became, although an *attache* of the court, the rising genius of the French democracy.

Louis XV. next determined to employ him in the secret service. There having appeared in London a brochure, being a scandalous account of the then reigning favorite, the Countess Du Barry, and Louis XV. having vainly in-

sisted on the extradition of Charles Theveneau de Morande, the author, the English publisher, or, rather, an exiled French publisher of the book containing those revelations about Madame Du Barry, the King accordingly determined to utilize Beaumarchais. He sent for him, and told him that if he were able to accomplish this task, that the King would remember it by wiping out this sentence of civic degradation. So Beaumarchais crossed to England, found this man, and in a short time did what no one else had been able to do—secured every copy and burned them in a lime kiln near London, and returned to Paris with the joyful news, only to find that Louis XV. had died during his absence.

Louis XVI. having ascended the throne, another publication was made in Amsterdam, not so much a libel as a political document of grave import against Marie Antoinette, accusing her of not being able to give France an heir. Louis XVI., remembering the success of Beaumarchais in the Du Barry episode, sent him to Amsterdam to suppress this book. Beaumarchais went there, made his contract with the publisher, and, as he thought, obtained every copy. He paid the money and destroyed the copies and was returning to France when he learned that the rascally bookseller had kept one copy and was on his way to Germany, apparently to republish it, a course that the blackmailer nearly always follows. Beaumarchais hastily pursued this man and at last caught up with him near Nuremberg. He threw him from his horse and rescued from his satchel the last copy. Then, fearing that perhaps there might be some other copy in the printing shops of Nuremberg, which were then so justly famous, he determined to go on to Vienna and to see Marie Antoinette's mother, Marie Theresa, and have her take immediate and summary steps to stop the republication. He reached Vienna and obtained an audience with the Empress. His passports were in an assumed name, and Marie Theresa could not believe that he was the famous Beaumarchais, the author of *Le Barbier de Seville*, and as a result he was thrown into prison and remained there until a month later, when the word came from Louis XVI. that this was indeed the famous Beaumarchais; whereupon the Austrian Government released him with apologies, and he returned in disgust to Paris.

On his return a third secret mission was given to him. There happened to be at that time a curious character by the name of Chevalier d'Eon. For forty-five years he had been known as a man, but he suddenly assumed the attire of a woman and played the part so well that all Europe became interested in the question of his real sex. Many contended that he was a man and some that he was a woman. Chevalier d'Eon, whether man or woman, had secured a number of confidential state documents which he had obtained when, as a man, he had represented France in the diplomatic service, which documents the French Government was very anxious to secure.

Accordingly Beaumarchais, the ever resourceful, was sent again to England in order to get those papers. It was in September, 1775, about five months after Lexington, and among the men Beaumarchais met in his confidential mission was John Wilkes, the radical Lord Mayor of London, and the center of the revolutionary element in England.

Beaumarchais met at Wilkes' house men of kindred sympathies and the radical spirits of the time. Among them was Arthur Lee of Virginia. He had been a law student in the Temple, and when Benjamin Franklin had to return to America and had given up his position as agent for the colonies, he asked Arthur Lee, although only a law student, to represent the cause of the colonies in his absence. Arthur Lee, as such representative, met Beaumarchais, and Beaumarchais and he frequently discussed the opportunity which this situation in America presented to France to discomfort England, and Arthur Lee, as Beaumarchais afterward claimed, told him that if he could obtain any assistance in the matter of powder

and shot and guns for the American colonies, that the colonies, if they were ever established as a free nation, would give to France a monopoly of commerce for a period of years such as England then enjoyed. Beaumarchais quickly appreciated this unique opportunity for France to humiliate her ancient foe and gain for herself substantial material advantages. He suddenly crossed the Channel and returned to Versailles and in his capacity as secret diplomatic agent of the King he obtained access to the King's royal cabinet, and there put before the King substantially this proposition: He admitted that France could not then openly champion the cause of the colonies. "But," he said, "let us give aid to them secretly, and if your majesty will give me the necessary means I will be responsible for their disbursement in obtaining arms and ammunition for the colonies, and it can take the form of a commercial undertaking, the colonies to return to me in payment tobacco, indigo and rice."

Thus, as early as September, 1775, and long before Franklin reached Paris and before our fathers had the slightest idea that France was going to help us, Beaumarchais had laid his plans and those of France to give us secret, but substantial, aid. As a result, on June 10, 1776, Beaumarchais received from the French Government a receipt upon which the case of The Lost Million, as it subsequently developed in our diplomatic history, turned. I want to read the receipt, because if my subject has any legal aspect at all, it will have it in the wording of the receipt. Let me resume the fiction that I am addressing a court. May it please your Honors in this document which I now produce, dated Paris, June 10, 1776, Pierre Augustin Caron de Beaumarchais signs this receipt: "Received from M. Duvergier, in conformity with the orders of M. de Vergennes, dated the 5th instant, which I have handed to him, the sum of one million, of which I am to render an account to the said Sieur Comte de Vergennes.

"CARON DE BEAUMARCHAIS.

"Good for a Million of livres tournois.

"PARIS, June 10, 1776."

Beaumarchais also obtained an equal loan from Spain, which was then an ally of France, which was first paid into the French treasury to conceal its source, and then paid to Beaumarchais and he gave the same receipt, acknowledging receipt for which he would account to Vergennes, and with those two million livres he opened a commercial house under the fictitious name of Rodrigue Hortalez & Cie. Before 1777 he had purchased arms, ammunition, clothing, tents and guns for an army of 25,000 men; had not only transported them in his own chartered vessels and in the face of the English cruisers that swarmed the seas across the Atlantic, but before the campaign of 1777 began, he had sent two hundred cannons and two hundred and fifty thousand rounds of ammunition. DeKalb, Pulaski, Steuben and many others were employed by Beaumarchais as mercenaries to come to our country and give benefit of their military experience. Vergennes in substance said to Beaumarchais: "We will give you secretly these two million francs, but no one must ever know it. We are not prepared to quarrel with England. If you ever allow the secret to be discovered, we will disavow you. If it becomes necessary we will stop the ships from leaving France. We will repudiate any possible agreement with you. Therefore, it must take the form of a commercial venture, at your risk and subject to our repudiating you, if it becomes necessary."

When Silas Deane, sent over by the colonies as the first representative in France, reached Paris in August, 1776, he first paid his respects to Comte de Vergennes, and asked him whether there was any way in which our armies literally starving for want of powder and shot, could obtain a loan from the French arsenals. The great foreign minister replied: "France cannot help you at all. We will not in any way countenance any violation

of our neutrality obligation with England." But as Deane was about to pass out of the count's office, the Comte de Vergennes said: "There is a Spanish merchant who trades under the name of Rodrigue Hortalez & Cie. Possibly it might pay you, Mr. Deane, to go to him." Deane took the hint, and went down to the Hotel de Hollande, and found Beaumarchais, and asked him if he was the head of the house. He said, "Yes, I am the head of Rodrigue Hortalez & Cie, and I shall be most happy indeed to send over to the colonies cargo after cargo of whatever you need, with officers to man the guns, provided that you will ship back to us tobacco, indigo, and rice in payment." Of course, the colonists had no currency with which to pay. Thus an agreement was made between Hortalez & Cie, and Silas Deane for the shipment, and on the faith of this agreement Beaumarchais commenced his shipments which he had bought from the arsenals of France and awaited the agreed upon payments. Unfortunately, Arthur Lee, who was a veritable marplot, sent word to the Continental Congress that, although Beaumarchais's remark to Deane was that these cargoes of ammunition were sent as an ordinary commercial speculation, yet, as a matter of fact, that was merely a blind, and that these shipments were an absolute gift on the part of France, and that nothing whatever should be shipped back to Beaumarchais against the shipments made by him. Meanwhile Le Beaumarchais, in addition to these two millions had enlisted a great deal of private capital in his commercial house, and it was absolutely essential, as he had to account not merely to his creditors, but to the Government for his expenditures, that he should get payment from the Continental Congress. Two years and six months passed and no payment came, and not only was he in despair, but was almost facing financial ruin. To bring matters to an issue, Beaumarchais sent an agent by the name of De Francy to Philadelphia to insist that not another cargo should leave France unless Congress made some payment on account; the Committee of Congress replied that there was to be no payment, and asserted an understanding that the shipments were a free gift from the King of France. De Francy speedily undeceived them. Accordingly, Congress instructed Franklin, who by that time had arrived in Paris, to ask Vergennes whether or not it was a gift, and the minister told Franklin that he could tell the Continental Congress that the French King had nothing whatever to do with it; that the French King had given nothing toward these shipments of arms and ammunition, which, in a technical sense, was true. He had given nothing. He had simply loaned it to Beaumarchais to be accounted for to Vergennes. The Continental Congress then paid a small sum on account, and was about to liquidate the balance, when, in 1783, we asked France—the open treaty alliance having been signed, and there being no further need for subterfuge—for an open loan of 6,000,000 more livres, and the French Government drew up a contract in which, for purposes of accuracy, they stipulated just exactly what we had received by way of gift, and what we had received by way of loans, and in this they recited that, before 1778, his Christian Majesty, the King of France, had given to the colonies as a free gift three million of livres, and after that date he had given them six millions, and had loaned them quite independent of these gifts several millions more. When Congress read that treaty they remembered that they had received two millions, because Franklin had in 1778 received two millions from Vergennes independent of Beaumarchais's two millions, in order that Franklin could support his embassy at Passy. When the treaty said we had been given three million pounds, Congress not unnaturally asked: "Where is the third million?" It is now known beyond dispute that the missing million was, in fact, the one given to Beaumarchais. Our forefathers suspected this, and not knowing the form of the receipt which Beaumarchais had

given to Vergennes, or the nature of this secret transaction, they naturally again believed that Deane's contract to pay for the supplies in tobacco, indigo, and rice was merely a fraud on England, and that Beaumarchais was attempting to collect from them the value of a free gift. They asked him the question whether or not that million had not been given directly to him for their benefit. He said, "No, not at all." He had to equivocate somewhat, because he had accepted this as a secret service fund from the King, and the King's honor was pledged in a certain sense to England that his Government had not, prior to the open alliance in 1778, given help to the colonies. Therefore, the mission having been an exceptionally confidential one, Beaumarchais could not, without the permission of the French King, reveal the fact that this million was, in point of fact, a subsidy, when his royal master and his immediate superior, the French foreign minister repudiated the suggestion that the third million was the million given on June 10, 1776, to Beaumarchais.

He had by this time assisted the American Government to the extent of over five millions of livres in arms and ammunition, and of this he received until his death only a small fraction. Despairing of this debt ever being paid by our country, he resumed his varied work as a financier and dramatic author, poet, speculator, diplomat, and secret service spy, because he was one of those extraordinarily versatile men in which the eighteenth century, as the sixteenth, was so extraordinarily productive, and which seemed to have passed away in this industrial age, where everything is specialized.

He determined to write a successor to "The Barber of Seville," and he would call it "The Marriage of Figaro" ("le Mariage de Figaro"), and just as Shakespeare, to please Elizabeth, wrote "The Merry Wives of Windsor," showing John Falstaff in love, so Beaumarchais determined to show Figaro in love. But his real purpose was deeper and very radical. His target was this time much higher than the corrupt judiciary of France; this time it was the royal court itself, and the whole system of hereditary privilege. When the play was first submitted to the censor he said he would not tolerate it for a moment. Great pressure was brought upon Louis XVI. to have the play produced, and finally the King agreed to hear it read, and you will find in the *Memoirs of Madame de Campan* that she read it to the King, and when they reached Figaro's monologue in the third act, where he attacks the very foundation of the ancient régime, the King sprang up and said: "You might as well tear down the Bastille as to permit such a play to be produced." Beaumarchais was a good deal of a Barnum, and he knew perfectly well, as he had made Figaro say, that the surest way to make a thing popular is to try and suppress it. So he simply read it in manuscript in the aristocratic salons, such as that of Madame de Lambelle, that unfortunate woman, who, you remember, in the first attack on the Tuileries had her head cut off and put upon a pike and held up before Marie Antoinette as she stood at the grilled window of her prison. It was read in her salon and in many other salons in Versailles to the representatives of that chivalry of France which he was laughingly hunting to its death. Beaumarchais, far more than any of the liberty-loving philosophers that preceded him, literally laughed away the French monarchy, and I have the highest authority for that—I have the authority of Napoleon Bonaparte, because Bonaparte said that the *Memoirs of Beaumarchais* in the Gozman trial, his *Barber of Seville*, and his *Marriage de Figaro* were the French Revolution in action.

He wrote it in 1781, and for three years the King would not withdraw his royal interdict, and Beaumarchais simply kept it in his desk, giving occasional readings of it in private houses. Finally, the pressure became so great upon the King that, to please Marie Antoinette, he agreed that it should be produced in a small and

insignificant theater of Paris. When that became known the crowd was so great that it was an historical event in the French stage. The auditorium was crowded to suffocation with the most eminent and powerful people of France to hear a play about which everybody had been hearing for three or four years. Just as the curtain was about to go up—it was a hot day, so that they were almost suffocating—Beaumarchais, with his cane, deliberately broke the windows to let in the air. Just as the curtain was going up, a royal guard came across the stage and held up his sword and said: "By order of His Majesty the King, this play is not to be produced here or anywhere, now or at any time." Then arose something never before known in France—at least rarely if ever known before, in such an audience. The titled auditors sprang to their feet crying, "Tyranny, oppression!" and thus insulted the messenger of the King. Beaumarchais merely said, "Very well, my play goes back to its portfolio," and he continued to read it in many private homes. Finally, Louis XVI., a rather vacillating monarch, agreed to let it be produced. The great night came when it was to be produced in Paris. The crowd—almost a mob—gathered in the dawn of the preceding morning and waited patiently the whole day for the night to come. Titled ladies of the most exclusive circles slept in the actresses' rooms in order to be sure of a seat. They brought their tables and food to eat into the private boxes. The great crowd gathered about the iron grating that stood outside the theater, and finally the mighty crowd in its impatience surged forward and broke down the iron fence and sprang toward the doors of the theatre; three people were suffocated in the melee. Finally, in the twinkling of an eye, the theatre was filled and "The Marriage of Figaro" was thus, in 1784, given for the first time. It ran for three hundred nights, a thing absolutely unprecedented at that time, and Beaumarchais gave his share of the royalties to a hospital for nursing mothers, which, of course, added very much to his fame and popularity. The Comte de Provence had been one of the most insistent that the play should not be produced, and shortly after the premier of "The Marriage de Figaro" the Comte made a bitter attack on the triumphant dramatist. Beaumarchais, who could never repress a witty saying, even if the object of it was of royal blood, replied to the attack by saying in substance: "What! Shall I, who have fought with lions and tigers, now waste my remarks on a louse?" The Comte de Provence indignantly went to the King and said, "This infamous man is calling your majesty a tiger." Louis XVI. was playing cards, and he took up the three of spades, according to an authenticated memoir, and wrote down on the spur of the moment, "Send Beaumarchais to St. Lazare." That was not the Bastille, where the political prisoners were imprisoned. It was the most loathsome jail in Paris, where degenerates were imprisoned. This man of fifty-two years of age, then the most splendid figure in the literature of his country, and who had rendered a thousand services to France and signal service to Louis XVI., was thus taken from his family and home and consigned to this loathsome jail. The first day Paris woke up and characteristically laughed. "Figaro in prison." A great joke. The second day they said, "What? Whose liberty is safe in France to-day?" The third day it became a rising, sullen murmur. Finally, word reached the King that there was danger of an uprising in France if this distinguished poet and dramatist was not released. Louis XVI., who was at heart one of the kindest of men—and what irony that this kind-hearted and generally just king should have expiated with his head the mistakes of his predecessors—made up his mind that he had done wrong, and he sent an order to release him. Beaumarchais, when the message of the King was delivered, said: "I will not stir from here until I know the charge that was made against me," because he was in ignorance of the cause of his detention. They came back to him

and said: "You are charged with having insulted his majesty by likening him to a lion." Beaumarchais sarcastically replied, "Is it an insult for the King's most loyal subject to liken him to a lion?"

Beaumarchais was then released, and Louis XVI., in partial expiation for his treatment of Beaumarchais, immediately commanded a special performance of Figaro, and ordered every one of his cabinet to attend it; even permitted a little later a performance at the Trianon of the Marriage de Figaro, in which Marie Antoinette played the part of Rosina and the Comte d'Artois the part of Count Almaviva, and he invited Beaumarchais to be the special guest of the court to see the Queen of France and daughter of Maria Theresa tread the boards of the theatre and play the part of the vivacious Spanish flirt. Could royal self-abasement go further? Napoleon boasted that he had given Talma an audience of kings and emperors, but Beaumarchais could claim that he staged his play with royal actors and actresses and was himself the audience.

The rest of Beaumarchais's stormy life can be very quickly sketched. Having spent his life in controversy, and having a sharp tongue, he was almost continually in a fight. He never lost his good humor and never attacked a man unless he was attacked, and he was always generous to a fallen foe. His papers after his death contained promissory notes aggregating 900,000 francs, of actors, authors, politicians, nobles and commoners to whom he had loaned money from time to time, many of them men who had been his personal enemies. He was most generous in his disposition, whatever his other personal faults.

In the meantime, the revolution broke with volcanic violence. Members of the convention, headed by Danton, Marat and Robespierre, knew that there were 75,000 muskets in Holland and wanted to get them, and they sent Beaumarchais to get them. He agreed to do it. They gave him 500,000 francs in assignats, but made him put up, as collateral for the success of his attempt, 750,000 francs of money that passed current. Beaumarchais went to Holland, and had to work very secretly, because England was attempting to find out where those arms were and to confiscate them if they were the property of the French nation. While in Holland in 1798 the Committee of Public Safety made up its mind that Beaumarchais was a secret royalist, proscribed him and confiscated his beautiful home near the site of the Bastille. What a situation! An exile, minus his 750,000 francs, his wife and daughter thrown into prison, and daily awaiting, probably, that sad procession to the Place de la Concorde, where heads were falling by hundreds into the basket, and he in Holland, unable to help them, knowing if he came to Paris he would almost certainly lose his head. He, however, returned to Paris, attended a meeting of the Committee of Public Safety, and defended himself in a spirited speech, in which he ridiculed the personal appearance of Marat, and asked who Marat was to assail him, citizen Beaumarchais, who had done so much for French liberty. The Committee of Safety, war having at that time broken out between France and several European countries, felt that France needed Beaumarchais's services more than his head, and sent him back to Holland to recover the arms. He returned to Holland and had arranged by devious ways to get those guns for the French Government, when suddenly the Committee of Safety again proscribed him, confiscated his fortune and he remained an exile until Napoleon planted his guns upon the steps of the St. Roch, ended mob rule in France and brought law and order again into this unhappy country.

It only remains for me to tell you what became of "The Lost Million." I have sketched briefly and very inadequately Beaumarchais's career. Certainly Dumas never wrote anything more romantic than the sober facts

that I have had the pleasure of relating to you in the most cursory way.

Beaumarchais had assured the Continental Congress that his demand for five million francs—call it one million dollars—spent for ammunition and guns was not a gift, but was a sale, and that it was ruining him not to receive what was due him. Although Congress had previously assured him that it would pay, it nevertheless, after its usual custom, failed to pay, to his great embarrassment. While an exile at Hamburg, and practically ruined, he wrote a pathetic letter to our Congress, which I want to read to you, because it gives an idea of his style, as well as points the pathos of this story:

"Americans, I served you with untiring zeal. I have thus far received no return for this but vexations and disappointment, and I die your creditor. On leaving this world, I have to ask you to give what you owe me to my daughter as a dowry. When I am gone, she will, perhaps, have nothing, on account of other wrongs against which I can no longer contend. Through your delay in discharging my claims, Providence may have intended to provide her with a resource against other destitutions. Adopt her after my death as a worthy child of the country. Her mother and my widow, equally unfortunate, will conduct her to you. Regard her as the daughter of a citizen. * * * Americans * * * be charitable to your friend, to one whose accumulated services have been recompensed in no other way! Date obolum Belesario."

He died without the slightest recognition of his claim.

In 1778, after Louis XVI. had given his assurance that the million of June 10, 1776, the receipt for which I read to you, had not been given by the King to Beaumarchais, which was a diplomatic falsehood, the American Congress persisted in thinking that it was a gift. In 1794, when there came a lull in the political storm, Congress instructed our Minister in Paris to request information as to when the missing million had been given to our country, credit for which the French Government had claimed. The French Foreign Minister then advised our representative that the million in question had been given on June 10, 1776, to Beaumarchais. This naturally confirmed the suspicion of Congress that Beaumarchais was attempting to defraud this country. Congress claimed that this million was given to Beaumarchais for our benefit, and therefore deducted it from the balance of his account of 3,600,000 livres. You would have thought that our country, having had such signal benefits from this man, who, mark you, had hazarded every one of the forty ships he employed, and had run the gauntlet of the guns of the English navy, would have paid it without "looking a gift horse in the mouth;" but instead Congress refused either to adjust the question of the lost million, or to pay him the remainder of his claim. Taking the disputed items as a pretext, it refused to make any adjustment. In 1785 it did instruct our Consul General in Paris, Mr. Barclay, to make another examination of the account against which Beaumarchais for nearly a year protested, and as a result of such examination, while the claim was somewhat reduced by our consular representative, it still left, independent of the missing million, a large balance in Beaumarchais's favor. Although he was then in sore need of the money, Congress turned a deaf ear to all his entreaties. In 1787 he addressed the following letter to the President of Congress:

"What do you suppose is the general opinion here of the vicious circle in which you have involved me? We will not reimburse M. de Beaumarchais until his accounts are adjusted by us, and we will not adjust his accounts so as not to pay them. With a nation that has become a powerful sovereign, gratitude may be a simple virtue unworthy of its policy; but no government can be relieved from doing justice and of discharging its debts. I venture to hope, sir, that, impressed by the importance of this matter and the soundness of my reasoning, you will oblige me with an official reply, stating what decision the honorable Congress will come to, either to promptly adjust my accounts and settle them, like any equitable sovereign, or submit the points in dispute to arbiters in Europe with regard to insurance and commissions as M. Barclay had the honor of proposing to you in 1785, or, finally, to let me know without further shift that American sovereigns, unmind-

ful of past services, deny me justice. I shall then adopt such measures as seem best for my despised interests and my wounded honor, without lacking in the profound respect with which I am, sir, the very humble servant of the general Congress and yourself, Monsieur le President.

"Caron de Beaumarchais."

In this letter, which I have only quoted in part, he agreed to submit the disputed question to any arbitrator with the single exception of his inveterate enemy, Arthur Lee, and our Congress actually had the indecency in reply to appoint Arthur Lee to make a further investigation. That envious, suspicious and vindictive marplot revised the figures with such obvious want of fairness that he actually brought Beaumarchais into debt to the United States to the amount of 1,800,000 francs. This report was such a shocking travesty on fair play that Alexander Hamilton, then being Secretary of the Treasury, ordered another investigation, which resulted in finding that the United States did owe to Beaumarchais the sum of 2,800,000 francs, provided that he was entitled to the lost million, and 1,800,000 francs if the lost million properly belonged to our Government. Still our country refused to pay, and Beaumarchais died in 1799 without having received even so much of his claim as our country did not dispute. In 1816, in a spasm of virtue, our Government said, through Mr. Gallatin, to the French Foreign Minister, that was the most decent thing we did in the whole matter: "If you will give us your personal assurance that from your own investigation of this account that the disputed million was not given to Beaumarchais as a gift to us, and was not used by him in the purchase of military supplies, for which his estate is now charging us, the United States Government will make no further contest, but will accept the million as a debt, and settle the rest of the account."

Thereupon the French Foreign Minister replied that, while it was true that the million in question had been given to Beaumarchais, yet it was not given for arms and ammunition, but that it was a "mystere de cabinet," and given to Beaumarchais for secret political purposes, and that, in any event, the French Government was on solid ground, for which his estate was accountable to the French Government. Our Government refused to accept that explanation as satisfactory, and insisted with a great deal of force in a strong diplomatic communication to Mr. Gallatin that, as this million dollars had been paid to Beaumarchais for our use, and the French had included it in the three millions as gifts, it must be so treated. That the bailee had a duty not only to the bailor, but to the beneficiary, for whom the bailee had given the sum of money. On the other hand, the French Government said that Beaumarchais's accounts in the seven years with the French Government, showed that he had received 21,000,000 livres, and that thereafter there had been a cancellation of accounts between the French Government and Beaumarchais, and they suggested, rather than stated, that Beaumarchais, in settling the account with the French Government, had been charged with this lost million.

The dispute was not settled until Andrew Jackson—"Good Old Hickory"—became President of the United States, and he cut the gordian knot in a way which almost brought on war between France and the United States. You will remember that after Napoleon became First Consul, and the French fleets had swept our commerce from the seas, we preferred against the French Government the so-called French spoliation claims for \$5,000,000 or 25,000,000 francs. Andrew Jackson determined to force a settlement of these claims, and instructed our minister, Mr. Livingstone, in Paris, to negotiate a treaty to that effect, and without any diplomatic delay. Livingstone finally secured a treaty, under

which it was agreed that the French would pay five million dollars for the relief of our citizens, provided that France could deduct, for the heirs of Rochambeau and the estate of Beaumarchais, a sum, in the latter case, 800,000 francs. Beaumarchais's claim was 3,800,000 francs, and as found by Alexander Hamilton it was 2,800,000 francs. Assuming that he was all wrong as to "The Lost Million," we yet owed him 1,800,000 francs beyond dispute, and yet all that the heirs of Beaumarchais ever received under this settlement, and they did not get that until 1835, was 800,000 francs, and they only received that through the settlement of the French Spoliation Claims. The treaty was made in 1831, and the French Parliament, possibly taking a leaf from our note book, would not appropriate any money to carry out its provisions.

Finally, in 1834, Andrew Jackson's patience was exhausted and wrath was great, and he sent a message to Congress in which he intimated rather brusquely that France had no intention of respecting their obligations, and he advocated a seizure of the property of French subjects in our own country, until we had received the five millions due us. You can imagine the effect of such an undiplomatic threat upon a great and proud nation. There was an uproar in France. The French Government handed our Minister his passports, recalled their own Ambassador, demanded an apology, and served notice upon Andrew Jackson that, unless our country apologized for his offensive language, they would neither pay the Spoliation Claims or resume friendly intercourse with us. Andrew Jackson was not the man to apologize on demand. Like Falstaff, he would never give reasons "On compulsion." Thereupon, the French Government which was very much in earnest, determined to send a fleet to our harbors to make a hostile demonstration, and "Old Hickory" in turn asked Congress to appropriate money for the national defense. In the meantime, our dismissed Minister was hurrying back to Washington, and Jackson had sent word to him that as soon as he arrived to come at once to the White House. It is highly amusing, and I hope that no one of French descent will object to my telling the story. As soon as Livingstone reached Washington he was put in a carriage and hurried to the White House, and there was Jackson with his cabinet, most of whom thought he had gone too far, waiting for Livingstone's report. Livingstone's story was to the effect that France was very much in earnest and would make war unless our Government apologized. Jackson replied: "That's like them French; they never pay unless they have to."

Let it be gratefully remembered that it was then England that stepped in and tendered her good offices to both France and the United States, and as a result Jackson disclaimed an intentional affront. The French Government withdrew its demand for an apology, and the French Parliament promptly passed the appropriation to pay the French Spoliation Claims. France in turn paid to the daughter, as the sole heir of Beaumarchais, the paltry sum of 800,000 francs in settlement of this ancient claim.

Let us hope that the time will come when our country will not only honor De Kalb, Lafayette, Rochambeau, and Steuben and Pulaski, but will also honor that great Foreign Minister of France who, next to Franklin and Washington, did more for our independence than any human being, the Comte de Vergennes; that we gratefully remember Louis XVI., who in helping our cause out of his own private purse, lost both crown and head, and last, but not least, that we will also gratefully remember that Figaro in life—Pierre Augustin Caron de Beaumarchais.

Gentlemen, that is the story of The Lost Million.

I thank you.

Banking and the Larger Citizenship.

BY EDWARD K. GRAHAM, President of the University of North Carolina.

In speaking on the general subject, "Business and the Larger Citizenship," in a programme made up of deliberately specified topics, I would not be accused of purposeless generalities, or idealism that cannot be made to work. The subject may not seem as distinctly practical as good roads, good soil, good schools, and yet, in thinking as specifically as I can about roads, schools, and even churches that are good, I find that no amount of thinking and talking by public road experts and soil experts and teachers will produce the results we all desire, unless along with the specialist knowledge and service we bring in our line, you bring the knowledge and service of yours. I mean that we cannot have good public roads and good public schools unless, in addition to good engineering and good teaching, we have good public banking and finance. It is to make a simple point in regard to what good public finance is, whether it is practical to have it, and what we can do to further it, that I shall briefly address myself. No question can be of more practical and vital importance than this question of the relation of business and banking to the public welfare, and particularly to the welfare of the farming public.

The view is current that banking men and business men have no relation except antagonism to the higher and nobler activities of men. I was reading a day or two ago a sermon by a minister of national reputation, and a man of great public spirit, in which this ground was eloquently taken. He reviewed the "awful record of industrial accidents," the ruthless fraud, chicanery, corruption of politics and government by business, the outright robbery honored in the business world, the destruction of our natural resources on which the nation of the future must live; and he vehemently declared that the only law of business is brute force and the survival of the craftiest. His conclusion from what he had observed in his work is that business is bad in essence and its standards wholly bad.

And this view by constant repetition in pulpit and forum and (up to a few years ago) in the popular magazines convinced even men whose occupation is business that they are a necessary evil in a Christian republic. A good man, they were forced to feel, may be a good man after hours, or on legal holidays, or after he has retired from business. But business is—business. No other word expresses its isolation, its lawlessness, its unrelatedness.

But the typical business man and bank man (who sits at the center of this alleged game of wealth versus commonwealth) cannot quite believe that this is the whole truth, or even a part of the real truth. Nobody sees so clearly as he that selfishness and greed, strong everywhere that men live and work, are fiercest in business; but he knows that they are *not* business. He acknowledges the power of self-interest and the fierce law of the survival of the crafty; but he knows that it is not the only law, or the great law, and that we are rapidly discovering the higher law, even though its standards and demands are not yet quite understood. He looks at the work of his hands and brains—at his factory, his store, his trust company—and it seems to have a place in God's scheme of things. And he looks over this vast country with its giant concerns and institutions of industry and trade—the incarnate expression of the new anti-feudal power of Commerce—and it seems, in its work for universal peace, its extension of the suffrage, religious toleration and diffusion of material well being,

that its contributions to the world's welfare give it a high and noble place in God's scheme of civilization.

He looks about him at the successful men in business, and, without analyzing their great qualities, they seem, on the whole, to measure up to the men in other callings. And more than all of this, whether he achieves the height to which his business calls him or not, the serious business man knows that in his business there is a height that he can spend the best that he has in him in attaining. Often blindly, but with flashes of deeper vision, he feels the thrill of the creator; and he knows that he, too, is a co-worker with all good men in the building of a Christian commonwealth. He feels that business men who wreck a railway system through financial manipulation are as surely traitors to the whole public as Tweed was or Benedict Arnold; and he feels also that the men who built up the Pennsylvania System, the carrier of the civilization of the people, are quite as worthy workers in the kingdom of righteousness as the artist who designed the plans for its beautiful terminus.

Business is business; but it is also life—an essential part of the life of the individual man and an essential part of the life of the nation. What we are coming to see is that good business, like all other good human activities, has two characteristic marks: it must be a good job in itself, and it must be done in accord with the standards of the nation of which it is a part. The first is a question of individual freedom and efficiency; the second is a question of responsibility and relationship. Reconciling their contradictions in a practical standard of Christian democracy is the task of the civilization that we are building. In science, in art, in government our practice conforms to our theory with sufficient clearness to be recognized by all men. No scientist, no artist, no statesman could fail to hold his genius and his profession, in large part, as public property. Legitimate government, by whomever administered, is government administered in the interest of the whole body politic—and this standard is coming to be, and will be, the practical standard of good business.

It is a difficult doctrine, but it is the very thing that is happening before our eyes—this saturation of the standards of business and the uses and processes of business with the national standard. Business responsibility, business self-restraint and co-operation, to the man who really sees, are facts far more significant in present America than ruthless selfishness, greed and the survival of the craftiest; and the steady progress we are making, in a truly democratic interpretation of business, is one of the most significant facts in present world history.

To the question how we achieved the progress we have made, and how we are to achieve the even more difficult tasks ahead, there is no specific answer. It will not be through legislative panaceas swallowed by Congress, and the people suddenly made whole. The lash of legislation cures no business ills, though it may serve, as it does elsewhere, to compel attention to the higher law of self-restraint. Enlightened self-restraint has played, and will continue to play, a large part. But it will be through the same slow and difficult process of self-education by which we learned and are learning self-government—through realizing more clearly what we are working for. It is not through restricting the doctrine that business is business, but enlarging it to the view that business is life. We are learning that one may co-operate not only with a single partner, and a group of partners, and a group of thousands of dividend sharers, but with

ten thousand workmen and their families, and that we may extend that vision of co-partnership to the whole community and its wealth, health and happiness. This insight comes not from conversion to altruistic philanthropy, nor from an outburst of emotional patriotism, but through a fuller knowledge of the facts of public welfare, and so to a truer conception of our business concerns and our banking institutions as arteries through which the life of the community flows, and our bank men as public men and ministers of the public welfare as truly statesmen, teachers or preachers. When we know fully and exactly the economic facts about the public welfare, the projecting power of our sympathy will be vastly increased.

Perhaps I can make this clearer by the case of the Banker Who Discovered an Open Road. He was a normal sort of person, successful and busy, and he lived after the fashion of his class. He took pride in his town, and he knew a few things about it—its rapid growth in population, its fine main streets, its tax rate, its leading industries. The air of prosperity that it wore was a daily delight to him. What he cared most about, of course, was his bank. He had built it up and put his life into it. It had grown as the town had grown, and now it lifted its head proudly to a view of all the wide country round about that it served and was served by. He knew every detail of its business, and he loved all of it, down to the fixtures and the bronze plate in the entry. He had no theories except that he agreed with Vice-President Marshall in the doctrine of the "clean doorstep"; i.e., he believed that it was his duty to keep his own doorstep clean, and that that was enough. He did his own job well, and the question of whether in doing it well he helped or hindered others in doing their job well he considered their concern and not his. As to what doing a job well was he would have referred you to the bank statement. He was not concerned with public questions except as they openly touched his interest or the bank's interest; and he took some pride in the fact that he was not an "uplifter." The good roads question to him was a matter of the asphalt avenue that led from his clean bank steps to the *porte cochere* of his home. It went on by, of course, as roads do; but it was not in his knowledge as to how good or how bad it was after it was lost in the blue haze of the hill beyond.

Then in the course of business a simple thing happened. He acquired a farm nine miles out on the road. He became interested in it and in making a good job of it, and interested in the tenant and his family, through whom he was to make a good job of it. He found that though you needed good roads, good schools, good churches in your farming community in order to get a good job done there and keep good people there, that it wasn't sheer stupidity and desire for ignorance and unwholesome, unattractive living that kept the people from getting them. He studied the census returns, and found that although the people produced a great deal of farm wealth, that very little of it was economic surplus out of which communities can vote taxes for roads and schools; that they were conducting a business of marketing without a knowledge of marketing that required cooperation without a medium of co-operating; that they were attempting on a faulty, unorganized credit system to make a profit on a business that between the bank and the store required twelve to twenty per cent. interest. Gradually it came to him that the job at the bank and the job at the farm were parts of the same job precisely, and that both were vital organs in the same healthful or unhealthful community life. The bank was no longer an isolated enterprise; but in its being at the heart of the community's material affairs vitally affected every public activity.

What he discovered through learning some facts of public welfare was not that he had before been a bad

man with a bad business, but that his job was a vastly bigger and more inspiring job than he had understood. He knew what it was to be a bank man; he discovered what it was to be a Man in the Bank. He knew that the public road was a satisfactory way downtown and back; he found that the same road was an open door to the end of the world. He found that what the standards of his country asked of him was not that he sacrifice himself and his business in sentimental service, but that he liberate himself and it through exercising freely the privileges of the larger citizenship.

Because we believe that knowing about the facts of our whole community life is the first step in dealing fairly and generously with them, we have instituted in North Carolina a State-wide campaign for arousing non-partisan interest in the state of the public welfare. The first step in this campaign is a Community Service Week, decreed a few days ago by proclamation of the Governor to be celebrated all over the State by all classes of citizens the first three days in December. The first of these days is a "Public Roads Grounds and Building Day" on which the men and women and young people of each town, township or school district will meet according to plan and work together in one of three forms of actual physical service to the community: (1) in making more worthy and creditable streets and roads; (2) in improving the exterior and interior of public building; (3) in beautifying school grounds, cemeteries, parks and planting trees, etc., along the streets, roadsides and private grounds. The second day is "School and Neighborhood Improvement Day," with the neighborhood served by the school as the unit; and on this day meetings will be held in the school houses to discuss community conditions, ways for improving social life, economic and health conditions, and local committees named to prosecute plans for carrying out the ideas. The third day is "County Progress Day," on which a great public meeting shall be held at each county seat to discuss the needs and possibilities of the county in the light of comparisons made with the conditions in the county ten years before, and with conditions in other counties. Careful and detailed programs for each of these days, with abundant and specific information, have been prepared in the form of a civic handbook by a central committee; a plan of organization for each county outlined in the fashion of organizing a political campaign; a paid secretary employed to conduct the campaign from the State capitol.

At the State University we are putting this idea of local applied economics and civics directly into the curriculum and student activities. Our students are largely North Carolinians. Groups of them come from every county. These are organized into county clubs, and these clubs federated into a State club, in which the studies that the county clubs make of local conditions are compared with each other and set over against the conditions in other States. These studies are based on a syllabus prepared by Professor E. C. Branson, who gives his whole time to this work, summing up county conditions from investigations of population, wealth, domestic animals, co-operative enterprises, public highways, law and order, recreations, rural credit, churches.

We believe that in a democratic commonwealth such as ours, no matter what our method of approach—whether through banking, education, manufacturing, farming—a primary condition in promoting the sort of progress that we are all at heart agreed on wanting is a more thorough knowledge of what the facts are. With this will come freer and less prejudiced discussion, a deeper and truer understanding of the principles underlying the facts, and a practice that will accord to a more generous and human interpretation of them. Our great lesson, bitterly hard to learn, but holding the infinite secret of individual and national freedom that we seek and that we will learn, is that these streets, and stores,

and fields, and banks, and factories, and school houses, and churches, and all the rest, are but "folds across the face of God," and that the "Thy Will," for which we daily pray, will be done here and now, or nowhere; and

that banking, agriculture, education, freedom, and life itself are but instruments for finding the common God in the common good and making His will prevail.

Fundamental Problems in Road Improvement.

By L. W. PAGE, Director, U. S. Office of Public Roads.

The problems involved in road improvement and maintenance are many and varied. Their solution calls for the best thought and effort of specialists in many lines of human endeavor, for these problems concern not merely the actual building and maintenance of the roads, but also the enactment of comprehensive and efficient legislation, the raising and the honest and capable handling of huge sums of money, the formation and management of great working organizations, while in many States collateral questions of importance, such as the utilization of convict labor, are involved. Modern traffic conditions have intensified to a remarkable degree the difficulties attendant upon the adaptation of road surfaces to traffic requirements. Far-reaching questions as to the distribution of cost burdens, so that they may rest equitably upon the shoulders of all who benefit by the improvement, occasion no little controversy among those who are striving for the development of our primary transportation facilities. You will thus see, gentlemen, that there are so many angles from which to approach the subject that I must necessarily confine my remarks to only one or two aspects of this great work.

First, I wish to point out the magnitude of the problem by citing a few statistics, which may serve as metes and bounds, so to speak. Our latest information indicates a total length of public road outside of incorporated cities and towns aggregating a little over two and a quarter million miles, and for the purpose of comparison I may say that this is about fifteen times the road mileage of England. It is a favorite argument of those who oppose adequate road improvement to say that the improvement of this vast system would mean an outlay at, say, \$5,000 per mile, of over \$11,000,000,000, and that even though 10 per cent. of the mileage, or 229,000 miles, are already improved by hard surfacing, this would still leave a possible outlay of something like \$10,000,000,000. Without meaning to detract from the magnitude of the problem before us, I cannot overlook this opportunity to point out the absurdity of this fanciful contention. Careful investigation has shown that in any average rural district from 15 to 25 per cent. of the roads carry from 60 to 85 per cent. of the traffic, or, to be more exact, let us say 20 per cent. of the roads carry 80 per cent. of the traffic. The logical conclusion is, therefore, that for all practical purposes the hard surfacing of from 20 to 25 per cent. of our total road mileage is all that is necessary. After allowing credit for the mileage already surfaced, it is apparent that the problem before the American people is to improve and properly surface something like one-quarter million miles of road. I might also add that traffic and climatic conditions and the distribution of road materials make possible and desirable the use of many kinds of materials and the construction of many types of road surface, ranging all the way from the sand-clay mixtures of the southeastern seaboard, frequently built at a cost as low as \$1,000 per mile, to types of a more permanent character costing in exceptional cases as high as \$25,000 per mile, built in various centers of heavy traffic. So that it is utter folly for any one to fix upon a given type or a given cost and apply it arbi-

trarily to the whole road question throughout the United States. You can thus see that, although the task is a gigantic one, there are modifying conditions which make it practicable of achievement if the proverbial energy, good common sense and persistence of the American people are applied.

Progress is being made and vast sums of money are expended year by year in the endeavor to lift America out of the mud. Last year a total of something over two hundred and five million dollars was expended in money and labor on the roads of the United States, and you may form some idea of the progress by comparing this with the \$79,000,000 expenditure for 1904. This shows an increase in annual outlay of \$126,000,000, or more than 170 per cent. Our chief troubles are not lack of zeal or excess of penuriousness, but rather a defective system, a widespread ignorance of proper methods, a good-natured disregard of the dictates of economy and a very general practise of playing politics with road funds.

To criticise is easy, and unfortunately the critic who has no remedy for the faults he finds always has a sympathetic audience. I must say that I have no patience with the pessimist who goes about continually pointing out the things that are wrong and proving that they are wrong, and never suggesting a way to make them right. In this matter of road management, however, it is fortunately as easy to point out the right way as it is to criticise the wrong way. The first essential—and it must be apparent to every fair-minded man—is that the administration of the public roads must be taken out of politics. The roads are absolute economic necessities and cannot for a moment be considered as legitimate spoils of the politician. Granting that the roads should be taken out of politics, how is this to be done? The answer is comparatively simple: place all management of the public roads of State importance under the control of a non-partisan, non-paid commission holding office partly ex-officio and partly through appointment, and have these men choose a competent engineer as executive head, who will hold office so long as he renders adequate service and who is responsible to no political party and, in fact, is rigidly excluded from participation in political affairs; have his subordinates appointed through an efficient merit competitive test and require by law that all officials having to deal with public roads shall possess the essential technical and practical qualifications. In the handling of county roads, follow the same general practise. The county engineers or superintendents should have the widest possible authority, and should be provided with a small force of competent men. Such a system in lieu of the present many-headed, loosely-constructed, politically-dominated county organizations would work wonders, and would save at least fifty million dollars a year on the basis of our present outlay.

One of the first results to come from competent organization would be the classification of our highways in accordance with traffic requirements. Incidentally, this classification of roads will go far towards neutralizing the effects of petty politics, for under the classification the roads which are most important to the people would first be improved and would receive the most improve-

ment. Under the system now prevailing in most of our rural sections the convenience of the few influential citizens, the insistence of real estate operators, the parceling out according to political subdivisions rather than traffic needs, dictate the location of improvements. In classifying roads according to their importance, it will generally be found that a small mileage, ranging, say, from 5 to 10 per cent. of the total, comprises main trunk line roads used heavily by traffic originating both in and out of the county and forming links of a possible system of State, and even national, importance; from 10 to 20 per cent. will consist of secondary roads, important for market traffic; while the remainder will comprise unimportant feeders and neighborhood roads.

If the fundamental question of *what* roads to improve and the order of their improvement has been determined through classification, the next fundamental question is that of financing the proposed improvement. This question is two-fold and involves a determination not only of how the money should be raised and how expended, but also how large an outlay is justified in a given case. In logical sequence this latter consideration should first receive attention. In deciding how much money may wisely be expended on a given road we must measure the probable returns in reducing hauling costs and in social service. An investment is therefore wise and justified which will yield the maximum net annual return, after deducting interest, depreciation and maintenance costs. Both under-investment and over-investment are burdens upon society.

It may interest you to know how the traffic importance of a road may be ascertained. The first step is to determine the traffic area much as you would determine the drainage area of a water course. This area is expressed in acres and the percentage of farm land under cultivation ascertained. It is then a comparatively simple matter to figure the approximate yield in tons and the percentage of the products which is hauled from the farm. Two-thirds of the longest haul from a given market point is taken as the average haul for the traffic area and the total tonnage multiplied by the average length of haul given the total ton miles. The average cost of labor and teams affords an indication of the cost of hauling per ton mile, and it only remains to estimate approximately the saving in this cost per ton mile to be brought about by the proposed improvement to determine whether or not the outlay for the improvement is justified. A striking example of justifiable improvement is afforded by Spotsylvania County, Va., where \$100,000 has been spent since the beginning of 1910 in the construction of a system of roads for two districts in that county. On one road between Spotsylvania Court House and Fredericksburg, a distance of 12 miles, has been expended \$28,000. Careful study by the Office of Public Roads shows that the annual cost of hauling has been reduced over \$14,000. In other words, this road now yields an annual income equal to 50 per cent. of the original investment. The surfacing of this road was composed of a mixture of sand, clay and gravel at a cost of about \$2,300 a mile. If instead of a sand-clay-gravel surface, an expensive type of construction costing, say, \$15,000 a mile, had been employed, the outlay would have been far in excess of the traffic requirements, and the annual return would not, during the life of the road, have reached such proportions as to make the investment a paying one.

Assuming that the amount of the outlay has been agreed upon, the next phase of the question concerns the method of obtaining necessary revenues and safeguarding and directing their expenditure. When large amounts for new construction are required direct taxes frequently prove inadequate and resort is had to bond issues. Right here I wish to call your attention to what appears to me to be a dangerous trend in the financing of road improvement, and that is the issuance of long-term bonds for short-term improvements. In other words, it is quite

common to issue a forty-year bond to build a road, the surface of which will wear out in ten years. If we grant that the location, grading and drainage structures are permanent and that they represent as high as 50 per cent. of the total outlay, it would mean that half of the original investment must be renewed at ten-year intervals. The impression is entirely too general that a hard-surfaced road is permanent and requires no maintenance. Disastrous results of this attitude are seen in many counties where the costly roads have disintegrated, while the debt remains as a burden upon posterity. I should say that three basic conditions should be observed in all bond issues for road improvement. First, that the life of the bond should never exceed more than double the life of the perishable part of the improvement; second, that proper provision should be made for the payment of the bonds and of the interest as due; and, third, that adequate maintenance from the date of completion of the road should be compulsory and revenues provided accordingly.

While I am on this question of financing road improvement, I wish to say a word about why State aid and State supervision have made such rapid progress throughout the past fifteen or twenty years. It must be apparent that the public road, no matter how far remote from centers of population, is no longer a mere local utility. Travel from the cities penetrates to the remotest parts of the country; the supplies from the country find their way to the crowded centers of population, and any serious interruption to the movement of farm products over the country roads is reflected in the increased cost of living in the great cities. There are many sound thinkers who believe that living would be cheaper, prosperity more widely diffused and economic and social conditions generally made better if the condition of rural life were improved through better roads and schools and increased comfort on the farm. Under the old system of local control and taxation the cities have contributed in no wise to the up-keep of country roads. State taxation, on the other hand, reaches the cities and large corporations, and consequently the building of a State system of roads so distributes the burdens of cost that the farmer is relieved to a considerable extent and is enabled to enjoy the benefits of a good road at an outlay easily within his means. In the State of New York I believe that over 70 per cent. of the total expenditure for the bond-built roads is paid by the City of New York. State control means skilled supervision, systematic improvement and correlation of local effort. It is manifest that a town system of control is inadequate, as it does not allow the employment of skilled supervision, the use of adequate machinery and the organization of an efficient working force.

Thus far I have not explained to you in any respect the methods by which roads are actually constructed and maintained. It is neither desirable nor at all probable that any of you gentlemen will change from your present occupation to that of building roads, and even if you did contemplate such a change, what I may say to you in a few moments would have little effect upon your qualifications as highway engineers. It is a curious fact that most laymen consider a talk highly practical if it enters into the actual methods of construction and maintenance, and highly impractical if it deals with those larger questions which are the only questions connected with the subject of road improvement requiring the actual attention of the laymen. Road building is an art based upon a science, and it requires specially qualified men to practise it. That which concerns the taxpayers is to provide suitable legislation, an adequate system, ample funds, competent men, and let the rest of the work alone.

It might be worth while, however, to call your attention to a few of the common errors made by unskilled road overseers, so that you may recognize their handi-

work in your travels through the country districts. Many of you have noticed a freshly repaired earth road where weeds and grass from the side ditches have been used to fill ruts and holes. Now just a little common sense would enable a person to realize that vegetable matter decays and becomes soft, and that wherever vegetable matter occurs in a road there is sure to be a soft place where the water will concentrate and intensify holes and ruts. You have often seen holes in an earth road filled with stones. It is an axiom of road builders that you cannot float a raft of stone on a sea of mud. The placing of the rocks in the hole does not remove the water, which, consequently, percolates a little further into the earth surrounding the stones, so that in place of one hole in the road you have two holes and a rock ridge. Holes and ruts in a road should be filled with the same material of which the road is composed. It was said by some one familiar with the operations of the road overseer that if Lee had turned out the road forces to work the Virginia roads in the rear of his army, Grant would never have reached Richmond. This haphazard tinkering

with our earth roads is a source of continual waste of money and is a constant object lesson to prove the necessity of competent supervision. It may interest you to know that early in this year an arrangement was perfected between the Office of Public Roads and a number of counties between Washington and Atlanta, whereby the counties placed the expenditure of their road funds for maintenance on a given stretch of road under the direction of engineers assigned by the Office of Public Roads. The various sections of road placed under Government direction form a continuous highway between Washington and Atlanta, thus making it possible for each engineer to supervise approximately 300 miles of road. Already the improvements resulting from the arrangement are very marked, and it is our belief that the roads can be kept in excellent condition at less than it formerly cost to keep them in a poor condition.

Gentlemen, I trust that the powerful influence which you individually and collectively wield will be actively employed in furthering the systematic and efficient improvement and maintenance of our public roads.

Soil Fertility—The Greatest Necessity and the Best Investment.¹

By CYRIL G. HOPKINS, Director of Agriculture, Southern Settlement and Development Organization, Baltimore, Maryland.

If a State like Maryland should entirely stop farming, the people of responsibility and influence in the United States would promptly wake up, and the startling fact would be given the widest publicity at home and abroad, with resulting investigation and remedy; but the fact that farm land far in excess of the total land area of Maryland has been agriculturally abandoned in the North Atlantic and New England States during the last thirty years is commonly unknown and almost unnoticed.

From 1880 to 1910 the area of improved farm land (farmed land) decreased by 9,809,834 acres in New England, New York, New Jersey and Pennsylvania. This aggregate of agriculturally abandoned farm land is double the area of New Jersey; it is greater than Maryland and Delaware combined; it exceeds the total area of Massachusetts, Rhode Island and Connecticut.

The records of the last census decade show that 921,996 acres of land, farmed in 1900, were found agriculturally abandoned in 1910 in the States of Pennsylvania, Maryland and Virginia. This exceeds the total area of improved farm land in Rhode Island and Delaware combined.

The two primary causes for the decrease in productive power and the final agricultural abandonment of these vast areas of farm land are lack of knowledge and lack of profit in farming as compared with industrial and commercial enterprises. A few men of broad vision have seen the conditions, but their comments or warnings have been largely ignored and as yet comparatively little has been done by the nation or by the States to remedy the basic difficulties.

"If there is one lesson of history that is unmistakable it is that national strength lies very near the soil."

About two-thirds of a century has passed since these words of wisdom were spoken by Daniel Webster, but it

was not till 1887 that the first appropriation was made by the Federal Government for the establishment of State experiment stations to conduct agricultural investigations; and thus far not one farmer in a hundred has ever been furnished any definite information as to what his soil contains, in what essential elements of fertility it is most deficient, or how such deficiency can be most economically supplied.

James J. Hill, himself a railroad man, recently made the following statement:

"The farm is the basis of all industry, but for many years this country has made the mistake of unduly assisting manufacture, commerce and other activities that center in cities, at the expense of the farm."

Even the money spent on the Panama Canal might far better have been devoted, at this time in our national history, to the investigation of American soils—to securing necessary information and to the demonstration of its practical application in profitable systems of permanent soil improvement, contrasted with the past and present systems of soil robbing, land ruin and farm abandonment.

This was not a matter of much immediate concern so long as rich, virgin, well-watered land was to be had from the Government free for the asking by any one desiring to farm it, but almost coincident with the end of the last century we came to the practical limit of our free Government land at once suited to agriculture. Thus the area of farm land in the United States more than doubled from 1870 to 1900, and the increase was 34 per cent. during the last ten years of that period; whereas from 1900 to 1910 the total increase in farm land acreage was only 4.8 per cent., contrasted with the continued increase of 21 per cent. in population for each decade.

The area of improved farm land (farmed land) increased during the last census decade by 63,953,263 acres, or by 15.4 per cent., but only 28,075,102 acres were used for increased area of crops, of which 10,589,707 were used for hay and forage, 7,768,737 for cotton, and 6,413,-

¹ Address before the American Bankers' Association, at Richmond, Virginia, October 15, 1914. (Doctor Hopkins is professor of soils and crops at the University of Illinois, Champaign, Illinois, but connected with the Southern Settlement and Development Organization during a leave of absence of one year.)

743 for cereal crops. Thus additional pasture land and fallow ground must represent more than half the total increase.

In this connection it should be noted that while the increase in acreage of all cereal crops was 3.5 per cent., the increase in production was only 1.7 per cent. from 1899 to 1909 (4,439,000,000 to 4,513,000,000 bushels²), and in spite of increased pasture, hay and forage, there was unquestionably a marked decrease in food-producing animals (cattle, sheep and swine) during the decade, the increase in horses evidently consuming the enlarged supply of hay and forage. (The census data show 193,000,000 head of cattle, sheep and swine in 1900 and 173,000,000 head in 1910, but the count was made for June 1, 1900, and for April 15, 1910, and consequently the results are not strictly comparable.)

There was a substantial increase of 11.7 per cent. in cotton production, but the acreage of cotton increased by 32 per cent. Even by five-year averages (1897-1901 and 1907-1911) cotton decreased in yield per acre during the decade.

In order to feed the increase of 16,000,000 people we were compelled to decrease our average annual exportations from 1900 to 1910 from 215,000,000 to 103,000,000 bushels of wheat, from 162,000,000 to 48,000,000 bushels of corn, and from about 2,500,000,000 to 1,500,000,000 pounds of meat. These figures represent five-year averages, 1898-1902 and 1908-1912, respectively, and these data indicate that we shall practically cease exporting meat about 1925, wheat about 1920, and corn about 1915. (Much corn has been imported during the last twelve months, for the first time in our history.)

From this mass of highly trustworthy data and the well-known increased cost of living, the people's representatives to whom is intrusted the guardianship of State and national welfare, both in public life and in the business world, may well ponder the words of a wise Chinese philosopher:

"Public prosperity is like a tree; agriculture is its roots; industry and commerce are its branches and leaves. If the root suffers, the leaves fall, the branches decay, and the tree dies."

But in striking contrast with this established philosophy, and in harmony with Mr. Hill's truthful statement, the annual appropriation from the Federal Government to the agricultural experiment stations in all the States aggregates less than one and one-half million dollars, while a bill for rivers and harbors may carry from fifteen to fifty million dollars. It should be kept in mind always that the revenue of the Federal Government is many times the aggregate revenue of all the States. In other words, the central Government is rich, while most State governments are relatively poor, practically all forms of indirect taxation and some very important direct taxation being controlled by the Federal Government.

As agriculture is the basis of industry and commerce, so the fertility of the soil is the fundamental support of every form of agriculture; and a greater localized knowledge of soil fertility is the greatest need of American agriculture.

A thorough and complete investigation of the soils in a county, or in a State, should include three lines of work:

²The fairness of this comparison has been questioned by a committee of the "Chamber of Commerce of the United States of America," representing some Boards of Trade in this country, on the ground that 1909 is alleged to have been a poor year for corn, which is a crop of such magnitude as to markedly influence the aggregate of all cereals; but the crop statistics of the United States Department of Agriculture show that the production of corn in 1909 was 33,000,000 bushels above the average for the nine years 1905 to 1913 (centered on 1909), while the production for 1899 was 3,000,000 bushels less than for the nine-year average 1895 to 1903, thus showing that 1909 was not a poor year for corn.

First—A detail soil survey showing the various kinds or types of soil with their location and boundary lines, even down to areas of five acres on every farm.

Second—The chemical analysis, or fertility content, of each kind of soil.

Third—The results in crop yields, from actual field trials, as to the effect of intelligent soil enrichment in rational economic systems of farming.

Without doubt the institution best qualified, from the standpoint of location, interest, and local responsibility, to make these soil investigations is the State Agricultural Experiment Station; and neither State or nation could make better use of the public revenues than by more adequate appropriation for such analyses and experiments; but because of its more liberal support there has been a strong tendency for the United States Department of Agriculture to try to do local State work, which could be far better accomplished by the State institutions, which are directly responsible for results to their home people.

It is a sound principle of economics that the closer the relationship between employer and employee the greater will be the efficiency and practical value of the service rendered. Thus local agricultural investigations and the local extension of agricultural information, like local instruction in schools and colleges, is best accomplished under local authority.

The wisdom of real statesmen is represented in the Acts of Congress known as the Morrill Bill, signed by President Lincoln in 1862, which provided for the establishment and partial support by Federal appropriation made under the second Morrill Bill and the Nelson amendment; the Hatch and Adams Acts, which establish and provide some support for the State Agricultural Experiment Stations; and the Lever Bill, which provides for the establishment and partial support of local Agricultural Extension Work, as the third leg of the complete tripod for the support and upbuilding of American agriculture in every State and in every county. But in striking contrast with this wise, comprehensive, and economically sound Congressional legislation is the attempt of some Federal bureaus of the Department of Agriculture to conduct local investigations and local extension or demonstration work, often without Congressional authorization, to the detriment of the State institutions, and sometimes to the discredit of the work and to the delay of the adoption of truly permanent scientific systems of agriculture.

Thus, during the last fifteen years the Bureau of Soils of the United States Department of Agriculture has made soil surveys with more or less detail in more than a thousand different counties and in all the States; but this vast accumulation of maps and reports from large expenditure of time, energy and money, is essentially unused and useless, so far as the farmer is concerned, because practically no information is given as to the abundance or deficiency of the different important elements of fertility or plant food, and local investigations are lacking as to the benefits to be derived in field practice from the addition of deficient elements or from liberating and utilizing those elements which the soil may contain in abundance or in inexhaustible supply.

To survey a man's farm, and later hand him a map and a report, informing him that he has two types of soil, one of which produces one-third bale of cotton, or twenty bushels of corn, while the other is better adapted to truck crops, is usually to tell him what he already knew; and yet this represents the essentials of a thousand published reports by the Federal Government on county soil surveys. Thus, the following is the summarized statement concerning the most extensive soil type in Covington County, Alabama, as given on page 35 of the report issued May 8, 1914:

"The Norfolk fine sandy loam is the most exten-

sive type. Only a small proportion of it is under cultivation. It is recognized as one of the strongest types of the series for corn and cotton. When well drained it is adapted to a wide range of crops, particularly the legumes, medium truck crops, and cigar wrapper tobacco. Land of this type may be purchased for \$10 to \$25 an acre."

The more detailed statement on pages 19 and 20 merely adds a description of the color, location and native vegetation (pine, dogwood, gallberry, broom sedge and wire grass), and states that "the Norfolk fine sandy loam has been derived from the weathering of the unconsolidated beds of sand and clay forming the Coastal Plains material."

No information is given as to the contents of this soil in the different elements essential to crop production; no culture experiments are reported; and no evidence furnished that any one knows how to change by economic means and practical methods the acre-production of this land from one-third bale to two bales of cotton or from twenty bushels to eighty bushels of corn, and the value from \$10 or \$20 to \$200 or more per acre.

The same mail brings a report of the soil survey of Boone County, Indiana, issued May 2, 1914, and in the discussion of the most extensive soil type in this county occurs the following statement (page 27):

"The average yield of wheat has declined during the last twenty years. Formerly returns of twenty-five to thirty bushels were frequently secured, but in recent years from fifteen to twenty bushels are more commonly reported."

But the farmer may read the entire report and still remain just as much in the dark as to what his soil contains in large or small amount, or how he may best restore the former higher productivity.

These reports and conditions are not here discussed with any thought of either endorsing or criticising the Federal soil surveys, but only to call attention to the fact that fifteen years' work and a thousand county soil reports must remain (as they are now commonly and rightly considered by the farmers themselves) of little or no value to American agriculture, unless the survey is supplemented by soil analyses and local field experiments.

A properly made soil analysis will reveal at once the total stock of each important element of fertility in the soil; but this information may well be supplemented by field experiments to ascertain and demonstrate the rate at which these plant-food elements can be liberated and to determine at what point or under what conditions, in rational farm practice, the farmer should begin the purchase and addition of any element of fertility.

To illustrate the possible value of soil analysis, I may state that one line of service which the Southern Settlement and Development Organization sometimes renders is to examine and pass judgment on tracts of land available for agricultural improvement either by the owners themselves or by those who may be encouraged to settle upon such lands. Soil analyses have been made in connection with the investigation of about fifty such projects, and among these fifty tracts the total phosphorus content of the plowed soil of an acre has been found to vary from 188 pounds to 1,534, the potassium from 882 pounds to 49,958 in the same weight of soil, the calcium from 402 pounds to 486,058 pounds per acre, the magnesium from 560 to 20,790 pounds, the nitrogen from 626 to 32,248 pounds, and the limestone from 5 tons below zero (measured by soil acidity) to a positive content of 600 tons per acre. Few men of common sense, and no thorough student of soil fertility, will question the practical value of such exact information as is thus afforded only by chemical analysis.

The analysis will often indicate very clearly whether the farmer's problem is to purchase plant food or to liberate it from an inexhaustible supply already existing

in his soil; whereas a field trial made with no knowledge of what the soil contains may give very misleading results; and such results followed in ignorance may lead to the waste of money and to the ultimate depletion of the soil. Thus caustic lime may produce increased yields for a time when applied to a soil already well supplied with lime but deficient in nitrogen and humus. The effect of the lime in such case upon the yield of a crop of corn is due not to the lime requirement of the corn crop, but to the fact that caustic lime has power to decompose organic matter and thus to liberate some nitrogen from the meager supply of humus still remaining in the soil. It was this use or misuse of lime which gave rise to the German proverb:

"Lime makes the fathers rich, but the children poor."

Where wheat was grown year after year on Broadbalk field on the famous Rothamsted Experiment Station in England, exactly the same increase was produced (5.6 bushels per acre), as an average of the first twenty-four years, whether sodium or potassium was applied. Such results leave one wholly ignorant as to the real needs of the soil. Sodium is not an element of plant food; it is not needed by plants, and its beneficial effect must have been due to its power to liberate from the soil some essential element or elements, such as phosphorus or potassium. Even the effect of the potassium applied in soluble form may be due in part at least to its power to liberate phosphorus. Chemical analysis shows about 1,000 pounds of phosphorus and 35,000 pounds of potassium in the plowed soil of an acre at Rothamsted, which reveals very plainly that in practical farming on that land the plan should include the liberation of potassium from this enormous supply already in the soil, while phosphorus may well be purchased for positive soil enrichment.

This is a question of especial interest at the present time, when the fertilizer manufacturers find it impossible to secure potash from Germany, and when all are beginning to realize that millions of dollars have been needlessly expended by them in the past, and added millions wasted by farmers, for the application of potassium to soils already containing an inexhaustible supply of that element, requiring only liberal use of ground limestone and decaying vegetable matter for its liberation. This statement applies not to the sand soils of the Coastal Plain, or to the muck soils of some Northern States and of Florida, which are positively deficient in potassium, but to the great agricultural soils of the United States, which normally contain truly inexhaustible supplies of that element.

On the other hand, largely because of lack of local knowledge, we have been trying to commit agricultural suicide by exporting millions of tons of our highest grade phosphate rock, thus carrying away the element of fertility which is most deficient in the American farm soils, and which most limits the crop yields in rational farm systems. Intelligent and profitable applications of Southern phosphates and Northern limestones, with liberal use of legume crops thus made possible, will check the agricultural suicide of New England and the North Atlantic States, and transform a system of gradual soil depletion into one of positive and permanent soil enrichment in the great corn and wheat States from Maryland to Minnesota.

For immediate results in one crop on soils deficient in decaying vegetable matter, the phosphorus should be applied in readily available form, such as acid phosphate; but in rational systems of permanent soil improvement where the nitrogen required for crop production is provided by liberal use of clover or other legumes, plowed under as green manures or in farm manures, finely ground natural rock phosphate may produce even more profitable and more lasting benefits.

The phosphate producers of Florida who have been

robbing our own American children of a rightful inheritance by exporting this product, should immediately establish adequate grinding plants either at the mines or at the Northern ports, and proceed to develop in the Northeastern States a larger and more permanent market for their raw product than they have ever had in foreign countries; and they ought not to be dissuaded from this much-needed economic and patriotic enterprise by those who use \$8 worth of raw phosphate in the manufacture of so-called "complete" fertilizers that sell for \$80. Without question the more readily available highly manufactured "complete" fertilizers can be used with profit in the production of crops of high acre-value, such as truck crops, tobacco, and to a large extent for cotton; but that they cannot be used economically for the restoration or maintenance of fertility in general farming with the staple grain and grass crops is conclusively proven by many long-continued investigations and abundantly witnessed by the agricultural abandonment of 10,000,000 acres of "improved farm land" in States where the commercial fertilizer interests have completely covered and "worked" the territory for many years.

If time permitted I could present the details of all trustworthy field investigations, but any one can easily verify the statement that phosphorus commonly pays back two to three times its cost, while money spent for commercial nitrogen or potassium on normal soils is rarely recovered in full from increased yields of corn, oats, wheat, and hay. Thus, as an average of results from twenty-four years of actual field trials at State College, Pennsylvania, including four trials every year with each of these four different crops, every dollar invested in phosphorus paid back \$2.94 in increased produce at safe, conservative prices, while neither nitrogen nor potassium paid back their cost. Equally convincing results were secured from trials covering twenty years at Wooster, Ohio; while, as an average of twelve years' work by the Ohio Experiment Station at Strongsville, for each dollar invested phosphorus paid back \$6.60, nitrogen 22 cents, and potash only 12 cents, at conservative prices for the value of produce in the field.

As a general average of investigations with fine-ground raw rock phosphate, covering twelve years in Maryland, nine years (with field crops) in Rhode Island, twelve years in Pennsylvania, fifteen years in Ohio, four years in Indiana, and five years in Illinois, for each dollar invested in phosphate, \$6.31 was returned in the increased farm produce.

Every honest man who is familiar with the details of American agriculture must agree that as commonly practiced general farming is not a highly remunerative business, but the fact is just as clearly established that the intelligent improvement of the fertility of land in cultivation offers both the safest and the most profitable investment now open in this country. But to make such investments intelligently and safely requires the definite information to be secured by soil investigations.

In conclusion, permit me to state and to emphasize by illustration that it would be very unwise to depend solely upon chemical analysis in passing judgment on the value of land. The physical characteristics as well as the chemical must be considered, including especially the texture and structure of the top soil and sub-soil, the topography and altitude with respect to possible erosion, inundation and drainage, and the relative stability of the soil after drainage as influenced by possible settling or burning.

Muck or peat soils, for example, are subject to settling and burning after drainage has been provided. Thus systems of drainage which would prove adequate for areas of ordinary soils have been found altogether insufficient or entirely useless for deep muck soils. Even skilled drainage engineers have at times erred greatly in providing drainage systems for such lands, notably in

certain sections of the North Central States, owing to the settling of the muck as the water table is lowered.

In the typical Everglades of Florida, the muck has an average depth of more than five feet, and over vast areas the depth exceeds ten feet. The water table is now most commonly at the surface; thus, in reference to the existing drainage canals through the 'Glades, the recent report of the Everglades Engineering Commission states that "these canals have been practically 'bank full' ever since they were opened."

To a greater or less extent, the muck is suspended in water, and if the water table is lowered by three feet, the surface of the muck would likewise settle three feet, either immediately or ultimately. This applies, as stated, to the typical condition of the Everglades proper, not so specifically to the areas of shallow muck bordering on the Everglades, or to the region of more compact muck surrounding Lake Okeechobee.

The State of Florida may well investigate the extent to which muck may settle before adopting the drainage scheme proposed in the recent report of the Florida Everglades Engineering Commission, printed as United States Senate Document No. 379, by order dated January 29, 1914, and suggesting the expenditure of more than twenty millions of dollars in order to lower "the water surface three feet below present ground surface," which relates to the water in the canals from three to ten miles apart. The settling or subsidence of the muck beneath and above the surface of the water by compression and by decay and tramping under cultivation is not taken into account in this report, by drainage engineers, but only the immediate shrinkage by partial drying of the three feet of muck to be theoretically exposed above the water. Thus the following statement appears on page 63 of the report:

"The final plans herein presented are based on the assumption that the upper foot of muck will shrink vertically 7.8 inches, while the remainder of the column down to the water table will shrink not at all."

In contrast the following statement is quoted from page 23 of Bulletin No. 71 of the United States Department of Agriculture: "The Wet Lands of Southern Louisiana and Their Drainage," issued April 30, 1914:

"Originally the muck was about three feet deep, although at present, after twelve years of cultivation and decay, it is well compacted and has subsided or shrunk until it now averages two and one-half feet lower than it originally was."

If in actual experience three feet of muck is reduced to six inches where it rests on solid earth, what might be the subsidence where the muck is from five to ten or twelve feet in depth and partly suspended in water?

Florida should not be permitted to waste twenty-two million dollars of the people's money, in addition to the three millions already wasted, in another ineffectual attempt to drain the Everglades, not even upon the advice of prominent men noted now both for their engineering knowledge and agricultural ignorance.

These facts are cited merely as a present pressing and important illustration of the possible waste or unwise use of money in the name of agriculture but with little or no resulting benefit. I call your attention to this particular project because both the American Bankers' Association, which you represent, and the Southern Settlement and Development Organization, which I represent, have large responsibilities to the American public, and before this enterprise is pushed forward, we should urge that the Florida Experiment Station, the people's own institution, should investigate the agricultural questions involved in the drainage of the Everglades. But as a closing word, I must remind the Florida bankers that your State makes no appropriation whatever to your State Agricultural Experiment Station, and I may well call to the attention of this National Association the fact that under the legislation thus far provided, of the three

legs of the tripod established for the support of permanent agriculture, investigation is by far the weakest. In other words, the greatest need of the teacher of agriculture, and the greatest need of the agricultural adviser or demonstration agent, is for more complete, definite, local agricultural information; and I would urge upon you the importance of securing adequate support for your State Agricultural Experiment Stations, particularly for the specific purpose of investigations in soil fertility, the support of agriculture—the basis of industry.

If asked how best to provide Federal funds for the support of agricultural investigations, the answer is:

Stop building national warships and coast defences and unite the national navies of the world into an international or world navy, to be controlled by a representative international commission or congress, and thus maintain world peace with world power; for not until the dawn of the millennium can we hope for permanent peace from

sentiment and treaty. The union of all navies at the close of the present war into one international naval power for the preservation of permanent international peace should be less difficult of achievement than was the union of the States into the United States at a time when battles were sometimes fought a month after peace was declared. Surely nations may trust for justice to the wisdom and fairness of such a representative international congress, just as our States must trust our national Congress; and such a project should hasten the termination of the international war.

When we take down our coast defences and cease building warships for destruction, then the income tax at least could well be divided between the Federal Department of Agriculture, for the investigation and control of such interstate and national interests as pure foods and animal diseases, and the State Agricultural Experiment Stations, for the investigation of soils and other local agricultural problems.

Educating the Producer.

By J. D. EGGLESTON, President of the Virginia Polytechnic Institute, Blacksburg, Va.

Danton once said that "after bread, education is the greatest need of a nation." We live to-day in an era when the order is reversed; when we must depend upon education to show us how to produce sufficient bread for our needs.

That the nation is realizing this stern fact is shown by the interest awakened in every effort to educate the adult and the youth of the rural community in terms of efficient agricultural production. It is shown by the constantly increasing efforts of the agricultural colleges to reach more farmers, and to show them how to increase their output. It is shown by National aid given to agricultural education. It is shown by the widespread movement to organize the boys and girls into corn and garden clubs, pig and poultry clubs, sewing, cooking and manual training clubs, and into other groups that tend to relate the children's education to their present and future economic and social life. It is this tendency that is resulting in agricultural high schools of various kinds.

Before discussing in detail the opportunities for educating the producer, I desire to discuss briefly the question, why we educate and what education is. I refer, of course, to public education, because thirty-nine out of every forty boys receive their education through public channels. The State assumes the right to educate children and youth, and assumes the right to tax property for that purpose, on the sole ground that education diffuses intelligence and increases morality; that an intelligent and stable people will make a State in which liberty will be safeguarded, the laws respected, and right conduct encouraged; that no State can survive where ignorance makes and administers the laws; that life, liberty, and the pursuit of happiness can be enjoyed only among an intelligent people; that education makes for right conduct in all the affairs of life, and that right conduct, which is righteousness, exalteth the State. To sum it up in a sentence, the State assumes the right of educating its people on the sole ground that education makes for good citizenship.

I believe that we have almost entirely forgotten, and that therefore we need to keep before us constantly, the fact that the only legitimate function of education is the production of efficient citizens. Now, good citizenship comprises three qualifications:

A desire to serve the State or community; a trained

capacity to serve the State or community; and health of body as a basis to uphold the desire and the capacity.

What, then, are the real "fundamentals" in education? Are they merely the three "R's" that children are required to learn? No; the fundamentals are a healthy body, a trained capacity to live and make a living normally, and an unselfish outlook on life; and yet year in and year out the educators of the country, with the assent of the parents, force the children to go to school and acquire arithmetic and adenoids; history and book-worm; algebra and astigmatism; cube-root and consumption; Cæsar and spinal curvature; and then ninety-seven out of every one hundred of them go forth into life unable to apply their so-called education to the immediate problem of making a living—a problem that immediately confronts that number.

Now, what doth it profit a State if the children gain the whole world of knowledge and are unable to apply it? what doth it profit a State if the children gain the whole world of knowledge and have not the soul of good citizenship? what doth it profit a State if the children gain the whole world of knowledge and have not good health?

It happens that the three "R's" (or reading, writing and arithmetic) are essential, but they are essential only as contributing to the capacity of the individual to serve the State or community while making a living normally. And to place them in the position of being fundamentals in education takes the emphasis away from efficient citizenship, and, in fact, tends to lose sight entirely of the question of citizenship. I am convinced that the chief reason for the formalism and lack of vitality in the course of study in the public schools—the chief reason why the course of study is so little related to everyday life—is because we have lost sight of the real function of public education.

Why, it is only our own narrow and even stupid outlook that makes us confine education and the educative processes to the schoolroom, and to children while in the schoolroom. It cannot be too often or too emphatically said that education—if it be worth anything—is not a matter of childhood for childhood, beginning with childhood and ending with childhood, but is a matter of life for life, beginning with life and ending with life. The educative process, if it is good at all, is just as good out of the schoolhouse as in it, and if it cannot be applied

to better living out of the schoolhouse, it is worse than worthless. Education is education, whether in a schoolhouse, in a schoolyard, in the home, in the garden, out on the farm, in the factory, or anywhere else.

The very corner-stone upon which our educational system rests is this: That if anything is worth doing, it is worth doing well, and that whether it be work or play; whether it be plowing a row of corn or reading Greek; whether it be planting potatoes in the earth or preaching righteousness to human hearts; whether it be painting a picture or painting a house; whether it be digging a ditch or performing an operation in surgery, it is best done when he who does it has been trained to do it with efficiency, and with a passion to do it better than it has ever been done before.

If, then, the function of education is to turn out, from the raw material of childhood, a product in terms of efficient citizenship, we must all confess that our schools are the only manufacturing plants in the world that make practically no surveys of their communities before the erection of the plants, and that, for that matter, the school as a manufacturing plant does not, as a rule, make any survey of its community even after it has been erected. Professing to cure a condition, it does not begin by diagnosing that condition.

I may say in passing that education will not become with us a serious matter until we pay teachers sufficient wages, and make them sufficiently comfortable to remain in their respective communities until they become, in every sense of the word, a vital part of the life of the community. There is absolutely no hope of educating the producer, or the consumer, or anybody else in our rural schools as long as the rural school teachers continue to be, as they are now, a migratory flock. Very few of them hold their positions long enough to become acquainted with their communities, or to exert any lastingly beneficial influence upon them.

The average length of service of the school teacher in the United States, in one-room and two-room schools, in any given community, is one and four-ninths years, or 233 school days. With the low salaries, and with absolutely no provision made for housing the teachers, it is no wonder that they move along every year or two. In Switzerland, where they make education a serious thing, the teachers often stay throughout their entire lifetime in one community. They are given homes in which to live, with a garden attached, and they expect, and are expected, to settle down either for their whole lifetime, or for a goodly part of it, in the community where they first begin to teach.

And now, to get down to our subject, what is the best way to educate the producer, so far as the rural districts are concerned?

Since 1905 there has been a determined effort made in the South to hitch up education with life by educating the producers on the farm to increase largely their yield per acre, and to interest the boys and girls by training them to produce a much larger yield on the farms and in the gardens than their fathers and mothers have produced. This has been done through what is known as the co-operative demonstration work, with which all of you are familiar in a general way, and with which some of you are familiar in intimate contact. This method was first suggested by Dr. Seaman A. Knapp, and was financed by the General Education Board of New York City, and through the United States Department of Agriculture, in co-operation with the States and counties.

The method of demonstration work is this:

To send to the farmer, on his farm, a man who will tell him how he may, on his own farm, for his own profit and by his own labor, make a greater yield. This method, both because it has been new and because of its very simplicity, has been misunderstood in some instances, and has been treated either with indifference

or with positive opposition. It has been regarded, in some quarters, as trying to usurp the prerogatives of agricultural colleges, experiment stations, agricultural high schools, institute trains and short courses in agriculture.

But it has been found out by actual count that only one farmer in two hundred ever attends an agricultural meeting of any kind; that the number of adult farmers who go to an agricultural college is infinitesimal; that notwithstanding the good work done by experiment station bulletins, institute trains and other worthy efforts, only a very few of the farmers are reached in comparison with the vast number that are not reached; and that even a considerable number of those who do attend institute lectures and read bulletins, do not follow out the suggestions made to them. These are the reasons for the method of attempting to show the farmer on his own farm exactly what to do to improve his methods.

The thing had been done thousands of times in a private manner. When Neighbor Brown, having "learned a thing or two," told Neighbor Jones that his way of working corn wouldn't bring the best crop there was quite a discussion. But finally, when Brown's crop beat Jones's, the latter began to think. The next year Jones asked Brown a good many questions, and concluded to try Brown's plan. But habit was strong in Jones—habits in farmers are as hard and strong as their muscles—and in several little particulars Jones varied from Brown's directions, forgetting that it is the little foxes that spoil the vines. And the crop didn't "pan out." Jones "knew that thing was all nonsense, anyhow;" he "had heard that college feller talk that way at a farmer's institute," but had forgotten what he said before he reached home. But when Brown went over and looked at the crop, he put his finger on the "little particulars" in which Jones had followed habit instead of following directions. Jones wondered how Brown knew. Next year Brown went over at Jones's invitation and showed Jones how to plow. Jones thought up to that time that anybody could plow. Brown made Jones go over that ground with harrow and drag until the latter swore the whole six acres would blow away the first time a stiff wind came along. Then Brown looked at Jones's corn ready for planting. "This corn won't do for planting," said Brown. Jones thought Brown must be crazy, but he only asked, "Why?" "It's rat-eaten," said Brown, "and it is not prolific, anyway." And Brown explained, "Don't you know there are 'runty pigs' and 'blooded seed' as well as 'runty pigs' and 'blooded pigs'?"

Brown went to the corn house with Jones and picked out the best corn he could find. And as the crop progressed, Brown made Jones go over the crop and keep the land finely mulched. Jones had his doubts still, but as anxious as he was to say, "I told you so," his pocket nerve had twinges that made him prefer a stiff crop to a stiff pride. Jones made twice the crop that year. Having found out that a thirst for good crop meant a thirst for knowledge, Jones soon discovered that what he thought was worn-out land on his farm was really worn-out ideas in his head. So he made Brown come over and show him on each crop until he got the "hang" of it; and that is demonstration work!

Now, the co-operative demonstration work is simply an effort of the State and National Government to do on a large scale what Brown incidentally did for Jones. Started on one farm in Mississippi in 1906, this work has grown to such proportions that Congress has just passed the Smith-Lever Act giving money from the National Treasury for this purpose, and it is now a National movement.

As this co-operative demonstration work has just begun under the Smith-Lever Act in the North and West, it is not possible yet to speak in detail of the propor-

tions it is already assuming. The Department of Agriculture at Washington writes me that there is now in the North and West an enrollment of over 110,000 boys and girls in the corn, garden, canning, potato, poultry and other clubs. The work is growing rapidly in the North and West, and will in a few years assume enormous proportions. In fact, demonstration work on what is known as the "project plan" in these sections of our common country has been carried on by many individual States for several years. In California, for instance, the garden clubs appear to have reached very large proportions, and to be very successful. Massachusetts has about 33,000 boys and girls in the demonstration clubs; Utah has over 18,000, and Oregon has over 11,000. The figures will be out of date to-morrow, so rapidly is this work growing.

As this work has been conducted on a definite plan in the South since 1906, it is possible to speak in more detail about it, and I may be pardoned, therefore, for referring to it in this way.

Exclusive of the Washington office and clerical force, there are nearly 1,200 men and women in the South acting as demonstration agents. These are engaged in adult and boys club work, and in girls canning and poultry work, and in home economics for women. The total number of adult farmers using demonstration methods was last year a little over 102,000. The enrollment in the club work for the boys was over 40,000, and for the girls over 28,000. Each year has seen the quality of the agency force improving. The truth is, the demonstration agent in a county has to know nearly everything that is to be known, and although he is everywhere encouraging the growth of grasses, he cannot let any grass grow under his feet! Most of you have read in the papers the phenomenal yields of corn per acre raised by the corn club boys in the South. You have heard of Jerry Moore, of South Carolina, who raised 228 bushels on his acre. Last year young Dunson, of Alabama, raised 232½ bushels on his acre, at a cost of a fraction under 20 cents per bushel. Young Polk, of Mississippi, raised 215 bushels at a cost of 21½ cents per bushel, and there were phenomenal yields made in each of the other Southern States.

These yields, however, do not tell the whole story, because the boys in the corn clubs, as well as adult farmers, are taught how to enrich the soil and not to mine or skin it while producing this larger yield; and they are taught to follow the crop with grass, so that while getting good crops the soil is built up from year to year.

If I may be pardoned for mentioning my own State, I may say that in 1913-14 Henry Oder, of Appomattox County, made over 154 bushels of corn on his acre at a cost of 24 cents per bushel. Ten boys in Augusta made between 100 and 144 bushels, while 68 boys in this State made over 100, at an average cost of 24 2-5 cents per bushel.

We have for fifty years been thinking of Appomattox County as the place where Lee had to surrender after his army had worn itself out whipping the bluecoats, but now we have a fourteen-year-old boy making 154 bushels of corn on an acre in that county, and we have at Appomattox Court House an agricultural school with a large boys' corn club in it and 400 pupils. Truly, peace hath its victories no less renowned than war!

The girls' garden work is done mainly through women demonstration agents. Each girl takes one-tenth of an acre, and is trained to get the highest possible production out of it. Portable canning outfits, convenient in size, are provided, varying in price from \$6.50 to \$12. The canning is done under the direction of the agent and in the most thorough and up-to-date manner. The goods rank very high on the market. Thus far there has been little trouble in disposing of the canned product.

Some girls have made enough money to send them-

selves to the Normal schools. One girl, on one-tenth of an acre, at a cost of \$41.10, counting cost of materials and counting her own labor at 10 cents an hour, put up 950 cans of tomatoes besides furnishing to the home \$21.50 worth of raw tomatoes and selling \$2.50 worth. After selling the canned tomatoes her net profit was over \$60 on her one-tenth of an acre. Another girl put up 1,008 cans at a cost of \$33.07, sold the output for \$110.80, making a net profit of \$77.73.

In one State a club of 37 girls averaged \$25.42 net. In another State a club of 19 girls averaged \$17.60 net.

One farmer advised his little daughter not to stake up her tomatoes, as he had always gotten a good crop without it. The woman agent advised otherwise. The little girl took the advice of the agent and raised on the same area three times as many as her father. Another little girl said: "I enrolled as a club member because I wanted to do something by myself and have some money of my own."

Only a few years ago the large body of Southern farmers thought it impossible to raise mixed grasses in the South. In 1912 15,000 acres in mixed grasses were cultivated under demonstration methods in Virginia alone, in 1913 40,000 acres. Some of these plots have yielded 3½ tons to the acre straight through the crop.

We hope in a few years to have Virginia selling hay instead of buying it from outside.

Here is what one seedsman in one county says about the increased acreage in grass and clover seed:

"Judging from our sale of grass and clover seed this past year, I should say there is a gain of over 200 per cent. over 1912. The acreage in crimson clover alone is five times as great, for we have sold in our county alone 2,000 bushels of crimson clover seed."

In 1912, under demonstration methods, there were 2,000 acres put in alfalfa, of which 90 per cent. gave first-class results. In 1913 the acreage was exactly double, being 4,000 acres.

And so I might continue on indefinitely. The farmers and the boys are being taught the importance of seed selection, the importance of clover crops, the importance of good drainage, and we now have two men giving their whole time to answering the calls of farmers who wish to have surveys made showing them how to drain their lands.

The demonstration agents are taught to use the Babcock tester, and have taken these around with them and instruct the farmers, so they may learn the difference between the cow whose feed goes to milk and cream and the cow whose feed goes to horns and head. In one instance a farmer who wished to buy a good cow was undecided which of two cows to buy, as one looked as good as the other. The demonstration agent came along and showed the farmer how to test the milk with the Babcock tester. He found that one cow was giving 12½ pounds of butter, and the other 4½ pounds per week. One illustration of this kind to a farmer is worth a dozen lectures and a ton of bulletins.

In 1913, under the influence of demonstration agents, hundreds of pure-bred sires were brought into the South. Here in Virginia 227 farmers were induced to start the raising of hogs by rotation of crops. This rotation takes nothing from the soil but phosphorus and adds a great deal of humus. The hogs harvest the crops and the farmer harvests the hogs. W. S. Forbes & Co., of this city, large packers, offer to take every pound of hog meat at Chicago prices, plus the freight.

A wonderful stride is being made in the South in the purchase of up-to-date machinery.

It is almost as true of the boys and girls as it is of the farmers and their wives that the great majority of them cannot attend an agricultural college or school in order to be educated as producers, and even where the boys and girls do attend graded and high schools, the course of study is not fitted to the needs of the every-

day life which the boys and girls are to lead, or ought to lead.

My friends, the day is already at hand when the rural school must control the food supply of this nation. The child should get, at the school and through the school, everything that he needs for his normal growth as a citizen. A purely academic course of study—the kind we now have—causes the school to become an active emigration bureau, and either depopulates the community or at least keeps it at a stagnant standstill. The value of a theory is in its application. Likewise the value of an education.

The Committee of Twelve of the National Education Association, appointed to investigate the subject of industrial arts in the rural schools several years ago, solemnly reported that in their opinion industrial arts could not be taught in rural schools, owing to a lack of equipment and materials, to lack of money with which to purchase same and to lack of trained teachers. This solemn report of some of our leading educators deserves a place with the solemn report which was once made on the utter impossibility of getting a boat across the Atlantic Ocean by steam power, and which said report was carried across the Atlantic by the first steamboat that ever crossed over from the United States to England.

It has been demonstrated in many, many places in our common country that industrial arts or practical industrial training for rural children can be taught in the small rural schools as well as in the big ones. If we are to wait for elaborate equipment, for a full school treasury and for teachers already trained for this purpose we will wait until Gabriel blows his trumpet. I undertake to say that there is not in the South a community so poor and so backward that practical industrial training cannot be introduced in the schools, and successfully conducted, and that this practical industrial training will include sewing, cooking and gardening for girls and manual training and gardening and farm work for boys. As has been said by one of the most successful teachers of industrial arts in two of our most rural counties, "The secret of success lies in using the materials at hand, and instead of waiting for a perfectly equipped artificial laboratory, to learn to use Nature's laboratory found on every hand. Teach pupils how to accomplish much with little, to make what they have take the place of what they have not, to use native resources; for this is our great lesson in national economy."

I know of two very rural counties where a teacher began work in five one-room and two-room schools, equipping each of them at an expense of \$12 for the cooking utensils and \$5 for the tools for the boys. The boys used the tools to make cupboards, tables and shelves for the workroom which was built by the community. The girls made muslin curtains for the cupboards; the cupboards were made from ordinary boxes. The girls made napkins for the tables by hemstitching sugar bags, saved at home. The pupils bring the supplies for the kitchen larder from home and cook potatoes, rice, soup, eggs, coffee, breads and cakes. The cooking class serves something hot for lunch every school day. The girls and boys learn how to set the table, how to serve a meal and how to eat a meal—much neglected factors in educating our children.

By studying the distribution of foodstuffs, the sources of textiles, the measurements necessary for making garments, the relative quantities of materials needed for cooking, the children learn the geography, arithmetic, spelling, writing, reading and language of the everyday life, instead of learning these things as subjects related to an artificial life.

How is this started? Simply by having a teacher who knows how and who goes from school to school and shows the teacher and children in each school how to

do these things, and in this way develops in the teacher and in some of the pupils the capacity to lead, so that before long the visits of the industrial teacher become less and less frequent.

The boys go into the woods, select wood, cut and prepare it for use. They have made farm rakes, axe handles, tables, bookshelves, tabourets, umbrella stands, hatchet handles, picture frames, hall trees, etc. As this industrial teacher says: "These country boys may not turn out as many articles, or as well-made ones, as the more regularly conducted classes of the city schools with elaborate equipment, but we are aiming to make men; not furniture.

In the schools in these counties this teacher has shown the teachers and children how to make nice mats and baskets out of the wild honeysuckle that grows profusely along the roadways, and how to make baskets out of pine needles and corn shucks and the ordinary willow. One of the prettiest sights in one of these counties was that recently seen of a group of twelve happy children making baskets under the trees at the school, while another group of the older girls were in the workroom cooking and sewing, and the larger boys were in another part of the school yard making a fireless cooker and a seed tester. Every child busy doing something purposeful, and therefore every child happy and keeping good order, even if they were laughing and talking. This is education. This is making efficient citizenship. This is the function and the sole function of the public school; and out of all this work, and out of the boys' corn club work and the girls' garden work can be gotten, and should be gotten, and, I am glad to say, in schools like these I have just described, are gotten the very best kind of lessons in language, writing, reading, spelling, geography, arithmetic, geometry and botany, as well as lessons in industry, in keen observation, in judgment, in patience, in will-power, in that purposeful work which goes to mold into efficient citizenship the boy-power and the girl-power now going to waste in most of our country communities—in that purposeful work which spells character—the only thing on God's earth that is worth living for, the only thing on earth worth dying for, and the only thing we can and must carry into the presence of that great Maker whom all of us are to meet.

Gentlemen, I ask you in all seriousness, why is it that such work as this is frowned upon by so many of our educators? Why is it that the patrons of the schools, or at least the leading ones of our communities, do not rise up and demand that much of the dead stuff the children are now required to learn at school be cut out of the course of study and courses of study be inaugurated which, while they give the very best mental and moral training, can at the same time be applied immediately to making a living in the everyday life of the everyday community in which the average everyday child, when he grows up, is to live either as a poor citizen or as a good citizen?

If I had the time I could mention many, many instances just like the one I have mentioned about the two very rural counties. At present this work is being done only in spots; it should be universally done. And one of the best things about it is that it takes more effort than it does money; it is a matter not so much of finance as of attitude. It does not need an elaborate equipment, but it does need a consecrated purpose and a profound belief that such work is education of the very best sort—the sort that makes good citizens.

And demonstration work of this kind, linked up with the public schools and made a vital part of the course of study and of the school programme, is not only the very best of education, but it can start at nowhere with nothing and get somewhere with something. Yes, the best thing about it is that it is a method by which it can reach the very poorest adult, or boy, or girl in the community. It does not require on the part of the adult

farmer, or of the boy or girl, any elaborate equipment, any impossible sum of money. It requires nothing in the world but a little piece of land for farm or garden work, and not even that much for the indoor work. Manual training can be started with a boy, a broom-handle and a knife. And it is a fact that when we find a method by which the very poorest and most needy person in a community can improve himself or herself, that method can reach equally well every other citizen in the community, rich or poor. The demonstration method comes nearer than anything else I know to enabling men and women, boys and girls to lift themselves by their own boot-straps.

Schools such as I have described are almost universal in Denmark and in Switzerland. Why, if as many as six people, young or old, in Switzerland, in some of their cantons, apply to the school authorities for some one to teach them how they may learn more about their particular work, a practical teacher is provided. They take a very common-sense view that whatever training will cause those in a community, in any line of industry, to turn out a better product, makes for better citizenship, and so they provide teachers for such purposes. That country, therefore, is one in which the citizens are almost universally efficient, in which the citizens are law-abiding and are much above the average as producers; in which no work that is honest is looked down upon unless it be unworthily or inefficiently done.

The same may be said of Denmark, which by educating the producer rose from utter prostration to become one of the wealthiest countries in the world; and she has done it through her schools. Denmark laughs at the United States and at our boastfulness. She has long since gone over from the sale of cereals to the production of butter, eggs, bacon, meat, etc. She has ceased to sell raw materials, and is rich because she sells the finished product. In thirty years, solely by educating the producer, the value of live stock in that little country has been increased by \$50,000,000, and this does not count the enormously increased value of farm buildings, of up-to-date machinery, or the value of the 1,200 dairies and the co-operative bacon factories that have been erected by the farmers. Thirty-four years ago Denmark exported horses, cattle, butter, eggs and meat to the value of \$19,000,000 a year; to-day \$126,000,000 a year. The people of Denmark are perfectly content, and, in fact, glad to continue buying corn from the United States to feed their stock, so long as they can continue selling butter, bacon, eggs and other specialties to this and other countries. The State of Virginia, my friends, is nearly three times as large as Denmark. How long will we be content in the United States with a school system that is almost universally bookish; that takes its course of study from medieval tradition; that in large measure serves to wean our young people away from the soil?

I have not time to consider the education of the so-called consumer as differentiated from the actual producer. The truth is, everybody is a consumer, and everybody should be a producer of something that is useful, because desired or needed by some one else. The same principle of education, however, should be made applicable everywhere. Suppose we call the man who works on the land a producer, and the man who works in a factory or in a mercantile establishment a consumer. The same principles of education—not the same education, as now—should apply to both. At present we are applying the same education, not the same principles of education. The man who works in the factory or in the shops should have an education that is adapted to his needs as an artisan.

We might take almost any city in the United States as an illustration. It is probably true that at least 98 per cent. of the people of our cities have to work for their living, and that 98 per cent. of their children will have to

do likewise; and yet the course of study is of an academic sort that has not had in view these facts. There should be in our cities, as well as in every town and every community, systems of schools by means of which the children, the young men and women, and the old men and women, if they desire it, may not only learn to read and write and figure, as now, but may also learn to improve and perfect themselves in whatever line of work they may choose, or have already chosen, for making a living. I say to you men who deal in money that while it will cost more in the gross amount to have a school system of this kind, it will not cost anything like so much as is generally believed; and, I say to you further, and without fear of intelligent contradiction, that the efficiency of our citizenship in production in every line will become so much greater that with each succeeding year it will be easier to appropriate increasing amounts for such education. It has been proven mathematically that where the greatest amounts have been spent in educating the producer, the average productive capacity of such producer is in exactly the same ratio greater than where this is not done. Who questions the cost if the product pays a good interest on that cost? Here we are not dealing in uncertain futures, but in futures that are as certain in their returns as anything can be.

I have not prepared this speech simply to try to entertain this distinguished body of men for a short hour. I am endeavoring as best I may, with all the earnestness that I possess, to get the bankers of America behind this matter of educating the producer; behind this matter of insisting that our public school system shall be made to adapt itself to the needs of each individual community, whatever those needs may be; to insist on a saner training; to determine that in every community bankers' associations will encourage our demonstration work in its application to men and women, boys and girls.

The agricultural and mechanical colleges should determine that a very large percentage of our boys and girls in country districts, villages, towns and cities will be enrolled in clubs that will give an outlet to their energies, put a purpose in their hearts and cause them to become capable of independent living by efficient production on the land. There should be organized in the various country communities "Pure Bred Sire Leagues," in order that live stock of every kind may be bred up. God never made a country that could prosper permanently without live stock. That fact should be preached from every platform.

It should be the purpose of the agricultural college through demonstration methods to give practical advice and instruction and help to every man and woman, boy and girl in their States who make a living on or out of the land. We ask your aid, your sympathy and your co-operation.

Especially at this time, when we are on the verge of rural credit banks of one form or another, your Association can be of the greatest assistance. The farmer needs guidance. If he gets the opportunity to borrow on easy terms so as to continue elbow-farming instead of brain-farming, the banks will be a curse to him and not a blessing. If he wishes to borrow money, his borrowed capital should be expended intelligently in order to produce capital, interest and surplus. By co-operating with the demonstration and extension work which is now in the hands of the agricultural colleges, your Association can cause our farming communities to blossom like the rose. Your returns in helping to educate the producer will be enormous. No other single force can wield a greater power for good—for economic prosperity—than your Association.

One other thing and I am done

The kind of education for which I plead is, in my judgment, fundamental, but let me bring to your attention another thing that is intimately and irrevocably

connected with the education of the producer: The training of Johnny and his father, and of Mary and her mother, to double or quadruple production on the farm and in the garden, will be of little benefit to them if they are to be the victims of exploitation by the land speculator, whose sole purpose in holding land is to make money out of the labors and the increased efficiency of Johnny and his father, and of Mary and her mother.

There is not a State in the Union, so far as I know, that protects Johnny and Mary and their parents from exploitation by land owners who are not land users, and there is not a State in the Union that does not tax the industry of these parents and their children instead of taxing the land so as to force it into use.

In the last analysis the man who owns the land, owns the man on the land. Land area is not increasing, but population is increasing very rapidly, and what will it profit a State, or what will it profit Johnny and Mary, to train them to get more products from an acre of their own if they are to be fined for every new evidence of their industry and efficiency? What will it profit them to get more products from an acre of which they are not the owners, if the owner of that acre at once raises the price or the rent so as to realize a fat interest on Johnny's and Mary's efficiency?

On account of the fact that land area is not increasing, and that the population is increasing, this question is becoming acute. It has more to do to-day with the increased cost of living than any other one thing.

There are tens of thousands of Johnnies and Marys in this country who desire to make a living out of the land. They are being taught by demonstration methods how to double and quadruple the present yield. They will seek—they are already seeking—land on which to make a living by their increased efficiency; but most of these tens of thousands of Johnnies and Marys do not own any land, and Uncle Sam has no more to give them. How are they to get it? Notwithstanding the fact that there are tens of millions of acres of good arable land in this country that are not used, the price of land is

increasing at a rate that is alarming. We have, then, tens of millions of acres of unused land without tillers, and tens of thousands of would-be tillers without land. These acres are held off the market until the man with the price comes along.

It is getting increasingly difficult, my business friends, to explain to Johnny and Mary why the man who uses the land is heavily taxed on his industry, in the shape of horses, cows, hogs, barns, farm machinery, residence, etc., while the man who owns land, but does not use it, is lightly taxed on his idleness.

America has been called the land of opportunities. There is no opportunity except in land, and this has been the land of opportunity only because in the past it has given every seeker an opportunity on the land.

Thousands of the boys and girls about whom I am talking, and for whom I plead, are the forgotten sons and daughters of the fathers and mothers long since forgotten by this great commonwealth. All they need is a chance. We are trying to hold out a helping hand to them.

An agricultural expert said to me recently that he regarded the demonstration work in the South as a "joke," and when I asked him why he thought so, he replied: "Because you have some agents who are not scientific experts." My reply to him, and to all other Pharisees of this type, is that the average farmer needs help now—not ten or twenty years from now, and that we should help him now with whatever agents we can command, striving all the time to prepare and find better ones. To me it is not a "joke," but a tragedy, when I go up and down this State and see our farm lands seamed and scarred with gullies; when I see the soils that have been in the making for centuries washing away to the rivers and to the sea; when I see lands left all the winter exposed like wounds to the elements; when I see men farming with their elbows instead of with their brains. It is tragedy—not a "joke"—and they need our help right now. And we need for our economic salvation to help them right now.

Shall we do it?

Committee and Officers' Reports—Banking Section.

Annual Report of the General Secretary.

NEW YORK CITY, October 5, 1914.

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, 1914.

Referring to the general affairs of the Association during the past year, I call your attention to the detailed information contained in the various reports submitted by other officers of our Association, its Sections and Committees and which have already been made or will be made during the sessions of our Convention.

It is my purpose only to summarize this work in the briefest manner; dealing more fully with matters appertaining directly to my administration of the general business of the Association and its finances, as I am called upon to act.

EXECUTIVE COUNCIL.

With each year there comes a large increase in the membership of the Association and increased attendance at our Annual Conventions, so that it becomes more and more apparent that the Executive Council must transact the business of the Association, as its deliberative body.

This organization, as now constituted with its standing committees (as provided for under the new Constitution) is an admirable body for the transaction of the business of the parent organization.

The Spring Meeting of the Executive Council was held at the Homestead Hotel, Hot Springs, Va., on May 1 and 2, 1914. Almost the entire membership of the Council was present, only a few being unavoidably absent. It was strictly a business session and matters presented for attention were given careful consideration. The meeting was successful in every respect.

The new Council, which will organize at the close of this Convention, will be composed as follows: One year class—26; Two year class—25; Three year class—30; Ex-Officio—11; Total, 92.

During the past year five States have increased their membership so as to entitle them to an additional member on the Executive Council. These States are Pennsylvania, Illinois, Texas, North Dakota and South Dakota. The banner State for membership is New York, with 1,003 enrolled; Pennsylvania second, 925; Illinois third, 914.

I believe our present method of membership on the Council to be the best and that it cannot be improved upon. All States are represented in a fair and impartial manner, on an equitable basis; and the plan provided for under our Constitution (by giving this representation) retains our membership with increasing interest on the part of the various States.

SECTIONS.

The past year has been marked by unusual activity on the part of the various Sections. With each succeeding year the value of these Sections to our organization is more apparent. The Executive Officers of the Sections; the Secretaries; the Educational Director of the American Institute of Banking (Mr. George E. Allen); William J. Henry, President, and P. W. Hall, Secretary of the Secretaries Section, have all been earnest in their efforts to make an excellent record, which I am pleased to say they have done.

The Officers of the Trust Company Section have given close attention to matters in which Trust Companies are interested. Another important event of the year was the Annual Dinner of the Trust Company Section, which was given at the Waldorf-Astoria, on Monday, May 4, 1914. It was, like its predecessors, most successful and had the largest attendance in the history of these functions.

The Savings Bank Section, in addition to its efficient work in everything pertaining to the requirements of the Section, and its members, has been very active in the "thrift" movement, in an endeavor to educate the people (through the press of the country) in the benefits of prudence and in the opening of savings bank accounts.

The importance of savings has been largely exemplified by means of the motion picture movement. The idea originated in the Savings Bank Section, whereby a series of pictures were prepared by the Vitagraph Company; and, of course, received a wide distribution of the reels to all parts of the world.

The Clearing House Section has been particularly active in its field of operations. Its membership has increased and valuable statistics have been received in its office; and the effort to create uniformity among clearing houses (especially in the larger cities) has received a great impetus. Clearing House examiners for cities have also been advocated with good results.

The Clearing House Section has given valuable aid to the Government in the establishment of its Federal Reserve Bank

and Regional Banks and particularly in the field of clearing house operations and in the detail of clearing house work and exchange.

The Annual Convention of the American Institute of Banking was held in the City of Dallas, Texas, on September 22 to 24, 1914. It is the aim of the Institute to progress, and with each Convention there is an apparent increase in interest and larger attendance. Those who were so fortunate as to attend the convention this year are lavish in their expression of appreciation of the hospitality of Dallas and Texas and in the great success of the convention from every standpoint.

The Institute does not lose sight of the fact that it was established for educational purposes; that the financial and moral support of the American Bankers Association was based and is based on the educational feature; and I am glad to report that the Institute is yearly approaching nearer to this ideal.

The movement of the Institute to establish a Health Commission whereby bank clerks, either from old age, poor health or overwork can be benefited in health resorts, at a minimum charge, is a most commendable one. This action of the Institute has the approval of that body, and, in my opinion, should receive the hearty support of the American Bankers Association, as well as banks and bankers of the country at large.

The Secretaries Section has, on all occasions, co-operated with our Association in the important work in which we are engaged. The State Secretaries are loyal to the American Bankers Association and their affiliation with us as a Section is most important.

To Secretaries P. S. Babcock, E. G. McWilliam, O. Howard Wolfe, Educational Director George E. Allen and to William J. Henry and P. W. Hall of the Secretaries Section I wish to extend thanks for their very hearty and wholesome co-operation during the past year and to congratulate them, each individually, on the success of the work in which they are engaged.

JOURNAL-BULLETIN.

The JOURNAL-BULLETIN, combining as it does the JOURNAL of this Association as originally published and the BULLETIN of the American Institute of Banking as originally published, is as a combination much more valuable, giving members of our Association the benefit of the activities of the Institute and in turn furnishing the members of the Institute with full information regarding the American Bankers Association. The circulation of the JOURNAL-BULLETIN is now about 30,000 copies each month.

As to how much value is placed on this publication, we have only to refer to the correspondence in these offices and to expressions received from members in all parts of the country, when I am visiting the various States, regarding the value of the Legal Department and the Protective Department, which can only benefit our members through a publication of this kind.

I do not believe that at the present time the Association should go into the field of publishing a financial magazine, give items regarding banks and bankers, general bank news, personal notices, carry advertising or announce change in titles.

I do believe, however, that the JOURNAL-BULLETIN should be a medium for carrying to our members all information regarding the activities of our Association and carefully prepared articles on banks and banking, and the various ramifications of the Federal Reserve Act. All this is information which bankers seek and desire; and they expect it to be furnished by our Association.

As there has appeared from time to time in some three or four of the financial journals of the United States criticism of our JOURNAL-BULLETIN and of its methods, making the statement that the only publication ever authorized as the official organ of our Association was a Bulletin of News, therefore I quote the resolution adopted at the Spring Meeting of the Executive Council, held in Lakewood, New Jersey, in May, 1908:

"Resolved That the Secretary be and he is hereby instructed to publish a monthly journal, the same to be devoted to the interests of and for the information of the members of the Association."

The statement has also been made and circulated through a few of the financial papers that the JOURNAL-BULLETIN costs our Association \$25,000.00 a year. For the past fiscal year the bills are all paid and the expense, as it appears in our financial statement, is \$15,801.27.

LEGAL DEPARTMENT.

The value of this Department is emphasized yearly by the increased calls upon General Counsel Paton, who has so efficiently filled the position which he has held since 1908. Mr. Paton's report will show that the past year has probably been the most active since the establishment of the Department. This is especially true as applied to the requests from our vast membership for legal opinions.

Mr. Paton's report will cover very fully the work of his office and some of the important matters which have come before him during the fiscal year. Representing the Association, as he does, with particular duties to perform, both in consultation and in the preparation of briefs and various other documents, his work for the Federal Legislative, Law and Insurance Committees has been most valuable. Mr. Paton needs and should have another assistant and he also requires more office space in order to adequately perform the vast amount of work which now comes before him.

STATE ASSOCIATIONS.

There are now 48 State Bankers Associations; and, as reported a year ago, there is only one State without a State Bankers Association. During the past year I have endeavored to create an interest in Rhode Island, among bankers, looking to the organization of a State Association; and I have been advised within the past thirty days that a committee is now appointed and that they hope, following our Convention, an Association will be organized. This will complete the circuit and give us an Association in every State and the District of Columbia.

Coming in contact, as I do by correspondence and also in person, with the State Secretaries and State Associations, I can see annually an increase in the growth of these various organizations, as well as a great increase in their activities. And while some associations naturally (by reason of their size) are more successful and progressive than others, there is no State Bankers Association in the Union which can be called even mediocre.

As in the past, your General Secretary has endeavored, as far as practicable, to visit State Associations, our members in the various States and some kindred organizations. Where not possible to visit conventions, I have attended some State Association banquets, group banquets and American Institute of Banking functions and banquets.

In October of last year I visited Oklahoma, attending the International Dry Farming Congress and there addressing the convention on the subject of "Why the Bankers Are Working with the Farmer." This talk was given wide publicity in the farmers' papers of the country, and, as our Association is engaged in the agricultural movement, I believe it was not without benefit.

I took occasion, while on that trip, to visit a large number of banks in Oklahoma.

On May 15 last I started on a Western trip which lasted six weeks, visiting the State Conventions of Missouri, Kansas, California, Washington, Idaho, Utah and Colorado. I was invited and was on the programme at each of these State Conventions, thereby coming in contact with several thousand bankers—for these conventions were very largely attended and most successful, and abounded in the hospitality bestowed upon their guests.

COMMITTEES.

The Committees of the Association, when called upon, have been most active in their participation in the work of our Association.

The Insurance Committee, having its own office in Richmond, with a Secretary who devotes his time to the interests of the Committee, has had an active year; obtained valuable information; and has been able to protect the interests of members of our Association in connection with the insurance problem. There has been an increased demand for the copyrighted policies issued by our organization.

The Committees on Law and on Federal Legislation will be covered in the report of our General Counsel.

I am indebted to the Administrative Committee for its active participation in the affairs of the Association; thus enabling me the better and more intelligently to administer the multifarious details of our organization.

The Finance Committee, as now constituted with its Sub-Committees, is in better position to analyze the financial features of the Association and intelligently report the same to our Council than ever before; and the special committees appointed at the Hot Springs meeting are prepared to report their findings at this meeting.

CURRENCY COMMISSION.

There seems to have been little call for activity on the part of the Currency Commission during the past year. At the time of our last Convention, banking and currency legislation was practically completed, and, in the final days of Congress, the Federal Reserve Act was passed on December 23, 1913. This legislation received the personal attention of the members of the Currency Commission. I think the provision of the constitution in continuing the Currency Commission indefinitely was most wise. The Commission is composed of experts, men who have been students of banking and finance, and have been active on this Commission for many years. It is among the possibilities that during the coming year, with certain proposed amendments to the Federal Reserve Act, the services of this Commission may be required.

AGRICULTURAL COMMISSION.

The creation of the Agricultural Commission at Boston grew out of the activities of the Committee on Agricultural and Financial Development and Education, which ceased to exist at the Boston Convention. My trip through the Western States, above alluded to, convinced me that the agricultural activities on the part of the Association's banks and bankers are being heartily supported in every section, while the agricultural movement—organized as it was by a special committee of the general Association—should be continued in some form, either through a Committee of the Association, or a Committee of the Executive Council.

PROTECTIVE COMMITTEE.

The Protective Committee is now a standing committee composed of members of our Executive Council. Of necessity, the names of these committeemen must remain secret; consequently, they cannot receive, as individuals, the commendation to which they are entitled for their supervision of the Protective Department and the time they give to consideration of this work of our Association.

The report of the Protective Committee and the report of Manager Gammon to our Executive Council give in detail what has been accomplished during the past year. These reports, with the full report of the William J. Burns International Detective Agency (which is available to members of the Association), should receive careful reading and consideration. It is not expected that any body of men or officials can perform important work without receiving some criticism. I am glad to say, however, and our records will prove the assertion, that the complaints against the Protective Department—managed by Mr. Gammon and the Burns Agency—are very small in number; whereas, on the other hand, this work receives from very many sources unqualified approval.

LIBRARY.

A report of the Library and Reference Department is made by Miss Marian R. Glenn, Librarian, and should command careful study. The growth of the Library and its utility and usefulness has proven the wisdom of establishing this Department. In fact, I think its success has been phenomenal, and without a large expenditure on the part of our Association. We are indebted to many organizations, libraries, bankers and individuals for contributions of books and pamphlets and large quantities of magazines and newspapers whereby we have been able to increase the efficiency of our reference service. The success of the Library has involved painstaking research, enthusiasm and study on the part of our Librarian.

THE NEW CONSTITUTION.

The new Constitution adopted at Boston was a model in its way. Carefully prepared by the late Col. Robert E. James and his Committee, it took the place of a patchwork which had its inception in the organization of the Association in 1875. The general working of the Association during the past year under the new Constitution has been efficient and satisfactory. Any great work, however, like the preparation of a constitution and practicing under it, will not be perfect. It is only practical experience which can remedy the complications as they arise; and you will be called upon to act on several amendments which are now proposed. None of these amendments are serious in nature but refer to details which have developed during the year and which appear to necessitate a change.

THE DEPARTMENT OF PUBLIC RELATIONS.

For two years it has been apparent that the Association should have a publicity department. The man selected for this position should have had broad experience as a newspaper man; a large acquaintance with prominent men of affairs, the press of the country and correspondents, and a knowledge of banking and finance.

The developments of the past few months have emphasized the importance of the work which might be done by a capable representative, in order that bankers of the country (through the press) might receive fuller information regarding new laws, and that business men should be made more fully acquainted with the functions of a bank. It is also probable that a man of this caliber would handle to better advantage the JOURNAL-BULLETIN of our Association.

The Administrative Committee unanimously decided that this feature of the Association's activities should receive immediate attention.

OUR FINANCES.

The report of the Treasurer will show a cash balance on hand of \$20,152.70, as against a balance of \$5,479.29 a year ago. A special effort was made to secure all outstanding bills of the Association, and all bills were paid at the end of the fiscal year, August 31, 1914. There is no Committee nor Section that has a debit balance. The statements which are published make an unusually good showing; in fact, the general

condition of the finances of the Association has not been in as prosperous shape at any period during the past seven years. On September 1st, which is the period for the payment of dues in accordance with our Constitution, this Office prepared for the Treasurer drafts on our members aggregating \$230,030.00 for dues for the ensuing year, which the Treasurer then sent out. There has been some uncertainty in my mind as to just how prompt and how fully these dues would be paid, owing to the general conditions and the European War. The receipts of the Treasurer for the month of September were \$195,235.00. The receipts from drafts for the month of September, 1913, were \$196,500.00 and the 1913 drafts were sent out several days earlier than in 1914. This to me is a favorable showing and at the same time very gratifying—developing as it does the loyalty of our membership.

ROUTINE WORK.

During the fiscal year just ended, August 31, 1914, we sent out from the General Offices, not including Sections, departments and committees, more than 536,000 letters, circular letters, Proceedings, JOURNAL-BULLETINS, etc. The following statement shows the volume of mail and express matter in detail:

FIRST-CLASS MAIL MATTER.

Letters.....	15,387	
Circular Letters.....	72,847	
First-class mail other than letters, such as typewritten lists, printed matter, etc.....	30,463	
		118,697

SECOND, THIRD AND FOURTH CLASS MAIL MATTER.

Journal-Bulletins, including those of A. I. B.....	353,737	
Codes.....	14,710	
Signs.....	1,163	
Lists of Members in Pamphlet Form.....	15,583	
Packages.....	1,026	
Postal Cards.....	1,712	
Pamphlets.....	15,239	403,171

Total Mail Matter.....	521,868
Express Packages.....	14,514
Grand Total.....	536,382

SECTIONS.

Total First-Class Mail Matter.....	35,329
Total Second-Class Mail Matter.....	27,745
	63,074

MEMBERSHIP.

At the close of our fiscal year, August 31, 1913, the membership of our Association numbered 14,100. At the close of the current fiscal year, August 31, 1914, our membership was 14,720, an increase of 620. The following tables will show these facts in detail:

August 30, 1913.....	14,100
Erased from the rolls through failure, liquidation, consolidation and withdrawal, December 1, 1913.....	894
Membership.....	13,206
August 31, 1914, New members joined during the year.....	1,004
Regained members (secured from the above).....	510
	1,514
August 31, 1914, Membership.....	14,720
A net increase in the fiscal year of.....	620
A net loss for the year in failures, consolidations, etc.....	164
A net loss for the year in delinquents.....	220
	384
Making the actual gain in new members.....	1,004

It is to be observed that the list of delinquents is exceedingly small, considering our large membership. The aggregate capital, surplus and deposits of our membership amount in round numbers to about \$15,000,000,000.

The membership and 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.....	198,530.00
August 31, 1912 13,323.....	213,752.50
August 31, 1913 14,100.....	229,324.48
August 31, 1914 14,720 (estimated).....	239,406.00
Interest on Bonds and Corporate Stock.....	\$4,730.00
Interest on Bank Balances (estimated).....	2,300.00
Estimated Annual Dues for fiscal year ending August 31, 1915.....	239,406.00
Making total income, year ending August 31, 1915.....	\$246,436.00

MEMBERSHIP BY YEARS.

Year.	Membership.	Gross Loss by Failures, Merger, Delinquents, &c.	Net Loss by Failures, Merger, Delinquents, &c.	Gross Gain.	Net Gain.
1897	2,813	371	...	982	611
1898	3,424	248	...	783	535
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	374	1,639	879
1910	11,405	781	298	1,504	723
1911	12,072	1,304	405	1,971	667
1912	13,323	790	330	2,041	1,251
1913	14,100	744	359	1,521	777
1914	14,720	894	384	1,514	620

MEMBERSHIP OF STATES AND TERRITORIES HAVING LESS THAN 100 MEMBERS.

(As of August 31, 1914.)

Alaska.....	13	Canada.....	45
Arizona.....	63	Cuba.....	24
Delaware.....	40	Hawaii.....	16
Nevada.....	27	Isle of Pines.....	2
New Hampshire.....	66	Porto Rico.....	4
New Mexico.....	66	Mexico.....	20
Rhode Island.....	46	Philippine Islands.....	3
Utah.....	77		
Vermont.....	79		
Wyoming.....	83	Total.....	674

MEMBERSHIP.

DIVISION OF BANKS IN ASSOCIATION, AUGUST 31, 1914.

State or Territory.	Nat'l.	State.	Private.	Trust Co.'s.	Sav. Bks.	Total.
Alabama.....	57	83	2	23	9	174
Alaska.....	2	10	1	0	0	13
Arizona.....	12	32	0	18	1	63
Arkansas.....	43	159	2	30	2	236
California.....	199	286	8	34	79	606
Colorado.....	108	83	9	18	8	226
Connecticut.....	70	11	8	37	48	174
Delaware.....	21	1	1	15	2	40
District of Columbia.....	13	3	6	8	15	45
Florida.....	51	117	5	11	4	188
Georgia.....	85	292	8	19	14	418
Idaho.....	45	74	1	9	1	130
Illinois.....	315	267	222	73	37	914
Indiana.....	149	149	40	50	3	391
Iowa.....	186	141	52	13	185	577
Kansas.....	172	405	2	4	5	588
Kentucky.....	71	77	1	22	4	175
Louisiana.....	32	129	1	22	5	189
Maine.....	55	0	0	34	20	109
Maryland.....	81	32	26	21	27	187
Massachusetts.....	155	2	31	51	103	342
Michigan.....	85	148	45	8	156	442
Minnesota.....	172	245	9	4	6	436
Mississippi.....	32	126	0	13	2	173
Missouri.....	89	345	23	40	32	529
Montana.....	51	130	19	9	2	211
Nebraska.....	145	221	4	7	2	379
Nevada.....	10	16	0	1	0	27
New Hampshire.....	46	1	0	6	13	66
New Jersey.....	178	25	3	93	18	317
New Mexico.....	36	21	1	7	1	66
New York.....	397	254	172	90	90	1,003
North Carolina.....	57	87	1	30	6	181
North Dakota.....	102	194	0	3	3	302
Ohio.....	229	127	66	52	108	582
Oklahoma.....	186	194	0	10	1	391
Oregon.....	69	79	12	12	6	178
Pennsylvania.....	563	89	55	183	35	925
Rhode Island.....	17	1	2	19	7	46
South Carolina.....	27	118	1	10	16	172
South Dakota.....	83	202	3	7	6	301
Tennessee.....	69	127	1	56	8	261
Texas.....	274	150	27	50	1	502
Utah.....	22	39	4	4	8	77
Vermont.....	43	0	0	22	14	79
Virginia.....	92	108	12	14	9	235
Washington.....	70	187	21	26	7	311
West Virginia.....	80	85	2	16	5	188
Wisconsin.....	114	214	2	10	18	358
Wyoming.....	32	45	1	5	0	83
Canada.....	0	43	2	0	0	45
Cuba.....	1	19	3	1	0	24
Hawaii.....	4	6	2	4	0	16
Isle of Pines.....	1	1	0	0	0	2
Porto Rico.....	0	3	1	0	0	4
Mexico.....	0	19	1	0	0	20
Philippine Islands.....	0	3	0	0	0	3
	5,298	6,025	921	1,324	1,152	14,720

IN MEMORIAM.

A grateful Association shows its appreciation of the services of its officials, past and present, whether in life or when these officials have passed to the beyond.

It seems appropriate to call your attention to the death of Col. Robert E. James, a Member of our Executive Council, Chairman of important Committees, and whose last great work for the Association was the compilation of our new Constitution. Colonel James died at his home in Easton, Pennsylvania, November 10, 1913.

In life he was beloved, in death mourned by the large circle of his friends.

P. C. Kauffman, of Tacoma, Washington, died April 8, 1914. Mr. Kauffman was Treasurer of the American Bankers Association 1908-1909; he was also a Member of the Executive Council and served three years from 1901. At the time of his death he was a Member of the Executive Committee of the Trust Company Section, and had been Secretary of the Washington Bankers Association since 1901.

Mr. Kauffman was always efficient in the performance of the duties assigned to him and served faithfully on committee appointments, as well as in other official positions. His loss was mourned by his many friends in all parts of the United States.

APPRECIATION.

The General Secretary again takes great pleasure in expressing his appreciation of the valuable assistance and courtesy extended to him by the Executive Council, Committees, Sections and officers of the Association. And he is grateful to the general membership of the Association for its loyal support, friendly letters and warm welcome when brought in personal contact with the bankers throughout the country.

My relations with President Reynolds have been most cordial and congenial; his keen interest in the affairs of the Association and his valuable consideration has been a great help to me in the execution of the duties I am called upon to perform. And to Treasurer Hoopes, Assistant Secretary Fitzwilson and the employees of this Association in the General Offices I wish to express my sincere assurance of appreciation.

RICHMOND.

The Convention of our Association now being held in Richmond is the fortieth in the history of our organization, and the second Convention to be held in the City of Richmond—our Twenty-sixth Convention having met here in 1900.

The Convention of 1900 was a pronounced success with Southern hospitality unbounded. The annals of the social features of the Convention call to mind the entertainment given by Mr. John P. Branch, who to-day is still active despite his advanced years, and now the dean of the profession in Richmond, if not in the State of Virginia, and who will, with all bankers of Richmond, extend the warm hand of welcome.

The Association in those days numbered 4,500 members and the assets of its membership were six and a half billion dollars. The annual dues of the Association amounted to \$61,200.00. At this Convention there was a registration of about 1,200. The Convention was presided over by Walker Hill, of St. Louis, Missouri, and Alvah Trowbridge (deceased), of New York, was elected President. Of those in attendance at that time many have answered the roll call to the great beyond, some of whom have held high position in the American Bankers Association.

No doubt the most important event of the Richmond Convention of 1900 was the report of the Committee on Education, Mr. W. C. Cornwell, Chairman, whereby the Convention unanimously approved of an Institute for bank clerks, which is now the American Institute of Banking and one of the most valuable and progressive adjuncts of our Association.

In this fortieth year of our organization and the establishment of the Federal Reserve System, with all that it means to the banking interests of the country, and having in mind the strenuous campaign which has been waged by the American Bankers Association for many years, to bring about new laws which would give to us a banking system in keeping with the wealth and growth of our great country, and which has not had any banking and currency legislation of any importance for fifty years, it does not seem inappropriate at this time to refer to some of the predecessors of the American Bankers Association in organization.

On April 11, 1838, and following days, a meeting of bankers was held in the city of New York. There were present 143 delegates, representing 18 States. This conference lasted several days. You will note that this was shortly after the panic of 1837 and was called for the purpose of securing co-operation between banks and the Government to bring about specie payments and to restore the currency to a sound condition.

The records show also, that one of the objects of the conference was to overcome, if possible, the statements emanating from the public press that the Government and Treasury Department were showing a hostile disposition towards the banks; and to retard, if not prevent, their resumption of specie payments.

The records further show that Virginia was represented by John Brockenbrough, Hugh Mercer, William H. MacFarland and Henry M. Brent. This information is gleaned from the Finan-

cial Register of the United States, which is one of the valuable volumes in the library of our Association.

We are now convened in the City of Richmond, one of the live, energetic and progressive cities of a United Union, noted in history as one of the most interesting cities in the United States; embodying the early struggles of the colonists; surrounded by important points of interest in the Revolutionary War; and on the very site of the conflict of the Civil War; near by the legendary scene of the romance of Pocahontas and John Smith; still possessing old St. John's Church, where Patrick Henry made his famous oration and that immortal declaration, "Give me liberty or give me death." Noted for Jamestown, the first English settlement in America.

Richmond is beautifully located on the James River, and, like Rome in ancient times, on seven hills, with many beautiful parks graced by artistic monuments marking great men and events.

I have received from the bankers of Richmond, composing the local committees, the most hearty co-operation in the arrangement of details, and, without minimizing the superb hospitality of other cities by whom we have heretofore been entertained, I know we will enjoy to the fullest measure the true Southern hospitality and every attention of the people to make our visit most enjoyable.

To the Clearing House Association of Richmond and its associated banks, I know I will express the wishes of our members when I say to you—we thank you for your unremitting labors and kindness in our behalf.

Respectfully submitted,

FREDERICK E. FARNSWORTH,
General Secretary.

Report of the Treasurer.

GALVESTON, TEXAS, October 2, 1914.

TO THE MEMBERS OF THE EXECUTIVE COUNCIL AND THE AMERICAN BANKERS ASSOCIATION.

MR. PRESIDENT: I have the honor to submit herewith my first annual report as Treasurer of this Association, showing the financial conditions of the organization at the end of the fiscal year, August 31, 1914; and, while of necessity this report is somewhat lengthy and contains much in detail, I feel that this detailed information is of so much interest to our members generally that I trust it will be examined by them closely and it will give them a much better knowledge of the work that is being done and of the excellent results obtained.

Especially gratifying is the fact that the cash on hand at the end of the present fiscal year is approximately \$15,000 larger than has been shown since 1907. This is shown despite the fact that there has been required decidedly greater expenditure in rendering that efficient service which has been one of the means of bringing the Association its vast growth in membership. To my mind this reflects great credit upon the active officers of our organization and to the various committees, to whom the detail work has been entrusted, and I feel sure that our membership will join with me in extending to each and every one of them our thanks for their efficient services.

In accordance with what has been the custom for years, the Association has kept its surplus funds invested in high grade securities. These are in the custody of the Bankers Trust Company, New York, under control of the Executive Council. The interest on these securities has been collected by the Trust Company regularly, remitted to me and credited to the Association's account. A list of the securities held are as follows:

\$12,000 Chicago, Burlington & Quincy Joint 4's of 1921.
\$30,000 Atchison, Topeka & Santa Fe 4% Bonds of 1905.
\$50,000 Chicago, Burlington & Quincy, Illinois Division, 4% Bonds of 1949
\$30,000 New York City Registered Corporation Stock 3¼%, due 1940.

I wish it were possible for me to adequately express my sincere appreciation of the never failing and hearty co-operation and assistance that has been given me by the various officers of the Association, and especially do I wish to compliment, in highest terms, the systematic manner in which the many details are handled in the General Secretary's office.

One who has never handled the Treasurer's office can hardly appreciate what valuable and cheerful service this Department of the Association renders.

In August, 1914, the Treasurer received from the Secretary's office 14,267 drafts on account of the dues for the current year. These drafts aggregated \$230,030.00. In line with the provisions of our Constitution, these were all dated September 1, 1914, and mailed to various members on that day for collections and returns, and at this writing I am pleased to advise that all but a small percentage have been collected.

Respectfully submitted,

J. W. HOOPES,
Treasurer.

Annual Report of General Counsel, Thomas B. Paton.

A broad survey of the work of the General Counsel during the current year would include activities before Congressional committees and services in Washington as the active agent and attorney for the Committee on Federal Legislation; work under

the auspices of the Committee on Law in promotion of the State legislation recommended by the Association; acting as legal adviser and draftsman in various matters which have arisen in connection with the affairs of the Sections and of the Protective, Insurance and other Committees and of officers of the Association; a large and varied opinion and information-giving correspondence with the general membership; the making of a number of addresses in connection with the Association work and a study of the general situation, especially with reference to the need of reform of the laws relating to banking and commercial subjects, with the view of framing additional legislation which will simplify, unify and make certain the rules on many matters of banking procedure and on many subjects wherein the law is at present uncertain, conflicting or inadequate.

CONGRESS.

Income Tax.—On October 3, 1913, just five days prior to the opening of our last Annual Convention, the President approved the Federal Income Tax law, which was part of the tariff bill. In my last annual report I referred to the efforts which had been made before Committees of Congress to secure modifications of the bill, while in its making. These were successful to the extent of causing, (1) the exemption of mutual savings banks, and (2) a change of phraseology so as to make it clear that a bank was not compelled to deduct the tax at source from interest paid on deposits; but we did not succeed in the larger effort to eliminate entirely the provisions as to withholding at source, nor to restrict such provisions to the mere giving of information at source without requiring the income-payer to become a gratuitous collecting agent for the Government. Immediately following the passage of the bill, General Counsel was called upon from many sources to aid in its proper interpretation with respect to the duties of banks at source of income and to help solve many questions of immediate urgency until the publication of regulations and interpretations by the Treasury Department cleared up many doubtful questions. Various suggestions have come to the Association with reference to testing the constitutionality of the law in the courts and also attempting to procure its amendment, either by repeal of the collection at source feature or by a modification of that feature to provide solely for information at source. These suggestions were considered by our Committee on Federal Legislation at a meeting last Spring and it was decided that the Association should not take the initiative or be identified with any proceeding to test the constitutionality of the Act in the courts, but that an amendment should be urged doing away with the collection at source feature entirely or, if that could not be attained, then the policy of the Association should be to procure an amendment providing for information at source, eliminating deduction and collection, and also to simplify the provisions of the law. A number of bills have been introduced in Congress along these lines, but it has been impossible, at this session, to procure any attention to these measures.

Federal Reserve Act.—The Federal Reserve Act was approved December 23, 1913, and the chief function of General Counsel has been the interpretation of various provisions of the Act at the request of members of the Association. Reports of the amendments which have been made to this Act have been conveyed to members through the pages of the JOURNAL-BULLETIN.

Interlocking Bank Directorates.—In the latter part of January, in pursuance of Anti-Trust recommendations of the President, "Tentative Print Number 3" was prepared for consideration of the House Committee on Judiciary which held hearings thereon in February and March. As originally framed the tentative bill prohibited, after two years, a person from at the same time being director, officer or employee of two or more national or other banks, members of the Federal Reserve System, and also prohibited a private banker and a director in any State bank or trust company from being a director in any national or other bank, member of a Federal Reserve bank. These original provisions, it will be observed, were very broad and sweeping, having no regard to size or locality of the banks affected. Your Counsel, acting under authority of the Committee on Federal Legislation, made a number of visits to Washington in February and March and discussed and opposed these provisions both with individual Congressmen and at the hearings, and later our entire membership was circularized and urged to co-operate in attempting to secure a modification or elimination of the Interlocking Directorate provisions. As a result of the hearings the Clayton bill, H. R. 15,657, was introduced in the House on April 14, reported from the House Judiciary Committee in revised form on May 6th, passed the House on June 5th, and was referred to the Senate Committee on Judiciary. The bill as it passed the House eliminated mutual savings banks and its original drastic provisions were otherwise modified as follows, though still unsatisfactory to the banks: As to banks generally, irrespective of locality, it prohibited (a) a person from at the same time being an officer or director of two or more national banks where either had capital, deposits, etc., aggregating more than \$2,500,000; (b) a private banker or director in a State bank having capital, deposits, etc., aggregating more than \$2,500,000 from being a di-

rector in a national bank. It contained, however, special provisions applicable to cities exceeding 100,000 population, of which there are 61 in the United States, substantially to the effect that no director or officer of a national bank could be a private banker nor in any other bank in the same place other than a mutual savings bank, except that he might be in not more than one other bank or trust company, when the entire capital of one was owned by stockholders of the other. There was a further provision barring common officers or directors of banks and of common carriers under certain conditions.

While the bill was pending before the Senate Committee on Judiciary, your Counsel filed a brief in behalf of the Association which contained arguments showing that the provisions as drawn went far beyond the purpose and intent of the Anti-Trust laws and would work great injury and injustice to hundreds of banks and bank officers in institutions which were non-competitive and where there was not the slightest possibility of the existence of any such evils as the law was proposed to remedy. After pointing out the various ways the provisions would injuriously operate, the entire elimination of such provisions was urged as being unnecessary or as an alternative that the Federal Reserve Board be given power to require resignations of officers in competitive institutions in case any abuses from the undue control or concentration of credit were found to exist. The brief urged that as the general tenor of the proposed legislation was in regulation of the eligibility or qualifications of officers or directors of national banks, if any further provisions were necessary their most appropriate form would be by way of amendment of the Banking Act rather than by incorporation in an Anti-Trust bill.

On July 22 the Senate Judiciary Committee reported the bill to the Senate, recommending the entire elimination of the provisions as to Interlocking Bank Directors. In its report the Committee said: "A Senate amendment to this section strikes out the entire paragraph which relates to interlocking directorates of banks and trust companies. In proposing this amendment a majority of the Committee believed that such legislation as this more properly belongs to the domain of banking rather than of commerce and such additional regulation of bank directorates as may be wise and just should be made by amendments to the national bank acts, and the enforcement of it given to the Comptroller of the Currency and the Federal Reserve Board."

On September 2d the Senate passed the bill in accordance with the recommendations of the Committee, all provisions prohibiting Interlocking Directorates of Banks being eliminated, as well as the provisions against common directors of railroads and banks. This action, following the result of a long campaign against these provisions was, of course, most gratifying to our Committee on Federal Legislation and to the banks of the country.

On September 22 our Committee was surprised to learn that the Senate Conferees on the Clayton bill had yielded to the House Conferees and agreed to put back the Interlocking Bank Directorate provisions as the same had passed the House. Your Counsel immediately visited Washington and on September 23 had interviews with some of the House Conferees in which he urged the injurious results of such action, but the utmost concession made was to enlarge the capital and deposit limitation to \$5,000,000, and the special provisions as to cities by making them apply to cities having over 200,000 instead of 100,000 population. On the afternoon of September 23 the report of the Committee of Conference, as agreed upon, was presented to the Senate. All the Clearing House Associations and State Bankers Associations were immediately notified of the action taken and urged to use all legitimate means in endeavoring to procure a reconsideration of the subject. Your Counsel also wired an argument to the Vice-President of the United States against the injustice and impolicy of the provisions of the House bill and urging that they be eliminated. This was read before the Senate on September 30. A copy of this argument, together with his brief before the Senate Judiciary Committee, was also forwarded to every Senator. The Senate, however, on October 5, by a vote of 35 to 25, denied a motion to re-commit the bill and then adopted the report of the Conference Committee by a vote of 35 to 24. The House accepted the Conference Committee report October 8 by a vote of 244 to 54, and the provisions relating to interlocking bank directorates become effective two years from the date of the President's approval of the Act.

Emergency Revenue. On September 21 a bill to increase the internal revenue (H. R. 18891), known as the Emergency Revenue bill was introduced in the House and referred to the Committee on Ways and Means. One of its provisions imposed on and after November 1 an annual special tax on banks of \$2.00 for each one thousand dollars of capital, including surplus and undivided profits. Our Administrative Committee having determined that this tax should be opposed, your Counsel, acting under the authority of the Committee on Federal Legislation, proceeded to Washington and fled with the Committee on Ways and Means a protest against the injustice of the proposed tax for the reason that it singled out one class of corporations instead of spreading the burden over all corporations alike and

was therefore discriminatory and unfair. It was stated that, in these critical times especially, where the banks have come loyally to the support of the Government and have been straining every resource to help the situation, they should be given all assistance possible instead of being penalized by discriminatory legislation; that there was no disposition among the banks to escape their fair share of the burden of taxation, but protest was entered against a provision which placed an undue share of this burden upon banking corporations solely and relieved all other corporations from the necessity of contributing their proportionate share. It was therefore urged that the provisions be readjusted so that the amount of revenue which it is estimated will be derived from this tax on bank capital be assessed proportionately upon the capital stock of all classes of corporations, including the banks. Advice of this protest was wired by the General Secretary to all the Clearing Houses and State Bankers Associations throughout the country, and independent protests by many of these bodies and by individual bankers have been forwarded to Congress and to Senators and Representatives. The bill passed the House on September 25 and went to the Senate, where on September 26 it was referred to the Committee on Finance. Numerous protests were filed with this Committee, which allowed no public hearings on the measure, and the latest information obtainable is that the bank tax provision was referred to a sub-committee, who reported in favor of eliminating it and substituting a tax on negotiable instruments, but that the full committee rejected this recommendation and decided to retain the tax on bank capital.

Other Congressional Legislation. Acting on behalf of the Committee on Federal Legislation, your Counsel has kept track of all measures introduced in Congress during the present session relating to or affecting banks. This has involved the examination of several hundred bills, original and amendatory, the great majority of which have progressed no further than reference to a particular committee; but the progress of a number of measures has had to be carefully followed and their development watched, including bills relating to postal savings banks, agricultural banks and credits, guaranty of deposits, cumulative voting for bank directors and many other subjects. This report will not be lengthened by a detailed enumeration of all these measures. Throughout, your Counsel has kept in touch with the Committee on Federal Legislation, advising them of the various measures and being guided by their advice and judgment. One of the important measures advocated by this Association, the Pomerene bill relating to Bills of Lading (S. 387), unanimously passed the Senate on June 6, but it has been impossible to procure any action thereon by the House Committee on Interstate and Foreign Commerce at the present session. On this same subject of Bills of Lading, your Counsel on January 17 filed an exhaustive brief in a proceeding pending before the Interstate Commerce Commission, the main object of which was to harmonize differences looking to the ultimate adoption of the Uniform Bill of Lading covering the entire country, both for rail and water carriers. While the Uniform bill has been adopted and used by carriers generally in Official Classification and Western Territory and to some extent by carriers in Southern Territory, other carriers have used what has been called the "Revised Standard Bill of Lading," which to some extent is different from the Uniform bill. The main differences sought to be reconciled have had to do with conditions on the back of the bill, being matters primarily of importance to the shippers. But some of the Southern carriers attempted to induce the Commission to insert on the face of the Order bill of lading a clause which would materially restrict its negotiability, and the brief filed was in opposition to any such restriction. The restriction has not been made.

STATE LEGISLATION.

In the promotion of State legislation recommended by this Association, your Counsel, acting for the Committee on Law, has placed in the hands of Secretaries and Committeemen of State Bankers Associations drafts of proposed laws on recommended subjects and has co-operated with such Associations in securing the passage of such laws, conducting a varied correspondence with members of legislatures and interested persons in such States and in numerous other ways. The Uniform Negotiable Instruments Act has been passed in South Carolina during the present year and only five States are now without this law, namely, Maine, Georgia, Mississippi, California and Texas. The Uniform Bills of Lading Act has been passed this year by the legislature of Rhode Island. Several other of our Association measures have been passed in the different States, and a full statement of this legislation will be given in the Report of the Committee on Law. Your Counsel has also been engaged in preparing for the Committee drafts of proposed laws on a number of new subjects wherein legislation is thought to be desirable.

SECTIONS AND COMMITTEES.

Your Counsel has acted in an advisory capacity to the Executive Committees and Secretaries of the different Sections upon various legal propositions that from time to time have arisen in connection with the progress of their work. He has also been constantly consulted by the Protective Committee on

questions of criminal law and procedure and has worked with the Insurance Committee on a number of matters in which his services have been required.

GENERAL MEMBERSHIP.

As has been mentioned in previous reports, a very large part of the time of Counsel is devoted to the furnishing of legal information and the rendering of opinions to the members of the Association upon submitted questions arising in the conduct of their business. Several hundred written opinions have been given during the year—425 to be exact—and about one-half of these, on matters of more general interest, have been published in the monthly issues of the JOURNAL. On matters of this nature, your Counsel is also frequently consulted personally, over the telephone and by wire. During the year four addresses have been made in connection with Association work. One at Buffalo on October 24, when an address was delivered before the Annual Meeting of the National Tax Association upon the State taxation of banks, in which the conditions in the various States were summarized; another before Group 1 of the New Jersey Bankers Association at New Brunswick, on October 30, where the provisions of the new Income Tax Law were discussed; a third on April 15 before the Arkansas Bankers Association at Little Rock, Arkansas, where the provisions of the Negotiable Instruments Act were reviewed and explained, and a fourth at the Illinois Bankers Convention on September 2, where the need for uniformity in the laws governing the collection of bank checks was discussed.

Report of the Library and Reference Department.

MARIAN R. GLENN, Librarian.

An increase, during the past year, of 56 per cent. in the number of inquiries answered, and of 62 per cent. in the number of loans, indicates the growing use which Association members are making of the Library and Reference Department as a bureau of information. Since the last report more than 4,000 loans have been made to bankers in forty-three States, and hundreds of questions on banking and currency subjects answered, to which the Association was not equipped to respond until the creation of the Department three years ago.

One of the Library's problems is how to make its resources better known to bankers who can relate it to the business of banking in a practical way when they better understand the nature of its services. Much of the increased use of the Library, in the past year, is doubtless due to the sending out of 10,000 special publicity notices through the Secretaries of the various State Bankers Associations, and the publication of articles in financial papers, as well as the continuance of reference lists in the JOURNAL-BULLETIN and co-operation with other libraries in the preparation of bibliographies on financial subjects. The experiment, which will be repeated this year, of keeping the Library open on Saturday for bank men who cannot come during banking hours, also increased the use of debate and essay material by A. I. B. students, and the reading of bank clerks on the work of their departments.

That the growth of the Library's reference resources is keeping pace with its increased use is indicated by the addition of 10,500 articles, or 65 per cent. more than last year, to the Traveling Loan Collection, which now numbers nearly 23,000 pamphlets, clippings, addresses, bank pictures, etc.; 2,700 clippings were also added to the currency clipping collection.

The practise of loaning books by mail was begun for the first time this year, and has met with sufficient response to warrant the duplication, for that purpose, of the standard books on banking. Appropriations for book purchase, however, remain so inadequate that the Library still lacks important reference works which should be part of its equipment. Of the 422 additions made this past year to the book collection, which now numbers about 2,200 volumes, only one-third were purchased.

Since January 1, 1914, a daily index has been made to the 120 financial periodicals received at the Library. This feature has more than doubled the work of cataloguing and filing, but it affords an invaluable means of quickly finding fugitive facts and dates that are constantly being asked for.

The daily index also gives the Library a very complete record of all references in financial publications to the new banking system. The value of this, and of the chronological press clipping history which now consists of twelve volumes of comment and controversy regarding the Federal Reserve Act, will be more fully appreciated as the system develops, and it becomes recognized that the Association Library is the only place where so complete a chronicle has been preserved.

To summarize briefly for the benefit of new members and those who may not have read previous reports, it may be said that in the Library and Reference Department the American Bankers Association has:

A BUREAU OF INFORMATION which answers questions from Association members on banking, currency and general business subjects.

A REFERENCE SERVICE for securing special information wanted by bankers, either for use in their daily business, or for legislative arguments, convention addresses, or A. I. B. dis-

cussions; new ideas in bank management or advertising; and general study purposes of bank officers and clerks.

A BOOK COLLECTION of about 2,200 volumes on money and banking, including bound financial periodicals, government documents and statistical manuals.

A TRAVELING LOAN COLLECTION of nearly 23,000 banking and currency articles, addresses, pamphlets, monographs, mounted clippings, magazine excerpts, etc., containing information on banking practise which would otherwise be unobtainable from any one source, as it cannot be had in book form.

A CARD CATALOGUE INDEX of all books, bankers' association proceedings, bound sets of financial periodicals, Comptroller's reports, government publications, bank commissioners' reports, bank histories, statistical sources and reference books in the library.

A complete RECORD of the FEDERAL RESERVE SYSTEM in the form of thousands of press clippings arranged to form a chronological history of currency controversy since 1907; pamphlets; a loan collection of mounted clippings; and a daily index of all references in financial periodicals to the new Banking and Currency system since its enactment.

Report of the Protective Committee.

NEW YORK, August 31, 1914.

To the Executive Council and Members of the American Bankers Association:

The Protective Committee submits herewith its annual report for the period covered from September 1, 1913, to August 31, 1914.

FINANCIAL STATEMENT.

A detailed statement will be published in the pamphlet containing financial statements, covering all bills and expenses for the past twelve months and showing a credit balance.

ARRESTS, ETC.

For the period from September 1, 1913, up to and including August 31, 1914, the Committee begs to report as to its operations against criminals, as follows:

Total cases not disposed of, arrested prior to Sept. 1, 1913.....	143
Total arrests since Sept. 1, 1913, to August 31, 1914.....	308
	451
Convicted.....	261
Released, escaped, insane and died.....	94
	355
Awaiting trial.....	96

By comparing the number of arrests and convictions this year with those of last year, it will be seen that there were eight less arrests and sixty-two more convictions this year than last year.

Since the beginning of the fiscal year, September 1, 1913, up to and including August 31, 1914, there have been 38 burglaries, attempted burglaries, hold-ups and sneak thefts reported on members and 57 similar crimes on non-members, as follows:

	Mem- bers.	Non- members.		Mem- bers.	Non- members.
Alabama.....	1	..	Nebraska.....	1	..
Arkansas.....	4	5	New Jersey.....	1	..
California.....	3	6	New York.....	1	1
Colorado.....	1	1	North Dakota.....	1	1
Florida.....	1	1	Ohio.....	1	..
Georgia.....	5	3	Oklahoma.....	..	5
Illinois.....	3	8	Oregon.....	..	1
Iowa.....	4	1	Pennsylvania.....	1	2
Kentucky.....	1	2	South Dakota.....	1	1
Louisiana.....	3	2	Texas.....	..	4
Michigan.....	2	1	Washington.....	4	..
Minnesota.....	1	3	West Virginia.....	1	..
Mississippi.....	3	2	Wisconsin.....	..	3
Missouri.....	2	1			

Of the 38 attacks on members, 10 were successful burglaries, 18 unsuccessful burglaries, 7 hold-ups and 3 sneak thefts.

Of the 57 attacks on non-members, 25 were successful burglaries, 15 unsuccessful burglaries and 17 hold-ups.

The loss sustained by members was \$18,438.16 in connection with the burglaries, while the loss sustained by non-members amounted to \$75,785.05.

The loss sustained by members in hold-ups and sneak thefts was \$24,649.81, while the loss sustained by non-members amounted to \$15,437.36.

Our members as a rule report all attacks on them, also the exact loss sustained; while on the other hand, non-members rarely report attacks made on them or the loss sustained, with the result that we do not obtain a record of some of these attacks or losses sustained.

The following figures are given for your information of reported and attempted burglaries on banks since the inauguration of the Protective Feature, such as are known:

Non-Members.....	1,468	Loss.....	\$2,108,276.08
Members.....	395	Loss.....	247,051.33
Difference.....	1,073		\$1,861,224.75

FORGERS AND BOGUS CHECK OPERATORS.

There has been no marked increase in the number of forgers and bogus check operators as far as the professional operators are concerned for the past twelve months. In fact, practically two-thirds of the cases reported are the operations of amateurs.

CORRESPONDENCE.

During the past twelve months, ending August 31, 1914, the Protective Department has received 20,727 reports and other communications from our Detective Agents. The Department has also received 1,089 letters and telegrams and written 5,972 letters and telegrams. These figures do not include circular letters and similar communications.

PHOTOGRAPHS.

The Department now has 4,000 photographs of criminals, comprising "Yegg" burglars, hold-up men, sneak thieves, forgers and bogus check operators, with a complete record of each.

OFFICES OF OUR DETECTIVE AGENTS.

The Wm. J. Burns Internationad Detective Agency, Inc., now have 21 offices of their own in this country, as follows:

Birmingham, Alabama; Los Angeles and San Francisco, California; Denver, Colorado; Chicago, Illinois; New Orleans, Louisiana; Baltimore, Maryland; Boston, Massachusetts; Detroit, Michigan; Minneapolis and St. Paul, Minnesota; Kansas City and St. Louis, Missouri; Buffalo and New York City, New York; Cleveland, Ohio; Portland, Oregon; Philadelphia and Pittsburgh, Pennsylvania; Houston, Texas, and Seattle, Washington, and one correspondent at Des Moines, Iowa.

They also have offices of their own in London, England; Paris, France; Brussels, Belgium, and Montreal, Canada.

A DEATH-BLOW TO NOTE KITERS.

By far the most important criminal case in the history of the Association, and one which interests our banks of discount more than any other, has resulted in the conviction in the United States District Court for the Northern District of New York at Watertown, New York, on August 28, 1914, of Max M. Hart and others who have in the past, through note-kiting operations, inflicted serious losses upon the banks of the country. The case, which was tried before Hon. George W. Ray, District Judge, was that of the United States vs. Max M. Hart and Adolph E. Wupperman of New York City, Frank W. Fowler of Pittsburgh, Pennsylvania, and Andrew S. Work of Chicago, who were jointly indicted at Syracuse, New York, at the April, 1914, term of the United States Court for conspiracy and fraudulent use of the mails. An article appeared in our June JOURNAL-BULLETIN on page 634 relative to this indictment. A jury was drawn and empanelled on July 9, 1914, and the trial lasted until August 28, 1914, when the jury brought in the verdict of guilty on the charge of fraudulent use of the mails. This is the first case that we are able to learn of where a conviction has taken place or even a trial prosecuted growing out of the kiting of notes.

Max M. Hart has been very active for a great many years in connection with the bankruptcy proceedings of various firms and corporations where he was directly or indirectly interested. There was but one result when Max M. Hart appeared on the scene, and that was the bankruptcy court. He appeared to be immune from prosecution up to this time. In 1909 and 1910 Hart was directly or indirectly interested in a large number of corporations that went into bankruptcy, and the banks lost thousands of dollars through the operations at that time. The scheme in the cases in the past and also in the case in which he was convicted was to get control of corporations and firms that needed additional capital in their business and were well rated. Hart would arrange to exchange notes between the various corporations and firms for like sums. These notes were then deposited in the various banks, discounted, and in this particular case some of the notes were forwarded through the mails; checks representing the proceeds of the discounts were also sent through the mails; so in this way when the Oneida Milling Corporation, which was doing a flour and grain business at Oneida, New York, went into bankruptcy, and the hearings before the referee took place, there was sufficient testimony brought out to warrant the Government authorities to look into the matter. Hon. John H. Gleason, United States District Attorney for the Northern District of New York, who resides at Albany, New York, took up the investigation, with the result that the Grand Jury returned indictments against these four defendants. As above stated, the case was tried on July 9th, before Hon. George W. Ray. Assistant United States District Attorney Thomas H. Dowd of the Northern District of New York, who resides at Cortland, New York, opened the case for the Government and very ably conducted the trial. Hon. John H. Gleason, United States District Attorney, summed up for the Government. The defendants were all represented by very able counsel, with exception of Andrew S. Work, who did not wish the services of an attorney. The conviction in this case is a very important one, inasmuch as it gives National and State bank examiners and the various banks of discount throughout the country a precedent to work on, and shows conclusively that if the mails are used in the slightest degree with fraudulent intent, criminal action will lie through the

United States courts. The chief advantage in trying a case in a United States court is that witnesses can be subpoenaed from anywhere in the United States and can be compelled to attend, while in prosecutions in State courts the authorities have no power to compel any witness to appear who is out of the jurisdiction of the State. In this particular case about eighty witnesses were sworn by the Government and testified. The defendants put in no defense whatever. Over five thousand pages of testimony were taken and there were approximately over five hundred exhibits in the case. Inasmuch as there were so many exhibits to go over, the jury was out eighteen hours, and Judge Ray consumed a day in his charge to the jury.

At the January, 1892, session of the Court of Quarter Sessions at Philadelphia, Pennsylvania, Max M. Hart, alias Hertz, was indicted for obtaining money under false pretenses. On April 6, 1892, Hart entered a plea of guilty and on the same day was sentenced to pay a fine of one cent and to be confined in the county jail for four weeks. Hart stated to the court at Watertown, New York, that he did not serve any of this sentence. Hart's career, therefore, started as far back as 1892. He has confined most of his operations to the States of New York, New Jersey and Pennsylvania. On September 2, 1914, following his conviction, Hart was sentenced to serve five years in a Federal prison at Atlanta, Georgia, and pay a fine of \$1,500. Adolph E. Wupperman was sentenced to pay a fine of \$2,500 and sentence was suspended on Frank W. Fowler and Andrew S. Work, who were used by the Government as witnesses. This case will be appealed by the defendants.

The manager of our Protective Department, Mr. L. W. Gammon, who attended the various hearings before the referee in bankruptcy, and was present during the entire trial of this case, rendered most effective aid to the prosecution, having labored for months in accumulating the facts which helped make conviction possible. From the beginning of the various investigations and running through a period of several years, Mr. Gammon has handled this case in person, in view of its importance to the Association, and he is deserving of hearty congratulations upon its successful outcome.

DETAILED REPORTS

The manager of the Protective Department will read his report to the Executive Council, which covers matters pertaining to the Department other than those contained in this Committee's report.

The William J. Burns International Detective Agency, Inc., will make a detailed report of the work accomplished by them during the past fiscal year. This 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-BULLETIN. All of which is respectfully submitted.

THE PROTECTIVE COMMITTEE,
FRED. E. FARNSWORTH,
Secretary.

Report of the Agricultural Commission.

To the Members of the American Bankers Association:

One year ago at Boston, this Association in convention assembled, created an Agricultural Commission of seven members, two of whom are members of the Council, and on behalf of this Commission I herewith submit its report.

The Commission was given an appropriation of \$4,000—the same amount as previously given the Committee on Agriculture and Education—and was given no instructions.

We have to report that several additional State associations have appointed committees on agriculture and education, the total number now being thirty-eight.

Their interest and work and that of the individual banker-farmer is growing amazingly and beyond anything we had hoped for, all indicating that the "soft pedal" could not be "put on the agricultural stuff" even if one was so short-sighted as to attempt it. More than 55 per cent. of the member banks of this Association have a capital of \$25,000 or less, and the capital of over 75 per cent. of the banks constituting this Association's membership is \$100,000 or less.

In other words, 90 per cent. are country banks, and most of these are banker-farmers, directly or from a business standpoint vitally interested in agriculture and the farmers' success.

These percentages, the comparatively small size of the average bank, and the interdependence of these bankers and farmers, proves how little basis there is for "buncombe" talk of the political agitator and demagogic statesman, who would have you believe that bankers are all of great wealth, with interests and motives diametrically opposed to those of their communities.

It is just such ideas as these that THE BANKER-FARMER, on a broader scale and more widely circulated, would combat as well as helping to create a new sentiment in doing the needed service in agriculture and several public welfare lines that is to be expected of and must be rendered by such a great organization as this.

We believe that the American farmer is in every way better

circumstanced—that our agriculture and its outlook to-day is brighter and rapidly reaching a more permanent basis than ever before in our history. Every honest effort on the part of such organizations as this helps measurably in hastening to build up in this nation its strongest industry and bulwark and in perfecting here the greatest rural civilization the world has seen.

The chief work of this Commission has been the publication of THE BANKER-FARMER, of which eleven monthly issues have been printed and circulated to the extent of about 25,000 copies per month. Twenty-nine State Associations have co-operated with the Commission in this work and borne about one-third of the expense. THE BANKER-FARMER reaches some nineteen thousand bankers regularly, several hundred individual subscribers, and many bankers distribute monthly some five thousand copies among their clients.

As most of you are familiar with or have had an opportunity to peruse THE BANKER-FARMER, it is not required nor appropriate to occupy your time with unnecessary words in its favor.

Regularly, each month, it has tried through some twenty-five thousand words to give you an idea of its views with reference to a better agriculture and rural life—of a better citizenship and public welfare, and the banker's living interest in and relation thereto.

Your Commission and the Chairman-Editor have been devoted to the cause and have been repaid with many appreciative comments. The agricultural press has given THE BANKER-FARMER a most cordial welcome and co-operation, particularly evidenced by the special articles written for it by the most prominent agricultural editors.

Some of the best-known general and farm publications have desired to club with us and have given this Association most commendable mention for its work in these lines. The farmers themselves and their organization officers have appreciated the work and have so expressed themselves.

THE BANKER-FARMER, Number Twelve, completing Volume One (192 pages of 300,000 words), is soon to come from the press, when it and something more than a full year's work will have been paid for with a balance of some six hundred dollars remaining to our credit.

Almost a third of a million copies of THE BANKER-FARMER have been circulated at a cost to this Association of less than one cent per copy, including postage and every other expenditure by the Commission for all purposes and including more than three thousand individual letters. All this was only made possible through a most unusual and public-spirited co-operation of many different men and interests, because every penny did its full service, and because no member of this Commission received any compensation, money or other remuneration, excepting only the expense, as provided by your rules, for the three of them who attended the mid-year Council meeting.

While at its mid-year meeting in May your Executive Council unanimously endorsed the work of this Commission and voted to continue THE BANKER-FARMER through the coming or second year—yet we presume your approval will be necessary. In any event, this Commission appointed by last year's convention has all but ended its legal life. More than that—and concerning THE BANKER-FARMER, the compilation of which was undertaken as a personal labor of love and service has grown arduous, and has now become impossible for the Chairman to continue in connection with the added burdens incident to the recent and sudden death of his father.

The Chairman desires to take this occasion to express to each member of the Commission, to the President and General Secretary as well as to the Administrative Committee, the Executive Council and hundreds of members of this Association his deep and grateful appreciation of the confidence, support and encouragement given him.

Appendix hereto is an itemized statement, and another filed with the Council accounts in detail for each and every receipt and expenditure.

Asking your permission to issue within the ensuing two weeks the concluding number of Volume One of THE BANKER-FARMER, your Commission thanks you for your consideration, patience and the opportunity for service, and with the termination of this morning's programme surrenders its authority.

Respectfully submitted,

B. F. HARRIS, Chairman,
President, First National Bank, Champaign, Ill.
W. D. VINCENT,
Cashier, Old National Bank, Spokane, Wash.
C. H. McNIDER,
President, First National Bank, Mason City, Iowa.
JOS. HIRSCH,
Vice-President, Corpus Christi National Bank, Corpus Christi, Texas.
J. W. WHEELER,
Vice-Pres., Capital National Bank, St. Paul, Minn.
R. I. WOODSIDE,
Pres., Farmers & Merchants Bank, Greenville, S. C.
J. R. WHEELER,
Cashier, Farmers & Merchants Union Bank, Columbus, Wis.

EXPENDITURES OF THE AGRICULTURAL COMMISSION, 1913-14.	
Office, Express, Telegrams, etc.....	\$ 15.40
Cabinet files, rubber stamps, Typewriter rent.....	47.53
Clipping Bureau.....	12.30
Mimeographing.....	21.60
Stamps.....	95.00
Stationery and supplies.....	128.73
Stenographic services—eleven months.....	470.00
Engraving, and sketches for THE BANKER-FARMER.....	81.64
L. M. Tobin, and L. M. Hodges.	
Literary work and make-up work for BANKER-FARMER.....	750.00
Flanigan-Pearson Company, printers of THE BANKER-FARMER.....	3,629.20
Second-Class Postage on BANKER-FARMER.....	243.66
Commission Expense to Hot Springs meeting.....	186.76
Total Commission Expense.....	\$5,639.82
Paid voucher of previous Committee.....	165.00
Total Expenditures.....	\$5,804.82
Estimated for November.....	550.00
	\$6,354.82
Received from American Bankers Association, Appropriation.....	\$4,000.00
From State Associations, etc.....	2,997.30
Total Receipts.....	\$6,997.30
Total Expense.....	6,354.82
Unused Cash Balance.....	\$ 642.48
Paid for former committee.....	165.00
	\$ 807.48

Total expenditures by the Agricultural Commission of the American Bankers Association Funds, \$3,192.52. This is only \$149.11 in excess of the expenditures of the Agricultural Committee for the year 1912-13.

The Agricultural Committee in 1912-13 received sixteen cents per member from the State Associations for one conference report.

The Agricultural Commission received twelve and one-half cents per member from the State Associations for twelve numbers of THE BANKER-FARMER or 1913-14.

Report of the Committee on Federal Legislation.

The Committee on Federal Legislation has kept in close touch with all pending legislation relating to banks during the present session of Congress and a number of bills of harmful effect have been opposed. The Committee has devoted much time and attention to the various measures by personal attendance of a number of its members at Washington on different occasions, by mail and by telegraph, and has enlisted the active support and co-operation of Clearing House Associations, State Bankers Association and other organizations and individuals along lines of procedure mapped out by the Committee. A brief resume of the more important subjects of legislation is all that is necessary to present in this report.

Two amendments of the Federal Reserve Act have been passed. One, approved August 4th, which makes more generally available the temporary provisions of the Act relative to National Bank circulation, authorizing the Secretary of the Treasury to suspend the limitations of the Aldrich-Vreeland Act under certain conditions. He can remove the restriction which makes the Act available only to banks having bond secured circulation of at least 40 per cent. of the capital, and also the restriction that the total circulation shall not exceed the amount of unimpaired capital and surplus, except that no bank is permitted to issue circulation in excess of 125 per cent. of its unimpaired capital and surplus. He can also extend the benefit of the Act to all qualified State banks and Trust Companies which have joined the Federal Reserve system. A second amendment was approved August 15th. It amends Section 19 relating to the keeping of reserves by State banks and Trust Companies during the three-year period, so as to correct an ambiguity in that Section. Other amendments of the Act are pending. A bill was introduced by Senator Reed on September 16th to amend Section 11 by giving the Federal Reserve Board power to permit member banks to carry in their respective district bank any portion of their reserves now required to be carried in their own vaults, and to amend Section 16 by authorizing the Secretary of the Treasury to devise and put in operation a system of clearances of National Bank notes between the Treasury, the Federal Reserve Banks and the member banks. This passed the Senate on September 18th, and on September 24th was reported from the House Committee on Banking and Currency with an amendment of the first stated Section, giving member banks themselves, for a period of three years, permission to carry the reserve required to be kept in their vaults in the Federal Reserve Bank of the District.

A bill was introduced by Senator Owen on August 27th (S. 6398), which as amended and passed by the Senate on September 11th further amends the Aldrich-Vreeland Act so as to raise the limit of circulation which a National Bank can base on commercial paper from 30 to 75 per cent. of unimpaired capital and surplus. Also to extend the privileges of the Aldrich-Vreeland Act to all State Banks and Trust Companies hav-

ing a capital of not less than \$25,000 and a surplus of 20 per cent. On September 28th, the House Committee on Banking and Currency reported the bill, increasing the limit of circulation based on commercial paper to 100 per cent., but striking out the provisions extending the benefits of the Act to State banks and Trust Companies.

On September 24, the bill introduced by Mr. Glass on March 25 (H. R. 15038) to amend the Federal Reserve Act, relative to acceptances was reported by the House Banking and Currency Committee without amendment. The purpose of the bill is to authorize the Federal Reserve Board, in its discretion, to increase the amount of acceptances based on the importation and exportation of goods which a member bank of the system may discount and which a Federal Reserve Bank may rediscount.

The subject of interlocking bank directorates has required more time and attention than any other particular subject handled by the Committee. We have constantly fought this proposition from the inception of the original drastic provisions introduced in January of this year, securing their modification in the House and their entire elimination in the Senate, only to experience the disappointment of having the Senate conferees yield to the House conferees, and put back the House provisions of the bill, further modified, however, so that as finally passed and as they will become law they apply only to banks having capital and deposits exceeding five million dollars, with the special provisions made applicable only to cities of over 200,000 instead of 100,000 population.

Every effort was made while the Conference report was under consideration by the Senate to have the same recommitted for a reconsideration of these provisions, but without success. During the entire progress of this measure, the members of our Committee have been most active and General Counsel of the Association has ably represented the Committee throughout, having appeared at the hearings before the House Committee, presented a brief before the Senate Judiciary Committee which materially aided in the temporary entire elimination of the interlocking bank directorate provisions, and used every effort in his power to secure recommitment of the bill to the conferees. As finally modified the bill prohibits, after two years, any person from at the same time being a director or other officer or employee of more than one bank or trust company operating under the Federal law where either has deposits, capital, surplus and undivided profits aggregating more than five million dollars, and also prohibits a private banker or a director of a State bank or trust company having deposits, capital, etc., exceeding five millions from being a director in any bank operating under the laws of the United States. Furthermore, in cities of upwards of 200,000 inhabitants no bank or trust company operating under the National law can have as a director, officer or employee any private banker or director, officer or employee of any other bank or trust company located in the same place. The Act does not apply to mutual savings banks, and it also permits a director, officer or employee of a bank or trust company operating under National law in any such city to be in one other bank or trust company where the entire capital stock of one is owned by stockholders in the other. The Act furthermore is to be construed not to forbid a Class A director of a Federal Reserve Bank from being an officer or director or both in one member bank. The criminal penalties have been eliminated and authority to enforce the provisions applicable to banks is vested in the Federal Reserve Board.

The Clayton bill is one of the three Anti-Trust bills which were pressed for passage at this session. Of the other two, the act to create a Federal Trade Commission was approved by the President September 26, 1914, but the bill to prevent over issues of securities by carriers, which passed the House on June 5 and was reported with amendments by the Committee on Interstate Commerce to the Senate on July 23, has not been passed by that body.

The Emergency Revenue bill was introduced in the House on September 21, and it provided an annual special tax on banks of \$2.00 for each one thousand dollars of capital, including surplus and undivided profits, to take effect November 1. Our Committee immediately filed with the Ways and Means Committee of the House a protest as follows:

The American Bankers Association, with a membership of 15,000 banks, respectfully protests against the injustice of the provision of H. R. 18,891, taxing banks two dollars for each one thousand dollars of capital, surplus and undivided profits, for the reason that such tax, by singling out one class of corporations instead of spreading the burden over all corporations alike, is discriminatory and unfair.

In these critical times, especially when the banks have come loyally to the support of the Government and have been straining every resource to help the situation, they should be given all assistance possible instead of being penalized by discriminatory legislation. There is no disposition among the banks to escape their fair share of the burden of taxation, but we earnestly protest against a provision which places an undue share of this burden upon banking corporations solely and relieves all other corporations from the necessity of contributing their proportionate share.

It is therefore respectfully urged that the provisions referred to be readjusted so that the amount of revenue which it is estimated will be derived from this tax on bank capital be assessed proportionately

upon the capital stock of all classes of corporations, including the banks.

The bill passed the House on September 25 and was referred to the Senate Committee on Finance. We filed with that committee a protest as follows:

The American Bankers Association respectfully protests against the imposing of a special tax on bank capital of two dollars per thousand, while leaving other corporate capital untaxed, because the banks of the country are heavily overtaxed now in various ways and it does not seem fair that they should be discriminated against and made to bear the sole burden of a tax on capital while other corporations escape. There is no disposition among the banks to escape their fair share, but we urge that the proposed law be readjusted so that the amount of revenue which it is estimated will be derived from this tax on bank capital be assessed proportionately upon the capital stock of all classes of corporations, including the banks.

In support of these protests, independent action was urged by wire on the part of Clearing Houses and State Bankers' Associations, and numerous protests were filed by such associations as well as by individual banks. We were also represented in Washington by the General Counsel of the Association. During the progress of the bill, the elimination of the tax on bank capital and the substitution of a stamp tax on bank checks was recommended by a sub-committee, but rejected by the full committee. In the Democratic caucus to decide upon action by the Senate, the tax on bank capital was reduced to \$1.00 a thousand.

On the subject of the Income Tax our Committee have considered a number of requests that the Association test the constitutionality of the Act in the courts, but it has been deemed the best policy that the Association should not take the initiative or be identified in this particular. Various other requests have been made that the Association urge the amendment of the Income Tax Act with reference to the deduction at source feature. Two propositions have been advanced, first, that we urge an amendment of the Act by eliminating this feature entirely; second, that we urge its amendment by doing away with the collection at source, allowing to remain such of the provisions as may provide for a return or information at source. Our committee has given full consideration to this subject and decided that the best policy is to urge the entire elimination of the deduction at source feature; if that cannot be attained, then to procure an amendment providing for information at source, without deduction or collection at source, and simplifying the provisions of the law. Bills have been introduced and are pending in Congress along these lines, but it has been impossible to procure any action thereon at the present session.

We have given consideration to the various bills relating to the subject of agricultural credits, including the bill introduced by Mr. Moss in January, to establish National Farm Land Banks, embodying the ideas of the United States Commission which studied agricultural credits abroad, and also the later bill, introduced simultaneously in Senate and House May 12, to be known as "The Federal Farm Loan Act," following joint hearings on this subject by sub-committees of the Senate and House Committees on Banking and Currency. The bill is now pending before the Committees on Banking and Currency in the two branches of Congress, where it will doubtless be further approved. It will not be pressed at the present session, the pending trust legislation having consumed so much time, but final action upon the bill is looked for some time next winter. In a statement in the Senate on September 24, Mr. Hollis, of the Committee on Banking and Currency, who introduced the bill, summarized it as follows: "Speaking generally, the pending rural-credits bill follows the general lines of the Federal Reserve Act, and it is intended to supplement that measure. The Federal Reserve Act was for the particular benefit of commercial banks, and for the better handling and greater ease of short-time loans; it was intended to satisfy commercial needs. The pending bill is for the benefit of farmers, so that they may work with better and more effective instrumentalities in their vocation; it is intended to provide facilities for long-term loans, with small yearly payments, at a low rate of interest." He further stated that the Committee desired the most widespread publicity for the bill so that farmers and people generally may become familiar with its provisions and forward to their Senators and Representatives in Congress their suggestions and criticisms.

Our committee are in the attitude of watching the developments of this bill without at the present time making any positive recommendations upon the subject.

On the subject of Postal Savings, the Moon bill (H. R. 7967), which passed both Houses, was vetoed by the President on September 11. The Postal Savings law limits the deposits of any one depositor to \$500, exclusive of accumulated interest, and not more than \$100 can be deposited in any one month, and the law provides that the Government shall pay two per cent. annual interest on such deposits. The bill as finally agreed to by the House and Senate removed the restrictions upon the amount which could be deposited in any one month and amended the law so that the balance to the credit of any person upon which interest was payable, exclusive of accumulated interest, should not exceed \$500, but with an

added provision that the Board of Trustees might in their discretion and under such regulations as they might promulgate, accept additional deposits not to exceed in the aggregate \$500 for each depositor, but upon which no interest should be paid. The bill further amended the Federal Reserve Act, under which postal savings can only be deposited in solvent banks, whether organized under National or State law and whether member banks or not. This last stated provision caused the President to veto the bill, which he declared incompatible with sound public policy, submitting that as a matter of principle as well as of policy the new banking should be safeguarded very jealously, and it would be a mistake to take away any of the benefits or advantages held out by the present law to member banks to enter the system. Following the veto message, which was delivered on September 11, Mr. Moon introduced a new bill in the House (H. R. 18,842), which provides for the amendment of the Postal Savings Act substantially as agreed upon by the conference, but with a new provision regarding the deposit of postal savings funds.

Report of Committee on Law, by F. W. Foote, Chairman.

Under the provisions of the Constitution adopted at the last Annual Convention in Boston, the Executive Council at its first meeting thereafter elected from its membership the undersigned Committee on Law, which included the late Mr. Robert E. James, whose death in Easton, Pa., on November 10 last was deeply felt and keenly regretted.

The attention of your Committee during the past year has been chiefly devoted to the promotion of the enactment in the different States of legislation on twelve subjects recommended by this Association, having for their end uniformity and adequacy of law governing banking and commercial transactions. But eleven State Legislatures have held regular sessions this year down to the present time.

Working through State Associations of bankers, your Committee actively aided by the General Counsel of the Association were pleased to report enactments as follows:

GEORGIA.

A fraudulent check bill. This is not the precise measure recommended by our Association, but it makes it a misdemeanor for any person to draw a check against insufficient funds upon which he obtains value or induces such person to postpone any remedy he may have against the drawer, with a proviso, however, that if the drawer deposits with the bank within thirty days funds sufficient to meet the check with interest there shall be no prosecution. The Georgia Bankers' Association were active in supporting this measure.

KENTUCKY.

The Legislature of Kentucky this year passed three of our Association measures, namely: (1) An Act to punish the making or use of false statements to obtain credit; (2) an Act to punish derogatory statements affecting banks, and (3) an Act to punish the issuing of a check or draft without funds in bank. The Kentucky Bankers' Association actively supported these measures.

LOUISIANA.

Louisiana has passed an Act to punish the giving of checks on banks where the drawer has not sufficient funds or credit, but in changed form from our Association measure.

MARYLAND.

The Legislature passed an act to make it a misdemeanor to issue and obtain value upon a check against insufficient funds, but the language is different from our Association draft.

MISSISSIPPI.

The Legislature of Mississippi this year passed a general banking law in which was included our Association measure authorizing a bank to pay a deposit in two names to the survivor.

RHODE ISLAND.

The Uniform Bills of Lading Act was passed by the Rhode Island Legislature this year.

SOUTH CAROLINA.

The South Carolina Legislature this year passed the Uniform Negotiable Instruments Act.

The above indicates that a total of nine measures upon subjects of legislation recommended by this Association have been passed this year.

Other subjects of legislation relating to or effecting banks which have been passed in the different States this year are as follows:

In Kentucky, an Act to authorize banks and trust companies to subscribe for stock of the Federal Reserve Bank and making the banking laws of Kentucky conform to the requirements of the Federal Reserve Act. Also a bill providing for an additional State Bank Examiner. Also an amendment to the Kentucky statutes putting those who supply money and supplies to manufacture establishment on the same basis. In case of disaster it puts banks on the same basis as other creditors.

In Louisiana. A joint resolution was passed imposing an

amendment to the State Constitution with reference to the taxation of banks; an act making it a felony to repledge collateral withdrawn under Trust receipts; an act creating a banking commission and providing its duties and compensation; an act making it a misdemeanor to circulate false statements concerning building and loan or homestead associations; a similar act with reference to life and fire insurance companies; an act making it a misdemeanor for a member of the State Banking Department to circulate rumors concerning the financial condition of any bank; an act to authorize State Banks, Savings Banks and Trust Companies to become members of the Federal Reserve Bank.

In Maryland, acts relating to the taxation of State and Municipal bonds and also to the taxation of securities and bank shares of foreign corporations owned by residents of Maryland.

In Massachusetts, acts have been passed (1) to allow Trust Companies to become stockholders in the Federal Reserve Bank; (2) preventing the misuse of the word "Trust"; (3) to unify mortality claims of Savings and Insurance Banks; also to provide special forms of policies; (4) regulating reserve of Trust Companies in Boston within three miles from State House.

In Mississippi, an act has been passed establishing a banking department, creating a Board of Bank Commissioners, prescribing their qualifications, duties and compensations, providing for the election of State bank examiners, prescribing their qualifications, duties and compensation, defining what shall constitute a bank and banking business in the State of Mississippi, fixing the capital required to do a banking business, and providing for the examination, regulation and control of banks and banking business conducted by corporations, other than National banks and postal savings banks, and fixing the assessment for the revenues of the department, fixing qualifications and liability of officers' stockholders and directors of banking corporations; fixing the qualifications and liability of persons, firms and corporations in the banking business; providing for the payment of deposits to minors and other persons under disability and on joint account; prohibiting banking except under the provisions of this Act; providing for the liquidation of banks and the distribution of the assets thereof; providing for giving publicity to deposits more than five years old; and prescribing penalties for the breach of any of the provisions thereof, and to provide a system for guaranteeing deposits, and for other purposes, without expense to the State.

In New Jersey, (1) a bank tax bill was passed under which shares of banks and trust companies are taxed at the rate of three-quarters of one per cent. of their true value after deducting the real estate owned by the bank, such taxation being in lieu of all other State, county or local taxation upon the shares or upon any personal property owned by the bank the value of which enters into the tax value of the shares. Also, (2) acts known as direct inheritance tax laws, (3) an act making October 12 a public holiday, (4) authorizing trust companies and State banks to become members of the Federal Reserve Association, (5) an act providing that in suits upon negotiable instruments, the authenticity of any signature or indorsement on the instrument shall be considered as admitted unless the contrary is pleaded.

In New York, the Legislature passed an extensive revision of the Banking Laws of the State.

In Ohio, at a special session, an Act was passed enabling banks to become member banks in the Federal Reserve system.

In Rhode Island, an act was passed amending the holiday law.

In Virginia, an act was passed to empower the banks to become members of the Federal Reserve Bank, and also an act to provide for general powers for the purpose of doing a Trust business in addition to a general banking business.

The following draft of proposed law to limit the liability of a bank which refuses payment of a check through error has been prepared by the general counsel and approved by the Executive Council, and is now recommended to the General Convention for its approval in accordance with Section 16 (a) Article V of the Constitution, the dual approval of both Executive Council and Convention being a prerequisite to the urging of its enactment through State organizations in the different States.

An Act to limit the liability of a bank to its depositor for non-payment of a check through error.

Be it enacted, etc.

No bank shall be liable to a depositor because of the non-payment, through mistake or error and without malice, of a check which should have been paid, unless the depositor shall allege and prove actual damage by reason of such non-payment, and in such event the liability shall not exceed the amount of damage so proved.

It frequently happens that by reason of the crediting a deposit or charging a payment to a wrong account, or because of some other mistake or error, a bank will refuse payment of a check which is good and the depositor, feeling aggrieved, will sue the bank for damages for dishonoring his paper and injuring his credit. The courts in a majority of the States hold that a bank which so dishonors a check, especially where the depositor is a merchant or trader, is liable to him for sub-

stantial damages, and that it is not necessary for the depositor to allege or prove any actual damage in order to recover, substantial damages being presumed. As a consequence there have been a number of cases where banks have been mulcted by juries, in amounts ranging from \$1,000 down to \$30, because of the refusal, through mistake, to pay a check, and this notwithstanding the bank has acknowledged its error to the holder of the check and made all possible apology and reparation so that no real injury to the depositor's credit has resulted. In view of this condition of the law in many States, it seems desirable to urge the enactment of a statute such as proposed which would limit the liability of the bank to the actual damage sustained by the depositor and compel him to affirmatively prove such damage in order to recover.

The following proposed draft of law has also been approved by the Executive Council and is now recommended to the General Convention for its approval, in accordance with Section 16 (a), Article V.:

An act relative to the payment of deposits of minors or other persons under disability.

Be it enacted, etc.

Whenever any minor or other persons under disability shall make or have credit for a deposit in any bank in his or her name, such bank may pay such money on the check or order of such depositor, the same as in cases of depositors not under disability, and such payment shall be in all respects valid in law.

In a majority of the States there are statutes which authorize and protect the bank in making payment of deposits to minors, but such statutes do not exist in all the States, and in many States the statutes relate only to deposits of minors in savings institutions and do not extend to general deposits subject to check. It is thought desirable to urge the enactment of an authorizing statute of this kind in all the States where statutory provisions are lacking, and the above draft is therefore presented for approval of the general Convention.

Committee on Fidelity Bonds and Burglary Insurance.

RICHMOND, VA., October 12, 1914.

To the American Bankers' Association, Richmond, Va.:

GENTLEMEN: Your Committee on Fidelity Bonds and Burglary Insurance submitted to the Executive Council on May 1, 1914, a full report of its work to that date. In order to give you a complete report at this time, it will be necessary to refer back to the report of May 1, taking up first your Committee's treatment of uncompleted subject referred to therein, before reporting upon new work undertaken by the Committee in the last six months. While this report will contain a number of details that add materially to its length, the importance of these details are such that your Committee feels justified in bringing them to your attention.

The report of May 1 referred to the advantages of the 1913 copyright bond of the Association, and included a list of twenty-eight insurance companies that had been licensed to execute the bond, the rate being \$2.50 per thousand per annum. Four (4) additional companies have been licensed, as follows:

The American Fidelity Company, Montpelier, Vermont.
Bankers Limited Mutual Casualty Company of Wisconsin, Milwaukee, Wisconsin.
Maryland Casualty Company, Baltimore, Maryland.
Pacific Coast Casualty Company, San Francisco, California.

This makes a total of thirty-two (32) companies from which this bond may be obtained.

Further reference was made to the approval of this bond by various authorities, and a number of opinions were quoted. Your Committee has accepted as final neither its own conclusions reached when compiling the bond, nor the conclusions of the various authorities quoted in the report of May 1, but has continued to invite a careful review of the bond and its comparison with all other bond forms by the attorneys of membership banks, with the invariable result that the bond is approved by the bank's attorney and adopted by the bank. In addition to endorsements already reported to you, the Bankers' Association of the District of Columbia has approved the bond and recommended it for use to every member bank in the District; the Insurance Department of the Georgia Bankers' Association has approved the bond and recommended it for use; the Insurance Committee of the Arkansas Bankers' Association has done likewise, and further recommends that the bond be adopted by the Insurance Department of that State as a statutory form. Your Committee takes this occasion to repeat its recommendation to all member banks that this form of bond be used.

Several questions as to various conditions of the bond raised by the Surety Association of America, and by surety companies were outlined in the report of May 1. Only one of these questions has been found troublesome by your Committee, that being the apparent conflict of the bond with the insurance statutes of the State of Iowa. The Surety Association of America took the position that the Insurance Companies, members of that Association, could not furnish the bond in the State of Iowa, because the bond contained no short rate table of return premium, whereas section 1729 of the insurance statutes of that State required such a table to be printed in every bond

approved for use in that State. The Iowa Commissioner of Insurance held that our bond did not comply with the law, and could not be used in the State. Your Committee, together with the General Counsel of the Association, took the position that our bond at no time contemplated a short rate return premium, but at all times contemplated a pro rata return premium, and does therefore come within the provisions of the law referred to. The matter became the subject of an extended correspondence, and a ruling has finally been obtained under date of September 8, 1914, from the Hon. Emory H. English, the new Commissioner of Insurance of Iowa, which sustains the contention of your Committee, and permits the use of the bond in that State.

The report of May 1 next called attention to an endorsement which your Committee recommended for use in connection with the Association's bond when substituting this bond for other forms. The endorsement provides for the continuance of the insurance company's liability for losses occurring during the life of the previous bond, but discovered subsequent to the execution of the Association's bond. The great importance of this endorsement will be brought out more clearly in the discussion of a claim now pending by a member bank against one of the insurance companies, to which reference will be made later in this report. Your Committee again urges the careful reading of this endorsement and its use by member banks in connection with the Associations' copyright bond.

A recital of these conditions, while of a technical nature, serves to show the character of work necessary to insure to the member banks the greatest benefits under the Association's copyrighted forms. As these forms are more widely introduced, and come into more general use, questions of this character are continually being presented to your Committee for solution. Inquiries of any nature have been freely invited by your Committee, and have at all times had prompt attention.

BURGLARY INSURANCE.

Your Committee reported under this subject on May 1 that the policy forms of Burglary Insurance in general use contain many dangerous and unnecessary conditions that should be corrected, and recommended that a new form of Burglary Policy be compiled by the Committee for the use of the member banks. Such new form has been completed, and is attached to this report and made a part hereof.

All Burglary Policy forms have heretofore contained a long list of warranties by which the bank applying for the insurance guarantees the dimensions of its safe, vault, lock, door, etc., and other conditions upon which the average banker is not usually well informed. The policy compiled by your Committee reduces these warranties, or guaranteed statements of the applicant, as nearly as a proper identification of the equipment will permit, and relieves the applying bank of much of the danger of inadvertently incorrect warranties.

The hold-up coverage has been extended throughout the whole twenty-four (24) hours, instead of being limited, as shown in other policies. The conditions under which the insurance company may not be held liable have been carefully revised to give the bank a fairer protection. The manner in which notice of loss and claim shall be made and settlements effected have been simplified to the benefit of the bank. The policy is shorter, is more direct in its statement of relations between the insurance company and the bank, and its conditions are so grouped as to materially simplify the contract.

Your Committee recommends that the policy be copyrighted and adopted by this Association, and that the same method of introduction of the policy into general use be followed out as has proven so successful with the copyright Fidelity Bond.

Your Committee cannot too strongly emphasize to you the wisdom of the adoption and use of proper insurance and bond contract forms. All of the burglary losses for the year of 1913 reported by member banks have been carefully followed up by this Committee, and almost without exception such differences as have arisen between the banks and the insurance companies have been due to restrictive conditions contained in the insurance contracts. It behooves the bank to see in each case that it purchases the proper form of insurance contract, and if this is not done the bank should not blame the insurance company for insisting upon a settlement within the limits of the contract bought.

RATES.

From all of the information that your Committee has been able to obtain, we are of the opinion that a rate of \$2.50 per thousand per annum on the form of Fidelity Bond copyrighted and used by the Association is not unfair.

The liability of the insurance companies under this form is undoubtedly increased over that under other forms, and the furnishing of this bond at the same rate is equivalent to a reduction of cost of insurance to the banks.

With respect to burglary insurance, however, your committee concludes that the margin of profit of the insurance companies is very wide, and the rates should be reduced. In the report of May 1, 1914, we quoted such figures as were available at that time. We have continued to accumulate additional data, all of which tends to confirm the above conclusions. For in-

stance, the insurance companies during the year of 1913 paid \$1,096,626.00 of claims under burglary policies, and received \$3,403,300.00 of premiums, the premiums received being more than three times the losses paid. For the last ten years the insurance companies have paid a little more than \$6,000,000 of claims under burglary policies, and have received approximately \$20,000,000 of premiums; again being more than three times the amount of claims paid. These figures, however, include all forms of burglary insurance, and are not limited to the insurance on banks. We have been unable to obtain from the insurance companies any statement of their experience with bank business alone, but a further investigation of the losses of the member banks of this Association only tends to confirm the conclusion of your committee, viz.: that the losses paid under burglary insurance policies to the member banks of this Association do not exceed five per cent. (5%) of the premiums paid.

The reason for the low percentage of loss in member banks of the Association are various. Most of the largest and less isolated banks are member banks, and their equipment is as a whole superior to that of non-member banks and mercantile houses and does not so readily invite attack. Burglars and Yeggs attacking member banks are more vigorously and promptly prosecuted. The activity of the Protective Department of the Association also contributes largely to this result. In our investigation of burglary losses we have found case after case where the non-member banks have been attacked and the member banks close thereto have been avoided. For instance, twelve (12) small burglary losses were reported in one State last year including a total loss of \$9,376.00. Only two of these were member banks with a loss of only \$496.41. The total loss reported by all member banks for 1913 is less than \$31,000.00.

Your Committee recommends that the insurance companies writing burglary insurance be again invited to furnish any information or records that will tend to correct or to confirm our conclusions. Believing these conclusions to be correct, we further recommend that the matter be brought to the attention of every State Bankers' Association, and that each such Association be requested to appoint an Insurance Committee to cooperate with this Insurance Committee in an effort to obtain a proper reduction of burglary rates, and for the performance of such other insurance service as the conditions of each State may warrant. Such Insurance Committees have already been created in a number of States and are co-operating with your Committee. For instance, the Insurance Committee of the Arkansas Bankers' Association is giving much time and care to the subject, and recently rendered a most complete and instructive report to its Association. The Iowa Association has a Committee which is giving particular attention to Burglary Insurance rates. The Wisconsin Association has given much study to its insurance matters and is co-operating most fully and helpfully with your Committee. We believe that this method of organization will be the most effective way of meeting organization of the insurance companies, and will bring to the banks of the country advantages that can be obtained in no other way. The insurance companies are not disposed to volunteer a reduction of rates; instead, to quote the Chairman of the Wisconsin Insurance Committee:

I am very certain from past experience with the companies, that if it were not for your Committee, and the efforts which are put forth by the members of the various Insurance Departments of the State Associations, a material advance could be expected at most any time.

ADJUSTMENT OF CLAIMS.

This is a new field of work in which a well informed Insurance Committee may be of great value. Your present Committee has, from time to time, invited the member banks to command any service that the Committee might be able to perform, and requests are being received for help or suggestions in the adjustment of differences between the bank and the insurance companies.

One bank complained that settlement of claim under a Fidelity Bond was being delayed. Your Committee promptly communicated with the Insurance Company, asking if there was any reason that settlement should not be promptly made. The Insurance Company explained the delay, and within a few days the bank advised the Committee that satisfactory settlement had been made.

Another bank reports that liability for a small sneak theft loss was denied by the burglary company, and that the bank had as a result transferred its patronage to another company, which had delivered a policy bearing a special endorsement purporting to cover sneak theft losses. Knowing this to be contrary to the rules of the insurance companies, your Committee asked the bank to send the policy in for our examination, and we promptly pointed out the lack of authority of the company's agent to attach such endorsement, making the same illegal and invalid. The bank took the matter up with the officers of the insurance company, who repudiated the action of their agent as unauthorized. The matter is still under discussion, but the point is, that the information furnished by this Committee helped the bank to avoid the usual error, viz., assuming a protection which did not exist.

Another bank complains that the surety company furnishing its bond denied liability for more than a few hundred dollars of a defalcation in excess of \$4,000.00. This is the case referred to in the early part of this report in the discussion of the endorsement to be used in connection with our copyright bond, and the questions involved are so pertinent to the work of this Committee that they merit some space in this report.

The bank claims to have applied to the insurance company for the copyright bond of the American Bankers' Association, which it at no time received. It received and accepted from the insurance company that company's form of bond compiled fourteen (14) years ago, and containing a clause holding the company liable only for such loss as might be discovered during the currency of the bond, or within six months after its termination. This bond was subsequently substituted by another form of the insurance company. A defalcation was discovered more than six months after the first bond was terminated, but, with the exception of a few hundred dollars, all of the defalcation occurred during the currency of the first bond. The insurance company denied liability for all of the loss except the few hundred dollars occurring in the currency of the second bond, but offered the bank the additional salvage collected. Your Committee, with the assistance of the General Counsel of the Association, has taken the case up with the insurance company looking toward such better settlement as may be obtained.

The point clearly brought out in this case is the danger of the restrictive clause limiting the time within which losses may be discovered. The copyright bond of the Association contains no such restriction, and the additional endorsement referred to earlier in this report contemplates the extension of time within which loss may be discovered as to acts committed during the currency of the previous bond.

So, in the investigation of case after case under bonds and burglary policies, your Committee has found that differences existed sometimes because of the bank's misrepresentation in warranties, or delay in notice of losses, or contributory negligence facilitating the accomplishment of the theft, and sometimes there have been found cases of delay on the part of the insurance companies in their settlements, occasionally misrepresentation of policy forms, and almost always a desire to furnish the bank some other contract form than the copyright forms of the Association. Your Committee recommends that an investigation of each case involving differences between the banks and the insurance companies be continued, and a special report to be made upon each case involving any material point of interest, or involving any unusual settlement. This Committee further recommends that all member banks examine their existing contract forms very carefully, and wherever they are not the copyright form of the Association that the advice of the bank's attorney be obtained as to a change to the copyright form. Your Committee also invites inquiries at any time from the member banks, and has always been prepared to examine the forms of contracts used by the banks and make recommendations thereupon.

RELATION TO THE INSURANCE COMPANIES.

Your Committee has endeavored at all times to be fair and impartial in its relation to the insurance companies, and for the most part has enjoyed very courteous treatment.

However, as the field of the Committee's activity has broadened, there has developed a definite degree of resistance on the part of the insurance companies. For instance, your Committee welcomed the co-operation of the Burglary Association in the preparation of the new burglary policy. The whole subject was fully discussed with representatives of the Association, who have promised us frequently since last February a report outlining the views of the Burglary Insurance Companies as to contemplated improvements of the policy contracts, reduction of rates, etc., but up to this time no such co-operation has been received. Again, a disposition is shown by the bond companies to discourage the use of the Association's copyright bond. One insurance agent informs this Committee that his company will issue the bond when requested, but instructs its agents not to take any active part in its promulgation. Some of the insurance companies limit the bonds to banks of \$25,000.00 capital or over, and with three employees or over. Wherever this objection is raised, your Committee will upon application furnish the names of the insurance companies that do not impose this restriction.

Other evidences of resistance to the work of the Committee appear from time to time, but your Committee has endeavored to assume in each case only such position as might be fair and just, and has at all times been careful of the interest of the insurance companies as far as the welfare of the member banks would admit.

PUBLICITY.

In addition to all of its other work, your Committee has from time to time announced its willingness to furnish information, opinions or other insurance service that might be desired by the member banks, and the responses to this invitation are growing both in number and diversity, and the most satisfactory acknowledgments of service are continuing to be received. Of course, only a small part of the entire membership has called upon this Committee for service. Realizing that practically an unlimited field for such special work lay before us, we have taken advantage of such opportunities for making public the Committee's work as the limited funds at the Committee's disposal would permit.

A number of member banks, approving the Committee's work, have from time to time assisted in the distribution of 30,000 pieces of printed matter, outlining the Committee's work by using them as mail enclosures, and to these banks your Committee tenders its grateful acknowledgments. We recommend that this plan be continued through which fifty or one hundred thousand copies may easily be distributed among the banks of the country without great cost.

Several addresses have been made by members of the Committee and the Committee's Secretary before State Association banks, and in each instance the greatest interest has been shown and the Committee's opportunity for service increased. In addition to our recommendation appearing earlier in this report regarding an invitation to each State Bankers' Association to create Insurance Committees, we recommend that the work of this Committee be presented in person by some of the Committee, or in a paper specially prepared in each case, to each Convention of State Bankers' Associations.

We further recommend the use of the columns of banking and insurance papers and journals wherever invitations may be received from such publications.

CONCLUSION.

A great deal of time and study and work have been given by every member of this Committee to the intricate and technical and academic questions involved in the work, and from the experience and knowledge so obtained, we respectfully urge, in addition to the recommendations already appearing in this report, the following further recommendations:

First: A Committee on Insurance should be continued by this Association, and its authority and powers broadened to follow out the uncompleted work referred to in this report, and to take up and treat with new questions that are continually being presented by reason of the ever recurring changes in the insurance world. The insurance companies are organized in various associations, through which uniform rates are promulgated and uniform rules are adopted for the guidance of the insurance companies. These associations are created for and work for the interest and the well being of the insurance companies. To meet this condition the American Bankers' Association should continue an Insurance Committee, or organization made up of members that are most experienced and best equipped for such service.

Your Committee therefore recommends that the Insurance Committee of the American Bankers' Association shall be and is hereby created a permanent Convention Committee. That the Committee shall consist of five members, all officers of banks, representative as near as may be of the various sections of the country, and that no bank officer who is connected with any insurance or surety company as officer or shareholder shall be eligible to membership upon this Committee; members of the Committee to be appointed annually by the President of the Association, and to have power to employ such expert and other assistance as it may require, but to incur no expense or liability beyond the amount annually appropriated for that purpose.

Second: A larger appropriation should be made for the continuance of this work. Your present Committee has accomplished in the last twelve months the work outlined in its report to the Executive Council, May 1, and in this report, at a total cost of \$3,796.48, being \$1,200.00 less than the appropriation provided. The recommendations contained in this report contemplate, however, a wider field of activity, necessarily involving a larger expenditure, and it invariably follows that such additional work will be restricted or broadened in proportion to the funds available.

Your Committee desires to acknowledge with thanks the very hearty co-operation and assistance rendered by the General Secretary and General Counsel of the Association and the Secretaries of the various State Bankers' Associations, and particularly the indefatigable labors and expert services of the Secretary of the Committee.

Detailed Report of Proceedings.

FORTIETH ANNUAL CONVENTION, HELD AT RICHMOND, OCT. 13, TO OCT. 15, 1914.

FIRST DAY'S PROCEEDINGS.

MORNING SESSION,

Wednesday, October 14, 1914.

Forenoon Session, held in the Auditorium of the Jefferson Hotel, on Wednesday, October 14, 1914, at 9.30 o'clock.

THE SECRETARY: If Vice-President Law is in the audience, I wish he would please come to the platform. We have not heard from President Reynolds.

As Mr. Law is not in the audience, if it is the wish of the Convention to proceed, I will call Mr. Goebel, of Kansas City, Kansas, to preside until the president or vice-president appears. It is now 10.30.

The meeting was opened by Mr. Goebel in the Chair.

THE CHAIRMAN: Gentlemen and members of the Convention of the American Bankers Association, you will now please come to order.

All will please rise while the Rev. Dr. Collins Denny, Bishop, Methodist Episcopal Church South, Richmond, will invoke the Divine blessing.

PRAYER.

REV. DR. DENNY: Almighty God, our Heavenly Father, help us to appreciate that Thou art our Father, that Thou art our Heavenly Father. Save us, we pray Thee, from the folly of forgetting Thee. We are so prone in the rush of our little affairs to overlook our need of Thee, and very often we are lifted up into a pomposity, which is always characteristic of ignorance and of egotism.

Now, Lord, help us, we pray Thee, to recognize, in our weakness, in our lack of wisdom, in our constant problems, that we are called upon to face and for the solution of which so often we are utterly unequipped; help us to realize that we are dependent upon Thee, and to turn to Thee, and to lean upon Thee, and to have such relations to Thee that Thou mayst come into our lives with the help that we need, with the light that is necessary for us on the path that we pursue, with the clearness of vision and with the determination of purpose that ought to characterize us in all the work that is laid upon us in the life that we live.

We have thought, O! Lord, that we were very independent; we thought that we were self-sufficient, and we have been rudely awakened by the difficulty that has arisen and the war that has blasted other countries; we have been rudely awakened to see how much dependent we are one upon another, and how our seeming self-sufficiency has really not been well based.

Now, we come to Thee with great thanksgiving, that Thou hast given us a day of peace in this, our land, blessed by the name of the most high God, and blessed by the name of the prince of peace; that in this fair land, for some reason or other, Thou hast blessed us with this mighty blessing.

O! Lord, God, spread out Thy wings, we pray Thee, over us, and continue to us the peace that we now enjoy. May we be those who give attention to Thy word and heed Thine admonition, and seek peace and pursue Thee, and may the Lord bless us with continual peace in this, our fair land; and help us to see, we pray Thee, that this peace is not given to us because of any merit or worth of ours; it may be, O! Lord, that Thou hast looked for fruit upon our lives all these years, and just as the husbandman looked upon the fig tree and found only leaves, and was about to cast it out until there came the word to dig about it and to fertilize it, that one more opportunity might be given to it; so, O! Lord, it may be that Thou art giving us this term of rest and our quiet and our freedom from alarm that we, too, may be dug about and fertilized and somewhat restored to that fruit-bearing nature which ought to be true of all of us.

Now, O! Lord, bless the lands across the sea; come to the troubled hearts; come to the stricken souls; come to the blighted lives; come, we pray Thee, O! Lord, and lay Thine hand upon the passionate hearts of men; and just as Thou didst face the storm upon the lake in the years gone by, and say to its angry waves, "Peace, be still," until every white-capped wave rolled by, up to Thy feet with the quietness and ease of lambs, so may God say to the warring nations abroad, "Peace, be still," until all again may be quiet and the blessing of God may shine once more upon the Nations.

Now, Lord, come and bless these Thy servants. They bear large responsibilities. The comfort and the happiness of untold multitudes are in their hands. Merciful God, help them to see how they do not live unto themselves, and may they live each for all and all for each, with a patriotic devotion, and a manly devotion, and a Godly devotion to their duty and to the upbuilding of their country, and to share the favor of the most high God.

Forget our sins. Number us among Thy people. Write Thy name upon us and claim us for Thine own. We ask for Jesus' sake. Amen.

(President Reynolds here took the chair.)

PRESIDENT REYNOLDS: Gentlemen of the Convention, I regret that the entertainment provided here has been so extravagant and the weather so damp as to affect my throat, and I found it necessary this morning to visit the doctor before coming here, which accounts for my not being here promptly on time.

We will now listen to the addresses of welcome. I take pleasure in introducing the Hon. Henry C. Stuart, Governor of Virginia.

Address of Welcome, by Henry C. Stuart, Governor of Virginia.

MR. PRESIDENT AND MEMBERS OF AMERICAN BANKERS ASSOCIATION:

If Virginia hold valid title to the reputation for hospitality which she has so long enjoyed, I feel sure that reputation would be enhanced if you, our distinguished guests, could realize, or if I, speaking for Virginia, could adequately express the cordiality of the welcome which is yours to-day. The pleasure we feel comes not alone from the consideration of the vast and well-nigh inconceivable power which is wielded by this association, a power measured by the control of fifteen billions of dollars of money and credits, but from the contemplation of the marvelous genius which has developed and holds under masterly control this, the mightiest financial force that has ever been wielded by the hand of man.

I was told by a prominent official of your organization that I would be expected to talk about Virginia. That subject, as some of you may know, has been for a long time a favorite theme for Virginians. It was suggested that Virginia was so rich in history as to supply any material needed for this occasion. I shall deal somewhat in history, but it will be so thoroughly modern as to be contemporaneous. We love to dwell on the proud traditions and sacred memories of a great Commonwealth, but knowing that these are secure in the hearts of our people, we feel that their greatest value to us comes from the elevating and ripening influence which they shed upon the standards and ideals of to-day.

I venture to point to some of the things which Virginia has accomplished during the fourteen years which have elapsed since this Association last met in this, our capital city. While the aggregate banking resources of the National and State banks of the United States, not including Trust Companies, have increased by six billion, seven hundred and fifty million dollars, or 80 per cent., the same resources in Virginia have increased 130 per cent. The City of Richmond, in the same period, but mostly in the last six years, has increased, in National Bank resources alone 238 per cent., or practically at three times the rate of increase of the country at large. Of the twelve Federal Reserve Districts, District No. 5 has a little more than one-twelfth of the population of the country, and contains at least four of the most rapidly developing States in the Union.

While we are extending felicitations on the great work which has been done in the nation, it seems not inappropriate that reference should be here made to the conspicuous enterprise and ability of the bankers of Virginia, as evidenced by their financial growth and strength. To whatever chapter in the history of Virginia we may turn, we can find no men who have more signally illustrated their capacity for important public service than those who have guided the financial institutions of Virginia in the past decade. It is a gratifying fact that perhaps the most important legislation ever enacted by Congress with respect to the currency, was drafted by two Virginians, one an honored representative from our Sixth Congressional District, who is soon to address you, the other a Senator from his adopted State of Oklahoma; both ably assisted in some of the foundation work by another Virginian, transplanted to the State of New York.

The honorable place which Virginia holds in the financial councils and authorities of the country has not come to her without reason. It is but the fruitage of years of poverty and adversity, the lesson learned in the stern school of necessity, the reward of self-discipline and sacrifice, the recompense of patience and frugality; all uniting to bring us to a financial status which has even surprised ourselves. We have used the hard conditions of the past as a springboard from which to leap into a position of comparative wealth and importance, and which could not have been ours without the utilization of every opportunity that has come to us as a people.

I shall not attempt to recount any of these hardships and difficulties, but the condition of the South when she started out upon her new career may be illustrated by an ancient legend—the Goddess of Fortune called before her three men, a Catholic, a Protestant and a Jew, and to each promised whatever he might desire. The Catholic chose Fame. "Fame shall be yours," said the Goddess. The Protestant chose Riches. "Riches shall be yours," said the Goddess. The Jew, seeing that Fame had been given to the Catholic and Riches to the Protestant, when asked what he would choose, said: "I'll just take the address of that Protestant." So it was with the South after the war; stripped of both fame and riches, except in memory, she had to content herself with the address of the men who had the money, and we have very recently reached the point when we find our own address somewhat in demand in some quarters.

We are reminded that this, the fortieth annual meeting of your Association, is the last to be held under the old order, and is upon the very threshold of the new. This being true, the deliberations of this meeting must be of the most far-reaching importance. The banking interests of the country are to grapple with new questions and confront many new conditions. It is a source of pride and an evidence of strength in our institutions that the banking interests of the country have so promptly, cheerfully and patriotically accepted and acquiesced in the changed relations between the Government and the banks, and, in a measure, between the banks and the people. Without commenting in detail on the nature of these changes, I desire to express my own belief, and I think the belief of the people generally, that the net results to the Government, to the banks and to the people will be a better understanding, each with the other, and a gradual knitting together of all in interest and sympathy, so that the entire financial structure will rest on the secure foundation of mutual confidence, public and private. No better evidence of this can

be found than in the steadiness and courage with which our financial institutions generally have met and discharged their appropriate functions in the face of a foreign situation, which, under conditions of mutual distrust, might have led to disaster to us all. The frightful struggle now raging across the waters might be a disturbing factor but for the assured soundness of our monetary system, coupled with the wise and statesmanlike policy of a National Administration which plucks from the nettle, danger, the flower of safety, rather than learn by the sword the bitter lesson of the value of peace. True it is, that European disturbances are casting their shadows on some branches of American commerce, a condition recognized as requiring patient waiting, but according to all the lessons of history and of human observation, we should find ourselves, when the smoke of battle shall have lifted, in a position of relative advantage, commercially and financially, which should satisfy the most advanced prophets of optimism. It is not too much to hope that the curtain which we trust will soon fall upon the bloody drama now occupying the European stage, will rise again, and when it does that the scene will be shifted to the Western Hemisphere, and on that great stage we shall see the mighty hosts of peace eager to bind up the gaping wounds of war, to weld together the bands that have been broken asunder, to heal the scars that have been left in the path of the destroyer, and to build upon the ruins of war a temple of peace for all the world. To the great financial institutions of the country this noble host will look for the sinews of peace, which are no less essential than the sinews of war.

We are especially gratified that in this hour of just pride in your great achievements and of intensity of interest in the future that awaits us all, you have chosen the capital city of the Old Dominion as the place for your important deliberations.

Gentlemen of the American Bankers' Association, on behalf of all our people, I once more extend you a hearty welcome to Virginia.

PRESIDENT REYNOLDS: I take great pleasure in introducing Hon. George Ainslie, Mayor of the City of Richmond.

Address of Welcome, by George Ainslie, Mayor City of Richmond.

MAYOR AINSLIE: Mr. President and Gentlemen of the American Bankers' Association, I was very glad to hear President Reynolds' explanation, and to know that it was only his throat and not his head that was sore.

I read some time ago an address delivered by the Comptroller of the Currency, Mr. John Skelton Williams, who is a Richmond man. The address was delivered to the Indiana Bankers Association. In it he unblushingly confessed that Virginians were very much given to the habit of boasting about themselves and claiming everything in sight; and he proceeded to claim for Virginia about everything that the Indiana Bankers Association and their membership had ever done. I never have understood why people thought it was necessary for Virginians to boast about themselves. You do not have to boast about anything that you can prove by the Bible. The position, the condition, the standing of Virginians, according to one authority, can be and is established by the Bible. A short time ago an old negro preacher up in Virginia was preaching to his congregation, and, in order to impress upon them their duties and responsibilities, particularly as Virginians, he appeared to read out of the Book: "There are four chosen tribes of the Lord, and, whatever may happen, them tribes is sure of salvation. It don't matter how much they may be scattered, when the good day comes the members of them four tribes is sure of final and complete salvation; and them tribes, listen to me, my brethren, is the Huguenots, the Hottentots, the Abyssinians and the Virginians."

So that while one's position both here and hereafter is fixed by such high authority, I do not see any reason for taking up time to boast about it, nor shall I take up your time to boast to you about the city of Richmond. But my pleasure and pleasing function is, in the name of the people of this city, and on the part of the people of this city, and in addition to the welcome that has been extended to you by the Governor of Virginia, to extend to you a warm and cordial welcome; to welcome you to our city; to welcome you to its traditions; to welcome you to its hospitality; to an acquaintance with its people, which I hope will develop into a real and true friendship, and to wish for this Convention that its deliberations may result in pleasure and profit to its members, and through them to the people of this whole nation, whose servants you are.

PRESIDENT REYNOLDS: Gentlemen of the Convention, I have the very great pleasure to introduce Col. John B. Purcell, President of the Richmond Clearing House Association.

Address of Welcome, by John B. Purcell, President of the Richmond Clearing House Association.

COL. PURCELL: Mr. President and Gentlemen of the American Bankers' Association, I am glad that I am accustomed to the word "Banker," and have not classed you, as the Governor did, among the "Bar."

It is said that nowhere shines so brightly the sun as in Virginia. I hope we will be able to give you a sample of other weather before you leave, to show you that nowhere does the rain fall so gently as in Virginia. We want to show you all conditions of climate, and we want to welcome you to our delightful sunshine, our gentle rains, and to our hearts and our homes.

It is said that we Virginians, and Richmond people especially, are very boastful and sentimental. Let me tell you that in Richmond, at least, we endeavor to make good use of that sentiment, and when our fevered brows are overcast with deep thought and we have problems to confront, we find it is a great relief to us to go and stand where Patrick Henry lit the torch of liberty in this country, or before the bronze image of Washington and his compeers, to drink inspiration of patriotism; or perhaps before the effigy of Lee we remember the tramp of his legions as they passed through Richmond to strengthen the thin, gray lines about us. To all of these we welcome you, that you should feel that these things of which Virginians boast, that these

monuments of history, of tradition and sentiment, are not ours alone. We are but the custodians of them. They belong to the great American nation. We are not proud of them personally; we feel that they are but incentives for this generation to do in their time and day what our forefathers did for this nation in their times. We bid you welcome to your own, and that you may seek to drink inspiration of patriotism at the same time that you are laboring with the greatest problems of finance that have ever confronted this nation since its beginning. We invite your surcease from care and thought, and that you will, like us, go to these points of interest, and there remember that they, though in Virginia's care and protection, are as well in the care and protection of this whole country. I welcome you, gentlemen of the American Bankers' Association, to these and to all the hospitalities, traditional and actual, that we have. We want you to feel at home. We want you to go home with a feeling that in many instances you have visited the home of your fathers; that if you are not descendant from Virginians, as many of you are, you have, at least, come to the shrine, to the cradle of American liberty.

Here upon our shores—and we propose to take you there—is the sight of the first English settlement in this country; and we invite those who trace their traditions from the Pilgrim fathers to believe that we think that they, too, have a history equal to Virginia; that they, too, cherish that history, and that we two together have been the formation of this great American people.

We welcome you, gentlemen, to our hearts and to our homes.

Response by Arthur Reynolds, to Addresses of Welcome and President's Annual Address.

Governor Stuart, Mayor Ainslie and Colonel Purcell:

Your cordial words of welcome and the kindly sentiments you have conveyed have indeed touched our hearts and make us feel very happy that this convention has been held in the beautiful and historic city of Richmond.

It has occurred to me that underlying all you have said there was that generous hospitality so emblematic of the Southern people and nowhere in this wonderful section of our common country is its home-like kindness more noticeable than among the people of this city and of the great State of Virginia.

The cavaliers who landed at Baltimore did not confine their sentiments and characteristics to any boundary lines, and Virginia and Richmond hold a just pride in their old and honored families.

The modern Richmond breathes the atmosphere of the New America and looks back with gratification upon the roll of honor of such historic characters and old familiar family names as Madison, Monroe, Randolph, Spotswood, Marshall, Mason, Lee and Washington "of Northampton and Virginia." The entire nation joins with Virginia in paying homage to these sturdy characters whose influence upon our civilization and development were so marked.

In and around this city have occurred some of the most stirring scenes in American history which have long since gone down as an epoch in the wonderful progress of a country destined to occupy a position of great prominence in the respect and confidence of the civilized nations of the world.

Your words of welcome and generous expression of good will are fully appreciated, and I am sure I voice the sentiments of all those present when I express the hope that the memories and honors of the past, of the people of Richmond and Virginia, will ever continue untarnished, and in the full enjoyment of a prosperous present you may look forward to an inviting and successful future.

Those of us who had the good fortune to attend the former convention of the American Bankers Association held in this city, will long remember the splendid entertainment extended to us at that time, and we have looked forward to our meeting this year with a great deal of pleasure.

We thank you for this welcome and feel sure our stay among you will be one of profit and enjoyment.

ANNUAL ADDRESS.

The American Bankers Association is recognized as one of the most important and potential voluntary organizations of the present time.

It is, indeed, an honor and a pleasure to be permitted to preside over this meeting on the fortieth anniversary of this great Association.

I feel that the membership is to be congratulated upon the wonderful growth and progress that the Association has had.

I predict that the work has only begun, and in the future its influence will be exerted as a still greater force for good.

During the past year your Association has continued to show its usual progress and development of those activities which its permanent policy has proven beneficial, not only to the banking business, but in its relations to the public.

Upon the membership of any organization or association depends its success or failure. It is not only a question of members, but more that of purpose and the character of those who join together in a single body for common good.

That the American Bankers Association has continued to grow and become more useful, not only to its own members, but to the nation as well, is an indication that its inception was grounded in correct principles and that its policies are enlisting popular support.

With a membership now of about 15,000, I feel the Association is to be congratulated upon the increase which has been made during the past year, for only a limited number of banks may become members, and our membership is already very large.

The wisdom of the creation of the Executive Council has been demonstrated through a successful experience of many years, and the work of that body during the past year has called for more than ordinary responsibility, which its members have fully assumed.

The activities of all the sections and committees and commissions of your Association have, during the past year, been maintained at their former standards of efficiency; and their work has not only met with the approval of the membership, but has also engaged the attention of the people; and in view of the fact that the Secretary's report, as well as the reports of these bodies, cover full details of the progress made by these various branches of the organization, I deem it unnecessary to refer to them in detail.

Your General Secretary has been industrious and energetic in the

conduct of your affairs, and is entitled to your gratitude and commendation.

In my connection, extending over a period of years, with the Association, I have always been impressed with the spirit of co-operation and loyalty exhibited by the members and the various sections and committees, and never more so than during the year just past, covering my official relations with the Association, and I desire to acknowledge the splendid support which you have extended to all of the Administrative Officers of the Association.

Among the bankers of the country, and especially at the meetings of your Association, the principal topic of interest and discussion for years has been the one relating to the question of so reconstructing our financial system as to make it safe and serviceable for modern business requirements.

The Federal Reserve Banks now in process of formation have enlisted the support of all the National Banks of the country, by reason of the provisions of the act, which compelled them to subscribe to the stock of Federal Banks or forfeit their charters, and, notwithstanding the differences which have existed, the National bankers have submerged their opinions and are extending the system a cordial support.

A limited number of banks and Trust Companies organized under State laws have also come into the system, but not to the extent necessary to warrant the anticipation of that complete unification of our entire banking system so long desired.

All those banks who have joined are giving the system their hearty support, but only the wisdom of management by the directors and officers of the various Reserve Banks, and of the Federal Reserve Board, can insure the success of the experiment.

It was asserted by some during the discussion preceding the enactment of the bill that the withdrawal from the channels of trade of the large sum necessary to capitalize the Federal Reserve Banks, as well as the reserve required to be deposited with them, would work a disastrous contraction of credit.

On the other hand, it was pointed out that the privilege the member banks had of rediscounting with the Federal Reserve Banks would at once relieve the situation, and hence no contraction of credit was to be anticipated.

Those in charge of the measure, however, yielded to the advice of the bankers, and reduced the percentage of subscription, and spread the deposit of the reserves over a period of thirty-six months.

The principal object in view by the originators of the plan was to add stability to our banking by devising a system that would alleviate the periodical stringencies to which business in this country was subjected, and to prevent those disastrous panics which followed. Any operation under the system which by an immediate return to the channels of commerce by the rediscounting plan, to prevent the contraction incident to the withdrawal of so large a sum from business, would, to that extent, defeat the ability of the Federal Reserve Banks to relieve any stringency. It seems to me that if these banks are to be always in a condition to ward off disaster that we will, at the beginning, be compelled to submit ourselves to some contraction. To hold both positions is illogical, if not impossible.

It may be said that the reduction in the reserve requirement of the National Banks under the new law will release funds to alleviate the strain; and so, indeed, it will, if the banks will use them for that purpose.

It may, however, be pointed out here that a *statutory reserve* is not necessarily a *safe reserve*, as the reserve requirement of every properly managed bank depends upon the character of its business rather than upon legal enactment.

The rule of the banker must be "safety first," regardless of contraction. He owes this duty to both his depositors and stockholders.

What, then, will be the course of those managing the Federal Reserve Banks? They must cause a contraction of credit if they keep impounded the means to at all times relieve distress, and if they rediscount at once and freely, they deprive themselves of the ability to do so.

It will require rare wisdom, indeed, to meet so contradictory a situation.

If we had any assurance that the Federal Reserve Banks would hold large deposits aside from those which the Government *may* place with them, there might be a workable margin, but as both the capitalization and deposits of the reserve are forced, I see no inducement for member banks to keep active accounts with the Federal Reserve Banks beyond the amount of the required reserve. Their commercial relations with the other banks of the country will always be more productive, and at the same time conform to the natural trend of business; besides which they now receive interest on their daily balances kept with their correspondents.

The expansion of credit in the operation incident to rediscounting by the Federal Reserve Banks will become apparent immediately upon its consummation, and by the injection of the notes at the same time expand our circulation.

I have not yet heard any argument advanced which justifies the conclusion that they will be as rapidly retired when they have served the purpose of issue. Under present methods, if the customer of a bank obtains the use of credit, whether it be an individual, another bank or corporation, the extension of credit takes some form of a credit instrument which does not remain in existence for more than a few days and works no increase in our circulation.

To the extent, therefore, that the notes of the Federal Reserve Banks remain in the hands of the people and in the possession of other banks they will be redundant.

No continued effort to retire any of our circulating medium has ever been made since the Civil War. The National Bank notes have shown a steadily increasing volume. The endeavor of the Government to reduce the amount of the legal tender notes was in response to public demand, discontinued shortly after its inception, and over \$340,000,000 of this class of currency is still in use.

As there is only a partial retirement provided for in the bill it will depend upon the Federal Reserve Banks themselves, and upon the judgment of their directors to determine when, and to what extent, they shall prevent undue expansion of the new currency.

With the practicability of the plan admitted the question that naturally propounds itself to those engaged in banking is, How will its operation affect the profits of their business. Reasoning from the fact that the Federal Reserve Banks will not enter into competition for

the commercial business of the country and for the reason that they will be obliged to quote a rate of discount at least as high, if not higher, than commercial rates in order to maintain the resources necessary to enable them to extend help in need, I believe the conclusion is warranted that in the future, as in the past, rates of interest will be governed by the law of supply and demand.

The Federal Reserve Banks have no way of increasing the supply of actual money in existence; if they had, they might reduce rates. Their most efficient help in that connection may at times result from raising rates to stabilize conditions.

It is only necessary to cite the fact that in those countries which depend upon their central banks to maintain the stability of conditions which in their experience has prevented those panics to which we have been subjected, we find those central banks maintaining a discount rate always higher than the commercial rate in the same country.

In England, where banks seldom rediscount with the Bank of England, it maintains the higher rate, and in Germany and France, where they rediscount more freely with their central banks, the same policy prevails. All these central institutions seemingly realize that by such a course only can they harbor their resources.

The benefits of the operation of the new system will become apparent with the lapse of time. It was not enacted to meet a pending emergency, and too much must not immediately be expected. The change will be gradual and should be regarded as an evolution in the banking business, during which the bankers themselves must rely upon their own resources, and conservation should be the watchword. Any effort to utilize the rediscounting privilege primarily for profit should be discouraged.

It must always be kept in mind that to realize the chief object which Congress had in view the Federal Reserve Banks must always be ready to extend help; they cannot maintain this position if the member banks keep them drained of their resources in ordinary times.

One of the deficiencies of our present National banking system is our inability to establish or maintain a foreign exchange market. The new system opens the way to supply this long-felt want. While a single central institution could more easily control the exportation of gold, by the operation of such a market, yet by proper action the Federal Reserve Board may so co-ordinate the business of the twelve Reserve Banks as to produce the desired result.

If the Federal Reserve Banks will, in ordinary times, invest a large part of their surplus funds in foreign bills, instead of solely in rediscounts to domestic banks, such action will serve a double purpose. First, it will aid in maintaining our gold reserve, which is the foundation of credit extension, as foreign countries cannot call upon us for that metal if we force sale of such bills upon their markets. Secondly, the resources of the Federal Reserve Banks, by reason of the greater liquidity of the foreign bills, will be at all times more ready to respond to business needs. The limited character of business to which the Federal Reserve Banks are confined by the act does not warrant the presumption of excessive profits, and the limitation of the dividends to 6 per cent. was a wise provision, indicating that they have not been established primarily for profit.

Such a policy at the same time would furnish a source of profit to these banks. It is this class of business that is sought by the bankers of Great Britain and its ramifications extending all over the world have made London its financial center. Had our financial relations with other countries been established upon such a basis, and our foreign exchange massed and controlled by a single agency, we would have been in a position to check the recent outflow of gold. Instead we were obliged to close our exchange and practically refuse payment.

One feature of the act creating the Federal Reserve Banks, to which little, if any, reference has been made, is found in that clause of the law which leaves to the discretion of the Secretary of the Treasury the continuance or discontinuance of the United States Independent Treasury system.

It has been popularly supposed that with the opening of the Federal Reserve Banks, Government funds would be deposited in those banks, and the independent treasury system and its consequent expense, both to the Government and the business of the country, would be a thing of the past.

A careful reading of the law, however, discloses the fact that its authors had no such intention, and that if Government funds are deposited in these banks, or if they are appointed fiscal agents for the Government, it will be at the discretion of the Secretary of the Treasury alone and that the bill does not provide for the abolition of the present system.

It is a just criticism of the measure to say that it does not take the Government out of the banking business, and that it confers upon one of our Government officials an extraordinary power and discretion, unwarranted by the spirit of our institutions and repugnant to republican principles.

There is no reason why the funds of the Government, taken from the people by taxation, should be handled in other than a business method. To avoid the alternate contraction and expansion in the quantity of circulation incident to the collection and disbursement of the vast sums handled by the Government, they should be deposited and checked against just as the funds of business institutions are and *beyond individual control*. The power here conferred upon the Secretary of the Treasury to control money and credit, if attempted by the members of this Association, would probably call for a special act of Congress to curtail their activities.

During the lengthy discussions over the modifications of the Federal Reserve Act, and especially those relating to the Federal Reserve Board, the bankers of the country exhausted every effort to obtain that representation, by provision in the law, to which their interests clearly entitled them.

Falling in that effort they obtained in lieu of what they should have had a clause authorizing an advisory council, similar to that in vogue in Germany.

While the powers of this council are confined to specified activities, yet from the character and experience of the men who will be chosen by the directors of the various banks, it should wield an influence upon the administration of the system that was denied them in its management.

The Federal Reserve Board must convene the Council at least four times each year; and it has the right to make such recommendations

in relation to the general affairs of the reserve banking system as its wisdom may dictate. It may also meet at its own discretion, and has power to call for the information necessary to keep it fully advised of events and conditions in all matters relating to the system.

The experience in Germany has been that the advice of its *Council* in the conduct of the Reichsbank is rarely refused and generally followed. This result is logical, and as those in charge of the new system become involved in the intricacies of the financial system of this great nation they may be glad to avail themselves of its assistance.

Even a political board, when advised by men competent to demonstrate the principles which underlie the difficult problems of finance, will welcome such help.

The fundamental features of the bill organizing the Federal Reserve Banks are, in the main, sound, and the establishment of the Advisory Council may furnish the balance, without which the system might be deficient.

As the various problems in the management of the new banks arise, others than those mentioned will, no doubt, come up for solution. With competent directors of the class already chosen for the banks and with the Federal Reserve Board already organized, composed of men both capable and experienced, we may look with confidence for a proper solution of any difficulties that may appear. None more than the bankers have for years been earnestly demanding some change in our former system; and it may be confidently predicted that their efforts to make it successful will be at the command of those in charge of its operations. They realize that legislation on any question cannot be dictated solely by one set of men or any particular class of interests, and their suggestions and arguments during the preparation of the measure were presented forcibly and in good faith.

Now that the step has been taken, I believe they will be ready to do their full duty in bringing to the country such prosperity as we may reasonably anticipate under present conditions.

Since our meeting of a year ago questions of serious import have been up for consideration and solution, and no opportunity has been lost, either by this organization or by its members, to impress upon the public the necessity of those sound principles of public policy which make for stability and ultimate success. The work involved has been onerous and, at times, not encouraging, but the hope that right principles and sound business policies will in the end prevail has permitted no cessation in the effort which has now assumed the task of enlightenment upon subjects that to many people appear as intricate and abstruse.

The greater part of the energy exerted in this particular has been directed toward the many forms of legislation on the part of the general government for control of corporate action. If the tendency had been in the direction of constructive legislation, bankers and business men would have been found welcoming the effort. That they have not so construed the movement is evidenced by their repeated objections and protests. It would seem that our lawmakers had failed to recognize the momentous change which has been wrought by the great industrial expansion which has taken place throughout the entire world, and, viewing it only from the standpoint of our domestic condition, are seeking to turn back the tide of progress by repressing the organizations which the evolution of the new condition required for its continuous operation and development, and which have involuntarily sprung into existence all over the country.

The political factor in the situation is the stumbling-block to progress in the right direction. Public opinion, when properly informed, will not tolerate the continuance of the present program when it realizes that such a course will handicap this country in its competition with other nations whose policies are the reverse of ours. In order to establish a theoretical "new freedom," it does not seem to me that we should be compelled to sacrifice our business progress, surrender our rights as business men, and be forced to delegate the control of our own affairs into the hands of government appointees.

The avowed theory of the proponents of this program is to protect the investor regardless of his right to manage his business for his own protection; and, in face of the fact that when the control of his business has been invested in those whose selection will devolve upon political authority, we have no assurance that the experiment will be successful.

While the purpose at the beginning was ostensibly to curb some large corporations and combinations which were said to be exerting their power in a vicious manner, now the idea seems to have spread and includes all business.

These attacks have already shown their results; happiness has been succeeded by discontent; apprehension rules where confidence and optimism formerly predominated.

The continuous and unjust attacks which have been made upon the banking business by the proponents of our recent forms of theoretical and scholastic legislation, combined with the pronounced prejudice exhibited by the administration and legislative branches of the Government, have greatly influenced an unfair public opinion.

We are to-day in the maelstrom of uncertainty; State and Federal legislation for the control of business by bureaus and commissions under political domination seems to be the order of the day, and the advocates of this policy are endeavoring to create prosperity by legal enactment, disregarding those agencies which have heretofore been most efficient in promoting it. They do not appear to recognize the fact that the rapid industrial development which has taken place throughout the world has produced conditions which have required radical changes in business methods.

With this wonderful onward march our country has kept pace; where formerly individual effort and disjointed interests were the instruments employed, now co-operation, both of capital and the individual, have taken their place.

This is the grand transformation which our reformers, failing to recognize, are seeking to control by a political policy which, if logically completed, will dominate the economic policy of the people—if it does not go farther and plunge us into the sea of socialism.

In their efforts to reach a few men who have taken unfair advantage under the new conditions, they overlook the fatal handicap they are imposing upon the entire business structure of this country, under which competition with the world at large, already difficult, will be still further impeded.

If these would-be reformers were pursuing their policy in response to a great popular demand for such action, they might be justified in

such a course. Aside from the usual expressions and stock promises of reform that we read every four years in the platforms of all political parties, there is no organized effort for much of the legislation that has already been enacted, or is still under consideration. The commercial organizations representing the business interests of this nation have not demanded it and, on the contrary, have protested and objected, and even labor organizations have confined their activities to those subjects which only concern their present interests.

The protests of the bankers and business men against this invasion of their liberties has not only gone unheard, but organized effort to modify some of the drastic measures proposed has been openly referred to as "conspiracy to influence legislation."

I cannot admit that legislation upon any subject is so sacred or beyond criticism that the people who are the masters of those who must enact it shall be debarred the right to be heard, and believe that the business interests have a special claim on the attention of the lawmakers at this time. If the right of appeal is by such tactics to be denied to any class of our citizens, may they not justly fear the good intentions and doubt the wisdom of those who assume to do so?

I do not believe that the people have abandoned those principles underlying our economic structure which have enabled us to attain our present position in the business of the world.

I do not believe our law-makers desire to champion the cause of those who demand a redistribution of property, by law, if possible, or by other means, if necessary, but a logical continuation of their present course will ultimately place them in that position.

Experiences such as we are going through have been met by other nations; the rights of a people have in the past been granted by a stroke of the pen, but the liberties of a nation have never been thus suddenly subverted, and it is from gradual encroachments that such a danger comes.

But what of the remedy?

Shall what I now say to you on this important problem be simply put upon record as another of those unheeded protests that have preceded, or will the bankers and the business man take heed and take action through the full exercise of their rights as citizens?

The time has come when we must take a more active part in the practical politics of the day, for the banker and business man to wield that influence in our Government to which they are entitled must make more effective use of their citizenship in the future.

Heretofore we have contented ourselves by forwarding or adopting resolutions; now we must resort to individual effort and must ourselves take part in the work instead of relying solely upon the Chamber of Commerce, the local Board of Trade, or the State Bankers Association.

These organizations have done well and from their representative character are justly entitled to be heard, but such work, to be effective, must be supplemented at home by the citizen, the man from whom the law-maker holds his commission. Denying the assumption that the business man has no place in politics, let him now find his true place, and by an independent, fearless exercise of his rights as a citizen, acquire his share of influence in the making of the law, as well as its administration.

In a democracy, where the majority rule, ballots are the most effective argument with the office holder. The influence exerted by this Association and the various State Bankers Associations throughout the country, supplemented by the individual efforts of the bankers and business men in their own localities, constitute a force that, properly directed, may yet give us that share in the making of the laws to which we are entitled.

This country is dotted over with small country banks, usually managed by men of prominence in their own communities, and their appeals to the home Congressman may be made more effective by active participation in his campaigns than by a passive acceptance of the gifts that fate may otherwise bestow.

Regardless of the activities of the reformers who would have the people believe that the banker is not to be trusted in matters in which he is directly interested, I feel sure that the general business public with whom the banks come in close touch recognize in the banker a force for good in the community in which he resides, and the daily expression of those human qualities which make for confidence and honest handling of affairs have established the banker as a friend of the people and worthy of any trust.

How absurd the idea that the banker could hope to thrive under any other condition than the prosperity of his customers; as the people succeed so does the banker. The broad competition in the banking business in this country would alone compel fair treatment. No other country in the world enjoys so many financial institutions, organized very largely to care for the requirements of individual communities.

The bankers of the country should strike out boldly and fearlessly, and should refuse to permit the imputations that have been laid upon them and their business to go unchallenged. They should not allow the politicians to use them as a buffer for their own selfish purposes.

At no time in the history of our great country has there been such a necessity for cautious and conservative action as to-day, and progress can only come through the creation of a safe and sane public opinion.

The American Bankers Association has done much to aid the general situation, and I feel is to-day equipped, both in intelligence and in force of organization, for a still greater work.

While the executive officers and committees of the Association and those who voluntarily ally themselves with them have been unceasing in their efforts to promote and protect your interests, by argument and personal appeal to those in power, you should not fail to do your part. Ballots will be found more efficacious than protests; the banker and business man has an equal right with any other class of citizens to seek by co-operative action to protect his own business, not by attempted control or undue influence, but by educating the public, which is entitled to a frank expression of your opinions and judgment, through which your influence must be exerted.

Business men have too long accepted legislation without protest or criticism, through fear of more radical measures in punishment of their efforts. The time has arrived for positive action by the business man in public affairs. Upon the course which you as individuals pursue will depend the results which may be secured.

The unsettled business conditions which have existed for some time, coupled with the present world-wide disturbance, have accentuated the situation, and if we are to have any general prosperity in the near future will depend much on whether the attacks upon business are to

be continued by our law-makers and additional drastic laws passed to further disturb the situation.

Even if all the laws proposed and passed were just and proper, it would be impossible to force so many and radical business changes without the results which we have experienced.

Indeed, the failure to aid railroads in their reasonable requests has not only undermined the values of one of the most important investments for savings funds, which will be felt not so much by banks and business men as by the common people, the salaried man and wage-earner, and which in due time will be fully appreciated by the public. A continuation of this policy will further impair the value of these stocks and bonds in the hands of European holders, who estimate them in proportion to their earning capacity, thus inviting liquidation of these securities, which will compel additional exports of gold with its attendant business disturbance.

The business men of the country are anxious to see the end of the depressing influence of congressional interference and bureaucratic restriction; they regard present methods rather as tyrannical than liberal, and no progress toward permanent prosperity is possible under a continuation in the present course.

Gentlemen, I think we will pass the various things upon our program, and I take great pleasure at this time in introducing the Honorable Martin W. Littleton, ex-Congressman from New York, and a gentleman well known to you all, and whom I am sure you will be glad to hear.

The Will of the People, by Martin W. Littleton.

[The address of Mr. Littleton is printed in full elsewhere, beginning on page 88.]

THANKS TO MR. LITTLETON AND PRESIDENT REYNOLDS.

MR. LIVINGSTONE, of Detroit: Mr. President, I move you, sir, that we extend a sincere vote of thanks to the Hon. Martin W. Littleton for his grand effort to-day in the presentation of his views on the protection of property of every class and every profession, and I ask that the vote be a standing vote.

PRESIDENT REYNOLDS: I will ask you, gentlemen, to signify your approval of the motion by rising.

(The audience arose en masse amidst great applause.)

MR. WEXLER: Gentlemen, I would like to offer a resolution of thanks to the President of this Association for the sensible, straightforward and fearless manner in which he presented the matter of encroachment upon the rights of our people and upon the interference in our public affairs, which we have heard here to-day; and further, that the galleys of this address be reprinted in pamphlet form and sent to each member of this Association in order that the spirit which underlies his address may be disseminated generally among the people of this country, so that further such interference in public affairs may at least be stopped in so far as the ability of the bankers makes it possible.

(Carried.)

AMENDMENTS TO CONSTITUTION.

PRESIDENT REYNOLDS: We will take up at this time the amendments proposed as set forth in the printed program.

THE SECRETARY (reading):

Report of Committee on Amendments to the Constitution Relative to Section Membership.

TO THE EXECUTIVE COUNCIL:

At the Spring meeting of the Executive Council at Hot Springs last May, the fact was pointed out that under the Constitution as it now stands no member of the Association could be a member of more than one Section and this prevented members from joining both the Trust Company and Savings Bank Sections and deriving the privileges of such dual membership. As the result of discussion indicating the desirability that every member of the Association should have the right of becoming members of more than one Section with all the attendant privileges and full voice in its affairs, save only that there should be no right to vote for officers of more than one Section, the undersigned committee was appointed to prepare a suitable amendment to the Constitution to carry out this purpose and submit it to the Executive Council at its next meeting.

In accordance therewith your Committee have prepared and submit the following:

Amend Article X, Section 1, by inserting in line four thereof as printed in the book containing the last annual proceedings after the word "Section," the words "or Sections whose Constitution or By-Laws permit of such membership," and in line five, after the word "interests," the words "provided, however, that no member shall have the right to vote for officers in more than one Section and shall at the time of becoming a member in more than one Section designate in which Section he

so that Section 1 as amended shall read as follows:

Sec. 1. Sections of the Association may be authorized or confirmed and regulated by By-Law, for the promotion of the welfare of the different business classes of the membership, and any member of the Association may become a member of such Section or Sections whose Constitution or By-Laws permit of such membership as may best benefit such member's business interests, provided, however, that no member shall have the right to vote for officers in more than one Section and shall at the time of becoming a member in more than one Section designate in which Section he

will exercise the right to vote for officers by giving notice to the Secretary of such Section, which designation cannot be changed until an intervening annual election, and when any Section is authorized by By-Law, the same shall, upon application made, be established by the Executive Council.

Certain of the Sections of the Association are composed of a special class of members who are not members of the Association—for example, the Clearing House Section is composed of Clearing House Associations—and in any general provision of the Constitution authorizing members of the Association to become members in one or more Sections, our Committee has thought it wisest, for the sake of consistency if nothing else, to provide for membership in those Sections only whose constitution or by-laws permit of such membership.

A copy of this proposed amendment was submitted to the General Secretary more than thirty days before the annual session of the general convention, as provided in Article XI, Section I, of the Constitution for action in accordance with such Section.

Respectfully submitted,

J. F. SARTORI,
J. H. MASON,
W. M. VAN DEUSEN,
C. A. HINSCH,
C. E. BURNHAM.

Mr. Goebel moved that the amendment be adopted. (Carried.)

THE SECRETARY (reading):

EXECUTIVE COUNCIL TO FIX CONVENTION CITY AND TO SET ASIDE DAY FOLLOWING CONVENTION FOR COMMITTEE MEETINGS.

Amend Article III, Section 2, to read as follows:

Sec. 2. The General Convention of the Association shall meet in Annual Session at such times and places as shall be fixed by the Executive Council, and it shall be the duty of the Executive Council to set aside one full day immediately or within forty-eight hours following the day of adjournment of the annual convention for the purpose of holding meetings of the Executive Council and the various Committees. Special sessions of the General Convention shall be ordered upon the request, in writing, of one-third of the membership of the Association, or if the general welfare shall require, upon the request of three-fourths of the members of the Executive Council made to the President, and in either of such cases, the General Secretary of the Association shall fix the time and place for such meeting and issue the call to the members.

Note.—Two changes are made in the present Section 2 by the proposed amendment. The first is to confer on the Executive Council the power of selecting the city for holding annual conventions instead of such power resting in the general Convention. The second is to carry out a recommendation made to the Executive Council at Hot Springs which was adopted by the Council, that there be a full day immediately following the adjournment of each convention for Council and Committee meetings, as by this method the various committees will be able to begin the new year's work in a more comprehensive way. The words "or within forty-eight hours" are inserted to provide for a situation such as will occur at Richmond, where the Convention will adjourn on Thursday and a program of entertainment is arranged for Friday, so as to permit of Saturday being fixed for Council and Committee meetings.

Amend Article V, Section 8, by inserting after the word "Immediately" the words "or within forty-eight hours," so that the first portion of the section will read: "The Executive Council shall meet in session for organization and other duties immediately or within forty-eight hours after the final adjournment of the annual session of the general Convention," etc.

Note.—This amendment is suggested to make the section harmonize with the amended Article III, Section 2.

Mr. Goebel moved that this amendment be adopted. (Carried.)

THE SECRETARY (reading):

A VICE-PRESIDENT, MEMBER OF NOMINATING COMMITTEE AND ALTERNATE FOR EACH STATE.

Amend By-Law fifth to read as follows:

Fifth. Each State shall elect a Vice-President for such State and also a member of the Nominating Committee for such State and an Alternate. In each State having a State Bankers' Association such election shall be made at the annual meeting of such Association and certified by the Secretary to the General Secretary of the American Bankers Association. For each State having no State Bankers' Association such election shall be held at the time and place of the annual convention of the American Bankers Association at a meeting of the members from such State called and presided over by the Vice-President for such State prior to the time when the newly elected officers will be required to take up their respective duties. State Vice-Presidents and members of the Nominating Committee shall have the same qualifications as delegates to the general convention and shall forfeit their office by removal from the State by which elected or by the loss of any qualification required of a delegate.

Amend Article IV, Section 3, to read as follows:

Sec. 3. The members of the American Bankers Association in each State shall annually elect a State Vice-President in such manner as shall be prescribed by the By-Laws. It shall be the duty of State Vice-Presidents to preside at meetings of the members of this Association in their respective States or at the time of the annual convention of this Association and to enforce the rules and regulations of this Association as to such membership. In the absence of the State Vice-President from any duly called meeting, a Chairman elected at the meeting shall preside. State Vice-Presidents shall hold office from the opening of the annual session of the General Convention first ensuing after their election until the opening of the annual session of the General Convention then next ensuing.

Amend Article IX, Section 1, to read as follows:

Sec. 1. The members of the American Bankers Association in

each State shall annually elect a member of the Nominating Committee and an Alternate in such manner as shall be prescribed by the By-Laws. It shall be the duty of such Nominating Committee to meet as soon as practicable after the first adjournment of the General Convention, assembled in annual session, next ensuing after their election, at the call of the General Secretary of the Association, and organize by the selection of a Chairman and Secretary from their number. They shall recommend a candidate or candidates for President of the Association, and a candidate or candidates for Vice-President of the Association, and the Nominating Committee shall make report of its recommendations so made, to the General Convention, at any subsequent session of the General Convention, but prior to the order fixed by programme for the election of officers. The nominations or recommendations made by the Committee shall not exclude the name of any person otherwise nominated in the Convention, and under the regular order for the election of officers any delegate may place in nomination, any qualified member for President or Vice-President, or both.

Amend Article II, Section 7, to read as follows:

The word "State" or "States" as in this Constitution contained shall be held and construed to include the District of Columbia, Alaska, Hawaii, Porto Rico, the Philippines and the Panama Canal Zone.

Explanatory note:

By-Law fifth is proposed to be amended so that instead of each group electing a Vice-President and member of the Nominating Committee, each State in the group is given this right, which is extended to all the Territories and Dependencies, for Article II, Section 7, is proposed to be amended by including in the word "State" all such Territories and Dependencies. Article IV, Section 3, providing for State and Group Vice-Presidents, has been correspondingly amended, as has also Article IX, Section 1, providing for election of members of the Nominating Committee. In all these, also, provision is made for the election of an alternate member of the Nominating Committee, who may act in the absence of the regularly elected member. The time and place of election for all States that have no State Bankers Association is fixed at the annual convention. A provision is also inserted requiring that a State Vice-President or member of the Nominating Committee shall be qualified as a delegate. Such a qualification for members of the Executive Council is provided in Article V, Section 4.

Mr. Gwin moved that the amendments be adopted. (Carried.)

PLACE OF ANNUAL MEETING OF SECTIONS.

Amend By-Law sixth by adding at the end thereof the following:

No section, except the American Institute of Banking Section, shall hold its annual meeting at any other time or place than that of the Annual session of the American Bankers Association.

Note.—The above is the substance of a motion made and carried at the meeting of the Executive Council, October 9, 1913. To give it effective force it should be contained in the By-Laws.

Mr. Goebel moved that the amendment be adopted. (Carried.)

ADDITION OF GROUP V AND CHANGE IN METHOD OF ELECTION OF COUNCIL MEMBERS REPRESENTING GROUPS.

Amend By-Law fourth subdivision (c) to read as follows:

(c) States having less than one hundred members of the American Bankers Association within their respective borders and which are not hereinbefore provided for, shall be grouped as follows, to wit:

Group No. 1 shall be composed of the States of New Hampshire and Vermont.

Group No. 2 shall be composed of the States of Delaware and Rhode Island.

Group No. 3 shall be composed of the States of Arizona and New Mexico.

Group No. 4 shall be composed of the States of Utah, Wyoming and Nevada.

Group No. 5 shall be composed of Porto Rico, the Canal Zone, the Island of Hawaii, the Philippines and Alaska.

Each group, with the exception of Group No. 5, shall be entitled to one member of the Executive Council. The members of the Association in each State in each group, except Group No. 5, shall have the right to select in rotation a member of the Executive Council to represent their particular group. The order of rotation of the States in each group shall be as above set forth. Such election in any State having a State Bankers Association shall be in the same manner and be governed by the same rules of procedure as provided in subdivision (b) for the election of members of the Executive Council from States having more than one hundred members of the American Bankers Association. In any State having no State Bankers Association, the election shall be made by the members from such State attending the annual convention of the Association at a meeting called and presided over by the Vice-President for such State at an appropriate time prior to the organization of the new Executive Council. Any contest arising from such election shall be heard and determined by the Executive Council. Provided that a member of the Executive Council from any State in any such group at the time of the adoption hereof shall be and remain the member of the Executive Council for the group to which his State is attached until the expiration of his then term of office as a member of the Executive Council.

Note.—Subsection (c) has been rewritten. The amendment provides several changes, as follows:

Group 5 has been added. At the Boston Convention (see pages 309-312, Proceedings, 1913) the subject of the status of Hawaii under the new Constitution was brought up, and it was suggested there should be a new group composed of the territories of Hawaii and Alaska. The matter was referred to the next meeting of the Executive Council. At the meeting of the Council at Boston, October 9, 1913, Mr. Wexler offered a proposed amendment to the Constitution "that a fifth group shall be organized composed of Porto Rico, the Canal Zone, the Island of Hawaii, the Philippines and Alaska." It was pointed out

that after this amendment was adopted by three-fourths of the Council it would not become operative until approved by a majority vote of the next convention; further, that the amendment would only carry with it the power to have a vote in the making of nominations for Presidents and Vice-Presidents, but would not give the group any representation on the Executive Council until their combined membership reaches 100. The amendment was unanimously adopted by the Council. It is therefore inserted as an additional group in the redraft of subsection (c).

The proposed amendment of subsection (c) also does away with the election of members of the Executive Council to represent the groups by conferees. This method has given dissatisfaction and is impracticable. In place thereof it is proposed that the member of the Council representing the group (except Group No. 5, whose combined membership being less than 100 is not entitled to representation on the Council) shall be elected by the States in the group in rotation at the annual convention of the State Bankers Association in the same manner as members of the Council are elected from States having over one hundred members. The order of rotation of the States has been changed from that of the present By-Law making New Hampshire first in order in Group No. 1, Delaware in Group No. 2 and Utah in Group No. 4, because these groups are now represented by members from these States. Group No. 3 remains the same because therein Arizona is first named, and the present Council member is from that State. Of all the States in the first four groups, Rhode Island alone has no State Bankers Association. For that reason there is a special provision that in any State not having a State Bankers Association the election of the member of the Council representing the group shall be at the time and place of the annual convention of the Association by the members from that State.

Mr. Goebel moved that the amendments be adopted. (Carried.)

DECREASE OF STATE MEMBERSHIP AND COUNCIL REPRESENTATION.

Amend By-Law fourth by adding at the end of subdivision (b) thereof the following:

Provided further that if, after the election of one or more members of the Executive Council from any State, the number of members of the Association in such State shall fall below the number necessary to entitle such State to all its elected members, the member last elected shall cease to be a member of the Executive Council until the membership in the State reaches the requisite number. In case two or more members have been elected at the same time, one or more of whom would be ineligible as above, the determination of which shall cease to be a member shall be by lot in a way to be provided by the General Secretary.

MR. GOEBEL: I move the adoption of this amendment, and in that connection would state that it is the understanding that it will not be enforced as to any one State that happens to be in arrears now, or until the next election.

MR. GOLDWATER: It seems to me this ought to be passed without any strings on it.

MR. GOEBEL: My motion was to adopt the amendment and merely incidentally I suggested that this would not be retroactive.

MR. GOLDWATER: It seems to me if there is nobody here from Tennessee who desires to object to this, we ought to pass it without any strings.

MR. ARMSTRONG (of Tennessee): Mr. President, I find myself and my associates in this rather embarrassing position. We have been selected by the Tennessee bankers to represent Tennessee in the councils of the American Bankers Association. The term was for three years. It is rather embarrassing for us to appear now as members of the Council if this amendment is adopted, because under this amendment we would be automatically retired. It seems to me the Association should define this amendment and say in plain language whether we shall serve out the term of three years or retire. I think the amendment proposed is wise and fair. However, at the time we were elected the quota of membership justified that election.

MR. HAWLEY: Mr. President, I move that we add this proviso, that this section shall not apply to members already elected.

MR. GOEBEL: I accept the amendment. (The amendment was adopted and the original motion as amended was adopted.)

THE SECRETARY (reading):

TERM OF OFFICE OF TREASURER.

Amend Section 9 of Article V by adding thereto the following:

The term of office of the Treasurer shall begin on December first following the date of his election by the Executive Council.

Note.—This amendment is suggested for the reason that it is impracticable immediately upon the election of a new Treasurer for the old Treasurer to make transfer of the funds of the Association. The date of meeting of the new Executive Council at which the Treasurer is elected varies. The new fiscal year of the Association begins September first. Drafts for dues of members are then sent out and are in process of collection until November 30th. During this process it is impracticable to make a transfer of funds and the custom has therefore been established of making such transfer on December first.

MR. MARLIN: I move that the amendment be adopted. (Carried.)

THE SECRETARY: The following amendment is proposed by E. M. Wing of La Crosse, Wisconsin:

PROPOSED BY E. M. WING, LA CROSSE, WIS.

Amend Section 15, Article V, by adding to the list of committees the following:

"(G) The Committee on Agricultural Development and Education." And by inserting at the end of the section:

"(G) The Executive Council at its first meeting, after the adoption of this amendment, shall elect from its membership three persons from the one-year class; three persons from the two-year class and three persons from the three-year class, who shall constitute the Committee on Agricultural Development and Education and whose membership shall expire with their membership in the Council and annually thereafter shall elect three persons from the three-year class to fill the vacancy occasioned by the expiration of term. Any vacancy occurring by death, resignation or other cause, shall be filled by election from the same class for the unexpired term."

Amend Section 16 by inserting at the end thereof, under the heading "The Committee on Agricultural Development and Education," the following:

"(G) The Committee on Agricultural Development and Education shall have in charge all matters pertaining to these questions and shall report in writing to the Executive Council and annually in writing to the General Convention."

MR. H. J. DREHER of Milwaukee: Mr. President, inasmuch as the Executive Committee reported adversely on this amendment, I move that the amendment be rejected.

MR. GOEBEL: I second the motion. I shall vote for the motion of the gentleman not from any desire to take sides in the little controversy that has been going on, but for the reason that we have just started to work under our new constitution, and I should be opposed to adding any more standing committees to the Council until we have worked for a few years longer and until we see whether the results which we expect from the new constitution will be attained and it will work as satisfactorily as we hope.

The amendment was rejected.

MR. LIVINGSTONE of Detroit: I move that we take a recess until half-past two.

A recess was then taken until 2.30 p.m.

AFTERNOON SESSION.

OCTOBER 14, 1914, 2.30 P.M.

PRESIDENT REYNOLDS in the chair.

THE CHAIRMAN: Gentlemen, the Convention will please come to order.

I have the very great pleasure at this time of introducing the Hon. Charles S. Hamlin of Washington, D. C., Governor of the Federal Reserve Board. This gentleman is one who is fully acquainted and known to you all, I am sure, a gentleman who has been a great student of this question, and one in whom the bankers have great confidence. I take great pleasure in introducing to you Governor Hamlin. (Applause.)

GOVERNOR HAMLIN: Mr. Chairman, ladies and gentlemen: It is a very great pleasure to me to be able to come here to-day in response to your kind invitation. I want first to express the deep regrets of the Secretary of the Treasury and the other members of the Reserve Board whom you kindly invited, that their duties prevented them from accepting your invitation to-day.

It is always a pleasure to me, not only to come before you and listen to the deliberations of this great Association, but it is a great pleasure to me personally to come to this beautiful city of Richmond again. I have been here only a few times, but some of the most pleasant associations of my life are connected with this city. It is a great pleasure for me to come and to have the honor of listening and being presented to your Mayor and to listen to the address of your chief executive, the Governor of this great commonwealth. It is also a great pleasure to come to the home of my dear friend, your fellow-townsmen, the Comptroller of the Currency, John Skelton Williams. But I must say I also come somewhat in a state of humiliation. The other day the delegates, the government directors of the Bank of Richmond were in Washington with the Board, and I told them that there was no point—that Mr. Williams and I disagreed vitally, that he was under the delusion that the Richmond Reserve Bank would be ready for business before the Boston Bank would be ready for business, but the Richmond delegates went back and the next morning they got me on the telephone and said that the Federal Reserve Bank of Richmond had made all its preparations and was ready to start as soon as they got word from the Federal Reserve Board. So I want to pay that appreciation to the bankers of this great district.

I really feel that an invitation from this great Association is equivalent to a command to anyone interested in financial questions in the United States.

Preparing the Federal Reserve Banks for Opening.

[The remainder of Gov. Hamlin's address will be found on page 87.]

THE CHAIRMAN: I am sure that every one present appreciates very much the talk that has been given by Governor Hamlin, which will undoubtedly clear up many ideas and be of great benefit to us all. We are all very glad, indeed, to have him with us; and I am pleased, in behalf of you, to express our appreciation for his very able talk.

I have at this time the very great honor of introducing a gentleman to whom the committees of the American Bankers Association are greatly indebted, and through the committees the Association itself. This gentleman has been uniform in his kindness and courtesy to all of the requests for hearings and conferences that have been extended to him. He is a gentleman in whom those of us who have come in contact have the very greatest confidence. We regard him as a great public citizen, who is attempting to do his full duty, and we feel that he has accomplished a very great deal; and, while the bill may not have been all that we expected, or that he desires, yet we feel that he has been a very great benefit in assisting the bankers and co-operating with them in bringing about the passage of the very best bill that was possible.

I have the very great pleasure of introducing to you the gentleman who has had so much to do with the formation of this bill, the Honorable Carter Glass of Lynchburg, Virginia. (Applause.)

The Genesis of the Federal Reserve Law, by Congressman Glass.

[We print Congressman Glass's address in full at page 81.]

THE PRESIDENT: I am sure that all of you gentlemen who have listened to the very interesting talk of Congressman Glass feel as I do, that he has expressed in a fearless way his honest opinion. It is expressions of that kind that we need to-day, and that do all of us good. It is only from this fearless method of interchange of thought on all these subjects that any real good can come; and I am sure that I voice the sentiment of every one here when I say that we doubly appreciate the honor of having Congressman Glass with us to-day in these closing hours of Congress when his duties in Washington are so many and so pressing. I am sure that I can express for you fully our great appreciation of his kindness in coming here and delivering his address.

MR. LILLARD of New York: May I ask Representative Glass one question? I think there are many here who feel that there is liable to be an expansion of the emergency currency. Has the Treasurer the right to withdraw that under the act?

MR. GLASS: My own opinion is that there has been already an expansion of the emergency currency. In my judgment the \$365,000,000 that have been issued to the banks have not been required and have not been used. But that is a matter solely in the discretion of the Secretary of the Treasury.

MR. LILLARD: There does not seem to be anything in the act that gives the Treasurer the right to withdraw the emergency currency if it is found that there is a very considerable over-expansion of the emergency currency.

MR. GLASS: I will call the attention of my friend to the provision of the law that imposes ultimately a tax of six per cent. on this currency, and unless most of the banks of the country are practising usury, contrary to their State laws, they are not very apt to pay six per cent. on emergency currency to be loaned out.

MR. LILLARD: But there is nothing in the act—

MR. GLASS: I do not recall. I am not as familiar with the Vreeland-Aldrich law as perhaps I should be. I was at the time it was passed, but I am not now. The tax is supposed to drive the currency back.

MR. LILLARD: May I say one thing more, gentlemen? The Interstate Commerce Act was passed in 1887. It has been in existence over 27 years. At the present time no minority stockholder of a railroad company has the right to appear before the Interstate Commerce Commission. There are numbers of minor roads that for years have been manipulated by the major roads. The major roads have controlled the rates of these minor roads, and have diverted those rates to the major roads, and the minority stockholders of those minor roads have never had any rights before the Interstate Commerce Commission and can obtain no rights in the courts of this country.

Any minority stockholder going before the courts of this country can claim some redress on the basis of fraud for the amount taken, but—

MR. GOEBEL: Mr. Chairman, I rise to a point of order. I would like to have the gentleman confine himself to the subject under discussion.

THE CHAIRMAN: The gentleman has suggested that you confine your discussion to the subject matter before us.

MR. LILLARD: It is just that work that the Interstate Commerce Act provides for, that the minority stockholder could have some rights before the Interstate Commerce Commission, because the Interstate Commerce Commission fixed the rates.

MR. GLASS: I do not expect to live very much longer, but while I do live I certainly shall decline to undertake the responsibility of amending the Interstate Commerce Act.

There was one other point that I overlooked, and I might mention to my friend with respect to the retirement of the emergency currency. The Secretary of the Treasury, under the amended Vreeland-Aldrich Act, is given express authority to increase to an unlimited extent the gold reserve behind the emergency notes, and that would be a very powerful factor in

withdrawing the emergency currency from circulation when it is no longer needed.

THE CHAIRMAN: Are there any other questions?

Mr. FLEMING (of Oklahoma): I come from a State where I claim that our distinguished Senator had something to do with this revenue bill, and, notwithstanding the fact, it seems as though the Senator is almost eliminated from having any connection with this other bill. Notwithstanding that fact, I make a motion that the address of Mr. Glass be printed and sent in pamphlet form to all bankers and around this country.

Mr. GLASS: May I interrupt the proceedings again to say I hope that if it is done it will be with this addenda, that the distinguished Senator from Oklahoma did his collaboration and work with me before the bill went to the Senate.

Which motion was duly seconded.

Mr. GLASS: Would I be considered impertinent if I suggest that I hope that will not be done, because I came here without any sort of preparation, to have a sort of face to face and heart to heart talk with you gentlemen about the side lights on currency legislation. You have been so gracious, but I would be a little ashamed to have the address circulated.

THE CHAIRMAN: I want to state, for the information of the gentleman, that these addresses will all be printed in the proceedings and sent to every banker in the country practically. The motion was withdrawn.

A VOTE OF THANKS TO CONGRESSMAN GLASS AND GOV. HAMLIN.

Upon motion, duly seconded and unanimously carried, a vote of thanks was tendered to Governor Hamlin and Mr. Glass for their addresses before the Convention.

Following announcement of meeting place of committees, railroad accommodations, etc., the meeting adjourned.

SECOND DAY'S SESSION.

Held at Richmond, Va., in the auditorium of the Jefferson Hotel, on Thursday, October 15, 1914, at 10 o'clock A. M.

PRESIDENT REYNOLDS: Gentlemen of the Association, please come to order.

I take great pleasure in introducing Rt. Rev. D. J. O'Connell, Bishop of the Diocese of Virginia, who will invoke the Divine blessing.

RT. REV. D. J. O'CONNELL: In the name of the Father and of the Son and of the Holy Ghost. Amen.

Look down, we beseech Thee, O Almighty God, on this body gathered together in Thy name, and bountifully grant to them all the graces of which they stand in need, to accomplish the noble purposes for which they are assembled. Thou hast made all things and placed Thy creatures under the dominion of Thy laws. Open then, we beseech Thee, the minds of this assembly to the knowledge of those laws Thou hast established for the well-being of society and of those conditions upon which Thou hast made prosperity depend. Fill their hearts with noble motives and direct their deliberations to wise conclusions. Make them all "good bankers." Save them, we beseech Thee, Almighty God, from all the annoyances coming from ungrounded suspicions and unfair imputations; make us appreciate their services and respect their honor, that out of their devotion to duty and our regard for their integrity may grow that bond of common confidence which is the condition of our prosperity and the protection of the comforts of our homes. And I also fondly pray Thee, Heavenly Father, to add to the glory of the regional city. Enshrine its name in the affection of these delegates and associate it with the success of one of their most successful conventions. Through Jesus Christ our Lord. Amen.

GREETINGS TO MYRON T. HERRICK.

J. ELWOOD COX: Mr. Chairman, do you not think it would be a great courtesy and remembrance if the A. B. A. Convention would by resolution send greetings and thanks to an ex-president, now in France, who is so ably caring for all interests during these trying times, and who, by his courtesy, untiring work and help, has endeared himself to thousands of refugees and stranded Americans.

I offer this resolution:

Resolved, That our Secretary be, and he is hereby, instructed to cable to the Honorable Myron T. Herrick, ex-President of our Association, and since, United States Ambassador to France, our greetings, as well as our admiration and congratulations on the able manner in which he has administered the affairs of his office.

MR. HYDE: I second the motion.

THE CHAIRMAN: Gentlemen, you have heard the resolution which has been offered. While it may, in a parliamentary sense, be a little out of order, I am sure it is of such a character that you gentlemen will probably desire to acquiesce in it, and, unless there is some objection, I am going to present it to you.

Which resolution was unanimously adopted.

THE CHAIRMAN: The Secretary has suggested that the out-of-orders may not be misunderstood unless I call your attention to the fact that we have already adopted here an order of business. I now take great pleasure in introducing Mr. B. F. Harris, of Champaign, Ill., chairman of the Agricultural Commission, who will give his report to this Convention.

Report of the Agricultural Commission, by B. F. Harris.

[The report of the Agricultural Commission may be found by the reader on page 124.]

THE CHAIRMAN: Gentlemen, I have the very great pleasure of introducing the Honorable Logan Waller Page, Director, Office of Public Roads, United States Department of Agriculture, Washington, D. C., whose subject will be "Fundamental Problems in Highway Improvement."

I take great pleasure in introducing the gentleman.

"Problems in Highway Improvement," by Logan Waller Page.

[This address appears on page 105 of this publication.]

THE CHAIRMAN: Gentlemen, I desire to call your attention to an order of business upon our programme which was inadvertently overlooked by the Chair, thinking that it might come up later in the day under another head, but I notice that I was mistaken. The report of Mr. Harris was not acted upon. It will be desirable and necessary for the Convention, I think, to take some action. It might at least be received and filed, or whatever you have in mind. I would be glad to receive a motion in respect to it.

MR. BRADFORD RHODES (of New York): I make such a motion, and that the thanks of the Convention be tendered to Mr. Harris and his associates for their effective work during the past year.

Which motion was duly seconded.

THE CHAIRMAN: It has been moved and seconded that the report of Mr. Harris be received and filed, and that the thanks of the Convention be tendered to Mr. Harris and his associates for their effective work during the past year.

The motion was unanimously carried.

THE CHAIRMAN: The next speaker on the programme, gentlemen, will be Edward K. Graham, President of the University of North Carolina, Chapel Hill, N. C., on the subject of "Banking and the Larger Citizenship."

I take great pleasure in introducing the gentleman.

PROFESSOR GRAHAM: Mr. Chairman, Gentlemen of the Convention, and Ladies and Gentlemen:

I shall confine what I have to say, gentlemen, rather rigidly to twenty minutes. Your chairman gave me unlimited time, generously, but my own experience conforms to that good old Yale story that you have probably heard of about the minister who came to speak at Yale University. He asked President Hadley how long he should speak. President Hadley told him, why, to continue just as long as he pleased, of course. Well, he said: "I should like to know how long I should speak." Well, said President Hadley: "There is no rule at Yale as to how long a man shall speak; but I will say that it has been my experience here that no souls are saved after the first twenty minutes."

Banking and the Larger Citizenship, by President Edward K. Graham.

[President Graham's address is printed on page 103 of this publication.]

MR. SANDS: Mr. President, I do not know a more fitting time than after the very splendid address of Dr. Graham to ask unanimous consent of the Convention to consider a resolution which I have prepared on the matter of interstate commerce and rate cases that come before the Interstate Commerce Commission; and I would like very much to have the consent of the Convention to present this resolution at this morning's session.

PRESIDENT REYNOLDS: What is the pleasure of the Convention? Is it your pleasure to permit the gentleman to present this resolution at this time? I shall be very glad to entertain a motion to that effect. I would suggest, however, if it shall please the gentleman that instead of presenting this resolution just at this moment, we continue the remainder of the addresses and then present the resolution.

MR. SANDS: There are special reasons why I would like to get it in early in this session.

(A motion to consider the resolution was adopted.)

INTERSTATE COMMERCE COMMISSION ASKED TO ACT PROMPTLY AND FAVORABLY ON APPLICATION FOR INCREASE IN RAILROAD RATES.

MR. SANDS: The resolutions are as follows:

"The shock to the financial and business interests of this country, the stringency in money and the derangement of foreign exchanges resulting from the war in Europe are being overcome and the most serious condition now confronting the financial, business and investment interests of the country arises from the fact that there is no market for securities, and until this is remedied the financial exchanges cannot be opened and business restored to normal conditions. "The railroad and transportation interests of the country lie at the basis of the entire industrial and financial fabric and unless these interests can be made prosperous, their financial necessities relieved and the confidence in the stability of their securities restored and

maintained, no permanent relief from existing conditions can be expected.

"The rates charged for service rendered by the railroad companies have been constantly decreasing for years past, while the cost of operation, maintenance and improvement of such properties to provide the improved service required has constantly increased, with the result that the net earnings of these companies in proportion to capital invested and required for their development, have declined until many railroad properties are facing bankruptcy or are in the hands of receivers, and the obligations of railroad companies now in default have reached a sum more than equal to one-half of the National debt of the United States; while the confidence of the investing public, both in this country and abroad, in the value and stability of railroad securities has been seriously impaired. Unless these conditions are promptly remedied the effect must be disastrous to all interests.

"The Government of the United States, through the Interstate Commerce Commission, has taken control and regulation of railroads with the power to fix their rates, and this power carries with it the responsibility upon the commission to permit and require the railroads of the country to charge rates adequate to meet their operating expenses, take care of maintenance and improvements necessary to the constantly improving service and provide a reasonable return upon the invested capital and to establish their securities upon such a firm basis of credit as to justify the confidence of the investing public.

"To this end, a prompt and liberal increase in railroad rates is essential and it is a matter of serious import to every business interest in the United States, and especially to the banking interest charged with the responsibility of financing the large maturing obligations of the railroads of this country that the applications now pending before the Interstate Commerce Commission for increase in rates and any other reasonable applications which may be made to that end should receive prompt and favorable action of the Commission.

"Now therefore be it

"Resolved, That the American Bankers Association in convention assembled at Richmond, Va., on October 15, 1914, do hereby declare that in their opinion a prompt and liberal increase in railroad rates throughout the United States is essential in order to enable the railroads to finance their maturing obligations and to provide the money with which to operate, maintain and improve their properties, and that such increase in rates must be made before we can hope to secure the confidence of the investing public both at home and abroad in railroad securities or make an adequate market for said securities so that the financial exchanges of this country may be opened and normal financial conditions restored.

"Resolved further, That in the opinion of the American Bankers Association the interests of the whole country so affected are of more importance than the individual interests of a few shippers who might deem their interests prejudiced by such increase in rates.

"Resolved further, That the crisis now confronting the railroads in this country and directly affecting our entire credit system and the restoration of normal conditions in business and foreign exchange is urged upon the serious attention of the Interstate Commerce Commission and the Commission is respectfully but earnestly requested to act promptly and favorably upon pending applications for increase of railroad rates, and, in the exercise of its broad powers and in the discharge of its obligations to protect the interests of the railroads under its control to take such action as may produce a general and adequate increase in railroad revenues of this country to the end that the financial credit of the railroad companies may be re-established and that these companies may be thus placed in a position to finance their maturing obligations.

"Resolved further, That the Secretary of this Association is directed to forward a certified copy of these resolutions to the Interstate Commerce Commission."

THE CHAIRMAN: Gentlemen of the Convention, under the rules of the Constitution, all such resolutions would be compelled to be presented fifteen days prior to the Convention, unless with your consent here. Now, the question before you is, Shall this resolution, which has been presented, be considered? Do you desire to consider the resolution at this time?

MR. M. ALEXANDER (of the Lancaster Trust Company, Lancaster, Pa.): I move the adoption of this resolution at the present time, without reference to any other committee.

THE CHAIRMAN: The resolution could not be adopted in that way. The first order would be a motion to suspend the rules.

MR. ALEXANDER: I move you then, Mr. President, that we dispense with the regular order of business, suspend the rules and adopt this resolution as presented.

THE CHAIRMAN: That could be done upon a majority vote. Do I hear a second to that motion?

The motion was duly seconded.

THE CHAIRMAN: It has been moved and seconded that the rules be suspended, and that the resolution be adopted. Are you ready for the question?

The question was called, and the motion carried.

THE CHAIRMAN: It is carried, and the resolution is adopted.

We will now, gentlemen, continue with the programme. I have the pleasure of introducing Dr. C. G. Hopkins, Department of Soil, University of Illinois, Champaign, Ill., Director of Agriculture, Southern Settlement and Development Organization, who will speak on "Soil Fertility: Greatest Necessity and the Best Investment."

In this connection, I beg to say that, as I understand it, the Settlement is a voluntary organization, particularly for the benefit of the Southern farmer. I take great pleasure in introducing Dr. Hopkins. (Applause.)

Soil Fertility, by Dr. C. G. Hopkins.

[The address of Dr. Hopkins may be found on page 107.]

THE CHAIRMAN: Gentlemen, I take great pleasure at this

time in introducing Mr. J. D. Eggleston, President of the Virginia Polytechnic Institute, Blacksburg, Va., who will talk to us "On Educating the Producer."

Educating the Producer, by President J. D. Eggleston.

[President Eggleston's address appears on page 111.]

MR. HYDE: Mr. President, I believe that that is one of the best papers that this Association, in all its history, has ever listened to. I think I voice the opinion of every man who has listened to it, that we ought without being invidious, to give Mr. Eggleston a vote of thanks and appreciation.

A MEMBER: I would like to amend that by adding that the paper be printed and distributed.

MR. HYDE: I accept the amendment.

THE CHAIRMAN: Gentlemen, you have heard the motion and the amendment.

The motion, as amended, was unanimously carried.

THE CHAIRMAN: I think it is unnecessary to put the original motion.

I am sure we have all been entertained and instructed by all of the splendid addresses we have had this morning, which have undoubtedly been prepared by these well-known educators at considerable loss of time and trouble to themselves, and I am sure that I can express your gratitude and appreciation for their efforts here to-day; and I assure them that we thank them very much for their kindness in coming to us.

We have five or ten minutes left before adjournment, I want at this time to call the attention of the members to the fact that the Executive Council considered the advisability and desirability to have a report of the Insurance Committee presented to this body, and if Mr. Sands is in the audience, I would be very glad to have him report that at this time. No response.

I hope you will remain for a few minutes, gentlemen.

MR. LIVINGSTONE: I know there are many pressing things that come up, but I ask a special privilege of five or six minutes.

THE CHAIRMAN: If you will indicate the purpose.

MR. LIVINGSTONE: I want to present just a few facts. It so happens that I live in a home where the automobile industry is very large, and I simply ask the privilege of presenting a few facts.

THE CHAIRMAN: What is your pleasure, gentlemen?

MR. E. E. EMERICK: I move the rules be suspended and that Mr. Livingstone be given the time he desires.

Which motion was duly seconded and unanimously carried.

MR. LIVINGSTONE: There are no resolutions attached or anything of that kind; it is just a plain condensed and simple statement of the automobile industry of itself and by itself, and the great benefits which the whole people of the United States receive from it. It is simply to correct some misapprehensions that have appeared in the daily press from time to time.

"The True Status of the Automobile Industry," by William Livingstone, President, Dime Savings Bank, Detroit.

Prompted by the thought that bankers generally may not be fully informed on the automobile industry, which has had such rapid growth during the past ten years, I have had prepared some facts and figures for the benefit of the present gathering that I believe will show the automobile industry in its true light and indicate the marvelous development there has been in the making and marketing of the automobile, which has grown from a comparative toy to a business of tremendous volume in the short period of twelve years. At first a machine for pleasure use only, it is rapidly taking its place among the necessities of our fast-moving civilization.

Probably 75 per cent of all automobiles made in this country are produced in Detroit and Michigan, and my location in that city, coupled with my acquaintance with officials of the leading automobile factories, enables me to know conditions to an exceptional degree.

Although looked upon as a rather hazardous business in the early days, automobile manufacture has assumed gigantic proportions, with apparently little decrease in the demand, although with prices getting lower each year and the margin of profit smaller. It is worthy of note that at no time in those twelve years has the industry, as a whole, taken a backward step, the records showing that each year an increasing number of cars has been made and sold; from less than a thousand cars in 1902, when the business may really be said to have begun, to 435,000 cars during the fiscal year of June 30, 1914, the latter having a total valuation of about \$425,000,000. Coupled with these figures are the products of the parts and accessory makers, with sales during the past twelve months running into big figures. Attention at this point is called to the fact that 47 per cent of the cost of an automobile is in the labor.

While in the early days the automobile was a luxury, it is now a necessity for a large proportion of owners, and has taken its place among other utilities like the telephone and telegraph, with a broadening field because of the increasing demand for commercial or freight-carrying power-driven vehicles. This accounts largely for the continued buying of cars even in times of depression, as in 1907 and 1908—a period that showed substantial increases in car sales. However, it must be appreciated that to the farmers, doctors and business men generally, the automobile is now a dependent part of their equipment for doing business.

As the greatest number of cars are sold during seven months of the year, makers and dealers have been borrowers; and it is a matter of record and congratulation that, in fostering this growing industry,

bankers of this country have played a most important part with practically no loss. Discerning bankers, in the past few years especially, have appreciated the stability of the industry and the standing of the men in charge, and have co-operated to a marked degree in establishing the business on its present high plane.

There have been few wild-cat schemes, and those few have died a-borning. The makers, as a class, are energetic and enterprising, taking pride in their product and in their ability to give employment at substantial wages to the best men of many trades, including engineering skill of the highest quality. That the automobile manufacturer is broad in his views and co-operative in his work is evidenced by the excellent support they have all given the "Buy-a-Bale-of-Cotton" movement in the South. Practically all of them have bought cotton on their own account, and have instructed their branches and dealers to do likewise. One company, with many thousands of dealers, bought a bale of cotton for each dealer in the Southern territory, and also agrees to buy an additional bale for each car sold there, which should mean probably four or five thousand bales. Another company bought, outright, 500 bales of cotton at ten cents per pound.

The perfection of the motor car in twelve years has amazed even the most optimistic, and accounts largely for the increasing sales. The simple present-day car can be operated by man, woman or child; and even those of very moderate prices do not entail the high maintenance cost that was ever present in the earlier models. All this helps to account for the tremendous purchases by people of all stations that have been so astounding to those unfamiliar with automobile conditions.

While depressed to some degree at present, the figures I have in hand show that the automobile business has suffered less since July than almost any other line of trade—one company alone selling more than 20,000 cars during August.

Being a season business to some degree, it has been the custom among manufacturers to borrow during the fall and winter months for materials and labor, discharging their obligations in the spring and summer.

The manufacturer ships to the dealer, of whom there are more than 15,000 in the country, sight-draft against bill-of-lading. The dealer, whose capital is too limited to carry a large stock of cars, has been accustomed to borrow from his banker, thus permitting him to handle a larger stock and do a bigger volume of business, with the banker having always ample security for his loans.

The dealer's business with the final buyer has invariably been on a cash basis, it being a noteworthy fact that comparatively few automobiles have been sold on deferred payments of any kind. The fact that the automobile can be so readily depreciated with a few weeks' use, has eliminated the possibility of makers consigning cars to dealers, and has materially aided in keeping the business one for cash only and consequently in a healthy state.

The disposition in early years to look askance at the automobile manufacturer and dealer has passed, and with further knowledge of the business, credits commensurate with sound banking methods have been extended to the mutual benefit of all. No longer do we hear talk that the automobile business will go the same way as the bicycle business, it being generally agreed that the making and marketing of motor cars is among our greatest industries—a situation to be credited to a large degree to the care and conservatism of bankers who have been active in caring for the automobile dealer among his patrons.

Before giving some figures in connection with the industry, let us look a bit into the future.

How many cars will be sold next year?

What about profits from the sale, storage and repairs by dealers?

Will more dealers come into the field?

Where are future markets for the maker?

What about commercial vehicles?

While the business depression may interfere and bring about a reduction during the next twelve months, it is not unlikely that 450,000 cars can be sold. Thousands of people living in the suburbs, including farmers, doctors and salesmen, actually need cars in their general every-day life. Big cities continue to show the registration of new automobiles, particularly of the moderate-priced cars, with the market almost normal for the higher-priced models.

With 15,000 dealers in the country, and 1,400,000 cars to be cared for, the profits from the sale, storage and repairs runs into substantial figures. There will be no great increase in the number of dealers, because those in the field now seem well able to care for the annual production.

The future market for automobiles rests not alone in this country, but throughout the world, especially as European makers are not likely to produce very much for some time. Last year American automobile manufacturers exported cars to the value of \$26,574,000, with parts amounting to \$8,000,000, or a total of \$34,500,000. When it is taken into consideration that France alone exported motor cars to the value of \$44,000,000 last year, with Germany and Italy totaling almost the same, it can be seen what a world-wide trade is awaiting the automobile maker of this country.

Commercial vehicles are fast coming into the field, and, with the destruction of horses and trucks in the war on the other side, this end of the business must have a healthy growth during the next few years. There are now about 100,000 freight-carrying motor vehicles in use, the production during the past twelve months being about 30,000, with the ratio of increase greater than was ever known in the passenger-car field.

It is doubtful whether there will be any great increase in the number of automobile manufacturers. It is not unlikely that some of the smaller makers will fail, with the others growing bigger. There has been little over-capitalization; and, in fact, a very large number of the concerns could profitably use more capital in their business.

Because of my residence in Detroit, which is practically the home of the automobile industry, and my acquaintance with officials of the National Automobile Chamber of Commerce, I am able to give to the members here some facts that must be of interest to students of trade.

There are more than 450 listed manufacturers of motor vehicles, some making both pleasure and commercial cars.

Of these, 170 make gasoline passenger cars,

245 gasoline commercial cars,

77 cycle cars,

27 motor fire apparatus,

18 electric pleasure cars,

24 electric commercial vehicles.

There is an increase in the number of manufacturers over the last two years, but a decrease as compared with the number at the end of 1911, except as regards cycle cars, which are a new development.

The total production for the year ending June 30, 1914, was, approximately, 435,000 cars and trucks, valued at \$425,000,000. The average valuation of cars has consistently decreased until it is now about \$980, more than half the cars selling at less than \$600.

Of dealers and garages, we find listed 15,500 automobile dealers, 13,630 garages, 1,280 repair shops and 680 supply houses.

In exports, we find an increase from \$5,502,000, in 1907, to \$34,500,000 in the twelve months ending June 30th; while the imports during that period have decreased from \$4,842,000 to \$1,432,000.

Figures as to the number of employees in the automobile industry are not available because of the various allied trades involved; but in my State of Michigan, the Department of Labor reported that for 1912 the various establishments making automobiles and parts employed \$9,413 men, and this number has increased.

It will be seen, therefore, that the automobile is now an established article of commerce, with an excellent future. Our American cars are splendidly built; they have a wide market here and throughout the world, and have a real place in civilization for the movement of individuals and produce.

PRESIDENT REYNOLDS: The Secretary has an announcement to make.

SECRETARY FARNSWORTH: In the annual report of the Secretary submitted at this meeting occurs the following statement with reference to Richmond:

"The Convention of our Association now being held in Richmond is the fortieth in the history of our organization and the second Convention to be held in the city of Richmond—our twenty-sixth Convention having met here in 1900. The Convention of 1900 was a pronounced success, with Southern hospitality unbounded. The annals of the social features of the convention called to mind the entertainment given by Mr. John P. Branch, who to-day is still active despite his advanced years and now the dean of the profession in Richmond, if not in the State of Virginia, and who will with all bankers of Richmond extend the warm hand of welcome."

PRESIDENT REYNOLDS: I have noticed in the audience this morning Mr. Branch, and I thought it would be entirely fitting to at least call him to his feet so you might know who he is; and if he cares to have anything to say we will be delighted to listen to him. Gentlemen, Colonel Branch.

COLONEL BRANCH: Gentlemen and fellow-bankers, of course this is a very unexpected call on me. A man of my years that has anything to say can say it in much less than twenty minutes, and, old as I am, I shall not attempt to make any speech. But I want to say one thing, that I am most happy to meet you gentlemen here to-day. I doubt if you can imagine the pleasure that is given me to meet you and to shake many of you by the hand. I have been at work for nearly sixty years, and I am still at work, believing it is better to wear out than to rust out. You cannot imagine the pleasure you have afforded every man in Richmond by your coming here on this occasion, and I shall hope and pray that you will come again. Do you know, gentlemen, that a banker is about the most honored thing upon this earth except a pretty woman!

I thank you, gentlemen, and pray for you, and hope I shall have the pleasure of meeting you again.

On motion of Mr. Livingstone of Detroit, at 1.15 p.m. a recess was taken until 2.30 p.m.

AFTERNOON SESSION, 2 P.M.

THE SECRETARY: I will ask Mr. Freeman of New York, Mr. Smith of Indiana, and Mr. Lawson of Michigan to adjourn and get Mr. Beck and escort him to the platform, the principal speaker.

THE CHAIRMAN: Gentleman, we are considerably past the time set for holding the afternoon session, and I think we had better come to order, with a view of disposing of a few small items of business here.

The first order of business is the report of the Currency Commission, by Mr. Hepburn.

THE SECRETARY: There is no report, Mr. Chairman.

THE CHAIRMAN: The next is the report of the Committee on Law.

MR. PATON: The Law Committee I represent. The chairman was not able to be present. We will not read the report, but just hand it in. It embodies a suggestion for an act to limit the liability of a bank to its depositor for non-payment of a check through error.

LIMITING LIABILITY ON CHECKS.

No bank shall be liable to a depositor because of the non-payment, through mistake or error and without malice, of a check which should have been paid unless the depositor shall allege and prove actual damage by reason of such non-payment, and in such event the liability shall not exceed the amount of damage so proved.

MR. GELMORE: I move it be approved.

MR. ALEXANDER: I second the motion.
The motion was unanimously carried.

MR. PATON: Also another resolution which has been drafted:

PAYMENTS TO MINORS.

"Whenever any minor or other person under disability shall make or have credit for a deposit in any bank in his or her name, such bank may pay such money on check or order of such depositor the same as in cases of depositors not under disability, and such payment shall be in all respects valid in law."

MR. HEBRON: I move it be adopted.

Which motion was duly seconded and unanimously carried.

Report of the Committee on Law.

[The report of this Committee appears on page 126.]

MR. PATON: I have the report of this Committee covering all matters of Federal legislation which have been pending in Congress during this year. It is a very long report and unless you care to hear it I will simply ask that it be filed and printed.

MR. SMITH: I move that the report be filed and printed in the regular way.

Which motion was duly seconded and carried.

Report of Committee on Federal Legislation.

[This report will be found on page 125 of this issue.]

Committees and Committee Membership.

SECRETARY FARNSWORTH: Under the new constitution, the reports of the various convention committees are made to the convention and can be accepted and filed, but all action relating to the appointment of committees and committee membership comes under a special order of business, which is set for this afternoon. Under this order we have the Currency Commission, which will be continued as it stands at the present time unless action is taken in regard thereto, and the Agricultural Commission, which was appointed at the convention in Boston as a special committee to serve one year.

MR. SIMPSON, of South Carolina: Mr. President, it seems to me the work the Agricultural Commission has been doing has been of a highly constructive character and of great benefit to our country, and I therefore move that the Agricultural Commission be continued through the ensuing year.

PRESIDENT REYNOLDS: What is your pleasure in regard to the Currency Commission? If there is no special action, the Commission will be continued as heretofore. It is so ordered.

THE CHAIRMAN: Gentlemen, you have heard the reading of this report, which is, in fact, a report of the Committee of the Executive Council. Is there any action that you desire to take upon the matter at this time?

MR. EMERICK: I move you that the report be received and filed, and that the recommendations therein contained be approved by this Convention.

THE CHAIRMAN: If I understand the report, some of those recommendations could not be approved, because there could not be a permanent committee of the American Bankers' Association appointed without a change in the Constitution. It could be referred back to the Executive Council with the recommendation that the Committee be continued during the ensuing year.

MR. HENSCHEN: I move that this report of the Committee be referred back to the Executive Council.

THE CHAIRMAN: Do you offer that as an amendment?

MR. HENSCHEN: Yes.

MR. EMERICK: I accept the amendment.

THE CHAIRMAN: It has been moved and seconded that this be referred back to the Executive Council, with the recommendation that the committee be appointed.

COMMITTEE ON FIDELITY INSURANCE CONTINUED.

MR. HAMILTON: I move, as a substitute motion for that, that this report be referred back to the Executive Council, with instructions that the Council continue the Committee.

THE SECRETARY: The present Committee cannot be continued in the Council, because the Constitution governing the Council provides that all of the committees shall serve for one, two and three years. The gentlemen who are on the one-year class and who go off the Council, of course, are not members of the Council, and a new Committee will have to be organized by the Council.

I did not follow the latter end of that report very closely, but, as I understand it, the report provides for the appointment of a permanent Association Committee. There cannot be a permanent Association Committee provided for at this time without an amendment to the Constitution. This Insurance Committee can be appointed by this Convention to-day in accordance with that suggestion, and it will be an Insurance Committee for one year. In the meantime, if they want to make a permanent Committee of the Association, that can be done by an amendment, and can only be done in that way.

MR. SANDS: That is all the Insurance Committee recommends, that there be a Committee appointed for one year from the Association, and it is entirely eligible, I think, under Section 3.

THE CHAIRMAN: It has been moved and seconded that this Committee be continued as a Convention Committee for one year.

Which motion was unanimously carried.

MR. SIMPSON: Mr. President, this morning in my motion in reference to the Agricultural Commission, I fear I did not make myself clearly understood. I wish now to make another motion to make clear my purpose. I move that the members of the Agricultural Commission be appointed by the administrative committee. This morning I merely moved that the commission be continued, but it was not my purpose to continue the present membership of the commission. I offer that as a motion at this time.

PRESIDENT REYNOLDS: Gentlemen, we are very fortunate to-day to have with us a gentleman whom I am sure you will be glad to hear. I take very great pleasure in introducing the Hon. James M. Beck, formerly Assistant Attorney-General of the United States, who will now address you upon the subject of "The Case of the Lost Million."

The Case of the Lost Million, by James M. Beck.

[Mr. Beck's address in full will be found on pages 95 to 102.]

THE CHAIRMAN: I do not wish to cut off the applause for that splendid address you have heard, which has been most interesting and entertaining; but I wish to announce particularly that the program we now have will not occupy probably more than fifteen or twenty minutes, and we sincerely hope you gentlemen will remain with us. I take great pleasure at this time in expressing our approval and thanks to Mr. Beck for the splendid address he has delivered, and I am sure that all of you have listened to it with a great deal of interest.

Gentlemen, the next order of business as set down in the program is that of invitations for the next Convention.

SECRETARY FARNSWORTH: By amendment to the Constitution, that matter is referred to the Executive Council.

THE CHAIRMAN: The next order of business is that of unfinished business.

SECRETARY FARNSWORTH: No unfinished business.

THE CHAIRMAN: Communications from the Executive Council.

SECRETARY FARNSWORTH: No further communications from the Executive Council.

THE CHAIRMAN: Resolutions?

SECRETARY FARNSWORTH: I have one resolution, the resolution adopted by the Trust Company and Savings Bank Sections for submission to the American Bankers Association.

COMMITTEE TO BE APPOINTED TO SECURE MODIFICATION OF FEDERAL RESERVE LAW SO AS TO ATTRACT STATE INSTITUTIONS.

Resolution adopted by Trust Company and Savings Bank Sections for Submission to the American Bankers Association.

At a Joint Meeting of the Trust Company and Savings Bank Sections, held on Tuesday, October 13, 1914, at the Jefferson Hotel, Richmond, Va., the following resolution was unanimously adopted:

Whereas, We all appreciate the desirability of having the State financial institutions join the Federal Reserve system, but recognizing before doing so, amendments to the Federal Reserve Act will be necessary, now, therefore, be it

Resolved, That we recommend to the General Association that a committee of twelve be appointed by the President of the American Bankers Association; three thereof, by the Savings Bank Section; three thereof, representing the Commercial State banks, and three thereof, representing the National Banks, whose duties shall be to confer with the authorities at Washington, in order to secure the adoption of such amendments to the Federal Reserve Act as shall make it more desirable for State Banking institutions to join the Federal Reserve system.

It was duly moved and seconded that the foregoing resolution be adopted as read by the Secretary.

Which motion was unanimously carried.

THE SECRETARY: There are two telegrams here which I will read to the Convention, and on which the Convention may desire to take some action. If they do, it will be under the head of resolutions. (Reading.):

MONTGOMERY, ALA., October 14, 1914.

Chairman, American Bankers Association, Richmond, Va.:

Clearing House Banks of this city urge action to obtain circulation for State banks members reserve system or becoming members as originally proposed by department. Copy of this wired Sol. Wexler.

JOHN P. KOHN.

MR. WEXLER: I received a copy of that message, but I did not take any action on it, because I don't see at this time that the Department could be influenced to take any such action. I doubt the wisdom of it under the present circumstances. It is for the Convention to take such action as they see fit.

THE CHAIRMAN: Unless there is some further action on it, we will pass it.

THE SECRETARY (reading):

RESOLUTION IN FAVOR AMERICAN MERCHANT MARINE.

BOSTON, MASS., October 13, 1914.

Col. Fred E. Farnsworth, the American Bankers Association, Richmond, Va.:

National Foreign Trade Convention, National Association Cotton Manufacturers, Boston Chamber of Commerce, New York State Waterways Association and numerous important bodies throughout country have passed resolutions emphasizing imperative necessity of national legislation permitting existence of American merchant marine.

American bankers have already conferred inestimable benefit upon country's manufacture and commerce by causing passage of Act enabling financing of foreign commerce by American banks in foreign countries. Now we ask your help in transporting country's commerce in American ships. We beg you to pass resolution similar to that introduced last convention, now in hands of your Federal Legislation Committee.

THE NATIONAL MARINE LEAGUE,
By P. H. W. Ross, *President*.

THE CHAIRMAN: Gentlemen, do you desire to take any action upon the telegram?

MR. HALVER: I move that this Convention adopt the resolution as it was read as the resolution of this Convention.

THE CHAIRMAN: Similar to that of a year ago?

MR. HALVER: Yes.

Which motion was duly seconded.

THE CHAIRMAN: It has been moved and seconded that this Convention adopt a resolution similar to that of a year ago, lending its support to that suggestion.

Which motion was unanimously carried.

THANKS TO RICHMOND, ETC.

MR. LYNCH: Mr. Chairman, I move that a vote of thanks be given by this Association to the bankers of Richmond, the people of the city of Richmond, the press of Richmond, and the press of the United States, to the various speakers who have favored us with such eloquent addresses, to the business organizations and trade organizations of Richmond, the clubs and all others who have contributed to the warm welcome we have received. And I also move that in the resolution be included a vote of thanks to the Jefferson Hotel, to the generous and free use of meeting and registration rooms.

Which motion was duly seconded and unanimously carried.

THE CHAIRMAN: The Secretary desires to read one or two items of his report.

Whereupon the Secretary read the portion of his report headed In Memoriam.

NOMINATIONS AND ELECTIONS.

THE CHAIRMAN: Gentlemen, I have the pleasure at this time of introducing Mr. George W. Rogers, of Little Rock, Chairman of the Committee on Nominations for officers, who will now make his report.

MR. ROGERS (reading):

To the Delegates of the American Bankers Association, Richmond, Va.:

At a meeting of your Nominating Committee, held to-day in the salon of the Jefferson Hotel, at five o'clock P.M., at which thirty-six members of the committee were present, the following persons were unanimously nominated for the positions named in your Association for the ensuing year: William A. Law for President, now Vice-President of the First National Bank of Philadelphia.

For Vice-President, James K. Lynch, Vice-President of the First National Bank of San Francisco.

I move you, Mr. President, that the gentlemen named by the Nominating Committee be elected for the offices named, Mr. Law for President and Mr. Lynch for Vice-President.

MR. COX: I second the nominations.

The nomination of President Law was also seconded by a member from South Carolina and many others.

THE CHAIRMAN: Gentlemen, you have heard the motion made by Mr. Rogers, and duly seconded, on the report of the Nominating Committee. Are you ready for the question?

The motion was unanimously carried, amid applause.

THE CHAIRMAN: Gentlemen, you have been unanimously elected.

Mr. Law, I take very great pleasure in pinning this badge, insignia of the office which you will hold, upon your coat, and I am sure that it is not necessary for me at this time to add any words to the fact that you have been selected by this great body as its Chairman. I congratulate you upon your election, as well as the members of this Association. I take very great pleasure in introducing to you President Law.

PRESIDENT LAW: Gentlemen of the American Bankers' Association: I remember several years ago hearing Governor Herrick, now Ambassador Herrick, make this comment upon his election to the Vice-Presidency of the American Bankers' Association: Gentlemen, he said, the principal duties of the Vice-President are to so conduct himself, and so lay his lines, as to be elected President at the end of his term of office.

I have endeavored during the past year so to conduct myself as to meet with your approval, and I feel to-day that this election, this promotion on your part, is in a certain sense a certificate of good conduct.

This is an important position. For a year there is abundant work for a man of energy and initiative and versatility far beyond my powers, but I hope to justify the confidence that you have shown if I have the general co-operation of my friends among your members and of the Association, which is most effective in the accomplishment of our various purposes.

There is one matter I wish to mention in bringing my remarks to a close. Most of the speakers here to-day have referred to the historic city of Richmond, in introducing their remarks, and I wish to say to you that it gives me special pleasure to have this great honor conferred upon me largely through the efforts of my Southern friends in this great, old city of Richmond, one of the leading cities in the South, and at

one time for four years, or a part of four years, the Capital. I don't know that to all of you gentlemen there has ever come an understanding of the sentiment that Southern people for the last thirty or forty years have felt toward Richmond. Aside from its Revolutionary and Colonial importance, they have felt toward it that it was a shrine around which clustered many sacred and hallowed memories, but those days have passed and, without any apology for what happened or any change of sentiment, we are all glad to-day to see this city become a great industrial and financial center, and to see it take on a new life and increase its wealth and influence. It can never enlarge the charm that it has always had. The Richmond people understand hospitality, and their hospitality and courtesy has a flavor that is distinctive and different from anything else any of us have ever experienced.

And if I may be permitted to do so, I wish to add one item to the resolution of thanks which your Vice-President offered.

On behalf of the ladies who visited Richmond on this occasion, I want to thank the ladies of Richmond for their exceedingly generous and beautiful hospitality.

Gentlemen, it becomes my very pleasing duty to put the badge of Vice-President upon the manly form of a gentleman whom you all know, and those who know him most love him best, Mr. Lynch, of California. I am glad to say that I have heard that your father was a Virginian, and I shake your hand again. Mr. Lynch's father was a soldier in the Mexican War and one of the pioneers of California, and if you have ever been to San Francisco you know that is a title of nobility.

Mr. Lynch, I take great pleasure in pinning the badge of Vice-President upon you.

MR. LYNCH: Gentlemen of the Convention, I believe in the American Bankers' Association, I believe in its achievements, I believe it has been a great power to improve banking conditions in this country; I believe that no matter how much it has done, it still has more to do; and I believe that in the year to come, under the leadership of your President, it will accomplish much for the good of bankers, and it will be my duty and my pleasure to second his efforts to the very best of my ability.

And for the privilege which you have conferred upon me, this privilege of service, I thank you from the bottom of my heart. And I thank you also on behalf of the distant portion of this country, the part of it west of the Rocky Mountains, which, up to this time, has never had such an honor conferred upon one of its citizens; and I assure you that the citizens of that country and the bankers are in all respects with you in every effort to sustain the credit of the United States. I thank you.

THE CHAIRMAN: Gentleman, Mr. William Livingstone, who was a former beloved President of this Association, wishes to make a few remarks, and I will ask him to take the floor.

SILVER SERVICE FOR ARTHUR REYNOLDS.

MR. LIVINGSTONE: Mr. President and Gentlemen of the Association, it has been allotted to me, as a very pleasant privilege, to say a word or two to the retiring president.

It so happens that, for the first time in forty years of our Association, we have lost a president by death.

I record the lamented, the lovable Charles Huttig of St. Louis. Mr. Reynolds, then vice-president, assumed his place and took up the duties which devolved upon him by the death of Mr. Huttig, and has therefore served a longer time as president of this great American Bankers Association, with all its responsibilities and duties, than any other president who has held that title since the formation of this Association. During all that time he has gone in and out among us, day by day, week by week, month by month, growing in the esteem and respect of the members of this Association. Consistent, fearless, having the courage of his convictions at all times, he has never hesitated to express, regardless of what the comment might be, what he believed to be the best thing, the true thing, and what would best further the interests of our Association. I may add, in connection with this, that there is a well-defined rumor that Mr. Reynolds is now being considered as the Governor of the new Regional Bank at Chicago.

My information comes from Mr. Henry B. Joy, a member of the Regional Board, a fellow townsman of my own, and with it, I say to you most emphatically, goes the endorsement of every bank in the city of Detroit, as well, so far as my knowledge goes, as with almost the entire—I think I can say almost every bank in the State of Michigan that belongs in that regional district.

Now, it becomes my pleasant privilege, on behalf of the members of this Association, to present to Mr. Reynolds this beautiful silver service.

Amid the cares and anxieties of life which come to each and all of us, it is the bright spots in life that make life endurable. Some poet has said somewhere, I have forgotten the author, that there are moments in life that we never forget, that brighten and brighten as time steals away, that add to the charms of the happiest lot and lighten the gloom of the loneliest day; and I say to you, Mr. Retiring President, let me hope that this will be one of the milestones in your life that you will always look back to, and in pleasure that it will be a

green garland to hang on memory's walls that will grow brighter and brighter as time steals away.

With the greatest possible pleasure, and on behalf of the members of the Association that presents you with this silver service plate, and with it goes the hope and the wish for you and your good wife, Mrs. Reynolds, who is absent, that you may live to see the century mark, and that the balance of your life may have just clouds enough to have a glorious sunset.

Mr. REYNOLDS: Mr. President, Mr. Livingstone and Gentlemen of the Convention.

In regard to the reference which ex-President Livingstone has so kindly made regarding future possibilities of my career, I can only say that I have no knowledge of any action that may have been taken, either in Chicago or elsewhere, although I have noticed the statements that have been made in the papers.

I am deeply touched by this expression of your good will. I feel that in the past I have been greatly honored by the American Bankers' Association. And in accepting this token from your hands, I must express not only my gratitude for this additional mark of your esteem, but as well to all of you for the sturdy, unfaltering co-operation you have in the past years extended not only to my efforts in behalf of this Association, but to those of all of the administrative officers. Your assistance has indeed been a great aid in the work.

I shall regard this testimonial not only as an honor from this Association, but as representing the personal friendship of its members, and I will treasure it as a constant reminder of this occasion and the experiences that have resulted from my connection with all of you.

In laying down the gavel as President of the American Bankers' Association, an honor which I have prized very highly, I shall surrender not one particle of my interest in its future upbuilding and success.

We are proud of the progress our Association has made. Its sphere of influence has been broadened year by year, until to-day it is a vital force in the economic affairs of the nation. The work must continue. You have to-day chosen those who shall carry it forward, and I bespeak for them that same cordial support and unwavering loyalty that you have extended to me in the past.

I sincerely regret that my family cannot be here to-day and join in the pleasure of this occasion, but on account of the illness of a son—one of the brightest rays of happiness that has ever entered my life—it has been impossible.

Gentlemen, on behalf of myself and my family, I accept this gift as a memento of your friendship, which I trust I will always deserve. I fully appreciate your many kindnesses and the honors you have conferred upon me. Words are but empty expressions of the promptings of my heart at this time, and I can only say that I thank you.

THE CHAIRMAN: Gentlemen, during the year just ahead of

us it is very probable that all the Federal Reserve Banks will be organized and this new system put into operation. The success of this system will depend upon the men who are to administer it; and if we have such men as our retiring President, and such men as Paul Warburg and George Reynolds and others in the management of that system, we can be assured of its success. We have with us to-day a gentleman who, as well as Beaumarchais, is a dramatist and an author. As a side line he is the contracting detective agency of the American Bankers' Association. If Mr. Burns is here we would like to hear from him for a few moments.

Mr. WILLIAM J. BURNS: Mr. President and Members of the American Bankers' Association. I am deeply grateful for this opportunity of expressing my thanks and appreciation for the confidence reposed in me by the American Bankers' Association; and I know that I express the sentiment of every person present when I state that we have had a most delightful visit to this beautiful city and the hospitable people; and I also desire to thank the members of the Association for the co-operation and aid they have given me in my efforts to carry out the work assigned to me. And I promise that in the future, as in the past, I shall bend every effort to succeed in my work, and I sincerely hope that I shall earn a continuance of your aid and appreciation.

I thank you.

THE SECRETARY: I have been asked to read this announcement, from the Committee on Bank Credit Men, so that the Convention may know something about the work of this Committee and their future plans.

IMPROVING CREDIT RATINGS.

At the last Convention Mr. Kennard, of Maine, brought before the Council the necessity of some organization of workers which should have for its object the improvement of credit methods and the adoption of uniform systems of securing information and compiling same for the use of the commercial paper buying banks, etc. At this Convention an association has been formed. From the favor it has met with, it seems destined to be a most important branch of the Association's work. No appropriation is asked at this time, as the banks will support it direct; but this statement is made for the purpose of informing the Convention that this much needed co-operation upon the part of banks is receiving serious attention, and that the organization which has been effected is not intended to be independent of the Association in any manner, and that at the next Convention of the American Bankers' Association it is expected that sufficient interest will be shown by the members of the American Bankers' Association to give it full recognition.

THE CHAIRMAN: Is there any further business?

On motion, duly seconded, the Convention adjourned.

TRUST COMPANY SECTION

AMERICAN BANKERS' ASSOCIATION

Nineteenth Annual Meeting, Held at Richmond, Va., October 13, 1914

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The Future of State Institutions Under the Federal Reserve Act.

By H. PARKER WILLIS, Formerly Associate Editor of *New York Journal of Commerce*.

Mr. Chairman and Gentlemen: The subject assigned me for this meeting is "The Future of State Institutions under the Federal Reserve Act." The subject is a broad one because the theory of the Federal Reserve Act is that there should be a union of all banking institutions. Instead of confining the operation of the law to national banks, as was at first proposed by some thinkers, its scope was finally enlarged so that to-day almost any institution may become affiliated with the Federal Reserve system by complying with the provisions applicable to it. The legislation as it has developed, aims to create a means of unifying the reserves of the whole nation, in order that the whole banking system may be strengthened where it is weak by reliance upon the aid of the stronger portions of the country when need may be, while those parts of the nation which may have excess funds are enabled to employ them profitably by placing them at the disposal of other portions of the country for investment in the paper which may offer itself.

In another great and important way, the Federal Reserve Act as now framed contemplates the inclusion within its range of as many of the banking institutions of the country as can be induced to participate. I refer to the question of domestic exchange. The act provides for unifying domestic exchange methods. Such unification calls for the aid of all the banks of the country, if it is to be thoroughly successful and practical. Both as regards the attainment of genuine banking strength, therefore, and as regards uniformity of domestic exchange rates, the Federal Reserve Act distinctly contemplates and desires the inclusion of all institutions within its scope in the way that I have just indicated. I might go further and suggest a variety of considerations bearing upon this subject and showing the reasons why and the ways in which such affiliation is contemplated by the law. In the short time at my disposal, however, it will not be possible to cover the whole ground, and I shall have to confine myself to a few of the more important aspects of the subject.

Assuming, what is evident from the Act and from all that has been said, that State institutions are freely welcomed to the Federal Reserve system, and assuming fur-

ther that, as I have just intimated, the system cannot attain its full fruition and success unless the great majority of the banks of the country are gathered into it, let us consider the practical question presented to the State banks of the country.

First of all, what is there to prevent State banks from entering the Federal Reserve system? The Act provides that every such bank shall comply with the requirements that are imposed upon national banks with regard to capitalization in relation to population, and in regard to the amount of reserves maintained. Such State banks must, moreover, conduct themselves in a general way on the basis of banking management that is laid down for national institutions under the Federal Reserve Law, although it may be said in passing that there is nothing in that law to interfere with those banks which are organized under State law, or to prevent them from taking advantage of those broader provisions of legislation which are found on the statute books of some States. But, in a general way, State banks which enter the Federal Reserve system must live up to certain requirements as to capital and reserve, and must submit to examination on the same basis as the national members of the system. How does this affect the State banks?

It is undoubtedly true that in some States the standards set by law on the three points I have just mentioned are lower than those of Federal Reserve system. We cannot, however, get a fair test of the case by merely noting that there is a difference between State and National legislation in this regard. The real question is not whether there is a difference—that is to say, whether a State bank can if it chooses, get down to a lower basis of management than that prescribed by the National law—but whether the basis prescribed by National law is unduly high or severe. I do not think that a consideration of the terms of the law will lead any one to think so. As is well known, the Federal Reserve Act, during the later stages of its development in Congress, was modified in the sections relating to reserves so that as the thing stands, a bank in a central reserve city is merely obliged to keep eighteen per cent. of its demand deposits and five per cent. of its time deposits, one-third of the

said eighteen per cent. to be in its vaults in cash, seven-eighths in the Federal Reserve Bank, and the balance either in its own vaults or in the Federal Reserve Bank. A bank in a reserve city has to hold fifteen per cent. of the aggregate amount of its demand deposits and five per cent. of its time deposits. It being necessary that one-third of the fifteen per cent. referred to shall be held in cash in its own vaults, while six-fifteenths, or two-fifths, are placed in the Federal Reserve Bank of its district, the remainder being optional. In country banks it is necessary that a twelve per cent. reserve shall be maintained against demand deposits, with five per cent. against time deposits, while of this twelve per cent., only one-third, or four-twelfths, is ultimately to be carried in cash, and in the Federal Reserve Bank five-twelfths, the balance being optional as between the bank's own vaults and the Federal Reserve Bank.

Now, those requirements are not severe. They are very much lower than the ones that exist at the present time, particularly when it is remembered that the Act itself provides that one-half of each installment of reserve may be protected by re-discounting of the paper of the specified kinds enumerated in the law and, as a matter of fact, although this is permissive, there is nothing whatever in the law to prevent a bank being accommodated to the full extent of its installments in the way of re-discounts; in fact, one man supposed that after the system has been fully established, and the banks are open, that in many cases an institution which wants to build up its reserve will do so not by getting gold and taking it there, but by simply obtaining a re-discount upon the books of the Federal Reserve Bank of the district, leaving it to that bank to provide the gold or lawful money which is necessary in order to protect that credit.

Comparison of these figures with reserve requirements in the several States would be interesting, but time will not permit me to present a complete tabular view of the situation. Suffice it to say, therefore, that the reserves mentioned in the Act are not as great as those which are required of banks in the States whose laws have been best framed and are best executed. We must, therefore, reach the conclusion that the reserve requirements of the new system are not such as should prevent any bank from entering it. If legislation which is now pending before Congress should be put into effect by the Board, these reserve requirements would be made even lighter than those contained in the Federal Reserve Act itself.

What I have just said may be considered as bearing primarily upon the case of a State bank which is just organizing, has not become involved in any business transactions or complications, and is considering for the first time the question whether it shall affiliate itself with the Federal Reserve system or not. But, as a practical matter of fact, such banks are few in number. The question must be discussed from the standpoint of the State banks which have been in existence for years past, and which are active, going concerns, their funds involved in various transactions, and their credit committed to the support of various enterprises. What of such institutions? In a general way, I may say that it has been found that the two principal obstacles to the entry of State institutions into the Federal Reserve system are as follows:

- (1) The existence of a large element of real estate loans in the portfolios of the institutions;
- (2) The existence of what are called "excessive loans," by which is meant loans to single persons or individuals, greater than the amount permitted under the National Banking Law.

It has been rightly assumed by the State institutions that they ought to eliminate these two grounds of criticism if they expect to enter the system. A good many have suggested that they be given a reasonable amount of time to comply with the requirements of the system,

it being recommended that such time should include a period ranging from six months to three years. It is probable that a good many institutions could, if they chose, get ready to enter in much less than a year, while there are others that could not successfully prepare themselves without a much longer period than that. Some able bankers have told me that if they were given a very reasonable extension of time within which to bring their assets into conformity with the requirements of the National law and of the Federal Reserve Act, there would be no doubt that they would enter the system in large numbers, either at once, or as soon as the new banks were placed in practical operation. Whether they would do so or not, is, of course, simply a matter of opinion, but in the absence of definite information on the subject, it may be assumed that they would do so, since this is manifestly the view of many able State bankers who are entirely independent of one another and who come from sections of the country so widely separated that it cannot be assumed that they have merely taken their ideas from one another.

If it be supposed that the opinion thus expressed is approximately correct, then the question arises whether the Federal Reserve Board has the right to, or having the right, ought to, grant the concession that is called for. The Board has taken no action in this matter, and no one can or ought to try to predict what is likely to be done. Exactly how far its powers would permit it to go may be an open question. Without seeking to pass upon questions which are still sub judice, it can only be stated, therefore, that all thoughtful men, studious of the interests of the banking community and of the reserve system, do undoubtedly desire to see a large number of State banks included in the list of member institutions. Personally, it is my very strong hope and belief that a large number of them will be thus brought in, and under conditions which they can reasonably be expected to submit to during the transition period.

It will be observed, however, that all that has been said thus far has been based upon the assumption that the banks thus seeking to enter the system are banks of the same general kind or description as those which now constitute the rank and file of the member banks to-day. That is to say, it is assumed that they are commercial banks. On even that point I think there is some confusion of thought in some parts of the country, and possibly among certain groups of bankers elsewhere. The Federal Reserve system is essentially intended as a commercial banking system. It is therefore not desirable that any bank should enter the system unless it is doing or intends to do a commercial business. All those institutions which are engaged in operations that render it unnecessary or undesirable for them to comply with the commercial requirements, are, ipse facto, outside the range of banks that will be much benefited by membership. Although, technically speaking, every State banking institution willing to comply with the law may become a member of the Federal Reserve system, it is not desirable that those should do so whose business is essentially of a different type from that of the commercial banks of the country and which are, consequently, either forced to make a sacrifice, thereby subjecting their customers to discomfort or inconvenience in order to come in, or which are in some other way subjected to difficulty as a result of it. In a word, no State institution ought to think of entering the Federal Reserve system unless its business is of a distinctly commercial type. Granted that, there is every reason why it should come in, but granting that its business is of a different type, the case changes.

Thus, not only are the State institutions desired as members in it, but also the effort of the system, and the real test of its success will be found in the question whether it modifies the banking situation, the credit situation in this country so that there is a better condition

of things, not merely for its members, but for those who are outside of it.

As you know, the system itself does not undertake to do any business with the individual man, except in those open market transactions where the institution having surplus funds, which it is not called upon to lend to its regular members and depositors, that is, the banks, want to employ those funds in some way, and so enters upon the market and purchases paper, either in foreign exchange or in domestic operations, such as crop moving, or in the purchase of local bills that fall within the definition of the Act. But that, of course, is incidental to its main purpose, which is re-discount. And in re-discounting the system will fill, if it does succeed in so radically modifying the banking situation that men will directly profit by it in lower interest, in more uniform terms of discount, no matter whether they have any direct dealings with the Federal Reserve Bank of their district or not.

It seems to have been supposed by some banks that they must enter the Federal Reserve system in order to get the benefit of it. That is only partially true. If the Federal Reserve system attains the objects for which it is intended, it will do so because of the fact that it modifies the whole banking situation. It will provide a market for commercial paper and will tend to bring discount rates to a degree of uniformity that has never before been possible. When the conditions are such throughout the country that commercial paper of known value can be marketed, and when, through the development of the principle of combined reserves, panic dangers are largely eliminated, every institution, whether a member of the reserve system or not, will get the benefit of the improved situation. Of course, this result cannot be reached unless a sufficient number of commercial banks are joined together in the system. Enough are already members practically to insure this state of things, but the assurance will become more and more distinct as more and more of the commercial banks join. Should they all enter, the system will gain no additional strength by the incorporation of members whose business is of a primarily investment character, even though they technically comply with the reserve requirements. Neither will the institutions themselves profit particularly by such membership. They will get the advantages of the system in any case by being enabled to borrow under more favorable conditions from the member banks which have rendered their own assets more liquid through their own membership in the system, and have thereby enabled themselves readily and regularly to afford such aid as may be asked for by their banking customers. When we hear the statement, therefore, that it is to be hoped that all institutions will ultimately become members of the Federal Reserve system, the wish must be regarded as based on enthusiasm rather than on knowledge.

Those who say they contemplate the time when all banks will become members of this system, to those I should simply say there is no use in any such condition of affairs either for the sake of the non-commercial institutions, who are thus thought of as entering, or for the sake of the system itself. If the system is successful, it is successful because it is a live system, because every member of it is actively engaged in doing business with it. That is, through all of its members it is constantly touching the business of the country. The system will not help the community, will not help the member banks, if their business is not of the type which the system was intended to promote, and whose development it was primarily framed for the purpose of assisting:

In what I have said thus far I have merely outlined the conditions as I think they must appear to a business man. But your committee has also asked me to consider the probability of the future. This leads into the realm of prophecy, and I am thoroughly aware of the dangers

it involves. It is, however, possible to express a few opinions in regard to the general situation. At the present time, a moderate number of State institutions of all kinds have affiliated themselves with the system, including both banks and trust companies. Without giving exact figures it is fair to say that thus far only a very small percentage of State institutions has seen fit to join. Two questions arise in this connection, the one why more have not joined; the other whether more will join in the near future. Many persons regard the smallness of the number of State institutions that have already joined as indicating that the system does not appeal to State banks. I have already indicated some reasons for thinking that this should not be the case, and in fact, for believing that it is not. It may be inquired, what then is the reason why so few State institutions have become members. In general, my answer to this would be that the State institutions have not joined simply because they did not have to do so. The banker, above all, is a conservative. His function is that of supplying conservatism in business. He insures credit; he guarantees that other men's judgments are more or less correct. If left to himself, he will move slowly and look before he leaps, and his mistakes will be those which grow out of adherence to routine rather than those which are due to rashness, haste and desire for change. A good many State bankers who have not had the compelling motive for coming into the system at once that was felt by the national banks have, therefore, waited to see how the situation would develop. As nearly as I understand, many are now on the margin of doubt. If conditions open favorably, they will naturally be attracted into the system in considerable numbers; if the reverse, they will probably prolong their period of waiting. Believing as I do that the Federal Reserve system will be made to operate successfully from the start, my disposition is to think that there will, at an early date, be many new members who will come from among the State banks, and that they will join within a comparatively short time after the banks are actually open. Assuming, however, that such should not prove to be the case, and that no rapid movement of State institutions into the system occurs—what then?

Of course, I state that, as I said, with all hesitation, recognizing that it is an opinion about the future. During the past few months the rapid rush of new conditions in the financial and business world has been such that I should say even those who thought they could tell what was going to happen thirty days in advance must be pretty thoroughly chastened by now. I would not even forecast what a day might bring forth, but this may be spoken of as possibly an indication.

It is probable that State bankers who have what to them seems a good reason for postponement of action, will continue to find such reasons for sometime to come and will not bestir themselves to join the system until a very distinct, fresh motive is afforded to them for so doing. What will that motive be? It seems to me that the motive is hardly likely to be found in the mere lack of opportunities for re-discount. If the re-discount plan operates as it is expected to, State banks will get the benefit of it indirectly, by finding themselves able to dispose of their paper on favorable terms in the open market without necessarily going to a Federal Reserve Bank for their accommodation. It is rather to be expected that the motive tending to lead State bankers to enter the system will be found in the clearing function. If the clearance provision in the Federal Reserve Act proves successful, it may be expected that business will be transferred to the member banks by those who will appreciate the immense advantage open to them as a result of the provisions freeing them from the oppressive conditions to which they have been subjected in regard to domestic exchange. It will be imperative for State banks to place themselves upon as good a foundation for appealing to

the public in this regard as that upon which the member banks rest. We may say, therefore, that the early entry of State banks into the system depends in a very large measure on the way in which the clearance feature is handled and the extent to which the clearing function is taken over by the Federal Reserve Banks, under instructions from the Federal Reserve Board. Provided that this work is undertaken courageously and successfully, the result will be to enlarge very greatly the membership of the Federal Reserve system.

You will recall the case of the Suffolk Bank system of Massachusetts early in the last century. You will remember that the conditions at that time existing in New England were such that one could throw a stone in almost any community and it would be more likely to hit a bank than almost anything else. And you recall that bank notes were then issued by those institutions and shipped to a distance in the confident expectation that, with transportation as it then was, it would take a great while for them to come home again. Under those conditions, the Suffolk Bank undertook, as a result of joint agreement on the part of banks of New England, to redeem the currency of the State Banks of Massachusetts and adjoining States ultimately. And it will be recalled that every bank joining in this scheme was required to keep a deposit with the Suffolk. They redeemed its notes at par in Boston. Occasionally a bank tried to cut loose from the system, but it almost always appeared that under such circumstances its note currency was limited to a very small radius around the home office of the bank, for the simple reason that the bank belonging to the Suffolk system had secured their currency, which was good all over the district through which this combination of banks was operating.

To-day we do not use very many notes. We think of the note as an important matter, but that is largely habit rather than anything else. We get out notes in time of panic and distribute them with the belief that some good is being done; but is not that very largely what you call a psychological way of dealing with the situation? The real currency to-day, of course, is the bank deposit or check. Now, if the theory of the Federal Reserve system is carried out successfully, then you will see the same proposition carried into effect in each Reserve Bank district that was seen in the case of the Suffolk Bank System more than one hundred years ago. That is to say, you will see the modern application of that idea, for there is nothing new in this world, and the ideas of banking under discussion and carefully thought-out approach more nearly to a scientific basis than those of any other line of business. What is trying to be done in the Federal Reserve system as to domestic exchange has been done in the past, has been worked out successfully, as applied to bank note currency. Can it not also be applied to the modern analogue of bank note currency, assume that idea is carried into effect as was intended? Now, will not that result in leading many State banks to come in, in order that their credit may have the same scope and extension as that of the Federal Reserve member banks? Will not the State banker want his depositors to know that a check drawn upon him by them will have the same breadth of circulation, will circulate just as favorably as the check drawn on a National or State bank which is a member of the system? If so, will it not be a decisive consideration with many others who are on the margin of doubt as to whether they should enter the system?

It seems to me that if this plan is successful, and reasonably carried into effect, that that must almost necessarily be the case.

This opinion I advance simply as a personal opinion and under the restrictions and limitations already outlined. I do not pretend to foresee or predict the future; I analyze only the situation as it appears to me to-day.

Another question of longer range, and of equally great

moment, is this: Will the Federal Reserve system tend to enlarge the national system of banking, or to limit it? In other words, will the future of State institutions under the Federal Reserve Act be a future of a gradual conversion into national banks, or will the State institutions find their ranks gradually enlarging until ultimately the banking system of the United States consists of a body of banks organized under State law and federated together in twelve Federal Reserve Institutions, National Banks being either extinct or on the road to extinction? In much of the banking discussion of the past two or three years, it has been stated that the drift of things was toward the elimination of the National bank.

This was on the ground that with the bond basis for currency issue definitely removed, there would be no particular reason why a National bank should exist, while with the privilege of membership in the Federal Reserve system open to State banks, it would be largely a matter of indifference under which system an institution might organize. At times it has seemed to me that those who thus argued had a rather substantial basis for their predictions. And yet since the adoption of the Federal Reserve Act, the national system has grown rapidly. During that time there have been organized about 164 institutions. And this rate of growth is essentially the same as in recent years.

Time was when it was stated that no National bank would enter the system, they would rather give up their charters, but that did not prove to be the case; and so far was it from being true that, during the past year, there has been an even more rapid growth in the number of National institutions than there was during the year preceding or during the year preceding that.

There seems to be no disposition by established banks to leave the system, but on the contrary, the process of new organization continues as I have noted. It may be inquired whether this is not due to the fact that long experience has not been had with the new system, so that men naturally tend to follow in the groove marked out by custom, even though there are factors working against that success.

Of course, one would feel that that would be applicable only in small and remote communities, and that it could not be true in the larger centers of population. Moreover, one would feel that with the keen, alert view of men subject to the highly competitive conditions—which is true of the banker more than any other man, despite the assertions of many trust—I say that with intense competition existing in the banking business, one would expect a man organizing a bank to look into the situation, and one would not expect to see men go into a system that was obsolete or in which the advantages were distinctly minor.

Were the question to be answered in the affirmative, we should have to conclude that the probable relation between National and State banks under the Federal Reserve system and the relative growth of the two groups would be a matter for future determination as to which no positive opinion could be expressed to-day. To some extent this is undoubtedly the situation. Some States have already been making vigorous efforts to hold their own banks under State law. An example is seen in the case of the State of New York, which has recently liberalized its banking act, shaping a piece of legislation which some believe is more favorable to satisfactory banking than the National Act as modified by the Federal Reserve Act. Observe, however, that this action has been taken in order to prevent State banks from converting to National. The problem before us just now is the converse of that, and is, whether there will be a drift of National institutions into the State system. It would seem that there is good ground for believing that as a result of banking discussion and largely in consequence of the unifying influence of the Federal Reserve system, there will be a much stronger drift than heretofore to-

ward standardization of bank examination and of banking legislation. The Federal Reserve Act will have a very powerful influence in bringing about uniformity of conditions in examining banks and in controlling them generally. If such uniformity be rightly developed, may it not be supposed that banks already holding either a State or a National charter will continue as they are now? May it not also be assumed that, there being less variation of the conditions under which the two systems are operated, the choice whether to enter a State or National system will be of relatively trifling importance, so that banks will enter one or the other in very much the same ratio as at present, or perhaps in substantially proportionate numbers?

It seems to me that this is the direction in which conditions are drifting, looking at the matter from a long-range standpoint. So long as the State banks are allowed to become members in the Federal Reserve system, and so long as the effort to standardize National and State banking legislation is in progress, I do not see why one set of conditions should not offset the other, and each system continue fairly well to hold its own.

In other words, I think the tendency in this country is the hopeful and optimistic one, and it is to grade things up to a certain level, and not down. Time was when a bid was made for the organization of banks, by giving as poor legislation as they could, and by subjecting the banks to as little annoyance after the system had been organized as possible. Nothing is more hopeful than the disappearance of that tendency, and the efforts on the part of many centers to get satisfactory laws for banking, and the appeal of existing banks to enter their system on the ground that they have a good and an effective law which protects the legitimate, conservative banker against his fellow who is not quite so much so, and which places him in a position to appeal to the public as being controlled by legislation which is quite as stringent and quite as effective as the National Act. Of course, there are many States in which that is not true to-day. That is, not all of our laws are equally advanced; but it seems to me that a careful review of the situation, of the tendencies during the past twenty years, and particularly during the past ten years, shows a pretty steady advance in many States towards such uniformity. And, in that connection, it is only fair to say, it seems to me, that the efforts of the American Bankers Association and of State Bankers' Associations, dominated as such associations almost always are by men of foresight and judgment, has been a powerful influence in bringing about that tendency to grade things up instead of to grade them down.

It is not true, then, in my judgment, that institutions will drift out of the National systems and drift into certain of the State systems simply because the latter may be lighter in their requirements than the National.

It is recognized, however, that we are speaking of the future, nothing positive can be said, and no one can reasonably dogmatize about the probable outcome. Conditions may suddenly change, as they have in the past, and if they do, a new and unexpected drift may at any time be given to the course of banking development.

From what has been said, you will see that I am not inclined to speak very confidently or positively of the future on any of the points under discussion. In fact,

the present is of more importance than the future, because what happens later is the direct outgrowth of what is done to-day. For the present the problem is perfectly clear. It is, from the standpoint of the Federal Reserve system, to extend its borders as widely as it legitimately can among commercial institutions, bearing in mind and having due regard to the requirements of commercial banking, and always with the desire to take in only sound and well-managed institutions, as well as those whose business is of a type that conforms substantially with the provisions of the law. From the standpoint of the banks, it will evidently be worth while for State institutions to conform to the reasonable requirements of the Federal Reserve Act in the matter of capital, reserve and examination, if by so doing they can get any real or substantial advantages for themselves. That they can get such advantages, not merely in re-discount but also in clearing their items and in performing various other banking operations, and that they can materially advantage themselves and their customers by becoming members of the Federal Reserve system, is, I am sure, the general belief of those who are most familiar with National and State laws. Uniformity of management, simplicity in domestic exchange, ability to bring aid to those institutions or sections where aid is needed and to afford opportunities for fluid and legitimate investment to those parts of the country which have superabundant funds, will be promoted by the extension of the membership of the Federal Reserve system. When all has been said and when every consideration has been taken into account, I believe that the thoughtful and nonpartisan banker will conclude that the question of membership is one that goes beyond the bounds of immediate business profit. In the course of my remarks to-day I have endeavored to consider the problem with some little detail from the business standpoint. But banking on its higher side is, in my view of the case, a profession. It has its professional standards and its professional requirements. It performs an important public function. The banker must, therefore, consider not only what dividends he can make for his stockholders and what losses he can prevent them from incurring, but he must also think of the fulfillment of this public function in the best way. In the United States we have long suffered from incompatibility and divergence of banking methods. An opportunity is now given for standardization and for improvement of practice. Should not the State banks of the country who have so long borne an honorable and distinct part in the promotion of the country's commercial welfare, and many of whom have charters running back for a long period prior to the formation of the National banking system, stand ready to join in the effort to further the success and insure the greater soundness of banking methods in the United States? They can, if they will, attain these objects by affiliating themselves with the new system and by helping, through their influence and example, to make it a success. It is, I think, to be hoped that they may look at the question from some such standpoint as this, and in consequence, give their direct aid and support to the Federal Reserve system, as well as draw aid and support from it—becoming members of it and undertaking to give the fullest possible effect to the beneficial ideas embodied in the Act of 1913.

Committee and Officers' Reports—Trust Company Section.

Report of Secretary.

To the Executive Committee, Trust Company Section, American Bankers Association:

GENTLEMEN: Your Secretary submits herewith his report for the fiscal year ending August 31st, 1914.

The financial statement is as follows:

CREDITS.		
By Appropriation of Executive Council.....	\$8,500.00	
" Sale of Trust Company Proceedings.....	58.85	
" Sale of Trust Company Laws.....	1.00	
Account Postage and Stationery.....	35.00	
		\$8,594.85
DISBURSEMENTS.		
Salaries.....	\$3,910.30	
Postage, Stationery and Printing.....	1,102.77	
Proceedings 1913.....	976.96	
Executive Committee Meeting.....	660.59	
Rent.....	605.04	
Convention Expenses.....	261.32	
Legislative Committee.....	95.80	
Gold Badges.....	66.00	
Travelling Expenses.....	64.15	
Telephone and Telegrams.....	60.60	
Living Cup for Retiring President.....	125.00	
Sundries.....	5.55	
		\$7,934.08
Credit Balance.....	\$ 660.77	

With all bills paid to August 31st, you will note that there is a credit balance of \$660.77, which has been transferred back to the general funds of the Association.

I am pleased to report that while the running expenses of the office, such as postage, stationery, printing of pamphlets and circular letters have largely increased during the year, we have kept well within our appropriation.

The Section has on the Treasurer's book a credit of \$1,302.17 as a special account from the profits of the sale of the book of "Forms for Trust Companies."

I am also pleased to report that our membership has continued to grow, notwithstanding the provisions of the new constitution which made it necessary for a large number of our members heretofore enrolled in both the Savings Bank and Trust Company Sections to elect in which Section they desired to remain. Our membership at this time is 1,201—all companies doing a trust company business, and, therefore, selecting enrollment in the Trust Company Section.

The reports of your Executive Committee and of its several sub-committees will inform you in detail of the various and diversified activities of the Section. Serving as Secretary of these various committees, I have at all times endeavored to carry out such work as was entrusted to me and it seems unnecessary for me to refer further to what has been so ably set forth in these several reports.

On May fourth last there was held the Fourth Annual Banquet of the Trust Companies of the United States, members of this Section of the American Bankers Association. This banquet took equal rank with the previous ones as one of the important banking dinners held during the year in New York City. There were in attendance 614 trust company officials, bankers and representative men from thirty different States. For the information of those of our members who were not present it is proper to say that the entire expense of these banquets is met by the subscriptions of those present and no expense whatsoever attaches to the Section or to the Association.

It has been my duty and pleasure to serve our membership, our officers and committees to the best of my ability, and I desire to express to one and all my appreciation of the consideration shown me and of the pleasant relations which have existed during the past year.

The membership at large has more and more called on my office for information and I very sincerely hope that a more general understanding of what the Secretary of the Section can do for its members will prevail.

Respectfully submitted,

PHILIP S. BABCOCK,
Secretary.

Report of Executive Committee, by John H. Mason, Chairman.

To the Members of the Trust Company Section of the American Bankers Association:

MR. PRESIDENT AND GENTLEMEN: Your Executive Committee begs to report a year of growth and endeavor, of much undertaken and some accomplished in the interest not only of Trust

Companies, members or not of the Section, but of all the banking institutions throughout the country.

The relation of Trust Companies to the Federal Reserve Act, the onerous duties imposed upon them by the Income Tax Section of the Tariff Bill, the Model Trust Company Law, the protection of the word "Trust" by State enactment where necessary, the proper and thorough supervision of Trust Companies by State Banking Departments, the education of the public as to what Trust Companies are and the varied ways in which they can be of service to their clients—all these, and many other matters, have engaged the time and services of the members of your Executive Committee, and of its several sub-committees.

Reports of these various activities will be presented to you to-day by those to whom they were entrusted, and your careful consideration is asked at this time, and later when they appear in the volume of Proceedings, a copy of which will be sent to each member of the Association.

Before the new Federal Reserve Act became a law, its provisions were carefully considered at meetings of your Committee, and your officers and individual members made frequent visits to Washington to consult with the Banking and Currency Committees of the Senate and House. The guaranteeing of bank deposits, the granting to National Banks applying therefor the right to act as trustee, executor, administrator, etc., the double liability imposed on Trust Companies and State Banks becoming members of the Federal Reserve system and many other matters, were indeed live issues.

In the final form of the Act the guarantee of bank deposits was eliminated, also the double liability of shareholders in State Banks and Trust Companies which might become members of the Federal Reserve system, except in so far as such provision was already embodied in State laws. These desirable eliminations were, it may safely be said, in part due to the activities of your Committee, and of individual public spirited bankers throughout the country.

Under the Act the Federal Reserve Board has power "to grant special permit to National Banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator or register of stocks and bonds, under such rules and regulations as the said Board may prescribe."

It is understood that the purpose of this provision is to permit National Banks to serve their constituents in localities where there are no Trust Companies, or other institutions, authorized to act as trustee, executor, administrator, etc. It is quite doubtful whether many Banks will avail themselves of such fiduciary powers. Even if they do, it should not affect, to any appreciable extent, the business of the Trust Companies. In many States, an enabling act must be passed before the National Banks can avail themselves of the Trust functions granted under the Federal Reserve Act.

The Income Tax Section of the Tariff Bill, due mainly to the "collection at the source" requirement, has proven most burdensome to the Trust Companies of the United States. Under the provisions of the Act, the paying company, practically, becomes the collector of the tax for the Government. It receives absolutely no compensation for its services and, in fact, is not reimbursed for the actual expenditures incurred. This seems markedly unfair.

The Rules and Regulations, issued by the Treasury Department, required no less than twenty-two forms of certificate of ownership, many of which seemed so unnecessary that your Committee urged upon the Department that it withdraw most of the forms issued, and modify and simplify the others. After careful consideration, the Department issued a set of revised forms, reducing the number from twenty-two to ten, and they are undoubtedly a vast improvement over the forms originally issued. On behalf of the Trust Company Section there has been submitted to the Treasury Department a single form of certificate of ownership, which it is contended would meet every provision of the Income Tax Section as well as the requirements of the Rules and Regulations.

At the meeting of the Trust Company Section held in Boston on the 7th of October of last year, a draft of the Model Trust Company law, which had been prepared by Thomas B. Paton, General Counsel of the Association, was submitted.

You will no doubt recall that, after considerable discussion, it was moved that the entire matter be referred back to the Executive Committee for such action as it may give it, and to report to this meeting. At the meeting of the Executive Committee held at Hot Springs on the 30th of April, very careful consideration was given to this matter. Certain members

of the Committee were opposed to the section advocating any particular law, or putting itself in the attitude of recommending to the legislatures of the different States the enactment of features which, while perhaps in themselves admirable, might not be adapted to the conditions in the several States; others were strongly of the opinion that the Section should not hesitate to stand for all the provisions in the draft of the law, and it was, therefore, decided to refer the matter to a Special Committee, that Committee to make its report direct to the members assembled in the annual Convention. The Chair appointed on that Committee

Messrs. F. H. Goff, R. W. Cutler, Oliver C. Fuller, John W. Platten and Uzal H. McCarter,

and, in due course, you will have the privilege of hearing the Committee's report.

The new Constitution of the Association, as adopted at Boston, provides that members can only enroll in one section.

In accordance with this provision, notices were sent to five hundred and ten (510) members of the Association who were enrolled in the Trust Company as well as the Savings Bank Section, advising that they must elect in which Section they desired to remain. It is gratifying to report that, of these companies, over sixty-five per cent. elected to remain in the Trust Company Section, giving it a membership in excess of one thousand, and thereby entitled the Section to two members on the Executive Council of the Association. The membership in our Section at Boston was one thousand, three hundred and sixty-two (1,362) and is now, under the new provisions of the Constitution, with the additions during the year, one thousand two hundred and one (1,201).

We are also pleased to report that the Savings Bank Section has a membership largely in excess of the one thousand required, and it also has two members on the Council.

There is to be presented at the General Convention at its meeting to-morrow, an amendment to the Constitution, as follows:

Section 1. "Sections of the Association may be authorized or confirmed and regulated by By-law, for the promotion of the welfare of the different business classes of the membership, and any member of the Association may become a member of such Section or Sections whose constitution or by-laws permit of such membership as may best benefit such member's business interests; provided, however, that NO MEMBER SHALL HAVE THE RIGHT TO VOTE FOR OFFICERS IN MORE THAN ONE SECTION and shall at the time of becoming a member in more than one Section designate in which Section it will exercise the right to vote for officers by giving notice to the Secretary of such Section, which designation cannot be changed until an intervening annual election, and when any Section is authorized by by-law the same shall, upon application made, be established by the Executive Council."

Your Committee earnestly recommends that, when this amendment is offered, you give it your approval and vote.

The past year has proven one of excessive legislation, both Federal and State, and for the immediate future there seems to be no promise of a lessening. Laws have been enacted that are not based on sound economics, others have been enacted through prejudice and lack of accurate information. How are we to correct this and aid in a future betterment? By a higher appreciation of our citizenship, and by assuming our obligations to endeavor to form a more equitable public opinion.

You and I have a responsibility to turn the powerful forces of to-day into channels that will make for the good of all, and not for only the few. There has seldom been a time when patriotism was so needed as NOW, and that, in its true sense, means a submergence of self-interest which is surely bound to create a public opinion constructive for all time, and not, as in the recent past, destructive of business activity.

Then, too, we must bear our part in the Progress of the World.

In a few months from now, the democracies of Europe will be crying out for a return to normal conditions.

Men will want work, they will want wages, and all will want food.

The normal conditions which were shattered by the declaration of war were the fruit of centuries of evolution and work. In due course, the "To-morrow of Readjustment" must come, and we will need our full strength to do our share.

To aid in accomplishing this task of "World Reconstruction" and the embracing of unthought-of opportunities for usefulness and expansion of trade, there must be a unison of purpose and action on the part of our Government and the business men of the United States.

If we grasp our opportunity, and I believe we will, there will then dawn an era of prosperity, the like of which we have never seen before.

Report of the Committee on Legislation.

Mr. President, Members of the Trust Company Section:

The Membership Committee on Legislation consists of the three Executive Officers and two ex-Presidents of the Section. As these gentlemen are all on the Executive Committee of the Section, the work of the Committee on Legislation must necessarily be largely included in the report of the President and the Chairman of the Executive Committee. There was, however, some special work undertaken by the Committee on Legis-

lation which it might be proper to mention in this report. The Convention in Boston on October 7, 1913, was held shortly after the passage of the Income Tax Law, and, while the members of the Trust Company Section had no serious criticism of the principles of an Income Tax, or of the rate of taxation, they did object strenuously to the method of its collection. This was voiced most strongly during the discussion in which many members participated. In accordance with what they felt to be the earnest wish of the Section, the members of the Committee on Legislation, immediately after the close of the Convention, wired to the Treasury Department at Washington requesting interpretation of certain clauses in the Income Tax Law which were not clearly understood, notably those which related to the collection of coupons "at the source." No literature had been issued by the Government up to that time, and it seemed desirable and necessary in order to carry out the provisions of the law intelligently that we should know at the earliest possible moment exactly what the Government required. The bill became operative on November 1st, and, in spite of the fact that before that date a special Committee visited Washington to urge the importance of sending instructions to the Trust Companies and Bankers of the Country, nothing was given out until five days previous to the time when the law went into effect. It was immediately observed that the law was even more cumbersome than we had feared, and that it bore very severely upon the Trust Companies, and especially upon those in the larger cities. Application for interpretation of various clauses met with decisions on the part of the Commissioner of Internal Revenue, which in numerous cases were reversed in a few days after their issuance. In the spirit of progress many Trust Companies issued more or less elaborate books of instructions for the benefit of their clients; but, in most cases, these became worthless because of decisions, which, after having been extant for a few days, were reversed by the Internal Revenue Department. The Trust Companies, nevertheless, kept hammering away at the Department in Washington in order to obtain all the information possible. It was, however, only after weeks of work, with more or less bungling, that the collection of the tax at the "source" began to run at all smoothly. We feel that, in some measure, it was in consequence of our suggestions that certain methods of collection were simplified. The number of forms was reduced from twenty-two to ten, and the two forms most largely used, "exemption claimed" and "exemption not claimed," were by law directed to be on different colored paper—yellow and white respectively; and these changes have done a great deal toward simplifying the work. We trust that the single form suggested by our Committee may in time be adopted by the Government, and thus a still further reduction in number and variety of forms may be made.

In the early part of the current year, when the Federal Reserve Act was under discussion, we learned that, under the Senate Bill as suggested, State Banks and Trust Companies could continue during the thirty-six months' transition period to keep a part of the reserve with any member bank in a Reserve or Central Reserve City, but that in the Conference Committee the word "member" was erased and "National" was inserted in its stead. Your Committee deemed this an injustice. It would work unnecessary hardship on the country Trust Companies and State Banks wishing to join the Reserve Association and having their balance on deposit in Trust Companies and State Banks in either Reserve or Central Reserve cities, to be forced to change such balances to National Banks; and it would also be unjust to force the Central Reserve and Reserve City Trust Companies and State Banks coming into such a system to lose the deposits of their country clients. Any Trust Company joining the Reserve Association as a Member Bank, keeping up the reserve requirement according to law and being subject to national examination, should be a competent Reserve Agent for any other member of the Association, and should be placed on the same basis as the National Banks. Your Committee on Legislation, aided by certain influential members of the Section called upon for the occasion, were able to convince the Committee that such discrimination was unfair—and the bill as passed, contained, as desired, the word "member" instead of the word "National."

Another important matter was undertaken by certain members of the Committee on Legislation, after war had been declared in Europe, and related to the great depreciation in gilt-edge securities held by Trust Companies, Savings Banks, and Insurance Companies, both as investments for their own funds and for clients in trust. In consequence of the cataclysm abroad and of the frenzied sale of our securities, Railroad bond investments which had been considered "bed rock" depreciated extensively in value, and by the closing of the Stock Exchange, which occurred on July 30, assets which were believed to be "liquid," and easily realized upon in case of emergency, were made positively unmarketable. During the time which has since elapsed, demands to a considerable aggregate amount have been made by depositors, and inasmuch as no investment assets could be sold, the situation became most acute. It was realized that should the Stock Exchange be reopened a flood of securities would be returned to us by the badly alarmed European investors, and this would result

in a still further decrease in bond values. At a conference, where important interests were represented, a committee was appointed to wait upon President Wilson and urge the necessity of promptly taking some action toward sustaining Railroad credits. This we felt should be the first step toward establishing an abiding faith, both at home and abroad, in the stability of our investments. If the European holder of our first-class Railroad securities could be made to believe firmly that the administration was disposed to aid the Railroads to a point where their net earnings would provide beyond peradventure for their interest and dividends, and that his money was safer on this side of the Atlantic than it was at home, he would be disposed to hold his investments, and not sell them in our markets when the Stock Exchange was opened. Consequently the basis of value for our Trust Funds would be more stable and dependable. This committee met the President by appointment—and in a strong forceful manner. Letters have also been written and interviews have been held with members of the Interstate Commerce Commission, bringing the subject to their attention along the same line. We sincerely hope that the result may be what we all must earnestly desire.

Report of Protective Laws Committee.

Eleven States have held regular legislative sessions in 1914. In Vermont the session does not convene until late in the year.

In Massachusetts it was made unlawful after 1917 for any Trust Company to hold more than 10 per cent. of the capital stock of any other Trust Company. The State also passed a law permitting its Trust Companies to join the Federal Reserve Association and making such changes in the matter of required reserves, location of branches, acceptances of bills of exchange, etc., as is necessary to secure the benefit of this National legislation.

Kentucky, Louisiana, New Jersey, Ohio and Virginia took similar action, authorizing their State institutions to become members of the Federal Reserve Association.

The legislation in the State of Virginia does not expressly refer to Trust Companies, unless they would come under the designation of "banks chartered by the State of Virginia." Chapter 310 of the Virginia laws provides how Trust Companies may be incorporated and gives them general powers for the purpose of doing a Trust Company business in the State, and permits them to engage in general banking.

Maryland's contribution to new legislation was an act providing for the deposit of State public money in Trust Companies as well as in banks, and an amendment to existing laws which gives Trust Companies banking powers.

In Georgia no additional protective legislation was secured other than the passage of the fraudulent check law.

A number of our Association's protective measures were passed in Louisiana.

Mississippi has at last established a Banking Department providing for examination, regulation and control of all banks and Trust Companies other than National Banks and Postal Savings Banks. This State also passed a Bank Guaranty Act, thus going from the extreme of no protection of bank deposits to that of making the State indirectly responsible for them.

In New York, all State Banking Laws were ably revised by a competent Commission.

At a special session of the Ohio Legislature, State Banks and National Banks were prohibited from acting as administrators, executors, trustees or registrars, and it was provided that Trust Companies joining the Federal Reserve Association should exercise same trust powers now conferred upon them by law, and other State Banks and National Banks may enjoy powers in the matter of acceptance and execution of trusts which are now conferred by law upon Trust Companies, it being obligatory upon such State and National Banks to comply with legal requirements imposed upon Trust Companies in connection with the execution of these trusts.

In Rhode Island, an amendment to the banking laws was passed directing Receivers of Trust Companies in liquidation, after the declaration of final dividends, to pay all funds to the General Treasurer and deliver a list of unclaimed deposits and dividends to the General Treasurer, this list to be advertised each year for three years.

The Secretary of the South Carolina Bankers Association advises that no laws were passed in his State this year relating to Trust Companies.

Mr. John Poole, Secretary of the District of Columbia Bankers Association, advises that Congress has not passed any legislation this year which directly affects banks in the District. Presumably this includes Trust Companies.

An effort to secure an amendment to the Trust Company law in Louisiana, similar to the Ohio law, under the terms of which charitable trusts or educational trusts will be permitted, failed, but we are assured that the result was due to other causes than a desire upon the part of the legislators to defeat the bill.

During the year the Committee has taken up the question as to whether or not it would be desirable to obtain legislation in all States permitting a Trust Company to accept and execute trusts in any foreign State as well as in the State in which it is created, but in view of the provision in the Federal Reserve Act which allows certain Trust Company privileges to National Banks when not prevented by State statutes, and in view of the fact that there will likely be an effort made in several of the States to curtail these possible privileges, it was deemed inadvisable to press the question at the present time.

As stated in our last year's report, the Committee finds that much proposed legislation detrimental to Trust Companies is introduced by persons who lack intelligent information regarding the management and administration of our companies' affairs.

Occasionally such legislation is urged from improper motives, but these instances are extremely rare, and we believe that if Trust Company officials would make the effort necessary to come into closer personal contact with the legislators in their several States they would be able to prevent the introduction of much unnecessary and undesirable legislation.

The Committee desires to thank the General Counsel and the Secretary of this Section for their assistance and advice.

Respectfully submitted,

E. D. HULBERT,
SAM. W. REYBURN,
HERBERT A. RHOADES,
LYNN H. DINKINS, *Chairman.*

Detailed Report of Proceedings.

Nineteenth Annual Meeting TRUST COMPANY SECTION, Held at Richmond, Va., October 13, 1914

JOINT SESSION OF THE TRUST COMPANY AND SAVINGS BANK SECTIONS.

RICHMOND, VA., October 13, 1914.

The Joint Session of the Trust Company and Savings Bank Sections met in the Auditorium of the Jefferson Hotel, on Tuesday in the forenoon, October 13, 1914, at 10 o'clock A. M.

PRESIDENT J. F. SARTORI in the Chair:

The meeting will please come to order. This is a Joint Meeting of the Trust Company and Savings Bank Sections of the American Bankers' Association. We will open the meeting with prayer by the Rev. Dr. J. J. Gravatt, of the Holy Trinity Episcopal Church, of this city. The audience will please arise.

PRAYER

REVEREND DR. GRAVATT: Almighty, Everlasting God, the source and author of all our blessings, we acknowledge Thee as our creator and our Father. We know that all things come from Thine hand; the gold is Thine; the cattle upon a thousand hills are Thine; and we are Thine; and we pray Thee to forget all our thoughtlessness about Thee, and to fill us with Thy holy spirit that we may do and think the things that are right. We would beseech Thee, our Heavenly Father, to look in special mercy upon this world at this time. Some of our brethren are in the midst of strife and suffering; our hearts go out to them.

We pray that Thou wilt guide and direct those in authority, enabling them to put themselves in Thine hands; to realize that they are Thy servants. And wilt Thou, in Thine own good time, restore peace and safety where now is war and strife. Succor those that are tempted and those that are in suffering. Bind up, we beseech Thee, the broken-hearted. Supply the needs of those in poverty, and let Thy presence be with those who are wounded and dying. And we would know that Thou, the ruler of all the world, canst make even man praise Thee; and may all this cruel strife be overruled by Thee, by the establishing of an abiding, permanent peace. Give peace, O God, give peace again! And that there may be, as a result of all this, an acknowledging of Thee by the men of the world, the people of the land as Thy God, and may there be a great wakening of the spiritual life.

The world ask Thy blessing upon the land in which we live, the land of such promises.

Guide the Chief Magistrate of this country, and those in authority under him, that in this land we may so live, in this land we may so labor that peace and happiness, truth and justice, religion and piety may be established among us for all generations.

Let Thy blessing rest upon this Convention now assembled in Thy presence. Help them in all their deliberations to an eye single to Thy glory, the welfare of Thy country, and the uplifting of Thy people.

May we realize, one and all, that we are stewards under God for what gifts, for whatever blessings he has bestowed upon us. And enable us by Thy grace to be faithful stewards. And may this Convention, meeting in Thy presence, conducted by Thy spirit and ending by Thy help, be a blessing to those assembled, and to the country in which we live, and the world of which we are a part.

These things we ask in the name and for the sake of our dear Saviour, Jesus Christ, our Lord. Amen.

PRESIDENT SARTORI: I have now the pleasure of presenting to you Mr. F. H. Goff, President of the Cleveland Trust Company, also President this year of the Trust Company Section of the American Bankers' Association. Mr. Goff has kindly consented to act as our permanent chairman this morning. Mr. Goff. (Applause.)

MR. GOFF: Mr. Sartori is wrong. I did not kindly consent. I reluctantly consented, and naturally because he is more modest than I am.

Gentlemen, we have for discussion in this joint meeting the question that is of vital importance, not only to the banks, but to the nation. The attitude of State Banks and Trust Companies towards the newly organized Federal Reserve Association, we are going to discuss it, gentlemen, with just as little dignity and with just as much informality as may be, because we want to hear from the different parts of the country and know what they are thinking about and how they are thinking about it, and to the end that we may go to the respective institutions a little wiser than we came.

You are going to be honored by hearing from a gentleman who had much to do with the drafting of the Bill creating the Federal Reserve Association, a man, who, if I am informed correctly, acted as expert for the Banking Currency Committee of the House; at one time, and perhaps still, a professor on the Faculty of Columbia University, lecturing upon the subject of business and banking; until recently associate editor of the *Journal of Commerce*, of New York; and now Secretary of the Federal Reserve Association. He is to address you on the subject of "The Future of State Institutions under the Federal Reserve Act."

I have great pleasure in presenting Mr. H. Parker Willis. (Applause.)

MR. WILLIS: Gentlemen, I read somewhere last night that the American Bankers' Association's gathering here in Richmond was probably one of the richest associations of the kind in the United States, and possibly in the world. I do not know about that, I have not the figures, and I do not think the point is one of very much importance. What I do feel to be of more importance is that the American Bankers' Association, representing as it does, the united banks of the country, is probably the most significant, most powerful business body in the United States to-day. Believing as I do that the control of credit, the proper apportioning of loans, the sustaining of business by the assignment of fluid capital to its use is, in the last analysis, the factor in business life that controls the direction of industry, and it seems to me that a body of this kind exercising that enormous power must be supremely self-conscious of its immense responsibility.

For some years past I have had the privilege of being associated with bankers as a looker-on at the profession and its doings, and I have found that among bankers whom I have had the pleasure of knowing, the Savings Bank and Trust Company officers contain, among their number, some of the best informed, most thoughtful men in the whole banking community. Perhaps this was the cause of my own primary interest in the commercial side of the banking business. It has often seemed to me that if we were a little less strongly interested from a personal standpoint in the management of business, we are more likely to be detached, thoughtful, and to give purely theoretic consideration their due weight than those who are immediately and instantly concerned in the profit side of the business; so, for that reason I am doubly pleased to be before you to-day, first, because one could not find a more significant and powerful audience than the American Bankers' Association, nor one which has a greater capacity for making its judgments effective in the control and direction of business. I use these words in their legitimate, good sense; secondly, because I feel that among the banking profession in this country the Savings Bank and Trust Company men occupy a position which is second to none, and which, perhaps, because of its being outside of the immediate line of commercial business, gives them a detached quality which enables them to make their judgments directly operative without some suggestion that they are colored in any manner by personal interest.

The subject assigned me for this meeting is "The Future of State Institutions under the Federal Reserve Act"; and I have taken the liberty on account of, as I think, the importance of the subject, of writing down my views on this subject. I shall from time to time depart somewhat from my manuscript. The subject assigned me is a very broad one, because of the theory of the Federal Reserve Act, that there should be in the United States a union of all banking institutions.

In its original conception, the Federal Reserve Act was, by many, believed to be designed entirely for National Banks; but, as you know, it has been given a far broader scope than that, and now permits the coming in of State institutions into association with the National Banks, because of the basic idea in the law, as it finally was passed, to the effect that good and successful banking reform could never be attained without a general junction of all banking institutions for the purpose of performance of certain necessary functions instead of confining the operation of the law to National Banks.

The Future of State Institutions Under the Federal Reserve Act, by H. Parker Willis.

[The address of Mr. Willis will be found on page 143.]

CAPTAIN DINKINS (of New Orleans): Mr. Chairman, would there be any advantage in a State Bank becoming a member of the Reserve system, whose collateral would not be accepted by the Reserve System for loan or rediscounts? In other words, there are numerous country banks whose collateral consists in mortgages on real estate, and notes and bonds and stock as collateral. As I understand it, such collateral will not be accepted by the Reserve System?

THE CHAIRMAN: Professor Willis, will you reply to the gentlemen?

MR. WILLIS: In answer to that, I will call your attention to what I endeavored to point out about the undesirability of strictly non-commercial institutions joining this system. Of course, if a concern has its assets in such form that it cannot get rediscount, there is little object, I should say personally, in its joining the system. To do so would be merely, would merely

have a sentimental value; but practically, of course, it would not be of much aid, except perhaps on occasions of panic or some special difficulty when it might have a little more direct and immediate position to get assistance from the Federal Reserve Banks than it otherwise would be. Of course, ordinarily, this system, if it succeeds at all, is not to be a stormy weather system, but it is to work right along successfully. If not, it is of no particular benefit. An institution that is not abnormally supplied with assets that enable it to do business with the system right along on a reasonable basis, I don't think has very much to gain in joining. At least, I do not see that it has.

Does that answer the question? I did not quite hear all your questions.

THE CHAIRMAN: I think it does.

I think, Professor Willis, I voice the views of all the members of the Savings Bank and Trust Section when I tender you our hearty thanks for your able and interesting paper.

MR. WILLIS: Thank you.

THE CHAIRMAN: We invited and expected to have Governor Hamlin, Governor of the Federal Reserve Board, but who unfortunately found that he was unable to reach Richmond before to-morrow. However, I will be glad to have Governor Hamlin know that our grief is lessened by the presence of Professor Willis.

We are also disappointed, greatly disappointed, at the inability through George M. Reynolds, President of the Continental and Commercial National Bank of Chicago, to be here. Some weeks ago he had accepted an invitation, his paper was prepared, and he expected to be in attendance. Matters relating to the organization of the Regional Bank in Chicago unexpectedly came up and made impossible his being here. I am permitted to read a letter from him, briefly giving his views and attitude with regard to the question under discussion, which is in reply to a letter from me under date of September 21.

CONTINENTAL AND COMMERCIAL NATIONAL BANK.

CHICAGO, September 23, 1914.

My Dear Mr. Goff:

I have your favor of the 21st instant and have read the contents of same with much interest and pleasure.

I fully appreciate with you that it is our duty to do all we can to create a condition which will justify the State banks in becoming members of the Federal Reserve Association. We can never have a satisfactory condition in banking in this country until this has been accomplished.

On the other hand, the enforced entrance to this system of the national banks by the Government, thereby putting at the risk of the success of the system over ten billions of dollars of the banking power of this country, is so great a change from the old-time conditions, I am rather inclined to feel that great care and careful deliberation should be given to the subject before State banks generally undertake to enter the system.

While we all hope and believe that the system can, through some modifications, be made to be fairly successful, still, until it has been tried, the whole matter will necessarily be an experiment, and I cannot help feeling that it would be wiser for the State banks, representing over fifteen billions, or 60 per cent. of the banking power of the country, to defer joining the system for a little bit, in the hope that they may later on go into something that has been tried and proven to be successful, rather than to go in entirely upon confidence and hope for the system's future success.

Whatever my feelings are with reference to State banks going into the system, I want it distinctly understood that I am friendly to the system as it has been provided for by the law, and shall do everything I can to make it a success, and in any utterance that I make upon the subject I shall make it clear that I am doing so as a friend of and not as an enemy of the system.

I believe the plan which you have outlined will, if you can get the parties named in your letter to respond, do much good, and if it could be brought about that such a committee as you have suggested would be given an opportunity to confer with the Federal Reserve Board, I have no doubt such modifications and changes in the law could be secured as would make the system satisfactory to the State Banks generally.

With kindest regards and best wishes, I remain,

Yours very sincerely,

G. M. REYNOLDS.

THE CHAIRMAN: I also regret to say that Mr. A. Barton Hepburn, Chairman of the Board of Directors of the Chase National Bank of New York, owing to a wedding in his family, finds it impossible to be present. I beg to read a letter from him under date of October 9, voicing his views with regard to the matter on our programme.

THE CHASE NATIONAL BANK.

NEW YORK, October 9, 1914.

F. H. Goff, Esq., President, Trust Company Section, A. B. A., Hotel Jefferson, Richmond, Va.

My Dear Mr. President:

The Federal Reserve Bank Law was duly passed, and in the course of events will be put into practical operation in the near future.

I believe the law, in the main, to be a good one, and based upon underlying principles which will work out a better banking, financial and credit system for the country. It is our duty as bankers and as patriotic citizens to give to the law loyal support, in order to enable the same to accomplish the greatest good possible. Its efficiency will depend largely upon the banking power back of the managers of the central reserve board and the various local branches. It is, therefore, eminently desirable that all, or as many of our bank-

ing institutions as possible, become members of the same, and give it their practical support.

The law involves many and radical changes from the present methods of credit procedure. It will necessarily take some little time for the managers to inaugurate this new system and bring it to a state of efficiency. The system will start with substantially all the national banks of the country. It may be helpful rather than otherwise, if trust companies and State banks refrain from joining at the outset, and give the managers a little time to get the new system in good working order. The mechanism once established, the joining of additional or new banks may be very easily effected. The test of the law in practical operation may show defects which can and should be removed by legislation. I have no doubt that Congress will readily respond to any reasonable demands for legislation of this character. Of course, the law will be subjected to the closest scrutiny by business men, publicists and economists as well as bankers, and any wholesome legislation required will doubtless have back of it a consensus of opinion demanding its adoption.

I hope that in the near future banking institutions generally may become members, in order that the system may represent the concentrated banking power of the country. This is desirable, so that the Federal Reserve system may be thereby strengthened in its power to serve the public interest.

For the above reasons, I assume that it will be agreeable to the Central Reserve Board if State banks and trust companies refrain for a little time from joining the system. It is, however, a live question to be kept before all such institutions and before the public, a question for careful deliberation, and as soon as may be, I trust for favorable affirmative action.

Very truly yours,

A. BARTON HEPBURN,
Chairman of the Board.

THE CHAIRMAN: You will remember that Mr. Hepburn was Chairman of the Currency Commission of the American Bankers' Association, and from his discussion, public discussion of the Aldrich Bill, has been conspicuous in his interest on the subject.

I will now read a letter from Mr. A. J. Hemphill, President of the Guaranty Trust Company, of New York City.

GUARANTY TRUST COMPANY, NEW YORK.

NEW YORK, October 5, 1914.

Dear Mr. Babcock:

I have been hoping that I could arrange my affairs so as to attend the meeting of the American Bankers Association at Richmond, Virginia, on October 13th. I find, however, that it will be impossible for me to be absent from New York at that time. I greatly regret my inability to attend.

I should especially like to be present at this meeting so that I might have an opportunity to express my approval of the Federal Reserve Act and the beneficial results which I am sure will follow upon the inauguration of the system.

In this connection, I desire to say that I feel certain that the Trust Companies will co-operate with the various Regional Banks so as to make the whole system a complete success, and in this way serve the interests of the people at large. The broad law recently adopted by the State of New York will, in my opinion, prevent the Trust Companies organized under the laws of that State becoming members of the Federal Reserve System until the Federal Reserve Act is amended along similar liberal lines. I anticipate as the operation of the system indicates the necessary emendations that these will be enacted.

Very truly yours,

A. J. HEMPHILL.

P. S. BABCOCK, Esq., Secretary,
American Bankers Association,
New York, N. Y.

THE CHAIRMAN: I will now read a letter from E. D. Hulbert, Vice-President of the Merchants' Loan & Trust Company, of Chicago, Ill.

MERCHANTS' LOAN AND TRUST COMPANY.

CHICAGO, ILL., October 10, 1914.

Mr. F. H. Goff, President,
Trust Company Section, American Bankers' Ass'n, c/o Jefferson Hotel,
Richmond, Virginia.

My Dear Mr. Goff:

Your telegram of this date has been received.

The attitude of the State Banks to the new Federal Reserve System is manifestly one of "Watchful Waiting," and I do not see how anyone can criticize them for that attitude. While the framers of the Act desired to give the State Banks an opportunity to come into the new system without sacrificing their rights under their State Charters, they apparently gave the Federal Reserve Board power to restrict the business of State banks entering the system in any way which in its judgment might seem proper or necessary.

There is no reason to suppose that the Federal Reserve Board has any desire to interfere materially with the functions now exercised by State Banks, but, so far as I know, the Board has not yet agreed on its policy in this respect.

I believe when the Federal Reserve Board does take this matter up, it will recognize the fact that the State Banks of this country are performing a service to the communities in which they are located, which is important and necessary to the growth and welfare of the country, and which service cannot be performed if any attempt is made to make hard and fast rules for the conduct of their business, which shall be uniform throughout the United States. In order to make rules for the conduct of National Banks uniform, the business of those banks had to be restricted within such narrow limits that they have been able to give the communities in which they are operating only a comparatively small part of the necessary banking facilities. For this reason it has become a common practice of National Banks, of late years, to affiliate themselves with State institutions, in order to give their clients complete service.

I cannot believe that the Federal Reserve Board will fail to recognize these facts.

The question most often asked is: "What will be the attitude of the Federal Reserve Board regarding loans on real estate?" So far as I know all State Banks have the power to loan money on real estate, and they would probably look with disfavor upon any attempt to restrict their operations in this field. It is a fact, however, that, on the whole, this privilege is used very moderately by the State Banks. Nearly all the banks operating under the great banking systems of Europe have the power to loan money on real estate. As a matter of practice, they exercise the power in a very limited way, and no harm comes from it.

In my judgment, the limitations on State Banks imposed by the Act itself are about all that ought to be imposed upon State Banks entering the system, that is—banks entering the system should be required to comply with the same reserve and capital requirements, submit to the same examinations as National Banks, and should also be required to conform to the provisions of law imposed on the National Banks respecting the limitation of liability which may be incurred by any person, firm or corporation, the prohibition against making purchase of or loans on their own stock and the withdrawal or impairment of capital or the payment of unearned dividends.

Also, State Banks going into the system and their officers and employees should be subject to the penalties of the National Bank Act, and they should be required to make reports of conditions and of the payment of dividends to the Comptroller. Aside from this I can see no reason why they should be hampered in the conduct of their business, except in the way of such regulations as any good system would impose for the proper conduct of the business. Obviously, the taking out of National Charters under the new Act is entirely impracticable so far as Trust Companies are concerned.

All Federal Banking Legislation in the past, designated to protect depositors and facilitate business, has broken down under pressure, largely because State Banks have not been included in its operation. Inasmuch as State Banks represent a great deal more than half of the banking power of the country, it is obvious that not remedial legislation can be ultimately successful that does not include them. When the Monetary Commission first promulgated its plan for banking reform, it excluded State Banks. The Commission became convinced, however, early in the debate that the plan would be a failure if State Banks were not included, or if any attempt was made to force them to do business on National lines. This recognition of the real position of State Banks in our financial system was, in my judgment, the greatest step in banking reform which has been taken in fifty years. I hope and believe that the Federal Reserve Board will recognize the importance and necessity of getting the State Banks into the new system, and will, at an early date, define its attitude to the State Banks in such a way that those doing a commercial business will be glad to join, thus giving the country an ideal system which can only be brought about in one way—namely, by State control of the kind of business which shall be conducted, supplemented by Government supervision and control in its operations.

Sincerely yours,

E. D. HULBERT.

THE CHAIRMAN: Now, one more letter. This is from Col. F. H. Fries, President of the Wachovia Bank & Trust Company, of Winston-Salem, N. C.

WACHOVIA BANK AND TRUST COMPANY.

WINSTON-SALEM, N. C., October 10, 1914.

Mr. F. H. Goff, Jefferson Hotel, Richmond, Va.

Dear Mr. Goff:

In reply to your telegram and the request for my views in regard to the Federal Reserve Association, beg leave to say that I haven't the time at my disposal to prepare a paper of any material value or worthy of presentation at the meeting. In fact the matter has been one of inquiry and concern on our part ever since the bill passed, personally, I have thought, and have been prepared to favorably consider joining the Association for two particular reasons. First, because I thought that we were now nearing a National System based upon proper principles that should include all banks and financial institutions, that would grow in strength with the great country that the Association will be called upon to serve. I am quite sure that this will be so under the guidance of a wise and liberal Board, such as seems to have been selected. The other consideration is especially applicable to a bank of deposit, which we are to a certain extent. There are advantages accruing to membership in the matter of discount and emergency currency that is a direct and positive advantage at times, and a sentimental attendant advantage that seems to add strength because direct and immediate relief lies closer to those institutions than those that do not. The Trust Companies doing only a fiduciary business will find little advantage in joining. I think, therefore, that it will have a tendency to differentiate if not ultimately separate Trust Companies according to the character of the business that occupies their funds and attentions. The Clearing House feature might also be of some value to us. Of course the disadvantages of the arbitrary rulings by the Board without a fore knowledge of how our business is conducted, or the relation that might exist between the various departments might be annoying to say the least, particularly as I believe they will tend to inaugurate a system and introduce a rigid enforcement of the rules that will tend to standardize all in the Reserve System, which might, and doubtless would, apply more closely to other sections of the country than our own, where liberal ideas and practices prevail. For these reasons it has been a debatable question, and our Executive Officers are not as fully convinced as to the advantages as I am, and we have simply done what most institutions have done, deferred our action until the Board has organized and its rulings promulgated and we could see something of its practical working.

I am giving you this for what it is worth and presume you can see how my mind is running on the subject. I would like very much to hear the discussion, which I know will be of vital interest to all present, and shall read the account of the proceedings very attentively. I hope, however, to have the privilege of discussing it with

you afterward in my own home, and shall look forward to it with the greatest pleasure. Please do not disappoint me.

Very cordially yours,

F. H. FRIES,
President.

THE CHAIRMAN: Gentlemen, we are honored by having the President of the parent association, the American Bankers' Association, Mr. Reynolds, here. With your permission I would like to have you listen to his address.

REMARKS OF ARTHUR REYNOLDS.

MR. REYNOLDS: Gentleman of the Convention: I appreciate very much the honor of being called upon at this time. I did not enter the hall with any thought that I would be called upon to address you, and have not any particular message to convey at this time. I have been very much interested in the discussion that has taken place here, particularly the paper prepared by Mr. Willis, a very learned gentleman, who has had a great deal to do with the preparation of the present law, and also particularly in the statements that were made by Mr. Hulbert, who is recognized as a very prominent banking man in the country, representing particularly the views of you gentlemen who are interested in these two sections. We all recognize—I might say, however, that the President of the American Bankers' Association, through his office, is brought before the membership in a great many different ways, both in the Convention and as Chairman of the various committees, and modesty would prevent my occupying any particular amount of your time on this occasion. I beg, however, to say that I think the bankers of the country feel that the Federal Reserve Board that has been appointed is composed of gentlemen of a high order who instill confidence in the new system. Very much undoubtedly will depend upon the administration of the new system. The National Banks have already indicated their desire to co-operate to the fullest extent, and, of course, we all realize that if this system is to bring about the benefits which it is expected, that it is desirable to have the co-operation of the entire banking fraternity of the country, particularly the State—those State institutions—and we feel that if this system fails to accomplish the coordination of the banking system—of the different system of banks throughout the country—that it will not have accomplished what has been expected of it; and it is to be hoped that there will be such reasonable regulations provided as will enable the State institutions to come in under the law and thereby unify the entire banking business of the country.

I anticipate that, perhaps, the administration of the law will have a great deal to do with the question of State Banks coming into the system at this time; we are all at this time having some practical illustrations of the administration of some of our laws by officials in a way to give the banks of the country a very great deal of concern, and I anticipate that they will await action until it can be determined what the regulations are going to be in regard to the new system.

I feel that the bankers of the country are to be congratulated that we have, after many years of discussion, secured a new law. It is not all that the bankers expected or believed that they should have, and yet they feel that it is probably as good a law as could be accomplished under present-day conditions; and I believe that the banking fraternity generally are very well satisfied with the present law, and I anticipate that, as we go along, we will find that the system will work out to the very great benefit of the country.

There is one important feature of the system that has impressed me as being probably one to which too great attention has been given, particularly that of providing for rediscounts. Every line of the new bill and every defense made of the measure has been one inviting rediscounts. I believe that the new system should be such a one as would encourage reasonable discount by banks in time of need, but I think it would be a very great mistake if we develop a system here particularly with that one feature, to encourage banks to always rediscount freely and for profit.

My judgment is that it was a very wise provision, providing that the new system should return a small percentage of income to banks, because I do not believe that the question of profit to the banks is a vital one to the system; nor do I believe that banks should be able to rediscount with those banks, with those Federal Reserve Banks to great profit to themselves, because it would encourage continual rediscounting which would absorb the great reserve fund which has been deposited for benefit in time of need, and when the actual hour came for use of the fund it would be found that the fund was not there to be had.

We find that in a foreign system, particularly with the Bank of England, they do not rediscount practically at all for banks. The opportunity is given to rediscount. It is provided that banks may rediscount, and yet a bank in England which would rediscount with the Central Bank, as has been stated by one of the eminent managers of one of the foreign banks before the Monetary Commission, his bank would be regarded with suspicion if they did rediscount, because the banks are expected to keep themselves in condition to take care of their own affairs all the time by carrying such liquid assets as would take care of their immediate and unusual requirements; so that in England they have developed there a great system, providing a re-

serve which is at all times an object lesson to the world that they are prepared to meet every obligation, and with ample means provided whereby in an extreme emergency they can rediscount; and yet, they very seldom, if ever, rediscount with that bank.

In Germany and in France, if I remember right, about 70 per cent. of the loans at the time that the Monetary Commission made their investigation in Europe, were made by the Bank of France to member banks and, if I remember, the German Bank, the Deutsche Bank, had about \$140,000,000 of loans and about \$250,000,000 rediscount to banks; so that in those two countries, in opposition to the plan in England, those two countries do rediscount rather plentifully and at all times take care of the reasonable requirements of their banks; but they are careful to have in their vaults at all times a large amount of foreign bills which they can liquidate to meet every requirement.

There is another feature in connection with the foreign system which must be borne in mind—namely, that the English Bank rate, the French Bank rate and the German Bank rate, are always slightly in advance of the commercial loan rate of those countries. I do not mean by that the rate in the small country towns, a rate established for what would be known here as commercial paper, is always slightly in advance, so that the bank which rediscounts with those banks does so by sacrificing some of their own profit in order to take care of the immediate situation, but the great saving clause in that operation is, that it keeps the banks at all times in a position to meet any reasonable requirement, because banks do not rediscount, whether they are compelled to do so either without profit or loss, except on very rare occasions; and, consequently, this great gold reserve is kept in constant use as an object lesson to the world, and also as an opportunity to enable the banks to take care of themselves under these conditions. So that I say, if any of you gentlemen having thought while all this discussion has been going on for years that the real object of this law after all was to enable banks to come into the system through which they could rediscount at great profit and expand their loans and thereby expand the business of the country and thereby as many of our legislators hoped and believed that it will reduce the rates of interest, I think you should disabuse your minds at once of that idea, because if this system is carried along on that line you may be sure it will never meet with the success which is hoped for it.

Now, gentlemen, I have not undertaken to discuss this question at this time; I did not come here for that purpose. I have some ideas to express in what I may say to you to-morrow.

I thank you at this time. (Applause.)

THE CHAIRMAN: Gentlemen, the fun is all to come. Mr. Sartori and myself beg to suggest the following rules to govern a free-handed discussion, the time of each speaker to be limited to three minutes. Under no circumstances, even with the consent of the Convention, is the time to be extended or to occupy a further period of three minutes. There are ten or a dozen gentlemen who have given some study to this question, and it is our desire to call upon them for brief utterances. Following that remarks will be in order.

I am asked to read the following notices:

Meeting of the Savings Bank Section will be held in this room at 2.30 o'clock. The speaker will be Mr. A. M. Harris, on the subject of "Savings Bank Securities in the Light of Recent Events"; Mr. E. C. McDougal, President of the Bank of Buffalo, of Buffalo, New York, on the subject of "Recent Amendments to Savings Bank Law of New York and Reasons for such Amendments."

The Savings Bank Section will be held this afternoon at 2.30 in the Salon of the Jefferson Hotel, which they tell me is in the rear of the dining room, up a little flight of stairs. All delegates may obtain their home papers, newspapers and telegrams, addressed care of the Convention, at the Information Bureau.

I am also asked to announce that there is a large quantity of mail at the Information Bureau, at the Jefferson Hotel, for Members of the Association and their guests.

Also that the General Convention will meet in this room to-morrow morning at 9.30 o'clock, for general association business, and an address will be delivered promptly at 12 o'clock by the Hon. Martin W. Littleton.

I now ask, gentlemen, to introduce to you another guest who has honored us by his presence. The Hon. Richard L. Austin, Governor of the Third District Regional Bank, Philadelphia District.

REMARKS OF RICHARD L. AUSTIN.

MR. AUSTIN: Gentlemen, when I came on this platform I was told I was not to be presented to the Convention, and the Judge has made a mistake in presenting me as Governor of the Federal Reserve Bank, of Philadelphia. I have had the honor of being appointed Chairman of the Board of Directors and, of course, Federal Reserve Agent. I do not think it is hardly fair to me or yourselves to introduce me into these proceedings. I am frank to say that I came down here to learn something. I am here, as I say, in the capacity of an operating official and I am looking for information, and I find it is pretty hard to get. Washington is doing a great deal of work in making investigations and preparing system accounts to determine just what functions the Reserve Banks shall perform when they are

opened, but they have not come to any positive conclusions as yet; but when they do, I think we shall be satisfied with what they have provided for. I think we are fortunate in having read to us to-day the very thoughtful paper by Mr. Willis. If we give careful consideration to what he has said, we will get a good idea of the system and will arrive at the proper conclusion as to our duty to it. He stated about the relation of the Trust Companies and State Banks. I have not thought very much about it, but it seems to me that the time may come when the facilities that the Federal Reserve Banks offer for rediscount and for the collection of checks will be considered a valuable asset, and the public may prefer to do business with institutions which are members of the Federal Reserve system, and which has access to those facilities. I do not think the Federal Reserve is starting out as a competitor with the State Banks or the Trust Companies. I think I am safe in saying that it was not started primarily as a profit making enterprise. We hope to receive the ardent support of the bank officers in the State in the introduction of the system and help along our efforts to make it a success.

THE CHAIRMAN: I am now going to call on a member, a well-known member of the banking fraternity, Mr. Sol. Wexler, President of the Whitney-Central National Bank of New Orleans, La.

REMARKS OF SOL. WEXLER.

MR. WEXLER: I was just about to leave the room, fearing I might be called on to say something on this subject, and it is with a great deal of diffidence that I respond to the call of your Chairman; and it is very difficult to make an expression on this subject without going into some of the criticisms and the defects under which we shall labor under the new Act, until it has probably been amended by Congress. However, as the time devoted is only three minutes, I shall endeavor to stick very closely to that part of the subject which is uppermost in your minds at this time, and that is of the State banks joining the system.

It is my opinion that, in order to make it advisable for State banks to join, certain very important amendments to the present Act will have to be put in force, and I believe that a commission or a committee should be appointed by the American Bankers' Association at this meeting, composed of five members representing the Trust Companies, five members representing the National Banks, and five members representing the State Banks, who might confer with the authorities at Washington with regard to amendments that should be made to the Act in order to make it workable for State institutions. I believe it is necessary that every banker who works daily in his own institution and who knows the necessities of his case ought to be conferred with concerning these necessities. I believe it is practically impossible for authorities, appointed for one reason or another to the offices which they hold, many of them very able men undoubtedly, to thoroughly understand the intricacies of the various problems with which bankers have to contend, and therefore I believe a commission of this kind will not only be a very great advantage to the bankers of the United States, but also to those authorities who are charged with the duties of making our laws.

It was undoubtedly the dream and hope of every patriotic and altruistic banker during the many years of discussion of currency and banking reform that we would one day have a centralized reserve; one day a law under which all the banks of all characters in the United States could come in under; one day a system under which the present method of extending open credit would be substituted for acceptances such as is carried on in Europe. These were the three things we had all hoped for. This Act probably is the best that could have been hoped for at this time. Perhaps that is the case. I am not prepared to make that statement positively. However, we have this Act and I believe it will be a long step in the direction of reform under the many abuses we have worked, and I believe the American people can be relied upon to so amend it from time to time as to make it useful in the upbuilding of our country and in the establishment of one complete unit system of banks; and I further hope that the day may come when the reserves of the whole country will be centralized in one institution instead of twelve.

I thank you, gentlemen.

THE CHAIRMAN: I now take pleasure in introducing Mr. John W. Platten, President of the United States Mortgage & Trust Company.

REMARKS OF JOHN W. PLATTEN.

MR. PLATTEN: Mr. Chairman and Gentlemen. I do not know that I can add anything of importance to what has already been said on the question of this Act as it affects various State institutions. I do know that there is a certain obligation, I think, resting upon State institutions to give this matter very serious consideration, so far as Trust Companies are concerned. I beg to state that our company recently has compiled statistics of Trust Companies in the United States in the preparation of their thirteenth edition, and these figures are as of June 30, 1914. It indicates that the total resources of Trust Companies of the United States and the companies from which we have

reports totals nearly \$6,000,000,000. That is \$450,000,000 greater than in 1913, and a little over 50 per cent. of the total resources of the National Banks of the country, as reported to the Comptroller on June 30, 1913. Therefore, I think the position of the Trust Companies as a unit in the financial system of the country is a very important one and must be reckoned with. I have heard it said that the Trust Companies as a whole ultimately would be forced to join the system. I do not believe that such action is contemplated. Undoubtedly the Federal Reserve Board, even after completion of the organization of the system, will think that remedial legislation will be necessary. I only have to suggest as a means to the end that possibly for the consideration of the Act, that out of each Section a commission or committee be appointed, and that out of those three committees, if there are three, a sub-committee be appointed to report and keep in continual conference with the Federal Reserve Board, to the end that this remedial legislation is adopted, or for Congress to take such action as may be necessary; that such action be taken with respect to Trust Companies and State Banks and Savings Banks. I have no doubt if that commission approached the Federal Reserve Board in proper spirit that great good could be accomplished.

THE CHAIRMAN: I now introduce Mr. Oliver C. Fuller, President of the Wisconsin Trust Company.

REMARKS OF OLIVER C. FULLER.

MR. FULLER: Mr. Chairman, I think at this time anything I can say would not throw any light on this situation beyond that which has been given us so clearly by Mr. Willis, and a personal opinion of the Act by our President of the Association, Mr. Reynolds, except to say that I was very much interested in noting the divergence of opinion between those two gentlemen as to what was the purpose and what would be the working out of this act, one of them expressing the opinion that banks which do not expect to take a very active part in rediscounting and doing business with it would almost incite him to express the opinion would not be desired as a member, whereas Mr. Reynolds thinks rediscounting would be a small part. Therefore, there is such divergence of opinion as to how the system would work out that I hesitate following those who have given it so very much thought and have had so much to do with framing it, in expressing an opinion as to the present or future. I do desire to say that I approve of the suggestion made by Mr. Wexler, of New Orleans, and by Mr. Platten, of the appointment of committees representing the various branches of banking, represented in this Association, who might consider carefully, and perhaps influence somewhat the method of the rules and regulations under which the State institutions may enter the system and profit thereby and benefit thereby. That is all I have to say. (Applause.)

THE CHAIRMAN: Mr. Wexler, do you offer as a motion the appointment of a committee?

COMMITTEE TO SUGGEST AMENDMENTS TO FEDERAL RESERVE LAW TO MAKE IT ATTRACTIVE FOR STATE INSTITUTIONS.

MR. WEXLER: Yes, I do, as a committee of fifteen, to be composed of five representing the National Banks, five representing the Trust Companies, and five representing the Savings Banks. I have included National Banks for the reason that in the suggestions of any legislation it is necessary that they not conflict with the interest of National Banks; otherwise, opposition would be created on the part of National Banks. In other words, there must be complete harmony in whatever legislation or amendments to this Act may be suggested. Therefore, I think it advisable to have all the branches of banking represented on the commission, and I offer that amendment.

THE CHAIRMAN: And if you please, what suggestion have you as to how the committees should be appointed by the different Sections?

MR. WEXLER: Yes, except there is no National Bank Section. The National Banks may be appointed by the President of the Association, and those representing the Trust Companies and Savings Banks by the various Sections—by the two Sections, the Trust Company and the Savings Bank.

MR. PLATTEN: Don't you think, Mr. Wexler, it would be much better for the various Sections to agree upon remedial legislation or the amendment to the Act and thereafter confer with the National Banks? Is it not true that the Federal Reserve Board is already well acquainted with the features as far as National Banks are concerned? Therefore, it seems to me that a committee or commission from each Section would be in a position to signify their conclusions reached before they conferred with the Federal Board.

THE CHAIRMAN: Your suggestion is that a committee of five from the Trust Companies, a committee of five from the Savings Banks, be appointed to confer with the Federal Board, and I suppose with committees of Congress?

MR. VEST (of Virginia): Would it not be more effective and would it not come with better force from the General Convention of the American Bankers' Association? I am thoroughly in sympathy with the appointment of this committee, but I think action could be deferred until to-morrow and this motion then be made before the General Convention rather than just

before one of the Sections; and I offer that as a suggestion that we postpone this appointment of a committee.

THE CHAIRMAN: I might say that this is the last opportunity after concluding with the Savings Bank and Trust Company Sections. Their meetings are to conclude to-day.

MR. WEXLER: I am of the opinion that the influence of such a committee would be considerably greater if it came from the whole Association than to have it come from one or two Sections; and talking on the point made by Mr. Platten, his remark would rather indicate that the Act requires amendment in so far as National Banks are concerned, I do not concur in that view. Therefore, as we do not want two committees or commissions, one on National Banks and the other on Trust Companies and Savings Banks, and as National Banks and the interest of Trust Companies are not diametrically opposed, from my standpoint, I think it would be desirable if the committee were composed of three classes of banks; I think it would have greater weight; I think the amendments, perhaps, would meet with uniform satisfaction; I think it would lead to less discussion afterwards, and possibly to less opposition. It is much better to meet upon a common ground at this time rather than to oppose anything that may be suggested by the Trust Company Section and the Savings Bank Section. In other words, uniformity is what we want in order to accomplish legislation, and it is my opinion that the personnel of the committee should be as I have originally indicated.

THE CHAIRMAN: As we have no second to your motion, do you desire to frame your motion, that the committee be appointed by the General Association?

MR. WEXLER: My motion would be that a committee of fifteen be appointed by the General Association and that that committee be composed of five representing the National Banks, five representing the Trust Companies, and five representing the Savings Banks.

THE CHAIRMAN: And that the adoption of the motion which you make be an expression of our desire to the General Association that such action be taken?

MR. WEXLER: Yes, sir.

MR. VEST: Do you distinguish between commercial State Banks? It seems to me that the commercial State Banks are more interested than any other branch of the banking business.

MR. WEXLER: The commercial State Bank should be represented undoubtedly, and you might make it four classes then.

THE CHAIRMAN: Pretty large committee, Mr. Wexler.

MR. WEXLER: Yes; but you could reduce it to three—make it a committee of three each, and that would make it twelve.

MR. PLATTEN: I would like to correct Mr. Wexler's idea as to what I stated, that any legislation was necessary on the part of National Banks. I think the Federal Reserve would appreciate that remedial legislation is necessary, even though they did not join, but I can see no particular objection.

THE CHAIRMAN: Do you second Mr. Wexler's motion?

MR. PLATTEN: Yes.

THE CHAIRMAN: Each representing the four classes, Trust Companies, Savings Banks, State and National?

MR. JACKSON: Would it not be better for this Trust Company Section to appoint, or for the Chair to appoint, its own representatives, and then go to the General Convention with a statement that it was appointed, rather than have the benefit of the Trust Companies motion made by the General Convention, at which meeting there may not be as many as are here now? It amounts to the same thing, to me.

MR. WEXLER: I think your views can be met by coupling with your recommendation the names of the three from the Trust Company Section and three from the Savings Bank Section, by coupling with the recommendation those names, and it would then be left with the general body to select representatives of States who have no organization and of National Banks.

THE CHAIRMAN: The question is this: that the recommendation go to the General Convention at its meeting, perhaps tomorrow, that a committee of three from the Trust Company Section be nominated and named by the Section at its meeting this afternoon; that a committee of three from the Savings Bank Section be similarly named by that body at its meeting this afternoon, to serve the three members to be appointed by the General Convention in the manner designated by it, representing the State institutions, and three representatives of the National Banks to be similarly appointed.

MR. VEST: It seems to be that we are anticipating the fact that the General Convention to-morrow is going to appoint this committee. All we can do is to recommend that this committee be appointed, and if they do, they can name certain men that can be recommended for this committee. I think you ought to be careful not to commit the General Association so that they must appoint this committee, and thereby lose the force that the action of the General Convention would have. My idea is to avoid the fact that a Section has acted on this important matter.

THE CHAIRMAN: Are you ready for the question?

MR. FOYE: I would like to understand just what the duties are to be of those representatives.

MR. WEXLER: My understanding of the duties of the commit-

tee is this: that we all appreciate the desirability of having the Trust Companies and Savings Banks join the Federal Reserve system. If we agree in that, then the duty of this committee or this commission is to recommend to the authorities at Washington the adoption of certain amendments to it which will make it desirable for such institutions to join.

THE CHAIRMAN: Would you not go somewhat further and give to them, at least clothe them with power, if the Federal Reserve Board would permit of a conference on the subject of regulations and rules, by promulgating them?

MR. WEXLER: And we might add to that, to be adopted by this committee on reviewing the rules and regulations now under consideration by this Federal Reserve Board, in order to see to what extent those rules are favorable.

THE CHAIRMAN: Are you ready for the question? As many as are in favor, please signify by saying Aye; opposed, No. Mr. Sartori, will you be kind enough to see that a committee of three is appointed?

COL. FARNSWORTH: I would like to call your attention to one point which does not seem to be generally understood, and that is, under the new Constitution the appointment of committees must come under that head on the last day of the Convention—it must come under the order of committees and committeemen. We would be very glad if that is submitted, to bring it up at the time.

MR. JACKSON: Mr. Chairman, it seems to me now that having gone on record as approving the appointment of this commission to look into the regulations of the law and its provisions for Trust Companies and Savings Banks, I am very fortunate in the fact that the company with which I am connected is purely in a class of those companies which are advised to keep out, for the moment, not to join the Federal Reserve, because we do not do a commercial bank business; and that has been my idea for the moment, that it was not wise to step in; and I think it has given me much encouragement in that belief and to hear the very frank statement made by Mr. Willis, to have one member of the Government to tell us, absolutely without restriction, what he thinks would be the disadvantages, perhaps, to go in the Reserve system; then to have another member of the Government, as chairman of the Board of Federal Reserve Banks, say that Washington is not yet altogether prepared in its forms and mechanism for conducting this business, makes it to me the more patent that it is not right at present for a Trust Company not doing a commercial business at any rate, patriotic as it may be.

THE CHAIRMAN: We will now hear from Mr. W. E. Knox, Comptroller of Bowery Savings Bank, of New York.

REMARKS OF W. E. KNOX.

MR. KNOX: Mr. Chairman and Gentlemen, I won't take more than three minutes; I hardly think I will take three minutes. As most of us belong to these institutions that Mr. Willis has ex-communicated from the Federal Reserve system, in his opinion, we stand in that class apart that is able to judge serenely of the system without having any personal interest in it particularly. We are very fortunate in that respect. I do not entirely agree with him that we are so entirely disinterested as he appears to think, because in the Trust Companies and Savings Bank we have a large aggregation of the banking power of the United States, and no matter how the system works, whether it is a success or not a success, it is inconceivable that we cannot be and are not interested, if not directly, indirectly. Just at the present we are, in the East especially and in the big cities more especially, we feel very strong a good many of us, that if there were some way in which, in a period like this in the future, if it were necessary we could avail ourselves directly of the aid of the Federal Reserve system, it would be a mighty good thing. As at is now under the present law, a Savings Bank in the State of New York, or a mutual Savings Bank in any State, no matter how pressed, could get no help from the Federal Reserve system without going through another party, a member of the Federal Reserve. Our interests are certainly big enough, it seems to me; certainly our responsibilities are big enough, to make it very well worth while, through such a committee as Mr. Wexler has suggested, to inquire into the merits of the case and see if there is not some way in which we can come into direct affiliation with the Reserve system and make use of it when the time comes.

THE CHAIRMAN: Mr. R. C. Stephenson, Vice-President of the Saint Joseph County Savings Bank, South Bend, Ind.

REMARKS OF R. C. STEPHENSON.

Mr. President and Gentlemen of the Convention, in speaking of the Federal Reserve bill I must address my remarks to the condition in which the bill is to-day, not what might happen to the bill if it is properly amended, but as it now is upon the statute books of the United States.

As it is to-day, I think that the State Banks, the Trust Companies and the Savings Banks will be indirectly benefited by the bill without having any of the burdens that are taken by the National Banks in connection with becoming members of the Reserve Bank. But I do heartily agree with the remarks that have been made by Mr. Wexler and others, that there should

be amendments to the Federal Reserve bill that would enable the banks, the National Banks, the Trust Companies, the State Banks generally and the Savings Banks to be invited to come in. As the bill stands to-day, it simply says to the National Banks: "You must come in or get in." There was no invitation in the bill for a State Bank or a Trust Company to become members of the Federal Reserve banks.

The only suggestion that I heard the speaker make to-day, Mr. Willis, and I must say that his explanation of the subject was certainly very explicit and frank, but the only explanation that he makes is that the State Banks and the Trust Companies would be advantaged by the clearing of the domestic exchange. And it seems to me that it would be a very easy matter for the Trust Companies and the Savings Banks and State Banks to arrange for a satisfactory clearing of their domestic exchange without becoming members of the Federal Bank, as it is now constituted on the statute books.

There is another matter that the State Banks and Trust Companies have viewed with amazement during the recent few weeks, and that is the strictures that have been made on the National Banks by one of the officials in Washington, and I think that every officer of a Trust Company and a State Bank and a Savings Bank has had cause to be thankful every time he opened his bank during the past three weeks that he was not a member of the Federal Reserve Banks, so that he would be under that official. Attacks have been made against National Banks, the officers of National Banks who are here, and I want them to know that all of the officers of the Trust Companies, the State and Savings Banks extend to them their sympathy; and we have felt very sorry for the position in which they have been placed. It seems to me that if there were any members of the national organization who had done anything for which they should be called upon to make explanation, it should have been by a private communication instead of through the public prints.

REMARKS OF N. F. HAWLEY.

THE CHAIRMAN: I make the call upon Mr. N. F. Hawley, Treasurer of the Farmers & Mechanics Savings Bank, of Minneapolis.

MR. HAWLEY: Mr. Chairman and Gentlemen. I am one of those who are so detached from any personal interest in this discussion that I can speak with freedom. I must admit that heretofore I had felt a decided interest—in fact, I must admit that I still feel a decided interest in the legislation and in the operation of this Federal Act. I believe, and have always believed, that the banks of the country do a public service; that it is a profession. I believe that we all did it—I did not believe that only part of us did it; and I have had the opinion. I have still the expectation that the time will come when the United States will recognize the fact that we all have service to perform, and that we will all be included in the assistance that is to be given to us and in the aid of national administration.

I think we should have confidence in the future. We should not be pessimistic. I believe we should have faith in the administration of this bill; and the best way for us to give the best service, the best way for us to get the best out of it is to be in that mood that we can assist, in that mood in which we can be assisted. I have felt that there were three or four main reasons why State Banks, whether they be commercial Banks or Trust Companies, or Savings Banks, if they were permitted to join; reasons why they do not join. They have been suggested in one way or another this morning. It is proper that we should be pardoned and wait for the experience under this act. It is one good reason why we should. It is a great strain upon the banking system, upon the operation of financial matters if all capital should be at once subjected to this. Isn't it prudent that we should wait to see how it operates? and isn't it proper that we should get from that experience wisdom by which we should go forward? I think it is a proper reason why we should wait. It is also a perfectly proper reason for us to consider whether we can retain the advantages which we now have. It is certainly an important reason. The State institutions have many advantages. They serve their local communities; they serve many of their local communities in ways that National Banks do not, or cannot, under the present reserve act. If they cannot perform their duties, they ought to wait until the act is so framed that they can.

I think there is another reason we should wait, and that is until we know whether this Federal Reserve act will be subject to political control. The criticism has been made—it has not been made in hostility altogether, it has been made in friendliness—as to whether the operation of this Federal Reserve Act will be subject to political control. The present administration is going on record, it is making its record. We must look to that record. What else can we look to, if we decide what we shall do in coming under the administration of this act? I, therefore, say that we are to ask them, in view of their friendliness, of their desire to have this act successful, in view of their desire that the country shall be administered, that they restrain, be careful, be wise in their political control of this great instrument of business.

REMARKS OF THORNTON W. COOKE.

THE CHAIRMAN: Mr. Thornton W. Cooke, Vice President of the Fidelity Trust Company, of Kansas City.

MR. COOKE: Mr. President and gentlemen, I shall use my three minutes to cover, if I can, just one point. Dr. Willis in his admirable paper asked us why the State Banks and Trust Companies should not come into the system. Then he very cogently stated one reason that will keep them out: the possibility of a narrow limitation on investments and on real estate loans.

The real estate banks in the Central West—I represent some of them as well as the Trust Company and the numerous State banks out there—are perhaps the most valuable features of American banking, make many real estate loans. I mean typical banks that will carry \$100,000.00 or \$35,000.00 on real estate loans. The alternate of such banks would be to export capital out of those communities to purchase the commercial paper of industrial organizations and allow the farmers of those communities to import capital from outside to finance their operations. It seems unnecessary and undesirable to me that such men should be so driven to exchange outside capital for inside capital when they can perfectly well use their own capital and use it at home.

The same considerations apply to many Trust Companies. Many Trust Companies have investment departments which make a specialty of handling real estate loans. They carry at times more than 25 per cent. of their capital in such investments, 25 per cent. being the limitation of the Federal Reserve banks upon National Banks.

If I follow Dr. Willis correctly, it is his expectation that the Federal Reserve Banks limit State Banks to the same 25 per cent. that was laid down in the act for National Banks. A valuable function both of Trust Companies and State Banks has never been interfered with. The desirability of such a function is the very reason why there are so many State Banks in the Central West now that otherwise might be National. Where the need of such investments is not felt, the tendency is strong for the banks to become National if they have adequate capital. They think the word National is valuable out there.

I wish therefore to suggest to the committee that is to be appointed that earnest thought be given to the possibility of framing some regulation of real estate loans which would be acceptable to the Federal Reserve Board, and permit such Trust companies and such State Banks as would otherwise like to come into the system, to come in, notwithstanding their real estate loan investments may at times exceed 25 per cent. of their capital.

Mr. Hulbert, in his most interesting letter suggested—I feel that we have heard that suggested more than once—that such regulations might be laid down as would destroy the flexibility of American banking, for American banking has been flexible. Not, it is true, in the provision for currency issues, but for its individuality and independence. Our numerous State banks, not guided perhaps, not having the wide experience which a city bank has obtained through a knowledge of the entire regions, have made losses, but they have also made loans that would have been refused had they been subject to the narrow rules as laid down from some head office.

Now, I trust and I think that Mr. Hurlbert's fear is not warranted. I do not believe that upon full consideration of the question we shall be subjected to narrow rules. I believe and trust that the Federal Reserve Board will lay down workable rules and regulations that will not interfere with individuality and independence in American Banking, but while giving us many of the advantages of a good system, will preserve that individuality, that flexibility which has been the most useful feature of our banking system.

THE CHAIRMAN: Gentlemen, I am going to call upon one other gentleman, and that is the father of the Trust Company Section, Mr. Breckinridge Jones, President of the Mississippi Valley Trust of St. Louis.

REMARKS OF BRECKINRIDGE JONES.

MR. JONES: Mr. Chairman and gentlemen, I would not respond to my feeling if I did not acknowledge the compliment the chairman gave me when he heralded me as the father of the Trust Company Section. It has been a very great and distinct pride of my life that I was associated with a number of other prominent gentlemen who were in the Trust Company business at that time, in forming this section, and throughout its history I shall watch its proceedings, not only with interest, but with affection.

Now, as to this question that is here, I speak not from a disinterested point, but on the contrary. I have been studying this and thinking about it. I have watched the progress of the legislation. I had thought, when Senator Aldrich, yielded the proposition and put State Banks and Trust Companies into his bill, then when it was so fully recognized in the act which has been passed, that it meant that State Banks and Trust Companies as they were with the powers which they had in their respective States, should be eligible to membership in this Reserve System. And I had no idea when the law pro-

posed there, simply that the Reserve Board could make regulations, that it was going into the question of fixing proportions of loans and to do other than to see that the State Bank or Trust Company was complying with the law of its own existence and was a safe institution for the people to do business with, and that it would be a safe member of the Association. I don't think it was intended by the Congressmen who voted for that bill, and I am sure it was not by the representatives of State Banks and Trust Companies that advocated the passage of that bill, that we were going to have the Reserve Board legislate as to the exercise of our charter powers.

We understood that Trust Companies and State Banks as incorporated in the various States, were made eligible for members, and if the State wants to change our powers all right, but I don't think it is up to the Federal Reserve Board, and I do not believe they will attempt to exercise that power. They can make regulations. If they find a certain thing is distinctly inconsistent with the obligations they may have—there may be some extreme case, for instance it has been pointed out, they say here is a Trust Company that does nothing but guarantee titles, or here is a Trust Company in name that is doing fidelity insurance business as its main business. It might be well, they might say to a company of that kind, that you have not any banking business. But I don't think that the regulations that are to be made out by the Reserve Board should, for instance, say to a Trust Company in Missouri, "You shall not act as executor or administrator, or that you shall not lend money on real estate, or that you shall have only 50 per cent. of your loans," or anything else. What we shall do is determined by the law of our existence and the law of our State, and as long as we abide by the law and are safe institutions for the people of our respective States, under this bill we are eligible for membership in the Federal Reserve Board.

There are certain reasons that have influenced my own judgment as regards this. In the first place, the law of my State, as construed by many, said that the banks had no power to acquire stock in the Federal Reserve. The Attorney-General has ruled otherwise, but at the same time there was a question about that, and in some States there was an absolute prohibition. Until the laws can be amended in certain States so that State Banks can own stock in the Federal Reserve, of course, there is a reason why they should stay out. Some States will have the laws amended so as to cover the question of acceptances. So that when they do come into the Federal Reserve Association they will be in a fair position to begin the business that the National Banks are doing, and to live in competition with them.

That there will be distinct prestige in being a member of the Association, I have no doubt. I earnestly hope that the situation may come around where I can advise the institution with which I am associated to become a member. I want the advantages from it, I want to have the facilities of collections; I want to have the discount privileges, and I think there is some difficulty that is going to arise in this matter, and I simply speak of a Trust Company as a single kind of institution. Their powers are very different. Mr. Jackson, for instance, his company's power or by-laws prohibit the use or handling of name paper. A Trust Company that is not allowed to receive deposits is very different from what you may call a Trust Company or Trust Bank in Illinois. The Illinois Trust and Savings Bank, they are a bank and Trust Company. It is different in the different States. And the word of warning that I wish to have before the Trust Company Section is that when it comes to making a suggestion and taking positive action here we be very careful to not make general regulations which may be viewed from the standpoint of those gentlemen who are in States where Trust Companies are not the same things as they are somewhere else. A Trust Company in California, in New York now, where it has been given full banking powers, is a very different kind of an institution from what it is in other States. Let us not have a committee that will be appointed and in making recommendations let it be viewed that Trust Companies must be all of one class, and that what will be good for Trust Companies of this class will be good for a Trust Company of that class. There must be flexibility.

I have no sympathy that all banks of this country should be under one system. I think the free banking system under which every community could get together and organize its own bank has been one of the fundamental reasons for the marvelous growth of the United States.

The only reasons for a National Bank that heretofore existed are practically wiped away by this bill. They are no longer banks of issue. Going over for a moment old questions in the early history of this country, they did not think we had a right to a National Bank; and the only reason for it was to handle interstate commerce and things of that kind. It never was intended that they should handle real estate loans; and now since they have taken away the issue there is no reason for being a National Bank more than for being a State Bank; and if a State Bank can come in, so long as it is safe, it should be free to come.

The thing I am afraid of is that, with so many bank examiners examining 19 Commercial Banks to where they examine

one Trust Company, they will want to put a National Bank yardstick on us. They cannot measure it that way. If an examiner comes in he does not understand it, and he is liable to make a great many arbitrary conclusions. And the one thing I am afraid of more than anything else is this arbitrary control that comes from a Federal control, that looks back to Washington for appointment. In our own State we know the examiners. The examiners and the Superintendent of Banking is responsible to local conditions, and we are not afraid of oppression there; but when it comes to an examiner from Oregon, or Maine or Georgia, and he comes to Missouri with no local affiliations, and looking only back to Washington, he is puffed with the great idea that he is a Federal officer and wants to exercise all the power of the Federal government. And I know of no set of men that are more arbitrary than the representatives of the Department of Justice, the Post Office Department, the Department of Labor and Commerce, who go to your bank and walk in and demand that we should tell them about the business of our customers; and if we do not do it, threaten and say, "I will take you to New York," as one tried to do with me; and did take me to Washington on a *subpoena duces tecum* with our journals. He wanted to know our confidential relations with our customers. I am afraid of that power. I believe the Reserve Board could straighten that out and let their examination come largely from their reserve banks in our districts, and there we will have directors who are responsible to local conditions.

I thank you, gentlemen. (Applause.)

At 12.45 P. M. a recess was taken until 2 o'clock P. M.

AFTERNOON SESSION.

TUESDAY, Oct. 13, 1914.

RICHMOND, VA., October 13, 1914.

The Nineteenth Annual Meeting of the Trust Company Section was held in the salon of the Jefferson Hotel on Tuesday afternoon, October 13, 1914, at 2.30 P. M.

President F. H. Goff in the Chair.

THE CHAIRMAN: Gentlemen, the meeting will now come to order. The Secretary will read the minutes of the last meeting.

THE SECRETARY: The minutes are not read, Mr. Chairman.

THE CHAIRMAN: The Secretary advises that it is not customary to read the former minutes of the meeting; unless there is some call for such minutes, they will be dispensed with. They are published in the annual report, however. I had not intended to read a formal address. In view of the discussion had at the joint meeting of the Savings Bank and Trust Company Sections this morning, I thought I ought to have at least the courage that others had in expressing their views in regard to the attitude of Trust Companies towards the Federal Reserve Association, and, with your permission, in a very brief formal address, I will read my views on that subject.

Annual Address of President Trust Company Section F. H. Goff, President Cleveland Trust Company, Cleveland, Ohio.

For more than two months the banking institutions of the country have been subjected to an unprecedented strain caused by the war in Europe. It is but just that we record our appreciation of the prompt and efficient assistance rendered by the Government, without which serious disturbance, perhaps untold disaster, might have ensued. The splendid courage and ability displayed by the executive officers of both National and State institutions in New York City, in dealing with situations that were not only unknown but undreamt of, has commanded the admiration and respect of the entire country, and let us hope of the Federal Government. That Trust Companies have survived the strain without failure in their ranks, and have contributed their full share to maintain the Nation's credit, affords the strongest evidence of their able and conservative management, and will deservedly add to their standing and prestige.

The crisis through which we are passing has demonstrated, as nothing before in our history, the need of a powerful central bank where the reserves of the Nation can be concentrated and the outflow of gold controlled. Grateful as we are for what has been accomplished under the able leadership of President Wilson in bringing about a reform in our currency and in perfecting our banking system, we anxiously but hopefully await the enactment of further legislation which will insure adequate protection of credits both at home and abroad should conditions ever arise in this country such as have obtained in Europe since the declaration of war. The real test of a financial system must be its ability to adequately serve in times of maximum strain.

Firm in the conviction that impending collisions are more likely to be averted when there is but one and not twelve levers to be operated, we believe that the trend in the future must inevitably be toward further centralization. While our views with respect to this differ from those in authority, we wish it to be known that we are not antagonistic, but sincerely desirous of being helpful in working out the financial problems of the Nation. The question that confronts us is how much help can best be given. Will our influence be most effective by refusing to accept membership, by holding aloof and criticizing what has been done, or can we best serve by co-operating with the National Banks and the Federal Reserve Board? Will we have the most influence from without or within? I believe the Government needs and desires the support of the Trust Companies, and perhaps sooner than we now think they may again need its support. Those who are not influenced by patriotic motives, perhaps ought to be by selfish ones. Commending the President as I do for the excel-

lent appointments he made to the Federal Reserve Board and for the attitude of his administration during the recent crisis, I have come to have an increasing faith that what is not right will in time be made right. But, if wrong, it may be well to remember that more battles are won by men on the firing line than by men sulking in the sutler's tent.

THE CHAIRMAN: The next order of business, gentlemen, is the report of the Executive Committee, Mr. John H. Mason, Chairman. (Applause.)

Report of the Executive Committee, by John H. Mason, Chairman.

[The report of the Executive Committee will be found on page 148.]

THE CHAIRMAN: Gentlemen, what is your pleasure in regard to the report of the Executive Committee?

MR. DINKINS: I move that the report be filed.

THE CHAIRMAN: All those in favor of the motion, please signify by saying Aye; opposed, No.

Carried.

THE CHAIRMAN: Now, the report of the Secretary.

SECRETARY BABCOCK: The details of the financial statement are published in pamphlet form which you all have, so it is not necessary for me to report them. All bills paid to August 31. You will note there is a credit balance of \$660.77, which has been transferred back to the general funds of the Association.

Report of the Secretary, by Philip S. Babcock.

[The reader will find the Secretary's report on page 148 of this publication.]

On motion, duly made and seconded, the Secretary's Report was received and approved.

NOMINATING COMMITTEE APPOINTED TO SELECT MEMBERS OF EXECUTIVE COMMITTEE.

MR. JACKSON: I do not know whether it is in order or not; it is probably not, but as we have only this afternoon for this business session, I was wondering whether it would be a proper thing for me to offer the usual resolution for the appointment of a nominating committee by the chair at this time. Am I in order?

THE CHAIRMAN: It seems to me to be proper—it seems proper to the Chair.

MR. JACKSON: The resolution that we have had before is:

"Resolved, That a Nominating Committee of five be appointed by the Chair, which Committee shall receive names in writing from delegates present, and from said names the Nominating Committee shall select five persons as members of the Executive Committee for the term ending 1917, said Committee to report back to the Convention for its action."

I offer that resolution.

A MEMBER: These names to be reported back to the committee or convention?

MR. JACKSON: Back to the convention, I should say.

THE CHAIRMAN: My understanding is that we should have nominations, that nominations be made by members in attendance which will be placed by the Secretary in this box. In other words, names which will occur to you that will make desirable members of the committee. Other information will be furnished by the Secretary. For instance, the number of member banks in the different States and the residence of our present membership—geographical membership. Is there a second to Mr. Jackson's motion?

A MEMBER: Yes, sir. I second it.

THE CHAIRMAN: If there is no discussion, and the chair hears none, all those in favor of Mr. Jackson's motion, which has been duly seconded, please signify by saying Aye; opposed, No.

Carried.

THE CHAIRMAN: I will ask the Secretary to hand the slips to the members, upon which the members may indicate their preference. Following the receipt of these, perhaps an adjournment may be taken.

MR. FOYE: What is our representation now?

THE CHAIRMAN: Representation of fifteen; five for one year, five for two years, and five for three years.

MR. FOYE: From what Section?

THE SECRETARY: As I understand, Mr. Foye, we have a membership of 1,201. The largest membership is from Pennsylvania, 178; New Jersey has 96; New York 95, and Indiana and Texas each 45; Tennessee, 44—no, Massachusetts has 44; Mississippi, 41. The four largest States, Pennsylvania, New Jersey, New York, Massachusetts, then comes Indiana, Texas and Tennessee, and Mississippi running very close.

MR. McCARTER: Would it be well to say what district the retiring members are from?

THE SECRETARY: The retiring members—the Constitution of the Association provides that no member can succeed himself for a year. The retiring members this year are Mr. Dinkins, of New Orleans; Mr. Hemphill, of New York; Mr. Smith, of Chicago; Mr. Kauffman, of Tacoma. He died during the year, and his place was not filled, waiting for one of the five to be elected at this time.

THE CHAIRMAN: We will now take a recess for five minutes, so that the Secretary may pass those slips out.

(Recess for five minutes.)

After recess:

THE CHAIRMAN: Gentlemen, I want to receive your criticisms and suggestions, if you have any. I will entertain any objections to the appointment of this Nominating Committee. Mr. Jackson, the Vice-President of the Girard Trust Company of Philadelphia; Mr. Platten, President of the U. S. Mortgage & Trust Company; Mr. Woodruff, Vice-President of the Savings Bank & Trust Company of Cleveland; Mr. Chamberlain, President, I believe, of the San Antonio Loan & Trust Company; Mr. Holliday, President of the Union Trust Company of Indianapolis. I would be glad to hear any objections.

MR. McCARTER: I move that it be approved.

MR. MASON: I second the motion.

THE CHAIRMAN: The appointment will stand, and I will ask the committee to retire now. You may gather up the ballots, please, Mr. Babcock.

THE CHAIRMAN: Gentlemen, when you get through with the caucus there, I will ask Mr. Cutler to read the report of the Legislative Committee.

Report of the Committee on Legislation.

[The report of the Committee on Legislation will be found on page 149.]

THE CHAIRMAN: What is your pleasure, gentlemen?

MR. HOLLIDAY: I move that it be received and filed.

THE CHAIRMAN: All those in favor of the motion, please signify by saying Aye; opposed, No.

Carried.

THE CHAIRMAN: I ask the Committee on Nominations to be kind enough to retire. Mr. Jackson, I think you were appointed Chairman of that Committee. I think you had better take these. Mr. Woodruff, Mr. Platten and Mr. Holliday.

The next is the report of the Committee on Protective Laws. Mr. Dinkins, Chairman.

MR. DINKINS: This is a report of the Protective Laws Committee of the American Bankers' Association, Trust Company Section.

Report of the Committee on Protective Laws.

[This report will be found on page 150.]

THE CHAIRMAN: Gentlemen, you but little know the amount of work devolving on the chairman of that committee. He has served as chairman of that committee ever since I have been connected with the Association, and I do not know but what he has served ever since the Association was organized. It is customary in passing on the report of this committee to tender a vote of thanks to the chairman. What is your pleasure in regard to this report?

A MEMBER: I move that a vote of thanks be tendered and that the report be filed.

THE CHAIRMAN: All those in favor of that, please signify by saying Aye; opposed, No.

Carried.

STANDARDIZATION OF TRUST COMPANIES.

THE CHAIRMAN: The next order of business is the report of the Special Committee on the Model Trust Company Law.

MR. FULLER: Mr. President and Gentlemen. This report, in one form or another has been in the hands of one committee or another for the past three years. I think it was first referred to a special committee, and after a year's work on this subject the committee asked to be discharged, and recommended that it be referred to the Legislative Committee. The Legislative Committee, I believe, worked on it for a year or two, and recommended that a sub-committee be appointed again to take up the work where they left off and complete it, and that special committee has, during the past year, had conferences and some correspondence, and the result is a report which, even in its present form, is not entirely satisfactory to the committee itself, although they have at last arrived at what they believe to be the basis, or they have agreed upon certain principles which they think should be incorporated in every Trust law in the land. Of course, those States which have trust company laws will not be affected necessarily by any recommendation that this committee might make or any suggestion that might be made through this report; but this is supposed to be for the benefit of such States as have no trust company laws, and in which it is contemplated to pass laws for the purpose of regulating trust companies, or in States in which the laws for trust companies are unsatisfactory and amendments are contemplated. The paper is a long one and more or less technical, and I would suggest, if it is agreeable to the President and to those present that, instead of reading it in detail, I may be permitted to give merely the captions with possibly the substance of the different clauses, and then submit it to you for such action as you wish to take.

THE CHAIRMAN: If you proceed in that way, outline it in the first instance, and if the Convention should desire to hear it in detail, you may proceed further.

MR. FULLER: Originally this was intended to be or designated as a proposed model trust company law. After several years of work on it by several committees, we have finally gotten away from that word "model." We have felt that such a thing is impossible, and the word is objectionable, and it is now called "Standard Uniform Provisions Suggested for Inclusion in Trust Company Laws of all States," the idea being to encourage the standardizing of Trust Company management, particularly as related to the handling of trust estates rather than as to the banking features of trust companies that do a banking business.

First, Capital. It is deemed necessary, important at least, that the capital of the Trust Company should be related somewhat to the size of the cities or community in which they do business. In the law proposed by Senator Aldrich, after much consideration of that subject not only by Senator Aldrich and the framers of that bill, but by a special committee appointed for the purpose, this paragraph was incorporated in the law, and is taken, I believe, bodily from it as it read: briefly, the capital stock of any Trust Company organized under the laws of this State in places having a population of 6,000 or less, shall be not less than \$50,000. In a city of more than 6,000 and not more than 50,000, shall be not less than one hundred thousand dollars; in a city of more than 50,000 and not more than 200,000, shall be not less than two hundred thousand dollars; and so on up to a city of more than 400,000, shall be not less than five hundred thousand dollars. No Trust Company shall create more than one class of stock, and its entire capital shall be paid in before it shall be authorized to begin to do business.

Supervision. Every Trust Company doing business in this State shall make to the Bank Commissioner not less than five reports each year, and following very much the lines laid down in the laws of the older States. There is nothing new in that paragraph.

Qualification of Directors. Every director must, during his whole term of service, be a citizen of the United States, and at least three-quarters of the directors must be residents of the State during their continuance in office. Every director must own and shall hold ten shares, at least, of the capital stock. Examinations by directors are provided for periodically and reports to be made by them, according to the form prescribed by the Commissioner of Banking in the several States.

Deposits. Every Trust Company may receive deposits subject to check or to be repaid in such manner and on such terms and with or without interest, as may be agreed upon, provided that no Trust Company shall incur a total deposit liability in excess of ten times its capital, surplus, and undivided profits. That paragraph has caused more or less discussion and has been the subject of considerable thought. It is merely suggested, but it is sound banking.

Restrictions on Loans. The total liabilities to any Trust Company of any person, corporation or firm for money borrowed, including in the liabilities of a firm the liabilities of the several members thereof, shall at no time exceed 10 per cent. of the amount of the capital stock of such Trust Company actually paid in and its surplus and undivided profits combined.

No Trust Company shall make any loan or discount upon the pledge of its own stock.

No Trust Company shall make any loan upon or discount any paper made, accepted, endorsed or guaranteed by any of its executive officers, or employees, or by any partnership of which any such officer or employee is a member.

No Trust Company shall permit any single director to become obligated to it to an amount exceeding ten per centum of its combined capital, surplus and undivided profits. That is a long paragraph. That is taken from the present law of many of the States, and which we are striving to procure in all the States through our very active Protection Laws Committee, whose report you have just heard.

Trust Funds Not to Be Mingled, etc. We get down now to that part of the law which we are most interested in, and that is the manner of handling trust funds and trust estates.

The next paragraph provides for annual statements and the form to be made.

The next is the investment of trust funds. Trust funds, unless it is otherwise provided in the instrument creating the trust, may be loaned in mortgages on unencumbered real estate in this State, worth double the amount loaned.

Respectfully submitted.

THE CHAIRMAN: Your suggestion is what with regard to the report, Mr. Fuller?

MR. FULLER: I suggest this report, if approved in principle by this meeting, of which I have given the substance, be referred again to the committee, which has given it a great deal of thought, for the purpose of perfecting. We are not entirely satisfied merely with the phraseology—we have arrived and agreed on all the provisions which I have outlined to you and contained in the report, but we would like to eliminate every unnecessary word and possibly improve the wording slightly, and therefore your committee is reluctant to hand this report in as complete without having dressed it up and finishing it to their entire satisfaction. I recommend that it be referred back to this committee with power, with, perhaps, being adopted by

this Convention, and if this Convention sees fit to so adopt them, with power to return it as the completed report at the next Convention—to complete it and submit it.

THE CHAIRMAN: Is there a second to the motion?

MR. DINKINS: I second it.

MR. FULLER: Before a vote is taken on the matter, I suggest you invite criticism on any of the suggestions outlined, and it is possible some questions might be asked.

MR. MCKEE: I would like to have the committee read that section which refers to the liability of officers and directors of the bank again.

THE CHAIRMAN: Mr. Fuller, please read that section referring to the liability of directors.

MR. FULLER: No Trust Company shall make any loan or discount any paper made, accepted, endorsed or guaranteed by any of its executive officers or employees, or by any partnership of which any such officer or employee is a member.

You will observe that the directors are not included in there. I suggest myself that the word "salaried" be added. And that is the intent of the paragraph.

MR. EDMONDS: Mr. Chairman, I understand from Mr. Fuller the investment of trust funds on mortgages is limited to the State in which the trust company is established. Is that correct?

MR. FULLER: That is the way it now reads.

MR. EDMONDS: That might prove inconvenient in the case of a company doing business in a town near the border of two States.

MR. FULLER: The committee is aware of that possible inconvenience in some such case, but it believes this is a safe principle to start with, at any rate, and any particular State or locality where it might be necessary could vary any of the principles laid down in here on account of the existence of special circumstances. It is merely proposed here to lay down something which the committee considers sound banking, not with the intention that every State should adopt it in toto or adopt every word of it. That is the idea. Does that answer you?

MR. EDMONDS: Yes, sir.

MR. GRAHAM: I was just going to ask about that provision, to the effect that no director shall be entitled to a loan of more than 10 per cent. Is there any provision there in regard to the aggregate loans to directors under the law? In Pennsylvania there is a limit to that.

THE CHAIRMAN: My recollection is that it was 20 per cent.

MR. FULLER: No, I think we struck that out. No trust company shall permit any single director to become obligated to it to an amount exceeding 10 per cent. of the amount of the capital stock of such trust company actually paid in, and its surplus and undivided profits combined at any one time.

THE CHAIRMAN: It may not be that a higher standard obtains in the various States, but we want to get a start.

REPORT OF COMMITTEE ON STANDARD TRUST COMPANY LAW RECOMMITTED.

MR. HOPKINS: I should like to know whether this report will be in the form that it can be used in the coming year during the legislative session. I ask that question, because, in our State, there is likely to be an effort made to reduce the standard which we have set up in that State for the governing of trust companies, and it would be of material assistance to us who are before the legislative committees to have an authoritative statement of the best sense of this Section.

THE CHAIRMAN: The very purpose of Mr. Fuller's motion is that the matter be referred to the Executive Committee, so that it may be used by the Protective Laws Committee during the coming year. Immediate consideration may be given with finally adding to it of any suggestions that may be made, and then complete it. You have the sanction of the body itself. It is referred to the committee—Special Committee—continuing that committee with power to complete it.

MR. FULLER: It has been suggested that the committee would complete it at as early a date as possible, and have it printed and copies sent to the membership.

THE CHAIRMAN: Are you ready for the motion? All those in favor of the recommitment of the report to the committee and continuing the power of the committee, all those in favor of that action by this Convention, please signify by saying Aye; opposed, No.

Carried.

ROLL CALL OF STATES.

THE CHAIRMAN: The next order of business on the programme is the roll call of the States to be made by the Secretary, and to be answered by the vice-presidents of the Sections in brief written reports dealing with the history of the trust companies in the several States during the preceding year, and with the conditions under which they are now operating, and other matters of interest now pertaining to them.

We had hoped the vice-presidents in attendance would be accorded generously the time of this meeting to make reports and addresses with regard to conditions obtaining in their territory, but it is now nearly 4 o'clock P. M., and we have our

election of officers, and we will be glad to accord, I am sure, notwithstanding the lateness of the hour, the time for the vice-presidents to make brief remarks and submit brief reports. Otherwise, the reports may be handed in to the Secretary, and they will be included or incorporated in the printed proceedings.

SECRETARY BABCOCK: Mr. Chairman, if the reports are not handed in at this time, or the vice-presidents have not written them, any time within the next three weeks will do, and will enable me to get them in the printed proceedings. Any time in the next thirty days the vice-presidents may hand in their reports, if they have not them ready to-day, and they may be sent to the New York office, at which time they can be printed.

The Secretary called the roll of States to be answered by the vice-presidents of the Section, and the following vice-presidents responded for their respective States: Kentucky—Mr. Stites, President of the Louisville Trust Company.

KENTUCKY.

TO THE TRUST COMPANY SECTION OF THE AMERICAN BANKERS' ASSOCIATION.

GENTLEMEN: As Vice-President of the Trust Company Section for the State of Kentucky, I have the honor to report that banking conditions and the underlying conditions of the country were good, but there was almost an unnatural demand for money that could not be supplied, and a general tendency of securities of all kinds to decline in value, caused—evidently in part caused by the approach of the war in Europe, which no doubt a number of persons high in authority had cause to expect in the then near future.

Rates of interest have been steady and satisfactory. Crop conditions at the beginning of the year were in the highest degree good—the wheat crop being large and excellent in quality. Then followed a severe drought, seriously injuring most of the early crops—especially early corn and potatoes—but the later rains brought out the later crops wonderfully. We have had a fair average crop of corn, oats and hay; an excellent crop of all the late fruits and vegetables and with probably the best tobacco crop in quality ever raised in the State of Kentucky.

With the cessation of political activity at Washington and a settlement of European war trouble, this country is in a position to expect a fine business next year.

In legislative matters we had an active session during the year of our Legislature and an eminently satisfactory one to financial interests.

The bill recommended by the American Bankers' Association to punish persons making false and dangerous statements affecting financial institutions was passed and is now the law of Kentucky.

For many years Kentucky bankers have labored under the injustice of a grossly unfair Materialmen's and Mechanics' Lien Law, by which payment of money loaned to railroads and manufacturing establishments was postponed until every other obligation was paid. This law has been abolished and preferences, except for manual labor performed, have been done away with.

An excellent bill was passed making the issuing of a check where there were no funds to meet it a misdemeanor and punishing the offender by fine and imprisonment; also a bill making it a felony to publish a false statement on which credit was obtained, both to the individual and to the official of a corporation authorizing same. Besides this, an Enabling Act was passed authorizing State banks and Trust Companies to become members of the Federal Reserve system, and to subscribe for and be holders of stock therein; also making the requirements for the legal reserve the same in State as in National banks.

A most objectionable bill was introduced into the State Senate creating a "State Guarantee of Deposits," along the lines of the most drastic of those which have been adopted in some of the Western States. We succeeded in defeating this.

There was also defeated in committee a bill prohibiting a Notary Public who was an employee of a bank or Trust Company from taking the acknowledgments of its officers to official papers.

A bill was also defeated creating a system of "Rural Credit Banks," which contained no restrictions as to the conduct of its business, permitting capitalization as low as \$2,000.00. Its tendency would have been to have brought all kinds of banking business into disrepute.

In addition to this, an attempt to amend the Revenue Laws in a way that would have been very unjust and unfair to financial institutions, was defeated.

Altogether, the financial institutions of Kentucky received from the Kentucky Legislature this year absolutely fair and just treatment.

Respectfully,

JOHN STITES.

Illinois.—Lucius Teter, Vice-President from Illinois of Trust Company Section.

ILLINOIS.

TO THE MEMBERS, TRUST COMPANY SECTION, AMERICAN BANKERS' ASSOCIATION.

GENTLEMEN:

The Legislature of Illinois has not met since our last Convention, consequently there have been no changes in our laws in that period.

The only decision handed down by our courts of particular importance to Trust Companies was in the case of Chicago Title & Trust Company vs. Zinsler, where the question involved was whether or not the consolidation of Trust Companies into a new corporation affected the powers donated to the constituent companies. It was contended in the case that powers in trust were personal and confidential, and that the same could not be transferred to a new corporation, even by way of consolidation; but our Supreme Court held otherwise, and the law is now settled that the consolidation of Trust Companies, even though the effect be to form a new corporation, does not destroy previous powers vested in the constituent companies.

Prior to preparing this report, I corresponded with representative Trust Companies in all sections of the State, and find that the Trust Company business is growing in all sections. In the smaller cities

and towns the growth is somewhat slower than in the larger communities, but definite progress was reported in every quarter.

In our State most all of the Trust Companies also do a banking business, and the reports reflect substantial business conditions in the several communities.

So far as we have been advised, only one important trust company in Illinois has indicated an intention of joining the Federal Reserve Association.

The question of the propriety of Trust Companies advertising to draw wills free of charge, which question was discussed so ably before our Convention in New Orleans by Mr. Marquis Eaton, of the Chicago Companies—I believe that no Trust Company in Chicago is now advertising to draw wills free of charge, although no definite policy as to the drawing of wills seems to have been generally adopted.

My impression is that this subject is one which should receive attention through joint conference of lawyers and Trust Companies in the small communities and by representatives of Bar Associations and Trust Companies in the larger cities. A complete working understanding should be had with respect to this question, which is of so much importance to all parties concerned.

Respectfully submitted,
(Signed) LUCIUS TETER,

Vice President for Illinois Trust Company Section, American Bankers' Association.

Michigan.—C. O. Patch, Vice-President of Trust Company Section for State of Michigan.

MICHIGAN.

RICHMOND, VA., October 13, 1914.

Mr. F. H. Goff,
President Trust Company Section, American Bankers' Association.
Dear Sir:

The six Trust Companies of Michigan have had a good year thus far, notwithstanding conditions existing during the past month or so. As the laws of the State do not permit the Trust Companies to transact a banking business, any important increase or decrease in business is not reflected in the deposits shown in their respective published statements.

They have no savings accounts, no checking accounts, no demand money. Such deposits as they are permitted to receive are evidenced by Time Certificates of Deposit. Add to these the cash balances in corporate and personal trust accounts and you have the Companies' total deposits.

During the year all of these have decreased less than \$500,000.00, while surplus and undivided profits, after payment of regular dividends, have increased in round figures \$490,000.00, the total capitalization of the Companies being \$3,150,000.00.

This showing is due largely to increase in corporate and personal or estate trust business. The courts and the people of Michigan are realizing to a greater extent than ever before the advantages that result from the appointment or employment of a corporate trustee.

There has been no change in the laws governing the Trust Companies of the State, as the legislature has not convened during the year.

Respectfully submitted,
C. O. PATCH, Vice-President,
State of Michigan.

MISSOURI.

MR. JAMES M. BROCK, SECRETARY, MISSISSIPPI VALLEY TRUST COMPANY, ST. LOUIS.

As Vice-President of the Trust Company Section of the American Bankers' Association for the State of Missouri, I have the honor to report concerning the history of the Trust Companies in my State during the preceding year, the conditions under which they are now operating, and other matters of interest now pertaining to them.

During the past year, six Trust Companies have been organized, with capital stock aggregating \$1,525,000; one with a capital of \$100,000 has voluntarily liquidated; one with a capital of \$50,000 has been placed in the hands of a receiver and its affairs are still in an unsettled condition, and another one, Trust Company only by name, not receiving deposits nor transacting a general Trust Company business, has just been placed in the hands of a receiver and is really the only one that has been a source of any special trouble.

At the annual convention of the Missouri Bankers' Association held at St. Louis in May, a special committee of seven representatives of State Banks and Trust Companies, to be known as the "Commission on Banking," was appointed to consider and report on (1) various amendments made desirable to our State laws on account of the Federal Reserve Act, (2) a bill authorizing a rural credit or land bank, and (3) a general revision and harmonizing of the laws of this State relating to banking. This Commission to make report to the Governor of the State before the convening of the Legislature in biennial session next January.

The last official call by the Bank Commissioner shows that there are sixty-three Trust Companies in Missouri, with resources aggregating \$177,216,613.34, total capital stock of \$20,723,600.00, surplus of \$17,739,643.30, net undivided profits of \$5,391,945.52, and total deposits of \$130,509,379.55, of which \$38,829,701.38 are savings deposits. I can, with confidence, report that, in addition to this splendid showing, the Trust Companies in Missouri were never in a stronger or more satisfactory condition than they are to-day, although the United States, in general, is at this moment embarrassed by serious financial and commercial conditions for which it is not in itself to blame.

Due largely to the education of the people, there is a gradual growth of the usefulness and adaptability of the Trust Companies over individuals, in acting in all fiduciary relations.

In conclusion, I may say that the healthy condition of the Trust Companies only reflects the general prosperous situation in the great commonwealth which I have the honor and pleasure to represent.

Missouri, "the land of opportunity," sends greetings and wishes you success in your undertakings.

Vermont.—William W. Russell, Vice-President of the Trust Company Section for the State of Vermont.

VERMONT.

REPORT TO TRUST COMPANY SECTION, A. B. A.

MR. PRESIDENT AND GENTLEMEN: The Trust Companies of Vermont are largely performing the functions of commercial and savings banks, and their trust functions have not yet been developed to so large an extent as in many other States. There is a steady increase in the number and amount of trusts administered by these corporations, but their principal field is still that of banking.

As to the deposits carried, the savings is much the larger class, being about ten times the commercial deposits. The 4 per cent. rate is practically universal on savings deposits, and tax of seven-tenths of 1 per cent. is paid to the State on the average deposit (both commercial and saving), no deduction being allowed. A feature which seems unjust to the Savings Banks and Trust Companies is that charitable, educational and religious funds, which, in the hands of the institutions owning them, are exempt from taxation, become taxable the moment they pass into the hands of a Trust Company, either as a deposit or for administration as a trust.

Some of the Trust Companies are called "Savings Banks and Trust Companies," and the permitted investments are all practically those legal for mutual Savings Banks. Depositors are well safeguarded, as capital and surplus are required to equal at least 10 per cent. of deposits, and the stockholders are liable to assessment for an amount equal to their paid-in stock.

A few companies are operated in connection with National Banks, the principal object of the dual organization probably being the facilities afforded for loaning on real estate.

The membership of the Vermont Bankers' Association is almost equally divided between State and National Banks, there being forty-two of the latter, and of the forty-one State Banks, twenty-eight are stock Savings Banks and Trust Companies and thirteen are mutual Savings Banks.

Business conditions in Vermont are subject to comparatively little fluctuations. The growth of savings deposits is steady and withdrawals this fall have not been, as a rule, abnormal, according to the best information I have been able to obtain.

Respectfully submitted,
WM. W. RUSSELL,
Vice-President for Vermont.

REPORT OF HERBERT W. JACKSON, VICE-PRESIDENT FOR VIRGINIA.

VIRGINIA.

On behalf of the State which has the honor of entertaining this great Convention, I report that Virginia is waking up to the fact that fertile fields are around about us for the Trust Companies.

For example, in Richmond a year or two ago the amount of capital and surplus of the Trust Companies here was \$700,000.00; to-day the amount is \$5,000,000.

There are twenty-three Trust Companies in the State, but of these not half a dozen are making a feature of Trust Business. The others are simply banking institutions.

The citizens of this Commonwealth are an ultra-conservative people, and have been shown to recognize the superior advantages offered by the Trust Company over the individual acting as Executor, Trustee, etc.

Richmond, being the capital and largest city of the State, has set the pace in the endeavor to educate the public along these lines, and we expect to see Norfolk, Lynchburg and other large cities wake up and follow suit by establishing these institutions whose chief business shall be along strictly fiduciary lines.

In the matter of educating the public to make use of the services of the Trust Companies instead of individuals as Executor, Trustee and Guardian, I desire to commend in the strongest terms the work being done by the publicity department of the Trust Company Section. These articles, which have been written by some unknown expert, cannot be too highly commended.

The purpose of the Committee in furnishing this valuable ammunition to the Trust Companies throughout the country is for the companies in the various cities to have the local papers reproduce these articles. They are written in a convincing style—they arrest the attention of intelligent men, and in my opinion, when thus used, will bring untold benefit to our cause.

In some cities where the newspapers charge regular advertising rates to run the articles, the local Trust Companies have shared the cost. In other cities the papers have made no charge, on the theory that the Trust Companies are large advertisers, that their business is beneficial, and helps them to help the community.

One of our Richmond morning papers takes this ground and has run a number of these articles, and I am confident the local institutions have derived much benefit.

In closing, I again commend the use of these articles in the manner suggested. It means dollars added to profit and loss account to every Trust Company in every community which embraces the opportunity to educate the people in this important matter.

Respectfully,
H. W. JACKSON,
President Virginia Trust Co., Richmond, Va.

Nebraska.—R. C. Peters, Vice-President of the Trust Company Section for the State of Nebraska.

NEBRASKA.

Since the report of last year we have not had a meeting of our Legislature, so there has been no change in our Trust Company laws. Our Legislature meets this coming winter, but as yet I know of no contemplated changes in legislation affecting us. We are not permitted to do any banking. Our laws confine us to Trust Company business alone. In this respect, as I reported last year, we have very complete and conservative laws.

Would state that since we had the Trust Company laws passed in 1911 there has been a slow and steady growth in the Trust Company business. The people are being educated to place their estates with Trust Companies. This is a matter of education and necessarily of slow growth, but the increase in the business is quite satisfactory.

It may be of interest to report crop conditions in our State this

year. Our corn crop is about 82 per cent. of the normal crop and the yield is estimated at 150,235,060 bushels. The wheat crop is 142 per cent. of the normal and is estimated at 69,732,953 bushels. The crop of oats is about 130 per cent. of the normal yield and is estimated at about 71,413,531 bushels. Our alfalfa is quite a crop in this State and is estimated at 136 per cent. of the normal crop. Making these figures more concrete and taking all of our crops in this State, the value is estimated at \$279,702,811. The value of all the crops for this year exceeds a normal crop by \$57,751,395. This gives about \$50 extra above normal to each inhabitant of this portion of the Great American Desert, to help Eastern manufacturers dispense with the foreign market.

Washington.—James C. Cunningham presented his report for Washington.

PRESIDENT AND VICE-PRESIDENT TO REPRESENT THE SECTION ON EXECUTIVE COUNCIL OF A. B. A.

MR. POILLON: There is one matter I would like to suggest. The new Constitution of the American Bankers' Association which was adopted by the Convention a year ago and since our last annual Convention, provides that the Executive Council shall be made up in a certain manner and includes the presidents of the Section, ex-officio, and any Section having more than 1,000 members may elect one additional official as a member of the Executive Council, ex-officio. I do not find by reference to our by-laws that we have made any provision in our by-laws for that classification of the members of this Section as to who shall be on the Executive Council. A year ago our meeting was held prior to the meeting of the Annual Convention, and it was at that Convention that the Constitution was adopted. I have looked up the proceedings and I find in advance of the adoption of the new Constitution, without knowing then what the requirement would be, the following resolution was adopted a year ago: *Resolved*, That it is the sense of this meeting that the new Chairman of the Executive Committee be the nominee of this Convention to represent the Trust Company Section as the second officer on the Executive Council of the American Bankers' Association under the revised Constitution.

That resolution was adopted by our meeting. Now, I would like to move as an addition to our by-laws the following: That the President and the First Vice-President of this Section shall represent this Section in the Executive Council of the Association.

My reason for changing the second member of the Council is, that the work of the First Vice-President of the Section, unless during the absence or disability or inability of the President, is absolutely nothing; he is almost out of touch with the affairs of the Section, except as a member of the committee. It is upon the Council that I am satisfied he can do the best work. When a member of the Council is only a member a year, his work is almost nothing, although he has some voice; there are perhaps only about two meetings which he attends. It is not until the second or third years of his membership on the Council that he feels disposed to take much part in the affairs or deliberations of the Council. I feel it would be a wise thing for this Section to change our representative on the Council. We are now about to elect a new member, or, rather, a new Chairman for our Executive Committee, and, of course, no one knows who that will be, so that there is nothing personal in what I have stated.

THE CHAIRMAN: You move the amendment?

MR. POILLON: I move that addition to the by-laws.

THE CHAIRMAN: What Section?

MR. POILLON: No section; in its proper place.

THE CHAIRMAN: Then, as I understand it, the president and vice-president shall represent the Section in the Council?

MR. MASON: I think Mr. Poillon's suggestion has quite a lot of force in it. I happen to have been the chairman on the Council this year, but I must confess that I feel the man who happens to become the chairman this year will have the same work that most of us have had, which of course is very light, and I think he ought to be in closer touch with the whole Association than the vice president. It seems to me that the vice president is always a sort of—well, they are just there because you cannot help it; it is so in everything; and I must confess the hardest work done in the Trust Company Section is done by—I don't mean to seem personal in any way—the hardest work is done by the chairman of the Executive Committee, and I want to put that over with emphasis, and I think the closer touch that is had on the Council of the American Bankers Association the better it is for him and the better for the Section, and I hope this meeting will let it stand as it has been during the past year and the incoming chairman of the Executive Committee will have the privilege of that additional labor.

MR. STITES: I second the motion.

MR. FULLER: I agree with Mr. Mason on his motion in these by-laws, and I do not agree altogether with Mr. Poillon; and I think this matter was discussed at the time. My recollection is that we selected the president and the chairman of the Executive Committee rather than the president and the vice president, for the reason that we thought the vice president, in the absence of the president, might be permitted to represent him, and it would give us two members, and for the additional rea-

son that, as Mr. Mason has stated of him, would bring him in closer touch. I am not entirely in accord with Mr. Poillon.

THE CHAIRMAN: Do I understand you to suggest the amendment designating the president and the chairman?

MR. FULLER: Yes.

MR. MASON: I second that motion.

THE CHAIRMAN: The question comes on the adoption of the amendment proposing the president and the chairman as members to represent the Section on the Executive Council. All those in favor, please signify by saying Aye; opposed, No.

The amendment is lost.

Now, are there any remarks on the original motion? As many as are in favor providing for the president and the vice president to represent the Section on the Executive Council, please signify by saying Aye; opposed, No.

Carried.

VOTE OF THANKS TO RICHMOND.

THE CHAIRMAN: I would suggest that some one voice a vote of thanks to the bankers of Richmond for their gracious courtesies to us while here.

MR. TETER: I move that the Secretary or the Chairman of this meeting extend a vote of thanks to Richmond for their hospitality at the time of this Convention.

THE CHAIRMAN: All those in favor of the motion, please signify by saying Aye; opposed, No.

Carried.

COMMITTEE TO SECURE MODIFICATION OF FEDERAL RESERVE ACT.

THE CHAIRMAN: At the Joint Meeting, this morning, it was moved and carried that a committee of twelve be appointed to confer with the Federal Reserve Board and the committees of Congress with respect to securing modifications to the Federal Reserve Act, making more acceptable the accepting of membership in the Federal Reserve Association by State Banks and Trust Companies. It was suggested that the committee be constituted as follows: Three to be appointed by the Trust Company Section, three by the Savings Bank Section, six by the General Association, three to represent the National Banks and three the State Banks. What is your pleasure with regard to the recommendation of the Joint Meeting?

MR. MASON: Mr. Goff, may I ask you one or two questions. As I understand it that was the sense of that meeting, and, if we appoint a committee, it seems to me this Section should pass a resolution appointing such a committee by authorizing the president to do so. Personally, I am not in accord with this thing. I believe that we can have proper amendments made to the Federal Reserve Act so that the Trust Companies will find it to their advantage to go into it. I think it can be better gotten by a committee from the Trust Company Section instead of these joint committees, and therefore I feel that if this thing was referred to your Executive Committee, they could appoint any special committee if they wish or not; and perhaps that committee could appear at Washington, and from their particular point of view, I think we could have a great deal more influence and do a great deal more for our banks than by having a committee of twelve. As I understand it, that was merely a recommendation that this Section should consider that matter. As I see it, the meeting this morning had no legislative status at all. Of course, if this Section thinks that it is better to do it that way, all right.

THE CHAIRMAN: Of course, that was not binding on us at all.

MR. MASON: I think they would get more in this method than the one suggested at the meeting this morning.

MR. FULLER: Mr. Chairman, I believe that we would make better progress if this Section should select a committee—as Mr. Mason has suggested, the Executive Committee is a very large committee—I think it would be better to have a selected committee of five or seven, with power to appoint in case of the organization of such a committee from several Sections, as has been suggested, a sub-committee of that committee of three to represent the Trust Section on any such joint committee. My suggestion is, and I move that a sub-committee of—before making the motion, my idea is a committee of three is too small to represent the various elements. My idea is to have men from different parts of the country so that we would have an abundance of opinion rather than to depend on a committee so small as three in number. My idea is to cover this subject by appointing a committee of seven or five—not to exceed seven—by the president of our Section, with power to appoint a sub-committee.

MR. McCARTER: I am opposed to the whole business. I voted for that resolution this morning in order that the final action of the Section might be postponed at least one year. I do not believe any five, seven or anyone or any committee of the whole are in a position to know what they want at the present time. I am not very much in favor of a committee taking any action whatever at the present time. Let us see how we get along, how the new act works.

MR. FOYE: I move the matter be laid on the table.

MR. CHAMBERLAIN: I believe we have acted with the Savings Bank Section, and it seems to me they ought to be promptly

notified at once here of the action of this Section. I believe you are treating the Savings Bank Section unjustly if you do not advise them at once.

MR. MASON: Mr. Goff, I don't agree with Mr. McCarter at all on this thing.

THE CHAIRMAN: The matter comes up on a motion of Mr. Fuller. He moved the appointment of a committee of five to confer with the Federal Reserve Board and maybe with committees of Congress, to secure amendments, if possible, to the Federal Reserve Act, making more acceptable the acceptance of membership in the Federal Reserve Association by State Banks and Trust Companies. That committee, if I understand Mr. Fuller's motion, is to have power to designate three to cooperate with committees to be appointed in the manner provided for their benefit.

MR. MASON: I thought it was a committee not to exceed seven?

THE CHAIRMAN: Yes.

MR. MASON: I would like to offer an amendment to that—namely, that the matter be referred to the incoming Executive Committee of the Trust Company Section.

A MEMBER: I second the motion.

THE CHAIRMAN: Are you ready for the question? All those in favor of the motion, please signify by saying Aye; opposed, No.

Carried.

MR. FOYE: Should we not notify the Savings Bank Section?

THE CHAIRMAN: I don't know whether we will be in a position to advise them of the action of the Executive Committee.

MR. FOYE: I think we ought to advise the chairman of the Executive Committee.

NOMINATIONS AND ELECTIONS.

THE CHAIRMAN: Is the Committee on Nominations ready to report?

MR. JACKSON: Your committee, after very lengthy and careful consideration, reports the following names for submission to the Convention:

R. L. Rutter, Vice-President of the Spokane & Eastern Trust Company, Spokane, Wash.

Ernest Woodruff, President of the Trust Company of Georgia, Atlanta, Ga.

H. W. Jackson, President of the Virginia Trust Company, of Richmond, Va.

Lucius Teter, President of the Savings Bank & Trust Company of Chicago, Chicago, Ill.

And overriding his objections because of a sense of embarrassment in having his name reported to the Convention, in deference to the wishes of the people who vote, John H. Holliday, President of the Union Trust Company, of Indianapolis, Ind.

THE CHAIRMAN: What is your pleasure, gentlemen?

MR. DINKINS: I move the Secretary be instructed to cast a ballot for those five names for members of the Executive Council next year.

THE CHAIRMAN: Are you ready for the question? All those in favor, please signify by saying Aye; opposed, No.

Carried.

MR. FULLER: I desire to place in nomination for President one of our oldest members in point of service and a most efficient man, who has served on almost every committee we have had, and served faithfully and well; one of our youngest members in point of youth, virility, and mind and body, and a man who would be an honor to the Section, and who, I am sure, would advance its cause in every way possible as the presiding officer. I refer to Mr. Ralph W. Cutler, whom you all know.

THE CHAIRMAN: Is there any objection to having the ballots cast? I instruct the Secretary to cast the ballot for Mr. Cutler.

THE CHAIRMAN: All those in favor, please signify by saying Aye; opposed, No.

Carried.

THE SECRETARY: The Secretary reports that the ballot has been cast.

Mr. Cutler at this point was escorted to the Chair, taking his seat as President.

MR. GOFF: Mr. Cutler, one year ago I had the honor of inducting you to the office of Vice-President. It is a greater honor to induct you into the office of President and confer upon you the insignia of your office. You are, as Mr. Fuller has said, a veteran in the service; you have merited the promotion and the honor that comes to you. I bespeak for you the same cordial support that has been given me during my administration.

PRESIDENT CUTLER: Mr. President, and Members of the Trust Company Section: I thank you most sincerely for the honors you have now conferred upon me, but, in order to make my administration a success I shall have to call for your cordial co-operation. This you have always given me in the past, and I am sure you won't fail me in the future in order to make my administration a success, which I hope it will be.

Mr. Secretary, the next business is the election of Vice-President.

MR. MASON: I have been on my feet quite frequently to-

day. A little while ago I received a most chilling reception on the part of this audience assembled here, and therefore it is my turn to do something that everybody will heartily approve of. I want to say that Mr. Goff, who has just gone out of the Presidency, that you owe him an obligation; you owe him a debt that you never can pay; in season and out of season he has been thinking of your interests all the time; working hard, getting old in the service and rendering service, I believe, that has equaled any President's services to this Section, and I for one take great pleasure in having the privilege of presenting to you just a little cup, a loving cup of the size that you always can drink out of. God bless you and keep you, and Mrs. Goff, too.

MR. GOFF: Mr. Mason, I cannot help but be deeply touched by what you have said. I am doubly grateful for the beautiful gift you have made. It will be a lasting remembrance with the lengthening of the shadows and of the pleasant and agreeable times I have had in my association with you, and I hope of the lasting friendships I have made.

MR. JACKSON: Mr. President, is it in order for me to make a motion for the election of the office of First Vice-President?

PRESIDENT CUTLER: Yes.

MR. JACKSON: I would like to offer for that office a man who has been conducting affairs in his sphere of this Association, one who is most able. Some one has said to-day that the Executive Committee, some of them, had complained that they had not enough to do. I may say that he complained that he did not have enough to do, but I think he had more than enough to do, and he did it well. On the shoulders of the chairman of the Executive Committee falls a great deal of the work for the year. He has discharged that, and you have heard his eloquence so that you know he still has a voice. I am seriously speaking, however, and I want to offer the name of Mr. John H. Mason, your present chairman of the Executive Committee, for the office of First Vice-President of the Association.

MR. DINKINS: I second the nomination, and move that the nominations be closed.

PRESIDENT CUTLER: Those in favor, please signify by saying Aye; opposed, No.

So ordered.

MR. DINKINS: I want to say that I have been a member of this Section ever since its organization, and I think Mr. Mason has made one of the most efficient chairmen of the Executive Committee that we have ever had. He is not as handsome as Mr. Jackson, but in every other respect he is his equal.

PRESIDENT CUTLER: The Secretary is instructed to cast a ballot for Mr. John H. Mason for the office of Vice-President—for the office of First Vice-President.

THE SECRETARY: I beg to report that the Secretary has cast the ballot for Mr. John H. Mason for First Vice-President, as instructed.

PRESIDENT CUTLER: And I am happy to declare Mr. Mason elected. Now, will Mr. Dinkins and Mr. Jackson escort Mr. Mason to the Chair?

Mr. Dinkins and Mr. Jackson escorted Mr. Mason to the Chair accordingly.

PRESIDENT CUTLER: Mr. Mason, it gives me a great deal of pleasure to pin that badge on your coat (pinning badge on Mr. Mason's coat). You have earned promotion.

MR. MASON: Here I am again. I want to thank you all for letting Mr. Cutler pin this police badge on my lapel. (Laughter.) I am quite sure that you all fully realize that there is nothing pre-arranged here. This thing is all spontaneous. (Laughter.) It was on the spur of the moment. Mr. Jackson nominated me, and he is one of my keen competitors in Philadelphia, and I suppose that means I must not take any of his business any more. I thank you very much.

THE SECRETARY: The next order of business is where no Vice-President has been named by the Association, the election is left to the Executive Committee, who are always called upon to receive suggestions from those present.

Now, the States have made their nominations to the State Committee, and any other suggestions will be received here by the Executive Committee and acted upon.

PRESIDENT CUTLER: Will you allow the Executive Committee, as usual, to fill any vacancies that may occur in the list of Vice-Presidents? I hear no objection, so that course will be adopted.

MR. CUNNINGHAM: I move that a resolution be offered to the family of our old-time friend and officer of this Association, Mr. Kauffman. I move you, sir, that a resolution be adopted and the Secretary be instructed to transmit the same to his family.

MR. McCARTER: That has already been attended to by the Executive Committee.

PRESIDENT CUTLER: Gentlemen, all in favor of the motion, please signify by saying Aye; opposed, No.

Carried.

PRESIDENT CUTLER: There being no further business, on motion, the meeting will adjourn.

MR. McCARTER: I move that the meeting be declared adjourned.

MR. CHAMBERLAIN: I second the motion.

PRESIDENT CUTLER: The meeting stands adjourned.

SAVINGS BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Thirteenth Annual Meeting, Held in Richmond, Va., October 13, 1914

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Savings Bank Bonds in the Light of Recent Developments.

By ARTHUR M. HARRIS, of Harris, Forbes & Co., New York City.

The subject which it has been suggested that I discuss with you to-day is "Savings Bank Bonds in the Light of Recent Developments." That it is not in the dark of recent developments is my conviction; for I am sure you gentlemen share with me the knowledge that to allow a temporary and present unfortunate state of affairs to exert a dominant effect upon one's judgment of the past or of the future is as bad for one's disposition as for one's pocket. A present calamity is always the worst that has ever happened. Look back through history and you will find it so. It seems to me that most of us have paid too much attention to the obvious and apparent things in regard to the European war. We all know that a large amount of fixed capital is being destroyed, and it is natural to assume that this inevitably means generally higher rates of interest for money. It is at least doubtful, however, if the obvious conclusions which are being drawn are 100 per cent. true, and, in fact, if some of these conclusions are even correct to any considerable extent.

Few realize, for instance, what a wave of economy is sweeping over this country, and the effect it may have on the amount of new available investment capital. It is unquestionably true that never before in the history of this country has there been such a widespread movement of economy, which extends not only to personal expenditures, but also to the expenditures of corporations and business houses generally. Following the panic of 1893 there ensued a general movement of economy. This economy, however, differed radically from that which we are witnessing at the present time. The panic of 1893 was followed by general industrial prostration and a large percentage of unemployed in every line of industry. Still, the economy of that period resulted within a few years in the greatest accumulation of investment capital we have ever seen, and a general upward movement of the prices of securities, which continued uninterruptedly for nearly ten years.

The economic and industrial conditions at the present time are not to be compared with those following the panic of 1893. Aside from certain industries and busi-

nesses which have been especially affected there is employment throughout the country. The wave of economy, therefore, means a much more enormous and rapid accumulation of capital than ever occurred before.

The economic losses resulting from wars are usually exaggerated, as shown by the industrial conditions which exist when peace is restored. It is estimated that the European war is costing as high as \$50,000,000 a day. This is, of course, a huge sum. But you must remember that you are dealing with huge figures all around. The population of the nations directly engaged in the European war is over 300,000,000. An average saving of only 16 cents a day for this number of persons would amount to over \$50,000,000 a day. It should also be remembered that the destruction of battleships, forts, gunpowder, etc., is not a new loss of capital. This was paid for before the war started, and the loss of capital occurred when these articles of war were constructed and manufactured during times of peace. In fact, the great losses of capital and economic wastes occur during times of prosperity, whereas capital is accumulated during periods of depression. Certainly never before in the history of this country has there been such a wave of economy. With a population of 100,000,000 in this country, it would require only a relatively small reduction in wasteful expenditures for us to accumulate a saving amounting to hundreds of millions of dollars a month.

This wave of economy which is sweeping over the country is of the greatest importance to you. It means that persons who have never previously been in the habit of saving will begin opening savings accounts, and that others who already have savings accounts will increase the size of these accounts. If this result occurs it will mean that you will not be called upon to sacrifice your holdings of high-grade investments at the present depressed prices. In other words, you will not be called upon to suffer any actual losses in your investments, but will be able to continue to hold these bonds until they mature, when you will receive in payment their par value, or just what you expected when you purchased them.

In addition to the wave of economy there is the wonderful outburst of individual enterprise that invariably follows a war. Explain it in whatever way you please, it is, nevertheless, a fact that the greatest enterprise, the greatest energy, the greatest ingenuity, invariably immediately follow a great war. It is this combination of conditions which probably explain the rapidity from which people often recover from the devastating effects of a war. Gentlemen, the world moves by tides, not by waves—fierce as the latter may seem as they strike one. And according to the tides should one's judgments be made. I am sure that no one familiar with the sound industrial and economic structure of this country can believe that the high tide of this country's prosperity has been reached.

In a discussion of Savings Bank bonds one finds one's self touching upon, if not the largest phase of the investment business, certainly one of the most important, one of the most exacting and one to which investment bankers are giving a deeper study than perhaps many of you realize. In fulfilling few other investment requirements is the element of responsibility so constantly present. The restrictions which our Savings Bank laws place around your choice of investments are often of more *seeming* than *real* value. To invest wisely under the prescribed limitations requires a knowledge of conditions at the time of investment which is impossible save to those who are intimately in touch with the situation from day to day. I would now like to touch as briefly as the complex nature of the subject allows, on the two main groups of bonds available for Savings Bank investment.

First, municipal bonds, and by this group I comprehend all such obligations as are issued by communities—National, State, city or district—and such as depend for the payment of principal and interest upon the taxing power of the community in question. It is this group that has been found of late in particular favor by Savings Banks. There has never been a time when the Savings Banks did not naturally prefer as large a proportion of Municipal Bonds among their holdings as possible, but the relatively smaller income on this class of securities led to the investment in those securities paying the higher rate of interest. With the larger number of eligible Municipal Bonds, due to changes in recent years in the Savings Bank Acts, has come a relatively higher income, and has no doubt largely accounted for the larger proportion of Savings Bank investments in the last few years being made in that class of security. We hear much of municipal extravagances and the increasing public debts without very much intelligent discussion on the other side of the question. I venture to make the statement that the average municipality today, with twice the debt which it had ten years ago, is really less debt burdened than was that community a decade ago. Even the younger men of us can remember when municipal expenditures for public improvements were almost wholly confined to non-productive purposes, such as streets, sewers, public buildings, returning no cash income, etc., and when a publicly owned water works was the occasional exception to this rule. Since that time most of the larger municipalities have spent large sums, and most of it rather wisely, for the acquisition or construction of income producing properties. The result has been that such expenditures have represented no burden upon the taxpayer from year to year, but rather have tended to bring in an actual net revenue. This situation has been recognized in a small degree in the Savings Bank Laws, where under certain conditions the proportion of indebtedness to taxable values allowed has been increased. I think it is only fair to say that these increases have been smaller than might have been fully justified by a careful consideration of the subject as a whole.

There has been one other noteworthy change through-

out the country on municipal indebtedness which has also received little general discussion, although we know that most Savings Bank officials are aware of the change and have either consciously or unconsciously given consideration to it in the making of their investments. I refer to the more scientific regulations in the creation of municipal indebtedness and the provisions for its payment. It is not many decades ago when the creation of a municipal indebtedness was accompanied by little or no provision for the payment of the debt itself, it being deemed sufficient that provision be made for the interest, the principal being allowed to be refunded. This is decidedly the exception now, and those States which have neglected to improve their laws in this respect are today suffering through the higher cost of borrowed money. A concrete case of this disposition to pay off indebtedness within a reasonable length of time is the Massachusetts law. This requires the issuance of serial bonds, the longest maturity of which shall be within the life of the improvement made with the proceeds of the issue. A similar law now applies to certain classes of municipalities in New York State. The recent loan by New York City carried with it a contractual relation with the banks which made the loan whereby a large amount of financing which would have been spread over the usual fifty-year period, will, instead, be made on the basis of a serial loan not to exceed fifteen years.

It may interest some of you gentlemen in your leisure moments to study the last two reports of the Census Bureau of the United States, which I believe is known as the "Census of Commerce and Labor." These give the assets of all of the larger municipalities in the United States, and are so subdivided that the non-productive assets are shown separately from the "salable assets." Included in this latter class are real estate and buildings, water works, park lands, etc., as distinct from street pavements, sewer improvements, etc., which, though valuable, are not what might be termed salable assets. For instance, in answer to the criticism that the debts of New York City were mounting up very rapidly and that large amounts of the money were unwisely spent, my firm had occasion in 1910 to make a very careful analysis of this point, one of the most striking results of which was to show that the salable assets of the city were over \$1,000,000,000, a sum much greater than the total bonded debt.

These points are only a few of the many which, upon a careful study, would convince you that municipal extravagance, which has certainly existed in recent years and which can be depended upon to go hand-in-hand with prosperous times, has been more than kept pace with by conservative limitations, and that there has never been a time when municipal bonds selected with due care have been more sound.

We now come to corporate securities, the obligations of railroad and other public utility companies. The ultimate security of this group is, as you know, the earning power of the obligor corporations. Of this group railroad bonds are the most largely held by Savings Banks, and in view of recent developments demand particular attention.

It is a current impression that Savings Bank holdings of railroad bonds are growing smaller. This impression probably has its basis rather in the recent unfavorable attitude toward railroad securities than to the facts of the case. Taking the figures of the entire country, one finds that the holdings of railroad bonds by Savings Banks have increased in the last four years in the amount of over \$50,000,000. Four years ago railroad holdings comprised 52 per cent. of the total bond holdings; they now comprise 49 per cent. Looking into those States where Savings Bank investment requirements are closely restricted, one finds that in New York, for example, the railroad holdings now total about \$274,000,000, or 36 per cent. of all bonds held, as against \$250,000,000,

or 37 per cent. of all bonds held four years ago. While, therefore, actual railroad holdings have increased, the amount, relatively speaking, shows a slight decline. A more significant decline has been in the market value, and this has been precipitated in the past four years. The market value of the total bond holdings of every character of New York Savings Banks four years ago was \$5,000,000 below the par value. At the first of this year it was \$41,000,000 below.

I may not go here into the manifold factors that have governed the railroad situation. There are few problems which illustrate so practically as does this one the dictum that "A little knowledge is a dangerous thing." Those whose work lies in the railroad field—be it in the nature of regulation or of operation or of financing—have to do with the largest single industry in the United States, an industry that represents a capitalization of \$20,000,000,000, or more than one-sixth of the nation's entire wealth. More significant perhaps than the size and importance to which the railroad industry has grown is the fact that its size and importance is still growing, and that by its nature its demands upon capital must continue. For railroad property is normally and essentially property in motion. We see reports of the many millions invested in right-of-way, in structures and bridges, in equipment and in terminals. We learn of the great tonnage capacity of modern freight cars and the wonderful speed of passenger trains. All these we may understand, but more important to understand is the financial significance of this aggregate motion, of this incessant wear and tear going on daily through the year and decade without beginning and without end. The more vital the railroad has grown to our industrial life the higher have been the demands upon its efficiency. This is the clue to the continuity of its demands upon capital—demands which average in this country alone around \$1,000,000,000 every year. In dealing with the American railroad industry one deals not only with immense figures, but with immense possibilities.

So you must see, gentlemen, that your interest in railroad obligations made in the past is linked, of necessity, with the future. That this interest be intelligent is paramount. For I repeat in this situation "a little knowledge is a dangerous thing." Those whose influence is determinative in the railroad situation must have genuine knowledge. I will not undertake any comment as to whether those whose sphere is regulation have this requisite knowledge or as to whether the general public, not able, naturally, to possess this knowledge itself, is alive to the necessity of its governmental representatives acquiring and acting in accord with that knowledge. Nor is there opportunity here to go into the efficiency which is being developed by those whose sphere is operating railroads. I may say, however, that a careful study of the annual reports of our principal railroads for a period of years will suggest to you, if it does not completely inform you, as to the progress of operating efficiency in this country. Of more immediate interest is, perhaps, the progress that is being made in the financing of railroads, in the elaboration of safeguards that are being built around new bond issues. Mortgages are being drawn with more care. It is being more readily recognized that a greater percentage of earnings must be put back into the property. An example of this was one of the larger railway loans of last spring. By its terms the company had to divert from earnings for the next five years \$17,000,000, which amount has to go back into the property. This tendency toward more conservative financing has an immediate bearing on railroad bonds that are legal for Savings Banks—strengthening as it does the bondholders' equity in the property and increasing the fundamental security, a road's earning power. Similarly some of the new so-called blanket mortgages of the large systems impose definite relation-

ship upon the ratio between the funded debt and the capital stock. Another excellent provision in some of the recent mortgages is that, after a certain amount of bonds has been issued, additional bonds may be issued only for actual additions to the property and for less than their cash cost. This is in my opinion a thoroughly wholesome development in the field of railroad financing. It has been the privilege of the house with which I am associated to have been largely identified with the early financing of public utility corporations of this and other countries. In drawing up the mortgages of many of these corporations we insisted on provisions similar to those which are now being adopted by the railroads. Years have given time to test and prove that they form genuine safeguards for the investor.

I remarked before that Savings Bank holdings, including their extensive holdings of railroad bonds, show an increasing shrinkage of their market value. In New York State this shrinkage in value has amounted in the last four years to \$36,000,000. The general causes are fairly obvious, I think, although one particular phase of the situation as applied to railroad bonds may be clarified by a résumé of the history of Savings Bank holdings of this class of security.

The admission in a large way of such securities to Savings Banks is comparatively recent. It came in that era of seemingly great prosperity that followed the depression of the first half of the decade, 1890 to 1900. The period was one when money was easy and plentiful. Beginning with the fall of 1896 and continuing throughout 1897 and 1898, the entire security market was strong and prices showed a steady advance. Coincident with this upward movement legislation became active in enlarging the list of bonds available for Savings Bank investment. In New York State this admission to the eligible list of Savings Bank investment of the bonds of various important Eastern communities was followed by an agitation for the admission of certain railroad bonds. Admission of these bonds was urged by prominent Savings Bank men who claimed that the enormous increase in deposits and the narrow field allowed for their investment was rapidly forcing them into an embarrassing position. Accordingly, the Legislature passed a bill in the early part of 1898 admitting a limited number of rails to the eligible class. The list was enlarged later in 1898, and slight additional changes were made in almost every subsequent year up to 1905. The point should be noted that, in admitting these railroad bonds, there was no comprehensive outline of *requirements*, but instead the enumeration of a certain few railroads, whose bonds were made legal. The results of the legislation are doubtless fairly fresh in your memory. Under the natural stimulation of prosperous monetary and industrial conditions and particularly under the artificial stimulation of the new law's limitations, the prices of these legal rails rose until they reached an abnormal level. The favored railroads were able to issue 3½ per cent. bonds, which sold, as you know, at par or better. Some of you may *now* look back with regret at the time when New York Central 3½s sold as they did in 1899, and for a while later on a 3.15 per cent. basis. The time for regret was properly *then*. For the levels reached were artificial—abnormal. In the growing holdings of railroad bonds there seemed no reflection of an appreciation of this truth.

In 1905, at a high water mark of prosperity, the New York law was revised. Requirements, not roads, were specified. It was a step in the right direction, but it was a step taken at the brow, not at the foot of the hill. For following the immediate widening of the legal railroad bond group there came a cycle of depression, which has continued, with slight variations, up to the present. And as we saw in the preceding period, a rise in legal rails occasioned both by general prosperity and by the artificial nature of the Savings Bank Law, we now see

the fall in these legal rails, not merely in conformity with general conditions, but due also to the greatly expanded opportunities for Savings Bank investment: That is, the supply of Savings Bank bonds had increased—the demand had decreased. So in analyzing the conspicuous price decline of legal railroad bonds, a fact to be borne prominently in mind is that a large percentage of the loss is explainable in the abnormal and artificially high level to which prices had previously risen.

It must not be assumed from the foregoing that I would decry enlarging the Savings Bank eligible list. In so far as such enlargement is based on sound economic facts, it is a wise measure. In times of prosperity the investment of Savings Bank funds tends to increase the prices of the eligible bonds. It, therefore, is advisable to have the list of available investments so large that the investment demand from the Savings Banks will not tend to increase the prices of those bonds to a point largely beyond their value as general market investments. The possible future necessity for liquidating part of the assets so invested should be remembered, for, after all, one of the prime advantages of bonds over other forms of Savings Bank investments is their marketability. When it becomes necessary for a comparatively few Savings Banks to seek funds in this way it will be found that other Savings Banks are subject to the same influences, and it then becomes highly important to have a market for such securities outside of the Savings Banks themselves. The threatened withdrawal of large Savings Bank deposits some sixty or ninety days ago brought this very point to the fore, and the fact that such large withdrawals did not materialize did not lessen the importance of being prepared for such an emergency.

In this connection it occurs to me to touch upon a practise which works to the detriment of the Savings Banks while appearing to confer an advantage. I refer to the exemption of home securities, whether municipal or corporate, from the provisions of the ordinary Savings Bank tax. This is present in Connecticut, Massachusetts and Maine, and I believe in a number of other States where Savings Bank investments are closely restricted. The natural tendency is to advance the price of home bonds and to narrow their market. The result is that in cases of liquidation of such volume that the home market cannot readily absorb them, they are forced outside for sale in markets where the exemption from tax has no practical value. It would seem to me to be much more preferable that home municipalities and corporations should pay whatever the actual cost of such money is than to have part of that cost defrayed out of a decrease in the volume of taxes collected.

The eligible list has been amplified recently in many of the States, and generally speaking, for the better. In 1913 New Jersey added bonds of railroads which cover important terminal and dock properties. Vermont has admitted railroad mortgage bonds and Connecticut and Rhode Island have admitted certain equipment issues. This last development merits extension, for the experience of more than thirty years has demonstrated that equipment bonds, if properly issued and safeguarded, are among the safest, most conservative and desirable forms of investment. Public records show that during the receivership era, from 1893 to 1896, when railroads having outstanding over \$60,000,000 equipment securities were placed in the hands of receivers, holders of equipment bonds suffered no loss, this being true even of those roads which defaulted upon their first mortgage bonds. If issued under definitely established restrictions and secured upon standard rolling stock, equipment bonds have throughout their tenure of life a claim upon something which is good for the principal and interest, even if it comes down to a matter of selling the rolling stock at its scrap value.

To my mind, however, one of the most significant de-

velopments in Savings Bank bond requirements is the recognition of public service corporation bonds. Telephone and street railway bonds have been legal for some time in Connecticut, Massachusetts, Rhode Island and several other States. While these two types of public utilities are undoubtedly excellent additions, there is warrant for the assertion that they do not comprise exclusively the best in the public utility field. Electric railway securities, for example, are now, generally speaking, less in favor with the investing public than any other class of public utility bonds. This is due both to the public's memory of the over-estimates of value indulged in while financing the consolidations of the traction systems in many of our large cities, and to the fact that the hazards of the street railway business are greater than those of practically any other public utility. We cannot go into these hazards in detail, but the following enumeration may suffice; the rapid depreciation and obsolescence of property, labor troubles, municipal interference, damage suits and a growing tendency toward rate reduction, which does not have the compensating advantage found in nearly all other public utility lines of increasing the business. The principal other classes of public service corporations are gas, electric light and power companies, including the increasingly important hydro-electric developments. The best representatives of these public utilities furnish a most stable basis of security. Practically unaffected by industrial depression and practically free from the ill effects of competition by the fact of their being natural monopolies, the leading public utilities of this country have grown rapidly in favor with conservative investors during the last ten years. Banks, other than saving institutions, as well as private investors, are now among the largest purchasers of the bonds of such companies. Their admission into the Savings Bank eligibility class is, therefore, a natural step. Following their admission, a new and equally excellent step has been taken. This is the removal of the intra-state limitations, Savings Banks in some States being allowed to invest in the bonds of any companies which meet certain requirements, as opposed to the old limitation which restricted their investment to companies operating in the Savings Banks' home States. Here, again, there was formerly an artificial market created. A noteworthy instance of this recent development is the new Rhode Island law. Its restrictions are conservative, yet are applicable to a broad field. As a result, Rhode Island Savings Banks are enabled to pick the best the market provides—and the market is country wide in its scope.

It may be gathered from certain things I have said that I think the prosperous future of Savings Banks, so far as their investments are concerned, depends upon more closely conditioned Savings Bank laws. In part, yes. Completely, no. I would like nothing better than to analyze for you the details of some of these elaborate laws and point out to you where many pounds of prevention fail to effect even an ounce of cure. But I will be able at this time merely to pick out at random some weak links in the guardian chain your laws have welded that will suggest, if nothing more, the fundamental weakness there is in all such chains. Gentlemen, general rules depend upon generalities—and generalities play an uncertain rôle in the financial world. For that world consists of a myriad of complex, yet very concrete, details, upon which one must specialize, not generalize. Those of you who are familiar with the New York law, for instance, will recall that Savings Banks may invest in the first or refunding mortgage bonds of any railroad which, among other things, has paid dividends of 4 per cent. for the preceding five years. A similar provision occurs in both the Connecticut and Massachusetts law. At first glance it is the acme of conservatism. Now, gentlemen, surely experience has taught you that almost every good railroad that has "gone on the rocks" as

they say, has precipitated its own trouble by paying dividends when foresight and conservatism demanded that the money go back into the property. To enumerate examples would be wearing to you—there are too many. Far more important than the amount of money a railroad pays as dividends is the amount it has left over *after* paying them. The law says "Earned and paid." What is meant by earned? If any road cares to skimp its maintenance enough, its report will show its dividend *earned*. Here we have a supreme example of the dangers of generalities. When the law says "earned," it says, from a rigidly conservative standpoint, practically nothing. The Rhode Island law does not impose the dividend requirements, and to my mind this apparent laxity is a source of the law's strength. I cannot go into that law in detail, but I think it would repay you to study it. Many of its provisions are distinctly interesting.

The shortcomings in many of the Savings Bank laws are not confined to railroad bond requirements. There is distinct room for improvement in the municipal sphere. A conspicuous case is that the present law of New York State imposes restrictions which shut out from the eligibility class such bonds as those of Richmond and Atlanta, cities whose physical and financial position is and has been for a great many years above any unfavorable criticism. On the other hand, cities such as Dallas, San Antonio, Kansas City, Kansas, Peoria, Oakland, Tacoma and many others whose size and general importance are certainly not greater, are eligible, and while I am not disparaging the merits of the obligations of these communities, it does not seem to the best interests of the Savings Banks in New York State that they should not have an opportunity of adding to their list of investments such desirable bonds as those of this and similar cities in this portion of the country.

Last year when the State of Connecticut again revised its Savings Bank Law, there was shown a commendable disposition to seek practical, and I may say expert, advice. The consequence was that the original draft of that law was so changed as to avoid many questions which were sure to have arisen; in fact, many of the suggestions made by investment bankers to the Savings Bank Commissioners and the committees representing the Savings Banks themselves were born of experiences which grew out of the law passed in New York State some years before. The Connecticut law has another good feature, in that it calls upon the bank commissioners to furnish a list of securities which are eligible under the law. This follows the practise of the bank commissioners in the State of Massachusetts and is a radical departure from the practise in New York State, where, as a great many of you know, the Banking Department and the Attorney-General's Department, due to the press of work, have required that a Savings Bank shall actually make a purchase of securities before asking the Department to rule upon the question as to whether or not they are eligible. I can appreciate that it is hardly practicable to allow any outsider to bring up questions at will with the Banking Department and through them with the Attorney-General's Department; but, on the other hand, it certainly seems reasonable that the banks should have the advantage of official advice

on this subject before being required to commit themselves to an investment. The actual result of the present practise is, in many cases, that a bank will refrain from making a profitable and desirable investment because of the necessity of handling the matter in this way.

As a constructive suggestion it has occurred to me that a committee composed of representatives of the Savings Bank Department, a representative of the Attorney-General's Department and one or more representatives of the Savings Bank Association, would form a desirable and practical means of handling this problem. The duty of this committee would be to consult with the authorities and to sift all of the information at hand so as to put the case up to the officials in such shape that they could intelligently and readily pass upon the questions involved, knowing that *all* of the features bearing on the situation had been presented at one time. Such a committee would find active co-operation with any reliable investment banker, and for that very reason its work would not be as difficult as might seem at first thought.

It has been recognized by individual investors who have been most successful that a first essential in the making of any investment is the co-operation and advice of investment bankers. Investors who recognize this do so because they know that the leading investment houses of this country have at their disposal not only more information regarding the security in question than any individual can possibly have, but also an organization that has had years of training in interpreting correctly such information. There are investment houses in the country which can truthfully lay claim to a record of never losing a penny of principal and interest for clients who have invested in bonds which these houses have investigated, surrounded with a series of comprehensive safeguards and purchased with their own funds before offering them to investors. Such firms, if for no other reason than that of enlightened self-interest, regard themselves as sponsors for the bonds they offer, and their service to clients does not end until final payment of principal and interest has been made.

Now, gentlemen, I think you will agree that Savings Banks are in a position quite similar to private investors. True, those whose choice determines Savings Bank investments are usually men of affairs, men above the average in business intelligence and men who are required to direct the investment of funds far larger than is the case with private investors. But this alters not one whit, but rather strengthens my conviction that the position of Savings Banks coincides in all practical details with that of private investors. And your position, gentlemen, demands that the best information, the best advice and the best investment bankers co-operate with you at all times. Only then will your investments tend more consistently toward that ideal of Savings Bank bonds—unquestioned safety of the funds which are in your charge. I feel very strongly that such co-operation is essential—and I feel, too, that the value of such co-operation is being more thoroughly appreciated on all sides. And I am wondering if I may not take it that a present evidence of the tendency is the privilege that has been extended to me of speaking with you to-day.

Recent Amendments to the Savings Bank Law of New York State and the Reasons for Such Amendments.

BY ELLIOTT C. McDUGAL, President, Bank of Buffalo.

On June 23, 1913, under authority of a special act of the Legislature, the Honorable George C. Van Tuyl, Jr., Superintendent of Banks, appointed a commission to revise the banking laws of the State of New York, the result of its work to be reported to the next State Legislature.

The main objects of revision were: the simplification and codification of such parts of the existing banking law as experience had proved satisfactory, and the making of alterations and amendments where clearly necessary. The new statute makes the law clear and definite in many instances where it has heretofore been doubtful and ambiguous.

The first sentence of the act is as follows: "The Superintendent of Banks is hereby authorized to appoint a commission of five or more persons having a technical knowledge of the banking law and a practical knowledge of banking methods, to prepare and submit to the Legislature a complete revision of the banking law of this State, adapted to present banking conditions and based upon the experience of the banking department in the work of supervision and in the liquidation of failed institutions."

The membership of the commission embraced lawyers, business men not bank officers, and officers of commercial banks, trust companies and savings banks. The Superintendent of Banks took a personal interest in the work of the commission, being in attendance at practically all of the meetings of the full commission. He also relieved from his regular duties and assigned as counsel to the commission Mr. George I. Skinner, First Deputy Superintendent of Banks, with about twenty years' experience in the Banking Department, and, very fortunately, a lawyer. The commission appointed the following sub-committees: Banks, Trust Companies, Savings Banks, Private Bankers, Domestic Investment Companies and Small Loans, Liquidation and Penal Law. The First Deputy Superintendent of Banks attended the meetings of practically all of these sub-committees. One of the chief advantages of the make-up of the commission was that every section of the law, both old and new, was thoroughly discussed and argued upon from the standpoint of the banker, the business man who is not a banker, and the lawyer. The fact that the First Deputy Superintendent was a lawyer and also had practical experience in the Banking Department made his assistance invaluable. He could answer the points of bankers from a banker's standpoint. Many suggestions were made by members of the commission not bankers, which bankers knew were not practicable; but, in many cases, although they might advance their opinions to that effect, and although their opinions might be respected by lawyers and business men, a mere opinion might not be absolutely convincing. He frequently could cite, out of his own experience, instances where the very suggestions had been tried, and could tell just how they had worked out in actual practice. He would say: "What you propose was tried in such and such a bank at such and such a time, and the results were so and so." Such statements of actual experience were convincing. The commission was able to do its work in a most practical way and to avoid theoretical pitfalls. Because of the presentment and thorough discussion of valuable ideas respecting the different points of view of different business interests,

because the members of the commission had to be "shown" to their own satisfaction the practical working of any proposed changes in the law before recording themselves in favor, because fallacies and mistakes could, with great difficulty, escape the scrutiny of so many different classes of minds, it is a fact that, although months have elapsed since the passage of the law, it has not been criticised except by those who, for the public good, were subjected to additional restrictions.

The commission found that the banking laws of the State of New York, so far as they related to commercial banks, trust companies and savings banks, had been proven by experience to be in the main good. Comparatively little new matter was inserted in these articles. The most important work of the commission was done by the Committee on Private Bankers, Domestic Investment Companies and Small Loans. The absolute necessity of protection for small depositors, many of whom could not discriminate between banks under the supervision of the Banking Department and private bankers not under the supervision of the Banking Department, called for immediate action. The subject was a most complicated one, as care had to be taken not to interfere with the operations of large private bankers who do not take savings deposits and whose services are absolutely necessary for the promotion of large enterprises and the development of this country, and, at the same time, to make the laws so broad that under no technical loophole could private bankers taking small deposits avoid supervision. The Henry Siegel & Company failure in New York emphasized the danger of unsupervised private banking. While most of the members of the commission were just as well aware of these dangers before the Siegel failure as after, it is doubtful whether the private banking section of our bill could have passed if it had not been for the public sentiment aroused by the Siegel failure. Even then the opposition of private bankers in the Legislature was the strongest opposition with which the commission had to contend. Some of the private bankers knew that if they came under the supervision of the Banking Department they would be found to be insolvent. Their opposition was desperate. Several of them, in New York City, who fought the new banking law, were closed within a month or two after it became effective and the Superintendent of Banks was able to learn their true condition, which condition averaged worse than the commission ever openly dared declare.

I am not here to-day to speak of the general work of the commission. I have been asked to speak upon the changes in the law as such changes affect Savings Banks and upon the reasons for such changes. I have selected the more important points, thinking it better to treat them clearly than to treat the whole subject inadequately.

At the outset, I wish to disclaim any assumption on my part as speaking for the commission. Many of the members of the commission had different reasons for favoring the same measures. When I state why certain changes were made, I am to be understood as stating my conception of the preponderating reasons of the commission as a whole. Such conception will be according to my best judgment, framed during the sessions of the commission.

I am not entering into much detail concerning the pro-

visions for incorporating and organization of Savings Banks. The old law provided that the number of trustees might be thirteen or more. There was no maximum limit. The new law provides that there shall be not less than nine nor more than thirty. The minimum was reduced from thirteen to nine, and the quorum from seven to five, because of anticipated difficulty in selecting enough able trustees in case interlocking directorates were prohibited. The number was limited to thirty because experience had taught that, in a board of unusually large numbers, the responsibility is so divided that no one trustee feels his responsibility very keenly unless he happens to be one of a small executive committee to which, in such cases, the main responsibility and initiative usually are delegated, or, if not specifically so delegated, gradually assumed.

Perhaps the most important change in the law is to be found in the recognition by the Legislature of the necessity of a fund, whether it be called "guaranty fund," as it is in the new act, or "surplus fund," devoted to the protection of depositors. Under the old law there were provisions limiting the amount of the surplus fund which Savings Banks might accumulate, but the law was entirely devoid of any provision requiring a Savings Bank to have any such fund, and no credit can be given to the law, as it existed prior to this revision, for the fact that the Savings Banks of New York State had built up large surplus funds to protect their depositors. It is true that some of these requirements as to guaranty funds are not very strong, and that for the good of the Savings Banks, as a whole, there might well be a further increase in the percentage of earnings which should be set aside from year to year. Nevertheless, the great gain made in the new banking law is the recognition by the Legislature that some guaranty fund or surplus is absolutely necessary, and that a guaranty fund of 10 per cent. of the amount due its depositors is the minimum which should be required of a Savings Bank. I shall discuss the details in their proper place.

Section 234 of the new law requires that the incorporators of a new Savings Bank shall deposit, in cash, as an initial guaranty fund, at least \$5,000, and that they "shall also enter into such agreement or undertaking with the Superintendent of Banks as he may require, to make such further contributions in cash to the guaranty fund of such Savings Bank as may be necessary to maintain the solvency of the Savings Bank and to render it safe for it to continue business." It is also provided that the Superintendent may, in his discretion, require a surety bond in connection with this agreement.

I presume that many of you know that, in the State of New York, Savings Banks are mutual associations the starting of which requires the paying in of no capital stock. All of the assets of New York State Savings Banks are owned by the depositors. Unless some such provision were made, a Savings Bank could start without either capital or surplus. You will remember that, in the new law, the words "guaranty fund" are used in place of the old word "surplus."

Section 235 also provides that the incorporators shall deposit in cash an additional sum of \$5,000 for an expense fund, and enter into an agreement with the Superintendent of Banks to make such further contributions as may be necessary, he to have the power, in his discretion, to require a surety bond in connection with such agreement.

Section 236 also provides that interest shall be paid to the contributors upon the expense and guaranty funds at the same rate as is paid to depositors, and that, when the earnings of a savings bank warrant such action, the contributors shall be reimbursed the amount of their contributions in whole, or in part pro rata. These contributions are represented by transferable certificates that may be assigned and bequeathed in the same manner as other personal property. The main reason for these amendments is proper protection

of depositors, and incidentally assurance against the springing up of an unnecessary number of weak Savings Banks formed by irresponsible promoters. It was argued by a number of the members of the Commission that incorporators of new Savings Banks would not comply with such conditions, and that the result of the law would be practically to prohibit the organization of new Savings Banks. The First Deputy Superintendent of the Banking Department answered this by saying that incorporators had been doing this very thing in a number of cases because the Superintendent of Banks had required it, and that those starting a Savings Bank were just as likely to contribute their cash toward such enterprises as toward other philanthropic enterprises. He also stated that the practise had worked out well during several years of experiment, and that the Department thought that the discretionary power which the Superintendent had assumed with such good result should be authorized by statute. These are the main reasons for these provisions.

Investments are treated by the Commission very conservatively. Very few changes, and practically no important changes, were made in the old law. The commission itself felt that it would be distinctly to the advantage of the Savings Banks of New York State that they should be given permission to invest in equipment notes of good railroads and other short-term securities of a like nature, in order that they might not be compelled to invest so large a proportion of their assets in long-term bonds which carry with them such a large risk of depreciation in financial crises. Savings Bank men present have only to ask themselves what they could sell their gilt-edged bonds for to-day were the Stock Exchange opened and the bonds thrown on the market, as compared with the price at which they are carried on their books, to realize the force of this suggestion. While I am not absolutely positive on this point, I am inclined to believe that this new provision was left out of the Savings Bank law at the request of many of the conservative Savings Bank men of New York State who thought it not for the best interests of their depositors. Personally, I do not agree with this opinion, but my experience is only that of a commercial banker. Had I the valuable Savings Bank experience of the gentlemen who advised against this measure, I might have thought as they did.

One of the anomalies of the old law was that there were many securities in which Savings Banks were allowed to invest, but which they could not take as collateral security for loans. It is perfectly plain that this was absurd. The new law permits Savings Banks to take as collateral for loans any securities in which, by law, they are entitled to invest.

Section 53 provides as follows:

"On or before the first day of June and the first day of December in each year, the Superintendent shall furnish to each Savings Bank a list, giving with such detail as he may deem necessary the estimated market values, either specifically or by classes, at which the bonds held by it, which are legal investments for Savings Banks, shall be reported at the date of its next semi-annual report. In making such valuations the Superintendent shall be governed so far as is practicable by actual sales of such bonds as ascertained by him, or as reported by the various stock exchanges and financial papers during the preceding five months, and by general business conditions."

These lists will be of great assistance to all, and especially to trustees of Savings Banks in small cities and villages. Trustees may safely follow them, and, at the same time, be relieved from personal liability in doing so.

This provision enables the Superintendent of Banks to make fair valuations of the investments of Savings Banks at all times, and compels the Savings Banks to accept such valuations without any quibbling as to so-called investment values based upon the cost of the se-

curities, and not upon value in any sense of the word. It also makes the market values, used by all Savings Banks, on the same securities, absolutely uniform, which was practically impossible under the old law, even if every Savings Bank had honestly done its best to use the true market values.

There is one new provision in Section 239, subdivision 9-c, which reads as follows:

"The trustees of a Savings Bank shall not be held liable for investing in State or Municipal bonds named in the list furnished by the Superintendent of Banks pursuant to section 52 of article 2 of this chapter, or in any railroad bonds mentioned in such list, which have been legally issued and properly executed, unless such Savings Bank shall have been notified by the Superintendent of Banks that, in his judgment, such bonds do not conform or have ceased to conform to the provisions of this section."

Section 241 provides that there shall be delivered to a Savings Bank a complete abstract of title to such real estate, or a policy of title insurance of a title company. I take it for granted that this is simply legalizing what has been the practise of good Savings Banks.

Subdivision 3, Section 265, provides that any attorney for a Savings Bank, although he be a trustee thereof, may receive a reasonable compensation for professional services, and also that he "may collect of the borrower and retain for his own use the usual fees for such services, excepting any commissions as broker or on account of placing or accepting such mortgage loans."

It was thought there could be no good reason why an attorney should not be paid by a Savings Bank for professional services even if he were a trustee. It was thought that explicit permission for open and above-board compensation, which naturally excludes what is not specifically permitted, was much better than indirect methods.

I still question whether the law should not have gone further and fixed a uniform rate of compensation based on percentages. It might be urged by Savings Bank attorneys that no two services, covering equal sums, are of equal value, but an average rate probably could be devised that would be fair to all.

Section 248 contains the following provisions:

"The Savings Bank may at any time by a resolution of its Board of Trustees, require a notice of sixty days before repaying deposits, in which event no deposit shall be due or payable until sixty days after notice of intention to withdraw the same shall have been personally given by the depositor.

"Nothing herein contained, however, shall be construed as impairing contracts heretofore made between Savings Banks and their depositors as to notice of withdrawal, or as prohibiting any Savings Bank from making payments of deposits before the expiration of said sixty-day notice.

"But no Savings Bank shall hereafter agree with its depositors in advance to waive said sixty days' notice, nor shall it in the case of deposits hereafter made require a longer notice than the sixty days aforesaid."

Prior to the enactment of this section, the whole matter of requiring notice, and the length of the notice, was settled by the by-laws of each bank, so that some banks were in position, under the old law, to require sixty days' notice, some were limited to requiring thirty days' notice, others could require ninety days' notice, all of which led to confusion at times when notices were required, that was thought undesirable. The present section regulates the whole matter and makes sixty days the standard.

It also provides that a Savings Bank, taking proper precautions, may pay to the apparent heirs of a depositor who dies leaving no will, and for whose estate no executor or administrator is appointed, any balance due not exceeding \$250. Every Savings Bank officer of experience knows that there are many cases in which the expense of court proceedings and the appointment of executors or administrators would eat

up the greater part of the small balances left by deceased depositors. Some Savings Bank officers have illegally taken the risk of making such payments. The present statute legalizes them and protects Savings Bank officers in making them.

Section 249, referring to joint deposits, payable to either or to the survivor, additionally provides:

"The making of the deposit in such form shall, in the absence of fraud or undue influence, be conclusive evidence, in any action or proceeding to which either such Savings Bank or the surviving depositor is a party, of the intention of both depositors to vest title to such deposit and the additions thereto in such survivor."

This makes more certain the right of Savings Banks to pay the survivor when the deposit was made payable to two depositors jointly, or to the survivor in the case of the death of one of them.

Section 251 permits a Savings Bank to carry 20 per cent. of the aggregate amount of the deposits uninvested and in cash. Heretofore this amount was limited to 10 per cent.

It gives a wider discretion to the trustees of Savings Banks as to the time at which deposits should be invested, by allowing them to retain uninvested a much larger portion of the receipts. Under the former statute they were required to invest all but 10 per cent. of the moneys received permanently, even though market conditions were most unfavorable, instead of holding the deposits until they could be advantageously invested.

One of the most important amendments is contained in Section 255, which reads as follows:

"If at the close of any dividend period the guaranty fund of any Savings Bank be less than 10 per centum of the amount due to depositors, there shall be deducted from its net earnings for such period and credited to its guaranty fund 5 per centum of its net earnings during the year 1914; 6 per centum during the year 1915; 7 per centum during the year 1916; 8 per centum during the year 1917; 9 per centum during the year 1918; 10 per centum during the year 1919, and 10 per centum during any year thereafter in which a dividend shall be declared or so much of such percentages as will not compel it to reduce its dividends to depositors below the rate of 3½ per centum per annum. The amount of net earnings remaining after such deduction for the guaranty fund and its undivided profits shall be available for the declaration of dividends for such period.

"While the trustees of a Savings Bank are paying its expenses or any portion thereof, the amounts to be credited to its guaranty fund shall be computed at the same percentages upon the total dividends credited to its depositors instead of upon its net earnings."

There was considerable difference of opinion concerning the percentages which should be named in this section, some of the members thinking that the percentages finally adopted were ridiculously low. The majority of the commission thought that it was of great importance to establish the principle that some sum must be set aside regularly, and it was better to make a start in the right direction even if the initial percentage was very small and lower than what most banks habitually set aside, that the start should be made and the percentage gradually increased. The commission took into account the probability that before the percentage of increase had reached the maximum, gilt-edged bonds would have recovered from their present depression and that it would be as easy for a Savings Bank to set aside 10 per centum during the year 1919 as to set aside 5 per centum now.

Section 256, subdivision 6, provides as follows:

"The trustees of any Savings Bank whose undivided profits and guaranty fund, determined in the manner prescribed in Section 253 of this article, amount to more than 25 per centum of the amount due its depositors, shall at least once in three years divide equitably the accumulation beyond such 25 per centum as an extra dividend to depositors in

excess of the regular dividend authorized. A notice posted conspicuously in a Savings Bank of a change in the rate of dividend shall be equivalent to a personal notice."

The experience of the past ten years has proven that the limit of 15 per cent. previously placed upon a Savings Bank surplus above which it would be obliged to declare extra dividends is not a sufficient margin of safety.

Under the new law, this guaranty fund is based upon estimated market values. Under the old law, the amount of the surplus, which was the equivalent of what we now call the guaranty fund, was estimated on the market value of securities only when the securities were below par, otherwise upon the par value of the securities.

Section 258 provides:

"No Savings Bank shall hereafter put forth any sign or notice or publish or circulate any advertisement or advertising literature upon which or in which it shall be stated that such Savings Bank has a surplus or guaranty fund in excess of its market value surplus or guaranty fund as determined under the provisions of this article, unless the nature of the same be clearly made to appear."

This section was included because some Savings Banks were using, for advertising purposes, valuations showing surpluses much in excess of those allowed by the Banking Department. I cannot, however, conscientiously say that this practise is confined to Savings Banks. I have known a bank or a trust company to publish, as required by law, in an obscure corner of a paper, its official sworn report showing its proper surplus and then, the next day, or the very same day, publish, for advertising purposes, a statement based on book valuation and showing a much larger surplus.

Section 267 provides that a trustee of the Savings Bank shall not—

"(c) Direct or require a borrower of the Savings Bank on mortgage to negotiate any policy of insurance on the mortgaged property through any particular insurance broker or brokers, or attempt to divert to any particular insurance broker or brokers the patronage of borrowers from the Savings Bank, or refuse to accept any such insurance policy because it was not negotiated through a particular insurance broker or brokers."

This provision was included because Savings Bank men of long experience told the commission that the practise of using the influence of a Savings Bank official to induce the party to whom it was making a loan to place his insurance with some relative or friend of the Savings Bank official, or some concern in which the official was interested, was not so uncommon as might be supposed.

Section 267 also provides that a trustee of a Savings Bank shall not

"(e) For himself or as agent or partner of another, directly or indirectly, borrow any of the funds or deposits held by the Savings Bank, or become the owner of real property upon which the Savings Bank holds a mortgage. A loan to or a purchase by a corporation in which he is a stockholder to the amount of 15 per centum of the total outstanding stock, or in which he and other trustees of the Savings Bank hold stock to the amount of 25 per centum of the total outstanding stock, shall be deemed a loan to or a purchase by such trustee within the meaning of this section; except when the loan to or purchase by such corporation shall have occurred without the knowledge or against his protest. A deposit in a bank shall not be deemed a loan within the meaning of this section.

"This section shall not be construed to prohibit a Savings Bank from making a loan to a religious corporation, club, or other membership corporation of which one or more trustees of such Savings Bank may be members or officers, but in which they have no financial interest, nor shall it be construed to prohibit a Savings Bank from making loans to or purchasing guaranteed mortgages from any stock corporation, provided no trustee owns more than 15 per centum of the capital stock of such corporation, and the total amount of such stock owned by all the trustees of such Savings Bank is less than 25 per centum of such capital stock."

Under the old law it was provided that no officer or trustee should have an interest in a loan made by the Savings Bank. Under this section it had been held by the Attorney General that a trustee of a church, who was also a trustee of a Savings Bank, vacated his office as trustee of the bank when the bank made a loan to the church, even though it was made without the trustee's knowing anything about it. It was also held that where a trustee of a Savings Bank was a stockholder in a corporation which subsequently purchased a piece of real estate, upon which the Savings Bank held a mortgage, that such trustee *ipso facto* vacated his office as trustee. Section 267 is an effort to straighten out these relations, so that a trustee will not vacate his office if his interest in the mortgaged property is trivial and negligible, and at the same time to protect the bank from having a trustee have loans made in which he has a genuine though indirect interest.

Section 271 is as follows:

"A Savings Bank may, in the discretion of its Board of Trustees, retire any officer, clerk or other employee who shall have served the bank for a period of thirty years or more, or who shall have served the bank for a period of twenty years or more, and shall have become physically or mentally incapacitated for his position, or who shall have served the bank for a period of twenty years or more, and shall have attained the age of sixty years. Any person retired from service pursuant to this section may be paid in equal monthly installments at the rate of not exceeding 2 per centum of his average annual salary for the three years immediately preceding his retirement, for each year of service in the bank, but the maximum annual amount paid shall in no case exceed 60 per centum of such average annual salary."

It was represented that some Savings Banks had been in the habit of pensioning employees; that there was a question whether they had legal authority to do so; that the practice was a proper one, and that it should be legalized. Section 280 provides,

"Whenever the losses of any Savings Bank resulting from a depreciation in the value of its securities or otherwise exceed its undivided earnings and guaranty fund so that the estimated value of its assets is less than the total amount due its depositors, the Supreme Court may upon the petition of the Savings Bank, approved by the Superintendent of Banks, order a reduction of the liability to each depositor therein so as to divide the loss equitably among its depositors. If thereafter the Savings Bank shall realize from such assets a greater amount than was fixed in the order of reduction, such excess shall be divided among the depositors whose accounts were reduced, but to the extent of such reduction only."

As Savings Banks in New York State have no paid-in capital but are mutual associations, it is perfectly proper that, in case of necessity, any losses should be immediately adjusted by charging them against depositors *pro rata*, thus restoring the legal solvency of the Savings Bank. Section 487 provides—

"2. Any two Savings Banks located in a city of the first class and in the same county or borough, or any two or more Savings Banks located elsewhere in the State and in the same or adjoining counties, are hereby authorized to merge as prescribed in succeeding sections of this article."

This permits the merger of Savings Banks, so that weak institutions organized under the former system can, in case of need, be taken over by strong institutions without loss to depositors, and provides a convenient, easy and economical method of liquidation, should such liquidation become at any time necessary.

In the preparation of this paper, I have had valuable assistance from Mr. George I. Skinner, First Deputy Superintendent of the Banking Department of the State of New York, and from Mr. Charles A. Miller, President of the Savings Bank of Utica, Utica, N. Y. By their help I hope that all inaccuracies and omissions of the more important points in the law have been avoided.

Committee and Officers' Reports—Savings Bank Section

Report of Executive Committee of Savings Bank Section.

RICHMOND, VA., October 13, 1914.

Mr. President and Members of the Savings Bank Section:

Two meetings of your Executive Committee have been held since our last annual meeting in Boston—one immediately following said annual meeting, and the other at Hot Springs, Va., on April 30th.

At the first of these meetings the honor of Chairman of this Committee was conferred upon me, and the Secretary re-elected for one year. It was also unanimously decided at this meeting that, in accordance with the new Constitution of the American Bankers' Association, the President and Vice-President should represent the Savings Bank Section in the Executive Council, and Messrs. Robinson and Knox, together with the Secretary, were appointed a committee to represent the Section to the authorities at Washington in regard to amendments to the Postal Savings Act. How well they have performed their duty will be told in their report. Also at this meeting the Secretary was directed to publish a new book of printed forms, and money was appropriated for that purpose. This has been done, and the book is now in the hands of all subscribers.

At the second meeting a new set of By-laws was offered by the Secretary, approved by our committee, and will be presented for your approval to-day. Reports were also received from all standing committees, indicating that our Section was playing a large constructive part in the work of the American Bankers' Association; and from the reports of these committees to-day you will observe that they are still aggressively carrying forward their work.

Through the death of Clinton T. Rose of Syracuse, N. Y., and the resignation of G. Ad. Blaffer of New Orleans, La., two vacancies were created in the Executive Committee, and to fill these vacancies until this Convention, James Dinkins, of Gretna, La., was elected in the place of Mr. Rose, whose term of office expires in 1915, and George E. Edwards, of New York, was elected in the place of Mr. Blaffer, whose term of office expires with this convention.

The matter of program for this convention was placed in the hands of the officers of the Section.

Our office has been efficiently conducted along broad lines and in the interest of the entire membership of the American Bankers' Association, and the detail incident to the work of all committees has been handled by our Secretary personally, ably assisted by his office assistant.

This has been the busiest year in the history of the Savings Bank Section, and it is to be hoped that the aggressive constructive policy it has adopted will be continued.

This report must not close without expression, which we hereby record, of our hearty appreciation of the untiring faithfulness, the notable efficiency and loyalty to Savings Bank principles with which our Secretary has performed the duties of his office.

Respectfully submitted,
(Signed) N. F. HAWLEY,
Chairman.

Report of the Secretary, Savings Bank Section, E. G. McWilliam.

RICHMOND, VA., October 13, 1914.

Mr. President and Members of the Savings Bank Section:

The period since our last meeting in Boston has been one of the greatest activity in the Secretary's office since my incumbency of it. However, as this activity was largely a result of the detail incident to work conducted under direction of our various committees, and will be reported by their respective chairmen, it hardly seems necessary or proper that further mention be made of it in this report.

I desire, however, to state that I believe the Savings Bank Section to be a larger constructive force to-day than ever before, and that the possibilities for its future usefulness are greater than ever.

The new by-laws which were adopted by our Executive Committee at Hot Springs, Va., last May have been placed before you through the medium of our JOURNAL, and printed copies have been handed you to-day in order that they may be intelligently acted upon at this meeting.

The matter of fittingly celebrating the centennial of Savings Banks in this country in 1916 should not be lost sight of, and I trust a special committee will be appointed to take up this matter at least one year in advance.

Our financial statement, which is appended hereto, shows

that our appropriations for the past year's work was \$9,500; receipts from other sources, \$19.28; and that our expenditures for the year have been \$9,197.10, leaving a credit balance of \$322.18. However, other expenses which were contracted for but the bills for which were not presented prior to September 1, will largely offset that amount, although figured in this year's expenses.

During the past year the Secretary's office has been used, to a larger degree, than ever before by the banks in all parts of the country desiring information upon all phases of savings banking, and it is gratifying to note that many appreciative letters have been received from such banks, indicating that we have really been enabled to render them the kind of service they have a right to expect as members of the American Bankers' Association, and which will continue to be our constant endeavor.

Respectfully submitted,
(Signed) E. G. MCWILLIAM,
Secretary.

SAVINGS BANK SECTION.

September 1, 1913, to August 31, 1914, inclusive:

CREDITS.		
Appropriation	\$9,500.00	
Sales of slides (Thrift publicity).....	19.28	
		\$9,519.28
DISBURSEMENTS.		
Salaries	\$3,922.83	
Postage, stationery and printing, including Thrift publicity	2,520.01	
Rent	604.92	
Proceedings, 1913.....	1,280.20	
Executive Committee meetings.....	313.91	
Traveling expenses.....	260.80	
Convention expenses.....	217.69	
Express	15.19	
Telephone and telegraph.....	13.30	
Typewriter inspection.....	9.00	
Picture frames.....	4.75	
Sundries	24.50	\$9,197.10
Credit balance.....		\$322.18

Report of the Methods and Systems Committee.

RICHMOND, VA., October 13th, 1914.

Mr. Chairman and Gentlemen:—

While in response to many requests, which have been especially numerous since the passage of the Federal Reserve Act, we have been enabled through our efforts to furnish valuable information to a large number of banks throughout the country in reference to methods and systems to be employed in savings banks and departments, our principal efforts have been devoted toward steadily pushing forward the Thrift Campaign which was first suggested by our Secretary somewhat over two years ago, and we are pleased to report that our efforts are beginning to produce definite results.

For instance, in the matter of school savings banks, after a year of continuous effort upon the part of our vice-president for Illinois, Mr. Joseph R. Noel, President North West State Bank, Chicago, the Board of Education of that city on March 23d approved the school savings system as presented by Mr. Noel and authorized its adoption by school principals in their respective schools. In New York City about the same time, a favorable report was rendered by a sub-committee of the Board of Education to that body, and it would seem that at last all impediments had been removed to the early adoption of the school savings system, as a system, in that city. Through the efforts of Mr. Robinson, our Secretary, together with Mr. Robinson, Mr. Rother, our vice-president for Maryland, and other Baltimore bankers, appeared before a sub-committee of the Board of Education in Baltimore on January 20th, and presented the matter of school savings banks to that body. We feel that the adoption of the system by these three cities will give the school savings system a great impetus throughout the country.

In North Dakota the State Bankers Association has entered into an active campaign for the adoption of the school savings system throughout the state and we have forwarded to the energetic Secretary of that Association nearly one thousand copies of our school savings bank pamphlet, for all of which there was a demand. In Connecticut, the educational authorities of the state have become interested and we earnestly hope that other state associations may be moved to take up this work.

The school savings bank has been adopted in many other

small communities since our last report, and the demand for our school savings bank pamphlet has been so large that we were obliged to print a new and more complete edition of five thousand copies.

In order that accurate statistics of the school savings system throughout the United States may be obtained, our Secretary arranged with the office of the Comptroller of the Currency at Washington to send an inquiry to all banks, requesting the names of schools carrying accounts made up of school savings funds. The replies to this inquiry have been forwarded to our Secretary, who will address each school for statistics which, when compiled, will be shared with the Comptroller's office.

The Thrift Talks which are issued monthly from our office for weekly use in newspapers and other publications are daily increasing in popularity with both bankers and publishers and we are now mailing seven hundred sets of these talks each month. In Wisconsin, our Vice-President, Mr. J. H. Puelicher, Cashier, Marshall & Isley Bank, Milwaukee, has taken up the matter of publishing these talks with every banker in the state. Thus the co-operative value of these talks to both bankers and publishers is rapidly becoming recognized. Mr. Puelicher has also taken up with publishers of school books the matter of inserting lessons upon thrift in the readers used in our public schools, and has hope that this will be done.

We have again, in co-operation with the Board of Education of New York City, arranged Thrift courses throughout that city. Four courses were presented last season as follows: Borough of Brooklyn, ten lectures; Borough of Bronx, eight lectures; Borough of Queens, nine lectures, and Borough of Richmond, seven lectures, or thirty-four lectures in all. While in other cities a talk has been given only now and then upon this subject, we have great hopes that through the co-operation of the American Institute of Banking, which is also working along similar lines, this phase of our work will be more generally taken up in the near future. Mr. Knox, our Vice-President, has been of great assistance to us in this work in New York City, and has taken an active part in each course presented.

Since our last report a communication has been addressed to all Vice-Presidents again urging the organization of Thrift Committees in their respective states, and a gratifying response has been received, indicating that in many states efforts are being made in at least one of the three directions suggested above. It is our aim to gradually organize local campaigns in every state. And to this end the Secretary has communicated with the officers of the several State Banking Associations in advance of their respective conventions soliciting them to bring this highly important matter to the notice of their body with the view to securing their interest and helpful advancement.

Under direction of this committee the book of Forms for Savings Banks and Savings Departments in Commercial Banks and Trust Companies has been compiled and published by our Secretary, as authorized at the Boston Convention. Over six hundred copies of this book were ordered before it was printed, which enabled us to deliver it to our members at four dollars per copy or practically cost. While claiming nothing for this book except that the forms it presents are typical, nearly all forms are reproduced in actual size, and we believe the book to be practical and helpful.

A chart showing the organization and administration of a large trust and savings bank and embodying an advertisement of this meeting, was mailed every member of the Savings Bank Section about one month ago. This chart was taken from the new book of forms and gives some idea of the comprehensive manner in which the book has been treated. Copies of this book may be obtained during the convention upon application to the Secretary, either at the registration desk or office of the General Secretary.

The most recent, and in the opinion of the committee, most important step yet taken in our Thrift Campaign, is the application of motion pictures to the teaching of Thrift. This idea originated with our Secretary many months ago, but its execution finally became possible through a friend of the Chairman of this Committee, who succeeded in interesting the Vitagraph Company of America in our work to the extent of producing a motion picture play illustrating the principles of thrift, clothed with a strong dramatic setting which would attract the interest of the general public. Your Committee engaged a gentleman to write such a two-reel play which was entitled "The Reward of Thrift," and the result of his efforts was accepted by the Vitagraph Company, which produced the play and released it September 15th, through the General Film Company, which has forty-eight branches located in the principal cities of this country. The significance of this step lies in the fact that through this medium it will be possible to reach six or seven millions of people during the year, not to mention those abroad; and it is conceivable that besides accomplishing a great amount of good wherever exhibited, it will very nicely supplement appropriate publicity matter which might be issued by the bankers of any community at the time the play is exhibited therein.

We feel that at last we may report decided progress in every direction and trust that our efforts meet with your approval.
Respectfully submitted,

V. A. LERSNER,
Chairman.

Report of Membership Committee.

RICHMOND, VA., October 13, 1914.

Mr. Chairman and Gentlemen:

The interval since our Boston Convention having been one of readjustment in the membership in the Sections, our net result shows a considerable loss, as compared with last year, although upon analysis it will be found that had it not been for the loss entailed through the strict interpretation of the new Constitution, we would have shown a very satisfactory gain, as we are constantly enrolling new members.

Sec. 1 of Article X of the new Constitution states, among other references to Sections, that "any member of the Association may become a member of such Section as may best benefit such member's business interests." This was construed to mean that a member bank might be enrolled with but one Section, and soon after the Boston Convention the General Secretary addressed a letter to all banks enrolled in both the Savings Bank and Trust Company Sections, requesting that a preference be expressed as to which Section it was desired to be affiliated with.

There were 510 banks enrolled in both Sections. In response to the General Secretary's letter, 290 banks chose the Trust Company Section, 196 banks chose the Savings Bank Section, 5 banks stated that they did not desire enrollment in either Section, and 19 banks did not reply, and therefore were not assigned to either Section. From these figures it will be observed that one Section lost 314 members by the operation. However, since the Boston Convention we have received 175 new members and lost 22, which would show a normal increase of 152 had it not been for the above circumstance.

Upon the recommendation of this Committee the matter of amending the Constitution of the General Association so as to permit enrollment of members in more than one Section, was presented to the Executive Council at its last meeting, and referred to a special committee, who have prepared such an amendment for action by this Convention, and we believe that the adoption of said amendment will be in the best interests of the Association.

Our statement of membership to date is as follows:

Membership, September 1, 1913.....	2378
New members received since September 1, 1913.....	175
	2553
Lost, Trust Company Section.....	290
Lost, Banks desiring no Section.....	5
Lost, Banks did not reply to Secretary's letter.....	19
Lost, failure or merger.....	22
	336
Net membership, September 1, 1914.....	2217

The detailed statement, which is attached hereto, shows that our membership is composed of
 356 Mutual Savings banks
 767 Stock Savings banks
 472 State banks
 428 National banks
 27 Trust companies
 154 Trust and Savings banks
 13 Private banks
 All of which is respectfully submitted
 (Signed) GEO. E. EDWARDS,
 Chairman.

Report of Committee on Law and Segregation.

RICHMOND, VA., October 13, 1914.

Mr. Chairman and Gentlemen:

Owing to the fact that the Postal Savings legislation has been looked after by a special committee and the interlocking directorates legislation has been watched by the Federal Legislative Committee of the General Association, there has been no need for activity by this committee in regard to pending legislation, and in view of the legislative transition through which the financial world is passing, it has not been deemed wise for this committee to recommend any new legislation since the Boston Convention.

Especially would it have been unwise to press the matter of segregation during this period after the principle has been so generally opposed by the members of this Association, as represented by the Currency Commission and the Chicago Conference.

Also it was found at a comparatively early date that the opposition to segregation, while misinformed, was yet strong enough to keep the segregation provision out of the Federal Reserve Act, with the plea that it would be taken up at some later time after the main features of the bill were in operation.

However, while we may not report any direct result of this

committee's work, it is still on the alert for any further legislative disturbances.

Respectfully submitted,
N. F. HAWLEY, *Chairman.*

Report of Committee on Postal Savings Banks.

RICHMOND, VA., October 13, 1914.

Mr. President and Members of the Savings Bank Section:—

Your Committee has endeavored to keep in touch with the progress of Postal Savings Bank legislation and has reported the results of its work from time to time through the columns of the JOURNAL; nevertheless it is now desirable to review as briefly as possible the activities of the Committee since our last general meeting in Boston:

The week following the Convention your Committee began its work through correspondence with the Director of the Postal Savings Bank System, thanking him for his friendly address to our body and offering our co-operation in all matters of mutual interest; a little later we began the preparation of a letter to our State Vice-Presidents outlining our objections to the then pending legislation and suggesting that they make known their views to their several Representatives at Washington. Personal letters to various Senators and Members of the House were written by your Committee and others of our membership, asking their special help in defeating the so-called Bankhead Bill, removing the limit of deposits in the Postal Savings Banks; we had the benefit besides of generous and timely aid from many sources.

Notwithstanding our diligence in watching the progress of the Bankhead Senate Bill (S. No. 2,232), we were surprised to learn about the first of last December that the Post Office Department had executed a flank movement in getting through the House a bill identical in phraseology with the Senate bill and known as the Moon Bill (H. R. No. 7,967); this bill had slipped through noiselessly and practically none of our friends had any knowledge of its existence until it had passed the House. While this was an unwelcome development, it simplified our task in that it compelled us to concentrate our work upon the Senate; immediate efforts were made to place before the members of the Committee on Post Offices and Post Roads our objections to the bill, and your Committee, accompanied by the Secretary of our Section, spent two stressful days in Washington during the latter part of January. We had personal interviews with Senators Bankhead, Burton, Root and Ransdell and the Postmaster-General, Mr. Burleson; we also enlisted the sympathy of others in official life who were in a position to help. We prepared a brief, outlining our attitude and our objections, and left a copy with every member of the Senate Committee; we also put our plea in the hands of the President; we endeavored to secure a hearing before the Senate Committee on Post Offices and Post Roads, but the chairman was unable to grant our request, because of the pressure of other business; he assured us, however, that although the bill bore his name, it had been introduced at the request of the Post Office Department and he did not stand as its sponsor. When we left Washington we had good reason to believe that our opposition would alter the complexion of the pending measure.

Subsequently the newspapers gave us some help and our members continued to importune their Senators, with the happy result that on March 2d Senator Bristow introduced a bill designed to allow banks not members of the Federal Reserve System to accept postal savings deposits—and on March 12th the Bankhead Bill was reported to the Senate, amended by fixing the limit of interest bearing deposits at \$1,000 and permitting the deposit of \$1,000 additional without interest. This was the situation when your Committee made its report at the

Spring Meeting of the Executive Committee of our Section in the last week in April. Since then the bill has had its ups and downs in the Senate Committee and in joint conference of the Senate and the House; finally on August 28th a compromise bill was agreed upon, wherein the Act was amended so that \$1,000 may be received from any one person at any time, but interest shall be paid only upon \$500; the Government was given latitude in selecting depositories which were not to be confined necessarily to members of the Federal Reserve Association and in certain contingencies all of the deposits might be used for the purchase of United States bonds.

This bill as finally passed was vetoed by the President on September 11th because of the provision permitting deposits in banks not members of the Federal Reserve Association, the President asserting that Government moneys should be kept in institutions most closely subject to Government control. The bill has been reframed to meet the President's objection and was introduced in the House of Representatives on September 17th; all banks now having postal savings funds on deposit are given twelve months in which to join the Federal Reserve Association or relinquish such deposits. The elimination of all banks not members of the Reserve Association from the privilege of receiving postal savings deposits will work a hardship upon some of our members, and the President has been importuned to recede from his position, but without effect.

This, then, is the present situation of that piece of legislation which we believe would have been of greatest danger; we do not apprehend any particular harm from the passage of this bill, but we did fear grave consequences from the removal of all limitations as to the amount, even though interest had been allowed only on a part of the deposit.

We have maintained that in seasons of financial unrest the timid depositor would withdraw his funds from the local savings bank and deposit with the Government; likewise the depositor in commercial banks would be similarly tempted if he were provided with a Government safe deposit vault without cost. This contention has been denied by our opponents, but the recent experience of the New York Postal Savings offices clearly sustains our arguments: From July 24th to August 1st, in eight business days, the excess of their deposits over withdrawals was \$46,067; during the next eight business days, from August 3d to 11th, the excess was \$368,484, or 800 per cent. increase. The extraordinary gain in the deposits of the Postal Savings Banks did not come entirely from hiding places, but undoubtedly much of it came from the local banks; it is fortunate indeed that the present law places a limit of \$100 upon the amount which may be received from a depositor during any one month and limits the aggregate of such deposits to \$500, otherwise the above figures would have been tremendously increased and at the expense of the New York banks.

Other bills are now under consideration in Congress bearing upon Postal Savings Bank legislation; among them is one which increases the rate of interest and which would bring the system into closer competition with existing savings banks. Another is designed to permit the funds to be invested in farm loans.

From time to time it is to be expected that changes will be made in the law and it should be a self-imposed task of this Section to see that these changes are not inimical to the interests of its constituents; it is well within our province, in my judgment, to have a hand in shaping future legislation and in resisting as far as we may the encroachments of paternalism.

Respectfully submitted,

EDWARD L. ROBINSON,
WILLIAM E. KNOX,
Committee.

E. G. McWILLIAM, *Secretary.*

Detailed Report of Proceedings.

Thirteenth Annual Meeting SAVINGS BANK SECTION, Held at Richmond, Va., October 13, 1914.

RICHMOND, VA., October 13, 1914.

The Thirteenth Annual Meeting of the Savings Bank Section was held in the Auditorium of the Jefferson Hotel, on Tuesday afternoon, October 13, 1914, at 2.30 p.m.

J. F. SARTORI, President, occupied the chair.

THE CHAIRMAN: According to the printed program, the first item this afternoon is the usual President's address. The hour is late and we have two very interesting addresses, of special interest to savings bankers, some routine business, and the reports of committees. I therefore cut my address down so as to make it as brief and formal as possible.

Annual Address of the President, by J. F. Sartori.

This morning we enjoyed a long instructive and well-attended joint programme of mutual interest to all the members of both the Trust Companies and Savings Banks Sections.

The relation, present and future, of the State banks, Trust Companies and Savings Banks to the Federal Reserve Act and the system of banks to be operated under its provisions was fully and ably considered.

The large majority of the members of both sections are State institutions. Except the mutual savings banks, these State banks otherwise qualified, have the option of joining the proposed reserve banks, and all, whether they become members or not, are vitally interested in their future operation and effect on the financial, commercial and industrial welfare of the country.

It is the plain duty of us all, even though we do not, or cannot now participate as active members, to extend our cordial good-will and support with the hope that the ultimate result will be an effective banking system suitable in all respects to all the needs of this great nation.

During the past year work of the Savings Bank Section has been carried on with more than customary diligence and effectiveness.

Through the conscientious and thoughtful labors of committees and through the efficient efforts of our Secretary and his uniform courtesy in answering letters and giving detailed statistical and other information to members, our Section has again justified itself and demonstrated its usefulness. In fact, our work has been prosecuted to the fullest extent permitted by the means at our disposal, coupled with the most rigid economy in general expenditures.

Detailed reports of the Secretary and of the various committees, through their respective Chairmen, will follow on this programme, and from these reports which will also be published in the proceedings, the members, as well as the banking fraternity in general, will receive a full and comprehensive knowledge of the Section's activities and progress since the last annual meeting.

As the first savings institution in the United States opened its doors to receive deposits in the year 1816 at Philadelphia, it has been decided by this section to celebrate the one hundredth anniversary of this important historical event in a fitting way at its 1916 annual meeting.

It has, therefore, occurred to us that Philadelphia would be a desirable place in which to hold the convention of the American Bankers' Association in that year.

To this end it is recommended that the Methods and Systems Committee and our officers be charged with the duty of prevailing upon the bankers of Philadelphia to extend an invitation, and the further duty of prevailing upon the Association to accept such an invitation if extended.

MEMBERSHIP.

Since the organization of this Savings Section its membership has annually and constantly increased until on September 1st, 1913, it had reached the number of 2,378. Although 175 new members have since been enrolled, the membership is now 2,217—a net loss of 161.

This loss is largely due to the operation of the new constitution of the A. B. A. as adopted at the annual convention held in Boston last year.

This new constitution has affected the interests of the Savings and Trust Sections in four ways:

First. The representation of each Section on the Executive Council has been reduced from three to two.

Second. The official staff of each Section entitled to reimbursement for traveling expenses when attending Spring meetings of the Executive Council and Fall meetings of the Association is reduced to nine members of the Executive Committee—the President and the last retiring President—instead of the last three retiring Presidents, as heretofore.

Third. All by-laws have, therefore, been drafted in all respects conforming in letter and spirit to said new constitution, approved by our Executive Committee—submitted to and approved by the general Executive Council.

Fourth. "Any member of the Association may become a member of such Section as may best benefit such member's business interests." The first three restrictions have to a certain extent limited the powers and privileges of the Savings and Trust Sections, but they are not virtually material and do not call for any serious complaint.

The last mentioned restriction, however, construed to mean that members' banks of the Association can only join one of the Sections, instead of both the Trust and Savings Sections, as heretofore, is of more consequence, in that it adversely interferes with an important object or function of the Association, that is to make itself useful in the greatest degree possible to its members, so as to attract more members.

Many banks are doing both a trust and savings as well as a commercial business; the tendency in this direction is ever increasing. While many of them are not yet legally segregating assets, they are really doing a departmental business, and evidence the fact by having an official and clerical force particularly devoted to the care and upbuilding of each class of business. Those interested in the saving work will naturally desire to identify themselves with the Savings Section and feel free to participate in its benefits and activity. The same is true of those engaged in trust affairs. They will want to participate and be identified with the Trust Section. To limit membership to one Section seems to be an unnatural interference with the growth and utility of both, and serves no useful or necessary purpose. An amendment to Section 1, Article 10, of the constitution, has therefore been advocated to provide as follows: "Any member of the Association may become a member of such Section or Sections whose constitution or by-laws permit of such membership as may best benefit such member's business interests, provided, however, that no member shall have the right to vote for officers in more than one Section and shall at the time of becoming a member in more than one Section designate in which Section it will exercise the right to vote for officers by giving notice to the Secretary of such Section, which designation cannot be changed until an intervening annual election."

It is gratifying to report that this amendment was approved by the Executive Council during its meeting yesterday and will be submitted to the general convention on Thursday or Friday next.

If adopted, the members who have resigned because they could not belong to more than one Section will, no doubt, all return, and together with the annual new enrollment, should make a record new membership in the coming year.

All present here to-day are earnestly urged to support this necessary amendment with your favorable vote.

Attention is again called to the excellent book entitled "The Saving Bank and Its Practical Work," edited by our former Secretary, Mr. William H. Kniffin, Jr., and published by the Bankers Publishing Co., of New York.

This, together with the new book of forms, edited by our present Secretary, should be in the library of every bank engaged in receiving savings deposits. They will serve as invaluable text books for all who ought to know the history, purposes and ethics of the savings bank and its practical operation as exemplified by the well selected and most approved forms, methods and systems of leading institutions. Our Section has been exceedingly fortunate in the thirteen years of its existence in having had three very energetic and capable Secretaries, Mr. William Hanhart, now deceased, Mr. William H. Kniffin and Mr. E. G. McWilliam. An efficient and resourceful Secretary is an indispensable aid to any organization, and particularly to such an organization as this, whose general officers and committeemen must frequently be selected from widely scattered sections of the country.

Much of this Section's utility and success must be attributed to the intelligent and untiring efforts of these Secretaries, and to each of them is due our tribute of respect and gratitude.

It has been my good fortune and the Section is to be congratulated that its Vice-President, Mr. W. E. Knox, is a resident and banker in New York City. With full authority to act, he has performed many of the duties and assumed many of the burdens of the Presidency.

My personal association with the members and entire official staff from the beginning has been exceedingly pleasant and profitable. I appreciate the friends I have made and am deeply sensible of the many courtesies that have been shown me. It is my sincere hope that I may be able to meet with you often in the future and be of service whenever possible.

The next item in the order on the programme is the report of our Executive Committee by Mr. N. F. Hawley.

Report of the Executive Committee, by N. F. Hawley, Chairman.

[We print the Executive Committee's report on page 173.]

THE CHAIRMAN: If there are no objections, this report will be received and entered upon the minutes. It is so ordered.

We will now listen to the report of the Secretary, Mr. E. G. McWilliam.

Report of the Secretary, E. G. McWilliam.

[The Secretary's report will be found on page 173 of this publication.]

THE CHAIRMAN: If there is no objection, this report will take the usual course.

It has been suggested that we now hear the addresses, and postpone the further reports until later on in the proceedings.

I now have the pleasure of presenting Mr. A. M. Harris, of Harris, Forbes & Co., New York, who will address us on the subject of "Savings Bank Securities in the Light of Recent Events."

Savings Bank Securities in the Light of Recent Events, by A. M. Harris.

[The paper of Mr. Harris is printed at length on page 164.]

THE CHAIRMAN: We are certainly under great obligations to Mr. Harris for his able and instructive address.

We will now be favored by Mr. E. C. McDougal, who will

speak to us on "Recent Amendments to the Savings Bank Law of New York and the Reasons for Such Amendments." Mr. McDougal is President of the Bank of Buffalo, Buffalo, N. Y., and he has also been a member on the Sub-Committee of Savings Bank of the Commission appointed to revise the Banking Law of New York. Therefore, he knows his subject well. I take great pleasure in presenting Mr. McDougal.

Recent Amendments to Savings Bank Law of New York and Reasons for Such Amendments.

[Mr. McDougal's paper in full is printed on page 169 of this publication.]

RESOLUTION REGARDING FARM MORTGAGES RECEIVED.

MR. CHAMBERLAIN: Mr. Chairman, on behalf of the Farm-Mortgage Bankers Association, I desire to present a resolution which I have already referred to several of your executive officers, and with your permission I would like to present it now.

I might state, before reading it, that I was very much interested in Mr. Harris' address, where he stated the hardships that he had in the New England States with reference to having them invest in municipal bonds, and also railroad bonds.

This resolution simply outlines the laws of New England and the restrictions there. All the Farm-Mortgage Bankers Association asks of you is to receive it and file it.

Whereas, The laws of several of the Eastern States prevent Savings Banks, Trust Companies, Trustees, Guardians and Conservators from investing in farm mortgages upon lands outside the respective States, and thus deprive investors of the opportunities to take choicest securities—mortgages upon improved and productive farm lands in our best agricultural States and also deprive the farmers of the opportunity to borrow, for the development of their lands, the surplus funds of the States where such laws are enforced;

Now, therefore, be it Resolved, That the Farm-Mortgage Bankers' Association of America make vigorous effort to secure the repeal of such laws, and that this Association urge the American Bankers' Association to cooperate in such effort;

Resolved, Also, that Edwin Chamberlain, J. W. Wheeler, E. L. Johnson, Peter H. Saunders and John Lee Coulter, be and they are hereby appointed a committee from this Association to present the matters mentioned in these resolutions to the American Bankers' Association and to its proper Sections and officers, and to solicit their co-operation, and to take all such lawful action as to them seems proper to induce the repeal of such laws.

I merely ask for the receiving of it and filing of it as a resolution.

MR. PALMER: I move that the report be received and filed and referred to the Executive Committee.

Which motion was duly seconded and unanimously carried.

THE CHAIRMAN: On behalf of the Executive Committee and all the members, I want to express our sincere thanks for the efforts made by Mr. Harris and Mr. McDougal in coming down here, and for their excellent and able addresses.

We will now return to the regular order of business as set forth in the program.

The adoption of By-Laws. The Constitution of the American Bankers Association provides that all sections of by-laws must be approved by the Executive Council. It therefore became necessary for us to redraft our by-laws, which the Executive Committee has done. These by-laws were referred to the Executive Council yesterday and approved by them. There are twelve sections. Do you want them read?

MR. STEPHENSON: I move the reading of the by-laws be dispensed with. The pamphlets have been generally distributed and the members know what is contained therein, and since they have been revised and referred to the Executive Council for their examination and approval, I think we can dispense with it. I make that as a motion.

Which motion was duly seconded and unanimously carried.

MR. HAWLEY: I move their adoption.

Which motion was duly seconded and unanimously carried.

BY-LAWS OF THE SAVINGS BANK SECTION.

ADOPTED BY THE EXECUTIVE COMMITTEE APRIL 30, 1914, AND SUBMITTED TO THE EXECUTIVE COUNCIL AND MEMBERS OF THE SECTION FOR APPROVAL AT RICHMOND.

MEMBERSHIP.

1. In accordance with Section 1, Article X of the Constitution of the American Bankers Association, any member of the Association which conducts a savings business may become a member of the Savings Bank Section.

ADMINISTRATION.

2. The administration of the affairs of this Section shall be vested in the President, First Vice-President and the Executive Committee from among whom the First Vice-President shall be chosen.

OFFICERS.

3. The President and First Vice-President shall be elected by the members of the Section at its annual meeting. The President shall preside at all meetings of the Section and Executive Committee and perform any other duties incident to his office. The Vice-President shall assume the duties of the President in his absence.

EXECUTIVE COMMITTEE.

4. The Executive Committee shall be composed of nine members, three of whom shall be elected each year by members of the Section at its annual meeting. Members of the Executive Committee shall be

elected to serve for a period of three years beginning with the next meeting of said Committee following such election.

5. The President shall be an ex-officio member of the Executive Committee, and each retiring President shall also be an ex-officio member of said Committee for a period of one year after his expiration of office. All other ex-Presidents may act in an advisory capacity to the Executive Committee and may attend its meetings and participate in its deliberations. Such other ex-Presidents, however, shall not be entitled to vote or to reimbursement for traveling or hotel expenses.

6. The Executive Committee shall have power to fill vacancies until the next annual meeting and may adopt all necessary rules for the business of the Section. It may also, subject to the approval of the Executive Council of the American Bankers Association, employ a secretary and stenographer and authorize the expenses necessary in carrying on the business of the Section.

7. No officer or member of the Executive Committee shall be eligible for re-election until one year following the completion of a full term of office.

8. The President and Vice-President shall represent the Section in the Executive Council of the American Bankers Association.

OTHER OFFICERS.

9. Each State having not less than five savings institutions, members of the American Bankers Association, shall be entitled to a Vice-President of the Section. Such Vice-Presidents shall be appointed annually by the President and shall act generally in an advisory capacity to the Executive Committee.

OTHER COMMITTEES.

10. All standing Committees of this Section shall so far as practicable be composed of members of the Executive Committee.

MEETINGS.

11. An annual meeting of this Section shall be held during the week of and at the place where the annual convention of the American Bankers Association is held, and at least one meeting of the Executive Committee shall be held during the year coincident with a meeting of the Executive Council of the American Bankers Association.

AMENDMENTS.

12. These by-laws may be amended by the Section in annual session by a two-thirds vote of the members present. Such amendments, however, shall not become operative until approved by the Executive Council of the American Bankers Association.

THE CHAIRMAN: The next order of business will be the report of Methods and Systems Committee by Mr. V. A. Lersner.

Report of the Methods and Systems Committee, by V. A. Lersner.

[We print the report of the committee on page 173.]

THE CHAIRMAN: Without objection, this report will be received and entered upon the minutes.

The next will be that of the Membership Committee by Mr. G. E. Edwards, the chairman.

Report of the Membership Committee, by G. E. Edwards.

[The report of this committee will be found on page 174.]

THE CHAIRMAN: Without objection, this report will take the usual course.

The next report is that of the Law and Segregation Committee, N. F. Hawley, chairman.

MR. HAWLEY: Mr. Chairman, there is no recommendation in this report. I suggest that it be simply filed.

THE CHAIRMAN: If there is no objection, the report will be received and filed, and take its usual course. It will appear in the book of proceedings of the minutes.

Report of Committee on Law and Segregation.

[The reader will find this report on page 173.]

THE CHAIRMAN: The next order of business will be the report of the Special Committee on Postal Savings Legislation, Mr. E. L. Robinson, chairman.

Report of Special Committee on Postal Savings Legislation.

[This report is given on page 175.]

THE CHAIRMAN: This report will take the usual course.

While our thanks are due to all of our committees for the excellent work done by them, we are under special obligations to this particular Committee. It has done exceedingly well, especially considering what it was up against.

NOMINATIONS AND ELECTIONS.

The next order of business will be the report of the Nominating Committee. That Committee was appointed through the Executive Committee, with Mr. Palmer as its Chairman.

MR. PALMER: Gentlemen, this is the report of the Committee:

For President, William E. Knox, Comptroller Bowery Savings Bank, New York.

For Vice-President, Newton F. Hawley, Treasurer, Farmers and Mechanics Savings Bank, Minneapolis.

Members of the Executive Committee:

George E. Edwards, President, Dollar Savings Bank, New York.

Joseph R. Noel, President, Northwest State Bank, Chicago.

W. R. Meakle, Secretary, Paterson Savings Institution, Paterson, N. J.

Member Executive Committee to fill unexpired term of Mr. Rose, deceased, term expiring 1915:

James Dinkins, Vice-President, Jefferson Commercial and Savings Bank, Gretna, La.

MR. LEESNER: I move its adoption.

THE CHAIRMAN: I think a motion would be in order to declare the nominations closed.

MR. SAYLER: I make that motion.

Which motion was duly seconded and unanimously carried.

MR. CABLE: I move the Secretary be directed to cast the ballot of the Association for the officers named in the recommendation.

Which motion was duly seconded and unanimously carried.

THE SECRETARY: The ballot is so cast.

THE CHAIRMAN: The Secretary informs me that he has cast the ballot, and I declare the gentlemen named duly elected for the respective positions.

The next order of business will be the installation of the officers.

Mr. Knox, it is my duty to present you with this emblem, which signifies that you are now president. I congratulate you and the Section upon your election.

CHAIRMAN KNOX: Gentlemen, I thank you for this honor that you have done me, and I want to express now publicly to every member of the Section that it has been a genuine pleasure to work as I have worked, to the best of my ability, for the best interests of the Section of the American Bankers' Association, and of the Savings Banks' interests in general.

The thing that made my work such as it was, easy and delightful, was my association with men like Mr. Sartori; before him, like Mr. Stephenson, like Mr. Robinson, and so on all the way along up the line. It is a very great honor, I conceive it to be, worthy to be able to follow along after such a line of so eminent Savings Bank men, every one of whom has given excellent service to the Savings Bank Section.

Mr. Hawley, this being in the nature of a continuous performance, it gives me a great deal of honor to pass along the badge of Vice-President to you. I congratulate you very heartily upon your election to the office.

MR. HAWLEY: Gentlemen, it has been a most sincere pleasure on my part to serve what little I have in the past in this Section, and I assure you it will be a pleasure to serve in the future. I thank you.

THE CHAIRMAN: Gentlemen, I have an announcement to make, that immediately at the close of this meeting there is to be a meeting of the Executive Committee upon the platform. So all the members, both the newly elected members and the old members, will please step forward to the platform after the meeting.

MR. ROBINSON: I would like to offer a vote of thanks, on behalf of our Secretary, to the management of this hotel and to the people of Richmond for the instinted hospitality which we have been receiving at their hands during the past few days. We all know something of the flavor of the Southern hospitality, and we believe that in Richmond we are enjoying Southern hospitality at its very best. And I think it not only proper, but I think it a privilege at this time, to so express ourselves as being highly appreciative of the gallantry of their men, of the beauty and kindness of their women, and of the hospitality of all sorts that we have been receiving at their hands.

MR. DINKINS: Mr. Chairman, I second the motion, and suggest that we have a rising vote.

The motion was unanimously carried by a rising vote.

MR. STEPHENSON: I want to make a motion that we extend a vote of thanks and our appreciation to the officers and members of the Executive Committee, and to the members of the various committees of the Savings Bank Section, for the efficiency and effective work they have performed during the last year.

Which motion was duly seconded and unanimously carried.

THE CHAIRMAN: Is there any further business, gentlemen?

Upon motion, duly seconded, the meeting adjourned.

SPECIALISTS

in the securities of the Public Service Corporation of New Jersey and in those of its underlying gas, traction and electric companies

FIDELITY TRUST COMPANY

Prudential Building, Newark, N. J.

With resources of more than \$30,000,000 and a Capital, Surplus and Undivided Profits of over \$9,500,000, this company is the largest institution of its kind in New Jersey.

It does a general banking and trust company business and **Guarantees New Jersey Real Estate Titles**

UZAL H. McCARTER, President