TWO SECTIONS—SECTION TWO

OCT 19

The Commercial & Financial Chronicle

AMERICAN BANKERS' CONVENTION SECTION

GIVING PROCEEDINGS OF THE

Convention of American Bankers' Association

Held at Chicago, September 24, 25, 26 and 27, 1918.

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October 12, 1918

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BANKERS' CONVENTION SECTION

OF THE

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THE CHRONICLE.

THE COMMERCIAL AND FINANCIAL CHRONICLE is a weekly newspaper of 96 to 128 pages, published in time for the earliest mail every Saturday morning, with the latest news by telegraph and cable from its own correspondents relating to the various matters within its scope.

THE CHRONICLE comprises a number of added Sections or Supplements, issued periodically, and which form exceedingly valuable adjuncts of the weekly issues:

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A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 97 and 98.

THE AMERICAN BANKERS AND THE WAR

Meeting as it did at the supreme moment of the war, with the news dispatches following one another rapidly in their description of the enemy's collapse and with the American army again moving forward to help make the victory complete, the American Bankers' Convention at Chicago necessarily gave up its deliberations for the most part to the war. Not the least striking part of its speeches and discussions was the absence of controversy, doubt or warning in regard to the financial and economic aftermath. Such considerations, it hardly need be recalled, had been in the background of the financial mind from the time, four years ago, when it was seen how long and how costly a conflict this was to be and what revolutionary changes in the social, political, and economic institutions with which we have been familiar were certain to occur, even before the war itself was over.

During the period of our own neutrality, in 1915 and 1916, this question of what would come after the war was not only repeatedly uppermost in the financial markets, but was the natural burden of discussion at the bankers' conventions. A year ago, when we ourselves had just entered the war, there was naturally added to this the discussion of what would be the effect on the country's financial and economic structure, of the enormous war expenditure and the restriction of peace-time activities. But the Convention of last month reflected even more accurately the nation's state of mind at the moment, in that it virtually dismissed all these considerations, giving itself up to whole-hearted endorsement of the Government's policies, and to dedication of all the banking resources and facilities to the securing of an early and complete victory.

It was once a popular tradition that from the banking community—cautious and conservative by instinct—the natural expectation was an appeal for termination of the war, on whatever basis it could be terminated. How little such a tradition has applied, however, to the attitude of the banking community towards America's participation in this war, was sufficiently indicated when our own war finance plans were first under discussion. The open attack of the peace-at-any-price faction on the financial community, as itself responsible for our going to war and as deserving financial punishment for that attitude, gave conclusive evidence. But if any doubt had still remained, the speeches at this autumn's Banker's Convention would have dissipated it.

The Convention's message to President Wilson, to the effect that "every ounce of energy and resource at the command of the bankers of the nation is pledged to the cause of human freedom and

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independence," struck the keynote. President Hinsch's declaration that "the bankers will support the nation, not merely to their last dollar but to their last unit of credit," came still more definitely down to declaration of the Convention's purpose. Governor Lowden's speech expressed the feeling of the Convention on the paramount issue as to the kind of peace we must insist on.

"I want to say to the bankers of America," said he, "that until Germany admits the plain truth that this war was her war; that she was the aggressor; that this war was waged in pursuance of half a century-old conspiracy, the only answer she is entitled to from America is that magnificent answer which President Wilson made last week to the Austrian Prime Minister.

"I can imagine one of you bankers who had been defrauded by a customer in years agone, again, after a lapse of time, to resume negotiations with that customer, but I cannot imagine one of you permitting him to open up a new account in your bank until he confessed he had robbed you before. If the Central Empires want to resume relations with the rest of the world, they must first repent, and you cannot repent until you first confess your faults."

It will perhaps be said that speeches made in the face of the amazing achievements of the past fortnight on the battlefields, and with military victory coming so plainly into sight, could take no other ground. But the spirit in which the Convention greeted the news is none the less impressive for the cheerfulness and confidence with which the immense financial requisitions of the moment were faced, and with them the even more confusing uncertainties of the future. Underlying this sense of reassurance, the feeling that our new banking system was a financial anchor naturally found expression.

Mr. Chapman's reference to the financing of our great harvest, a task under which the country's banking facilities had broken down in 1907, was characteristic of that view. Whereas "this year there are over a billion bushels of wheat passing through Duluth," that unprecedented movement "is being handled without straining our finances and without incident."

Mr. Otto H. Kahn gave a moment's warning, based on the unavoidable centralization of power in the Government's hands for purposes of war, of the tragedy which would be involved if, "while our boys are fighting for liberty, the great and splendid structure of ordered, enlightened freedom and covenated individual rights, which was handed down to all Americans, should be invaded by that most insidious foe of liberty, paternalism, with its allies and close relatives, bureaucracy and socialism."

These are considerations which the United States along with the rest of the world, and the banking community along with the rest of the United States, will necessarily have to confront in the period of after-war reconstruction. The manner in which the numerous problems of that sort will come before us cannot now be even foreshadowed in advance. Yet it is only fair to infer from the very absence of expression of doubt and misgiving on that subject that the spirit of the associated bankers was one of hopefulness, for the longer future as for the immediate military outcome.

Perhaps the consciousness, first of the economic courage and stability shown by the United States in meeting the very first shock of war, next of the immense financial power exhibited during our two and a half years of neutrality, and finally the all but incredible resources displayed in the war loans raised after we entered the conflict, in the advances made to our Allies, in the armies mobilized, trained, transported to Europe and sent into action at a moment when their presence turned the scale of the campaign, was the real basis for confidence of the Convention that the country might deal as wisely and efficiently with the other problems which will come up for settlement after the war is over.

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BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

44th Annual Convention, Held at Chicago, Ill., September 26 and 27, 1918

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The Menace of Paternalism

By OTTO H. KAHN, of Kuhn, Loeb & Co., New York.

PART I

No apology is needed, I believe, if, in this meeting of business men, I begin my remarks with a tribute to the American Army. I hope I am not usually given to boasting, but I admit that since I came back from Europe two months ago, I have been boastful, vociferously and unblushingly boastful, about our boys "over there" and their leaders.

I saw the American soldiers on the boat, in their cramped and crowded quarters, many of them away from home for the first time, all but a few of them on the ocean for the first time in their lives. I saw them in Paris unconcernedly playing ball in the streets while bombs from long-range guns were exploding in the immediate neighborhood. I saw them at French ports, and at villages throughout the fair land of France, cheerily taking things as they came, the rough with the smooth—and there was a good deal more rough than smooth,—making friends with the kids, and, especially in the case of the fair sex, with the grown-ups too. I met them as foresters in the extreme south of France, near the Spanish frontier. I met them as engineers and in numberless other capacities and, finally, I saw them as fighting men at the front.

I met many of their leaders, from their great chief, General Pershing, down. I saw the simply marvelous work at the French ports, in our huge camps and bases, and along our lines of communication, which these men had accomplished and were accomplishing with a bigness of vision, a boldness of planning, a directness of attack, a perfection of execution and a courageous assumption of responsibility, which would have done credit to renowned captains of industry.

Everywhere I found, amongst officers as well as amongst men, the same simple and unostentatious, yet steel clad determination to hold life cheap for the honor and glory and safety of America. Everywhere the same eager and tireless exertion and keen, quick-witted adaptability. Everywhere the same modest and soldierly bearing, the same uncomplaining endurance under hardships and discomforts, the same contempt for danger. Everywhere the same note of splendid courage, moral and physical, of willing discipline and service, of buoyant good nature and humor, of clean and kindly thought and feeling.

And, Gentlemen, I knew then that the war was won.

Those more competent than I will tell some day the full story of how the American Army came to reveal its fighting qualities to its valiant comrades in arms, as well as to its brutal and insolent enemy to whom that revelation came as a most unpalatable surprise. They will tell how last March, during the gloomy days of the retreat of the British Fifth Army, six hundred American engineers, together with a number of British engineers, who had been at work behind the lines, threw away their instruments and tools, took up rifles, constituted themselves into a rampart and held the line for seven long and bloody days, until reinforcements arrived; how a couple of months later our men again showed the stuff they were made of by storming Cantigny and holding in the face of fierce counter attacks again and again repeated by the Germans, bent on giving a stern lesson to those green and presumptuous Americans. They will tell you the immortal story of the fighting of our marines and regulars at Chateau Thierry in the first days of June, in those dark and menacing days when the enemy had penetrated within 39 miles of Paris; how those men, hurriedly thrown into the battle, made of themselves a spearhead against which the onslaught of the Germans broke and shattered, and the tide was turned.

Since then, our young army has been tested in many a battle, and wherever it has fought it has proved itself a worthy custodian of American honor and a zealous artisan of American glory.

A friend of mine returned recently from Europe, where he had occasion to speak to Marshal Foch, Field Marshal Haig and General Pershing. Foch said to him: "The Americans fight like the ardent young troops we had in the early stages of the war. Higher praise I cannot give." And Pershing said simply: "Our troops are fighting as we expect Americans to fight."

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I should like to add that in expressing my intense admiration for our army and its achievements, nothing is further from my thoughts than to take away one tittle from the immortal glory which belongs to the armies of the allied countries, nor from the undying gratitude which we owe to the nations who for four years have heroically fought the battle of civilization—our battle from the very beginning, no less than theirs—and borne untold sacrifices with never faltering spirit.

When America entered the war, and for some time afterwards, it was the taunt of Germany that we did not mean to be, and even if we meant to be, could not become a serious military factor. It was a question in the minds of neutrals, too, even of neutrals wholly sympathetic towards our cause.

Well, our troops victoriously fighting on a dozen bloody battlefields, taking their places worthily by the side of the war-seasoned veterans of our allies in the war, have given the answer. The discipline, the morale, the cohesion, the cheerful, uncomplaining endurance under all hardships and privations, of our Army taken from the farm, from workshops, universities, offices, millionaires' palaces and the poorest of tenements, have given the answer. The large percentage of German names in the list of our casualties shows that Americans of German descent have known how best to demolish the outrageous hope which basely calculated upon their disloyalty, and to resent the insult which appraised them as semi-traitors to the country of their sworn allegiance. The unanimous voice of a united Nation, ready for any and every sacrifice, has thundered the answer in accents which have penetrated, at last, even beyond the towering wall of lies and monstrous doctrines behind which a felon ruling caste holds the German people cowed and deluded and hideously transfigured.

Now, Gentlemen, what is the underlying cause for the phenomenon that our boys, taken from the most diversified walks of life, brought up in surroundings and in a spirit which are the very negation of martial disposition, became in an incredibly short space of time soldiers of first rate efficiency; that our business men, farmers, mechanics, college boys are making competent, indeed excellent, officers; that our West Pointers, taken from small army posts or office positions in Washington, were found qualified generally not only to command large bodies of troops, but that amongst them were discovered men fitted, when the emergency arose, to plan and execute the business undertakings of war on a stupendous scale with a high degree of organizing and administrative ability (even though these men would be the last to dispute that a considerable share of the credit for the results accomplished is due to those who, at the very start of the war, eagerly volunteered from civil life)? Why did our commanding officers, our engineers and others at various French ports, at our army bases, along our great lines of supplies, in a strange country, under conditions entirely new to them, demonstrate the capacity of rapidly sizing up situations, of boldly meeting and overcoming difficulties, of vigorously cutting the red tape of generations, of accomplishing to the admiring amazement of our French friends and comrades things which the bureaucratic routine of ever so many years had found itself impotent to deal with?

French Views of America

I have heard these questions asked and debated a good many times lately both in England and France, and the consensus of replies was this: "You in America have always been a nation of private enterprise and individual initiative. Your incentive has never been to get a governmental title or a bureaucratic position. Your incentive was zest and scope for doing things, the joy of creative effort, a certain crude, roughhewn, unsystematic, but effective idealism, and also, of course, the material reward of successful achievement. You have had no caste, or fixed class, either aristocratic or bureaucratic. You have given almost unlimited, perhaps too unlimited scope to ambition, ability, force, imagination, hard work. Your employee of today was and is the employer of tomorrow. The State, far from enjoying the halo descended from kingly times of something resembling omnipotence and omniscience, and being all-pervasive in its functions, was largely limited in its activities and you had a healthy skepticism of governmental capacity to do things well.

"Under the stimulus of these conditions you have produced a race—daring, keen, quick-witted, adaptable, self-reliant. The American of today, as we see him in the officers and men of your forces, and in the business men we have met, is the product of generations of sturdy individualism."

And then the Englishman would be apt to explain that the rank and file of Britishers are also in their heart of hearts individualists and normally opposed to the undue multiplication of governmental functions. He would not dispute that the war was bound to bring about a tendency towards far going radicalism and towards a general leveling, but would maintain that the ambitious programs and sweeping pronouncements of those, largely writers, economists and theorists who ran the political end, and only the political end, of the British labor party did not represent the level-headed majority of the rank and file, and were apparently taken more seriously at home than abroad. In this connection, it was interesting to me to read in a report cabled from Europe a few days ago by Mr. John Spargo, himself a leading Socialist, but at the same time a thoroughgoing American patriot, the following sentence: "The British Labor party is approaching a catastrophic and ignoble defeat."

The Frenchman, being like most of his countrymen, something of a practical philosopher and an admirable talker, would be liable to go rather further afield. He would point out that France has had experience of bureaucracy, governmental centralization and paternalism for several generations. They had tested that system under an autocratic régime, under a liberal monarchy, under a bourgeois republic and under a radical, and at time semi-socialist, republic. And the conclusion was widespread that it was not what it was "cracked up" to be, failing a great organizing and vitalizing genius like the first Napoleon, and that they did not like it. That system had lamed enterprise, atrophied commercial daring, retarded the development of the country, and driven a large portion of the national wealth into speculative undertakings abroad, failing constructive opportunity for it at home. It was largely responsible for the fact that France, naturally the richest and most abundantly endowed country of Europe, had permitted itself to be outdistanced economically and industrially by other countries less favorably situated as far as natural resources were concerned, notably Germany. It had allowed a state of affairs to develop where but for the magnificent manifestation of the superb innate qualities of the French race which no governmental system could permanently vitiate, Germany might have come measurably near succeeding in its infernal plan to cripple France lastingly.

In Russia, bureaucracy and paternalism, plus weak, corrupt and inefficient autocracy, had led to revolution, chaos and anarchy.

In Germany, bureaucracy and paternalism plus militarism and junkerism had resulted in bringing untold misery upon the world at large and inevitable disaster in the end to the German people. And that notwithstanding the fact that not only was the German system of bureaucracy and paternalism the most efficient the world had ever seen, but that with deep and insidious cunning it camouflaged its true meaning and purpose: It made an alliance with big business by which, in return

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for being left alone and, if need be, supported in its political dominion and in its particular interests, it maintained a reciprocal attitude towards the great combinations in finance and industry. It furthered enterprise and gave liberal scope and rich reward to achievement. Its method of dealing with labor was in part to coerce it and deprive it, by direct or indirect means, of adequate voting and political power and in part to cajole and conciliate it by apparently progressive and fair-seeming social welfare legislation. In other words, it aimed at making contented and prosperous chainbearers out of the German people, and at the same time—and alas! all too successfully—at substituting for their old conceptions and ideals a religion of greed, covetousness, power-worship and materialism, the deity of which was the state as represented by its ruling caste.

In short, my French interlocutors would coincide that whenever, wherever and however the system of governmental omnipotence had been tried, it had failed in a greater or lesser degree; that France had given it a sufficiently long test to be weary of it, and that after the war the tendency of the French people would be rather to turn towards individual effort and to stimulate personal initiative.

I should add, in order to give an entirely truthful picture, that the Englishmen whom I heard discuss this subject, were mainly business men and others whose views may have been somewhat colored because their surroundings and interests would naturally tend to make them averse to a radical change in the existing order of things. But the French feeling as I have tried to set it forth, I heard expressed by all kinds and conditions of men—from workingmen and small tradespeople to financiers, military officers and statesmen. And it should be borne in mind that the French are endowed with the faculty of a proverbially clear recognition of the realities of things and more than once in history have been the pathfinders for the social and intellectual movements of the world.

On the other hand, it cannot be gainsaid that there are a good many persons in France, as in Great Britain and America, who firmly believe that the era of individualism, or as they prefer to call it, capitalism, has come to an end, and that an entirely new kind of social structure will be reared after the war.

Individualism.

They are very active, zealous and eager, these militant preachers of a new day. They possess the fervor of the prophet allied often to the plausibility and cunning of the demagogue. They have the enviable and persuasive cocksureness which goes with lack of responsibility and of practical experience. They pour the vials of scorn and contempt upon those benighted ones who still tie their boat to the old moorings of the teachings of history and of common sense appraisal of human nature. And being vociferous and plausible, they are unquestionably making converts. They are offering the vista of a catching program to the popularity-seeking politician. They are perturbing the minds of a good many who honestly seek—as every right-minded man should—to bring about a better and more justly ordained world. They have not been without producing a certain effect even in high places.

Nothing is easier than to start, nothing moves faster when once started, than economic fallacies, especially when to their natural speed is added the impulse of a glittering and facile idealism which holds out to the world surcease from many of these troubles with which mankind has grappled since its progenitors left the Garden of Eden. Nothing is harder than for sober, unvarnished truth, loaded down with the weight of the realities of existence, to catch up with those fallacies. It invariably does in the end, but meanwhile the fallacies on their long start and rapid flight may have wrought vast harm, as we have recently seen exemplified in Russia.

We hear a good deal nowadays of "The war after the war"—meaning thereby the expected economic discord and strife in the markets of the world between Germany and her vassals on the one hand, and the Powers now arrayed against them on the other. That discussion, to an extent, it seems to me, is premature. Germany and those who aided and abetted her must and will be defeated, decisively and completely defeated. The handwriting on the wall which proclaims the doom and destruction of Prussianism stands out more fatefully and legibly every day. The treatment to be accorded to Germany in the future will depend, in part, at least, as President Wilson has indicated, upon the answer to the questions whether she will sincerely and unmistakably purge herself of the accursed spirit which has made her name a byword and a hissing amongst decent nations, what attitude and action she will take towards those loaded down with the execration of the world who primarily personify that spirit, and whether, contrite, chastened and freed from the hideous rule of a barbarous military caste, she will atone, as far as it is in the power of her people, for the unspeakable crime of the war unchained by her and the atrocious brutality of its conduct, and a like test applies to those nations who made themselves sharers of her guilt.

But there *is* one "War after the war" for which the lines are now being drawn, and which indeed the attacking party has already started, although it was the country's general understanding that until the war against our external enemy is won, internal conflict should be postponed: The opposing forces are, on the one side, the motley army ranging from the American variety of destructive Bolsheviks in various graduations to self-seeking demagogues, well-meaning utopianists, iconoclast theorists, intolerant and impetuous young writers strong in the assured consciousness of their mental and moral superiority, and, alas! none too rarely college professors and other teachers—generally underpaid, frequently overworked, some rather disgruntled and acidified, others carried away by intempered idealism and inclined to take the world as a theoretical proposition rather than as a stubborn fact. Confronting that army on the other side, stand those who believe that the accumulated wisdom of centuries of human experience is wisdom still, and who see in individualism, ordered, enlightened, progressive, sympathetic and adjusted to the changing needs and social conceptions of the age, the soundest and most effective instrument for the advancement and the happiness of humanity.

When I speak of individualism, I do not mean the harsh doctrine of the so-called Manchester school of the nineteenth century which, with a somewhat naive faith in the automatic and beneficent self-regulation of human forces, bade the individual to exploit his opportunities to the unrestrained limit of his strength, and the devil take the hindmost. Nor do I mean the picturesque, semi-romantic but socially intolerable individualism which in the pioneer period of our country's development brought forth a body of men whose daring, vision, creative energy and striving for wealth and power, strangely mixed at times with an element of idealism and emotionalism, did much to produce the tremendous epic of America's unrivaled development, but who, after all, were more or less industrial despots, and as such—even though benevolent despots, which many of them were—rightly obnoxious to a free people.

About ten years ago, in a sketch which I wrote of that great Business genius, the late E. H. Harriman, I said:

"His death coincided with what appears to be the ending of an epoch in our economic development. His career was the embodiment of unfettered individualism. For better or for worse—personally I believe for better unless we go too far and too fast—the people appear determined to put limits and restraints upon the exercise of economic power and overlordship, just as in former days they determined to

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put limits and restraints upon the absolutism of rulers. Therefore, I believe there will be no successor to Mr. Harriman. There will be no other career like his. The romance of the American industrial pioneer of that type ends with him."

The individualism to which I adhere spells neither reaction nor greed, selfishness, class feeling or callousness. No less than those who carry their heart, visibly aching for the people and aflame againt their oppressors, into magazine articles, political assemblies and upon lecture platforms; no less than those who in the fervor of their world-improving pursuit discover curealls for the ills of humanity which they fondly believe new and unfailing remedies, but which, as a matter of fact, this old globe of ours at one time or another, in one of its parts or another, has seen tried and discarded, after sad disillusionment—no less than they are we desirous for the well-being and contentment of the masses of the people and sympathetic toward and responsive to their aspirations.

In common with all right-minded and fair-thinking men, be they employer or employees, we are ready and glad to join in every sincere effort consistent with sane recognition of the realities of things to make life more worth living to the rank and file of humankind. So far from obstructing we will zealously and earnestly cooperate toward all rational measures calculated to augment the opportunities and happiness of the mass of the people, to enhance their share of ease and comfort and of the rewards and joys of life, and to correct such shortcomings of the present social order as justly call for reform. But we will resolutely oppose those who in their impatient grasping for unattainable perfection would make of liberty a raging and destructive torrent instead of a majestic and fertilizing stream; who out of the ingredients of sentimental and emotional fallacies mixed with the deleterious substances of envy and demagogy, would concoct a fantastic political and social system; who ignorantly and arrogantly scorn the beneficent work and the wise teachings of the great architects of ordered freedom.

I suppose most of us when we were twenty knew of a short-cut to the millenium and were impatient, resentful and rather contemptuous of those whose fossilized prejudices or selfishness, as we regarded them, prevented that short cut from becoming the high road of humanity. Now that we are older, though we known that our eyes will not behold the millenium, we should still like the nearest possible approach to it, but we have learned that no short cut leads there, and that anybody who claims to have found one is either an impostor or self-ceived. We have seen into what an abyss of despair and disgrace and suffering the self-constituted, fanatical or corrupt guides to the millenium have plunged the people of Russia who followed them confidingly.

Incentive to Effort.

The individualism we believe in gives incentive to every man to put forth his best effort, while at the same time it recognizes fully the right and the duty of the State to impose upon business reasonable supervision, restraints and regulations, to take measures destined to raise the general level of popular well being, to protect particularly those least able to protect themselves, to prevent exploitation and oppression of the weak by the strong and to debar privilege and unfair or socially harmful practices.

And we further believe that in addition to, and over and above the limitations imposed by the State there are restraints which a man's conscience should impose upon his actions in affairs. Just as we heed the "still small voice" of conscience in our personal conduct, so must we hearken to it and be controlled by it in our relations to society and the State. It is not enough to be "law honest" or "money honest," and the obligation to make his actions square with the dictates of his "social conscience" increases in force and extent in proportion as a man's success and opportunities increase. I believe I am not asserting an unjustified claim when I say that the recognition of the place due to the "social conscience" is getting to be more and more developed in the business community.

Few things have brought more harm upon the world than attempts, well meant or otherwise, to force mankind into ways of thought and action to which the nature of the average man or woman does not respond. I am far from undervaluing the compelling impulse of the call of duty, the joy of service, the selfless zeal on the high occasions of life, but what we are ordinarily dealing with are men's normal attitude, motives and reactions in the affairs of the workaday world. Experience has shown and common sense observation confirms that, excepting such callings as men take up because of an "inner urge," from a natural bent or altruistic motives, or because they desire primarily position, public office or political power, the vast majority of people require, in order to put forth the maximum of effort and of venturing, an incentive largely, though not solely, of a tangible kind.

In an emergency, of course, at the call of the country, every right-thinking man will not only forget all thought of reward, but will be ready for every sacrifice. He will work and strive fully as hard, and far harder than he would for his personal advantage and spend himself without limit, from motives of patriotism or public spirit.

But under normal conditions other incentives are needed. And it must not be forgotten that legitimate individual achievement, however gainful to the person concerned, means in the last analysis the creation of assets, tangible or otherwise, the resultants from which in various ways redound to much the greater extent to the benefit and advantage of the community as a whole. Just as punishment is meant as a deterrent and a corrective, so individual reward is primarily intended as a stimulus to and for social utility. It is bestowed not from tender solicitude for the recipient, but because of a recognition that the exercise of his faculties is of advantage to the community. The result aimed at and effectively achieved is to stimulate the energies required for the world's work and progress and to enhance the scope of activity of those who are endowed above the average with the capacities for producing or directing and to make that scope as near as may be proportionate to those capacities. The opposite way, that is, the communistic method, the system of common property of an equal task and equal reward for all alike has been tried over and over again and has failed invariably.

I am far from saying that material reward is the only incentive to business effort. The prospect of and ambition for attaining reputation, standing, influence, the desire to be of usefulness and service, the zest of work and strife, the joy of creative effort, the fascination of catching one's qualities of mind and character against those of others, count for much, but amongst the conglomerate of impulses which make men dare and plan and work to their utmost capacity, the hope of attaining material success is still one of the most effective. Nor is this wholly, or even mainly, a materialistic impulse.

Individualism frankly denies that the world can be run on a theory which presupposes the existence of mental, moral and physical equality between men. Equality before the law, equality of political rights,—yes, equality of opportunity, as far as humanly possible,—yes. But, an inscrutable Providence has bestowed upon His creatures, animate as well as inanimate, inequality of natural endowment, and from that springs and must necessarily spring inequality of results. Abstract justice is not in the eternal scheme of things. Why do some trees grow straight and magnificent, and others wither or are stunted? Why are some people born with vigorous constitutions or with conspicuous talents and others not? Why is Caruso gifted with a

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voice which enables him to make as much money in one evening as the average artist gets for a year's work? Why do people willingly pay $10,000 or more to have a portrait painted by Sargent, when Tom Smith would gladly accept $100 for making their picture? Why are some people endowed with the privilege of understanding and appreciating art and deriving a wealth of joy, recreation and inspiration from it—a privilege which I personally would not exchange for any amount of money —and many others not?

A lady said to me the other day: "It makes me angry that Mr. X should live in that splendid house, whilst I have only a simple flat. Such inequalities ought not to be allowed. It is not fair that he should be thus favored." I answered: "Is it fair that you happen to be good to look upon and bright and attractive to talk to (which she was), whilst some others of your sex, pardon the ungallant observation, are plain or dull? Because of this gross inequality, galling as it must be to some of those less favored, do you think there should be a law providing that all women must go veiled and have other appropriate restraints put upon the power of their attractiveness? Do you realize that if all incomes above $100,000 were confiscated, as has been urged by some, and which in your present frame of mind you would presumably favor, the resulting sum would barely cover our war expenditures for one month? Do you know that if all incomes above even $10,000 were taken and distributed amongst those earning less than $10,000, the result, as far as I can figure out, would be that the aggregate income of those receiving that distribution would be increased barely ten per cent?"

I used various other arguments and examples, not without interruption and rejoinder on her part. I do not flatter myself that I succeeded in converting her but I believe when we parted she was a little less sure than before that Mr. X ought to be turned out of his fine house forthwith.

The sound common sense of the plain people, healthily skeptical of the fancies and theories of "advanced thinkers" or the catch-phrases of agitators, may be trusted fortunately to look through the folly of attempting to force into a mold of equality that which nature has not created equal. Watch a gang of laborers at work and see with what lack of ceremony the foreman deals with the subject of abstract "equality." The "directive faculty," the quality of leadership in thought and action is not only one absolutely needful in all organized undertakings, great or small, but it becomes increasingly rare and, consequently, increasingly more valuable as the object to which it addresses itself increases in size, complexity and difficulty. How much in dollars and cents, not to mention in comfort, enjoyment and contentment, is it worth to the people that Mr. Ford's "directive faculty" in organizing and manufacturing has brought the automobile within reach of those with modest incomes? Even Lenine, that sinister arch-apostle of enforced equality geared to the standard of the lowest level of class selfishness, made the following admission in an official pronouncement to his followers, in April last, embodying one of the lessons which he has learned in the sixth month of his disastrous and blood-stained rule: "We must purchase the services of a thousand first class scientists, specialists and managers, and even though we pay each of these capitalist stars 25,000, 50,000 or even 100,000 rubles a year, they will be cheap at that price."

I have complete confidence in the sober common sense of the American people. I believe that when they have been placed in possession of adequate information, when the pros and cons of a proposition have been fully discussed before them and by them, they can always be relied upon to reach sound conclusions. I am convinced that, while earnestly and determinedly contending for social justice and progress and the greatest attainable diffusion of well-being, contentment and opportunity, they are not prepared to abandon the principles and underlying features of a governmental and social system which has created out of the heterogeneous elements of our population a strong and great, self-reliant and enterprising race and procured for the people prosperity and other advantages superior on the whole to those possessed by any other nation. They will not, I feel assured, permit Americanism to be adulterated by a spirit or by methods having kinship to either world-destructive Prussianism or self-destructive Russianism. They will not, I am certain, cast aside knowingly the theories and principles of institutions which we inherited from the wisest and most enlightened body of men that ever met in deliberative assembly and which are the envy and admiration of the world, in exchange for a regime of bureaucracy, paternalism, socialism or bolshevism.

And these institutions, the most perfect embodiment ever conceived of a true and workable democracy, are based upon the great principle of individualism because the illustrious men who framed our fundamental instrument of government were led by a deep insight into and a wonderefully sagacious recognition of the trend of human affairs and the springs of human actions. They indeed made America "safe for democracy." Let us beware lest in aiming "to make the world safe for democracy" we permit the safety of democracy in our own land to be jeopardized by having the foundations tampered with on which it has rested for a century and a half. By all means, let us be open to new ideas, let us go forward and strive to realize what formerly were considered unattainable ideals, but in boldly venturing forth upon uncharted waters do not let us throw overboard the compass of immutable principles.

The Menace

The menace which I see is not in the deliberate will of the people, but in the fact that under the emotional stress of war, under the patriotic impulse of the time, under the actual or fancied necessity of the war situation tendencies are tolerated and modes of thought and action permitted to gain a footing unopposed, which are apt to create very serious problems upon the return of normal conditions. That menace is aggravated by the fact that from a thoroughly laudable and patriotic desire to sustain the Nation's spokesman and chosen leader in the formidable difficulty and responsibility of his task of conducting the war, we are all reluctant to raise controversies, and most of us would rather swallow our convictions in silence, at whatever discomfort to our mental digestive apparatus, than place ourselves in the position where our patriotism may be doubted or our motives suspected to be those of a selfish concern for our individual or class interests, in a time when selfishness is almost treasonable.

In what I am going to say I wish very distinctly and earnestly to disclaim any intention of criticising our present Government. It would be most unbecoming and improper to do so before this non-partisan gathering in which politics can have no place. What I mean to bring out is not any sins of omission or commission of the present Administration, but unavoidable frailties and shortcomings which are inherent in the very essence of all government and which emphasize the need, particularly in a democracy, of confining the business functions of government to activities which private enterprise cannot undertake equally as well as or better than the State, or which, in the interest of the maintenance of free institutions, private enterprise ought not to be permitted to undertake.

Liberty necessarily limits governmental efficiency. That is part of the price which we pay for freedom. We do

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not begrudge the price. We are prepared to pay any price for the supreme blessing of being free men,—if necessary, even the price of our very lives as many of those did, who procured for us the great legacy of liberty. But why unnecessarily bid up the price against ourselves by extending the scope of governmental activities beyond the field which naturally belongs to them?

Government, in its very essence, is the negation of competition. It is, by the very fact of its being, whatever its name or kind, the monopoly of monopolies. It cannot but be affected with those shortcomings which spring from the absence of competition and the exercise of monopoly. Why, then should a people which rightly discountenances monopoly and rightly believes in the principles of competition, enlarge the operations of governmental agencies further than is required for the recognized purposes which a free government is meant to serve?

In saying this, I do not fail to recognize that certainly during the period of reconstruction, and probably more or less permanently, both here and in Europe, the scope of State activities is bound to increase and must concern itself with, and intercede in, matters which heretofore were left entirely to private enterprise. But this concern and intercession should be such as not to eliminate, or lame, private enterprise, but to make it more effective. In this respect we might learn from the enemy through a careful study of the methods followed in Germany before the war, some of which are worthy of adaptation whilst others must be rejected as being in contrast with our conception of right and morality.

Nor do I fail to recognize, but, on the contrary, I welcome unreservedly—as I am sure we all do—the prospect that in the times which will follow the profound upheaval of the war, the standard by which men will be judged and rewarded will be, more strictly, exactingly and far-reachingly than heretofore, that of work done, duty performed, service rendered. The world will have no place for idlers and social slackers. Rank will reside not in birth or wealth—neither, I trust, will it reside in an office holding caste—but in useful achievement.

The tremendous event of the war will not leave the world as it found it. It will never be quite the same again. To the extent that social and economic institutions, however deep and ancient their roots, may be found to stand in the way of the highest achievable level of social justice and the widest attainable extension of opportunity, welfare and contentment, they will have to submit to change. And the less obstructive and stubborn, the more broadminded, co-operative and disinterested those who pre-eminently prospered under the old conditions will prove themselves in meeting the spirit of the new day and the reforms which it may justly call for, the better it will be both for them and for the community at large.

Socialism

All extremes meet, as the French saying is. From governmental paternalism to socialism is not a very long step. To enter into a discussion of the fallacies of socialism or of its limited form, known as state socialism, would take far more time than even your kindly indulgence would grant me. Suffice it to say that the discoverer of the socialistic creed was a German and that it bears all the earmarks of the German passion for cataloguing and scheduling and ordering men and things in a rigid and cast-iron way. It is characteristic of the German trait of looking upon human beings mainly as state material, of failing to appreciate and respect the passion for freedom among men and nations, and of the German's fundamental lack of enlightened insight into the currents of human nature, especially non-German human nature—which national defects are amongst the principal actuating causes that led Germany to look upon this war as a winning venture instead of recognizing it as the colossal crime which it is and the equally colossal folly which it was bound to be for Germany in its ultimate consequences even if it ended in victory instead of, as it will, in defeat.

It would be futile to deny that some of the credit for the advance which has been made in the last half century, through legislation or otherwise, towards social justice and towards the amelioration of conditions which the conscience of the world ought never to have tolerated, belongs to Socialist suggestion and agitation. To the extent that aims and measures advocated by Socialism may still be found to make for the promotion of public welfare as distinguished from selfish and narrow and ill-conceived class interest, they will not fail to achieve recognition. It would be equally futile to shut our eyes to the fact that not a few of the dangerous and insidious fallacies of Socialism have taken root amongst sections of the American people, which are far from subscribing to its program as a whole. These fallacies present an issue which will have to be squarely met and I believe can be successfully met, as the kindred fallacy of free silver was squarely and successfully met.

But I see all the less reason for testing your patience with a general discussion of Socialism, as I am convinced that we are not now confronted with the serious possibility of the approval by the American people of the tenets and the program of regular Socialism, as expounded by its recognized leaders whom the test of war has exposed as utterly un-American, to say the least.

It is true that a good many—indeed too many—of the fraternity of "intellectuals" for a variety of reasons, some deserving of respect and some less so, are flirting with or have succumbed to Socialism, and that too many of our youth in institutions of learning have surrendered to its seductive appearance, but the bulk of our people recoil from it and the large majority of those composing our labor unions under the leadership of Mr. Gompers have recognized it for the outlandish thing it is and have rejected its blandishments. As Mr. Gompers finely said in one of his speeches a number of years ago:

> "I want to tell you Socialists that I have studied your philosophy: read your works upon economics, and not the meanest of them; studied your standard works both in English and German—have not only read, but studied them. I have heard your orators and watched the work of your movement the world over. I have kept close watch upon your doctrines for thirty years; have been closely associated with many of you, and know how you think and what you propose. I know, too, what you have up your sleeve. And I want to say that I am entirely at variance with your philosophy. I declare it to you, I am not only at variance with your doctrines but with your philosophy.
> "Economically, you are unsound; socially, you are wrong; industrially, you are an impossibility . . ."

No lightning will come, I believe, out of the thundercloud of real Socialism, for the present.

Paternalism

The menace, however, of bureaucratism and semi-socialistic paternalism with their insidious effect upon the very fibre and marrow of the race, confronts us *now*, and it is none too early, even in the midst of the all-absorbing drama of war, for business men to take a stand against their perpetuation in times of peace.

Our British business comrades have pointed the way. Let me quote the following passages from a public pronouncement recently issued in London:

> "The sure and certain result of the present policy, if persisted in, will be neither more nor less than the utter ruin of the established business of a very considerable section of the community, a section noted for its energy and enterprise, and the jeopardizing of our whole foreign commerce by the deliberate scrapping of the organizations of proved efficiency and adaptability through which it has hitherto been conducted, and the substitution for these of an immense bureaucratic organization, which will certainly kill all individual initiative and enterprise. . . .
> "The Iron, Steel, Tinplate and Metal Merchants of this country, recognizing the serious state into which the nation's trade is surely drifting, have formed themselves into a Federation. . . . They invite the other classes of the merchant trading community to form similar federations with the same objects. . . .
> "They consider that these Government departments, which were set up for war conditions only (and which would not otherwise have been tolerated for a week), desire, if possible, to perpetuate their existence, and if they are allowed to have their way now they will wreck the whole system upon which our world-wide trade has been built up and established."

It may be stated as an axiom that while bureaucracy and efficiency may go together under an autocratic regime, it is impossible in the very nature of things for bureaucracy to go together with efficiency

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in a democracy. Nor, indeed, can paternalism and liberty exist side by side.

"But how do you reconcile," I may be asked, "this statement with what you said a little while ago about the marvelous efficiency of our democratic army?" My answer is that the efficiency of the army is not a contradiction of, but a confirmation of my thesis, because the army in war times is and must be organized and administered upon an autocratic basis. Obedience, discipline, esprit de corps, unquestioning submission to established authority, complete merging of self in the task on hand are of its very essence. Promotion is according to merit, selection according to qualifications, political pull and interference are conspicuous by their absence. Were these things not so, the army could achieve little, whatever the bravery of all ranks. Will any one say that this is a picture of the habitual frame of mind and disposition of our civilian popoulation or of the practices of our Government, Democratic or Republican, in ordinary times? We all know it is not, and it never well be a life-like picture of us in our normal state. "Never" is a big word, but if the experience of many centuries may be taken as a guide, it may safely be applied to certain essential qualities of human nature, excepting temporary conditions when, under the impulse of a great emergency, the floodgates of what is highest and noblest in man are opened and the mighty current carries us along to regions not ordinarily within our power to attain.

What are the elements which compose our governmental agencies—executive, legislative and administrative—including those instruments of government which of late years have become more and more numerous and important, i.e., Commissions and Boards? Far be it from me to wish to reflect upon the ability, the character and the motives of our public servants in general. Indeed, it is my conviction that generally speaking their standard of capacity, industry, devotion to duty and conscientious effort to seek the right and to promote the people's welfare is deserving of a good deal more recognition than is usually accorded to it.

But surely no candid estimate would not claim that acquaintance with, and experience in, handling large business affairs—let alone international business affairs—are prevalent in normal times among those in executive, legislative and administrative positions in our country. Now, you and I, who are trained in business, have all we can do to conduct our respective concerns and personal affairs with a fair measure of success. On what ground, then, can it be assumed that by becoming endowed with the dignity of a governmental appointment, men of average or even much more than average ability will develop the capacity to run successfully the huge and complex business undertakings which the devotees of paternalism would place in their charge? I know, of course, the arguments of the preachers and prophets of governmental assumption of divers functions heretofore belonging to private enterprise. I know their denunciation of what they consider the selfishness, the greed, the oppression, the economic waste and social injustice of the established order of business, and the sweeping conclusions they draw from the scandals or abuses which, from time to time, in sporadic cases have unfortunately demeaned the conduct of such business.

But granting some, granting, for argument's sake, many or even all of their allegations, would a regime of paternalism and bureaucracy afford the remedy? Do they find support in history, ancient and modern, for their plea? Have our city administrations, for instance—(and to run a city is essentially little different from running a business organization) been such as to show superiority over, or equality with, private enterprise? Has the management of our postal department, which is purely a business proposition, and an easy one at that? Is it conceivable that an army of government clerks such as a bureaucracy would have to create, with its deadening routine and its absence of incentive, could come anywhere near equalling in efficiency and initiative the private employees stimulated by the inevitable and never ceasing search and demand for capable men which is bound to bring the ablest to the top in private business and to reward them with position and compensation? Has our civil service brought men to cabinet or other leading positions as the great majority of our leading men in business have risen from the ranks? Has the State anywhere or at any time produced results comparable with the best of those produced by private effort, taking into account both efficiency and economy? Have its officials shown themselves amenable to new ideas? Have they encouraged or even recognized new inventions? Have they fostered initiative? I do not wish to weary you with a string of similar questions which could be prolonged to almost indefinite length, and the answer to all of which is emphatically "No."

Bureaucracy is either wasteful, stagnant and inefficient or when it is efficient, as in Germany, ruthless in its methods, obnoxious in its spirit, and morally poisonous in its effect. Bureaucracy resents progress, vision and innovation because these are disturbing and antagonistic to the very essence of its being—routine. An English writer has pointed out the characteristic fact that Columbus was disbelieved, turned down and sneered at by all the bureaucracy of his day and country, and that it was two private patrons who enabled him to realize his vision. Bureaucracy has hardly changed since then in its essentials.

In our own case the soil for the growth of the noxious weeds which spring from the seed of bureaucracy is particularly fertile, for a variety of reasons. One of them consists in the fact that our capital city is not, as are the other principal capitals of the world, a great commercial city, but is located on a back-water, so to speak, away from the great and fast flowing currents of commerce and industry and their attendant activities, and out of contact with the doers of things. The result is that Washington is heavy with the atmosphere of politics and pervaded, as no other capital I know, with the spirit and the very odor of things governmental. We are all more or less creatures of our surroundings, and instances will occur to most of you of the changes which the atmosphere of Washington has wrought upon men whose mental processes and tendencies of thought and action we thought we knew thoroughly well and whom we believed proof against such influences.

Another thing, more or less peculiar to our political ways and fatal to the attainment of governmental efficiency of a high order, is the custom of changing officials with a change of administration. Of course, a great many government employees are protected in their tenure by civil service rules, but a considerable number—and those the most important ones—are not. Moreover, because of the lack of scope for their ambitions, the insufficiency of material incentive, the vexations of red tape and because of sundry other reasons, it is a well-known fact that, generally speaking, except in the army and navy, many of the best men do not remain in the Government service for any great length of time, while the less competent, and particularly the least competent ones, hang on forever, snugly fixed in a governmental berth. It is precisely the reverse of the ways of private business, these ways being continuity of direction and policy, incentive and reward and permanency of tenure for the man of ability, and weeding out of the incompetent ones.

A characteristic instance of the protean changeableness of governmental bodies is afforded by the Federal Trade Commission. This institution, which was created but four years ago, is charged with functions for the effective fulfillment of which stability of personnel and consistency of policy and program are absolutely essential. Yet, not a single one of the original appointees remains today on the Commission. Its policy, methods and conceptions have been utterly and radically reversed in the space of a few years. Under its original chairman, it had the confidence, good-will and respectful following of the business community in its constructive and helpful work. What the sentiments of the business community are, in respect of the activities and the personnel of the Commission as now constituted, is plainly set forth in the recent memorandum on this subject addressed to President Wilson by the Chamber of Commerce of the United States.

An American bureaucracy, if paternalism were to be permitted to strike root in our country, having the center of its being in Washington, would be apt, therefore, to become a most characteristic sample of the foibles, defects and drawbacks which the bureaucratic species is heir to. Even under existing conditions, with the quickening effect of war upon administrative activity, the time and effort spent by business men in traveling to what for the present has become the center of all dispensations—Washington, in hanging around departmental bureaus, seeking the man or the committee authorized to make decisions, trying to get attention and action, and so forth—amounts to an appalling total of lost energy. A recently published report by one of the Senate Committees contains the following passages descriptive of the workings of bureaucracy:

". . . functions, ill-defined, conflicted with or overlapping each other. Contractors, inventors, material men, every one having business, . . . directed from one official to the other, could not well transact their business and secure results with directness and efficiency. While this condition seems to be inseparable from official business routine in Washington, etc. . . ."

As bearing upon the question of transferring business functions from private control to Government control, I need hardly enter into the subject of the vastly increased cost which such a transfer would involve, because governmental extravagance and costliness of method have become proverbial. It was Senator Aldrich—a man in the habit of weighing his words—who said, on the strength of many years' experience with, and observations of, public affairs, that if our governmental expenditures could be administered on the principles and methods prevailing in private business, the cost to the people could be reduced by two hundred million dollars per year. Bear in mind that this was said at a time when our expenditures were normal, and then apply it to expenditures immensely enlarged.

THE NEED FOR SOBER REASONING

To win the war and to deal with the problems incident to, and resulting from it, bravery and patriotic devotion alone are not sufficient. Reason must check emotion, reflection must curb impulse. Sober and earnest thought is called for and the moral courage to speak one's convictions, with the sole limitation that they must be the convictions of a loyal American and not such as are calculated when uttered to give aid and comfort to the enemy and as tend to weaken the nation's war effort and determination to achieve complete victory.

It is easy to float with the prevailing surface currents of the day, and tempting to attune one's utterances to sentiments which are sure to meet with popular applause. But the value of an exchange of views lies in the difference of views honestly held and presented. It is through free discussion, through the meeting of conflicting opinions in the public forum, that the truth is sought and ascertained in a Republic. And Truth is a stubborn and exacting thing. She will respond neither to the stormy wooing of the visionary nor to the more subdued call of selfishness. We business men shall not be accused of following visionary aims. Nor, on the other hand, are we any more selfish than is inherent in the imperfections of average human nature. But what the time imperatively calls for is that we rise above our normal selves, that to the best of our conscience and ability we cast aside self-interest and class interest and that we merge ourselves in the great and high task to which the nation has set its hand. It is with a full appreciation of this obligation resting upon every one of us—and especially those of us who for the moment are permitted to speak publicly to and for business men—and with an earnest desire to meet this obligation to the best of my conscience and judgment that I have reached the views and conclusions which I have ventured to express before this distinguished body.

The other day, I heard a distinguished labor leader pronounce a statement which, as far as I have retained it in my memory, runs as follows:

"I have always done, and shall always do, my utmost to bring about the maximum of democracy, of social justice, and of opportunity for all and to establish the very best possible conditions for the masses of our people, to the extent that these things do and can conform to the practically attainable at the time without doing more harm than good. To the extent that they are not so attainable, I am willing to discard them or defer them to a more propitious time."

I wholly subscribe to that, and I do not see how any genuine adherent of democracy and well-wisher of humankind can fail to subscribe to it.

A few days later I came across an article by that gifted and clear-thinking statesman, Senator William E. Borah, in which, referring to tendencies which would make of the United States "a Republic in form but a bureaucracy in fact," he uses the following language:

"It may be possible to devise some system of government more deadening to individual initiative, more destructive to human progress,

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more burdensome to the people than a bureaucracy, but so far God, in His infinite mercy, has not permitted it to curse the human family. Up to date, the worst of all forms of government is a bureaucracy."

And to that also I subscribe.

Gentlemen, the picture of bureaucratic paternalism fastening its shackles upon a nation, which went to war to preserve liberty, is not a fanciful one. Through the accident of war, paternalism at present rules supreme. That is inevitable in war time. The one and supreme task before the nation is to win the war. No personal or business consideration must be permitted to stand in the way of the necessities of that task, and no one must for one moment hesitate to submit to them. We are not criticising or complaining of the present facts, we are thinking of the future. Officialdom is in possession. It is entrenched in power beyond what it dared to hope for in its fondest dreams. And power is sweet. Officialdom and those who feed at its table will not easily give it up. It is but human nature that they should come really to believe and endeavor to induce the people to believe that it is for the best to leave in the Government's charge permanently much of that which has been confided to it in the stress of the emergency of war.

Bureaucracy has, and will have, an array of plausible arguments to support its plea. I heard a Government official exclaim dramatically in the course of a speech before a great meeting: "If such and such a measure is good enough for us to adopt in war times, when our sons and brothers are offering their lives abroad, why is it not good enough for us to continue to have in peace time, when our sons and brothers will again be leading their lives in our midst?" The answer is, of course, that war is, fortunately, an utterly abnormal condition and that much of what is appropriate and needful in war times is inapplicable, harmful and even pernicious in peace times. But the answer was not given, and the orator's question was greeted with approving applause.

Paternalism, under a variety of names and disguises, will have the support of the vast army of those who live or hope to live on its huge patronage. It will have the support of the popularity-seeker, the opportunist and the demagogue; of many who are rightly desirous to further social justice, but do not go to the effort of painstakingly studying and critically examining in the light of reason and experience the ways and means which are available to that end "without doing more harm than good," and of some who are moved by envy (consciously or, more often, unconsciously) towards those who have been materially successful. It will have the support of numerous dwellers in air castles who want to see the world regulated and ordered after the pattern of their dreams, and of the socialist who sees in the assumption by the Government of various functions heretofore left to private enterprise, and of various regulating activities heretofore left to the free play of economic forces, the first step towards the adoption and realization of his full program.

The movement will be countenanced by many who do not sufficiently appreciate, in the face of the lessons of all history, ancient and modern, that the only free government which ever has lasted, or ever can last, was and is a government which gives the broadest scope to the individual, limited only by equally broad but wisely conceived regard for the general welfare. Liberty means neither uniformity nor the rule of mediocrity. Liberty is strong enough and conscious enough of its strength not to fear but to foster individual capacity. If political liberty is not the sum of individual liberties, fairly ordered and reasonably restrained, it is not liberty at all.

It would be a tragedy, if it were to be permitted that whilst our boys are fighting for liberty, the great and splendid structure of ordered and enlightened freedom and covenanted individual rights, which was handed down to all Americans, should be invaded by that most insidious foe of liberty, paternalism, with its allies and close relatives, bureaucracy and socialism. It would be a grievous affliction if under the emotional stress and turmoil produced by war, our people were to tolerate doctrines to take a footing on our soil, which their sober wisdom heretofore has scornfully rejected as will-o'-the-wisps and as un-American. It would be bitter irony of fate if whilst democracy triumphed on the bloody fields of war over that arch representative of the paternalistic system and spirit, Germany, our own governmental and social conceptions and practices were to be infected with the Prussian poison of paternalism and bureaucracy.

The illustrious men who founded the United States of America gave us the wisest instrument of government which the wit of man has ever devised. Gladstone called it "the most wonderful work ever struck off at a given time by the brain and purpose of man." A great British jurist referred to it as "the bulwark of American individualism." Faith in individual effort, and the aim to give it incentive and protection are of its very warp and woof. Under that instrument this Republic, through test and trial and storm, has lived for near a century and a half—a space of time far longer than any other genuine republic has ever endured. While prospering materially beyond all parallel, it has maintained high and noble ideals. While devoted to the arts of peace, it has preserved its sturdy virility, and, whenever called upon, has splendidly demonstrated its undiminished martial prowess. It has been the land of opportunity, beckoning to and drawing hither men and women from all countries of the world. We do not pretend that it has achieved perfection in its social conditions, we earnestly desire even further progress toward that end, but we do claim that it has offered and offers to the masses of its people a fairer and larger field and more of reward and of well-being than exists anywhere else.

Gentlemen, it is the task and the duty of all men and women having a stake material or spiritual in the present and future of the nation, to resist those who would remove or loosen the cornerstone on which our institutions rest—individual effort. And amongst those who are called to that task and that duty, the business men of America have a leading place. We yield to none, either in the intensity of our patriotism or in the earnestness of our desire to bring about the greatest attainable well-being for all the people. We look ahead, after victory and peace shall have been achieved, to a forward movement, to an ever more widely diffused prosperity, to opportunities and achievements in the field of the material as well as of the ideal, such as has rarely fallen to the lot of any people, provided always that our country remains steadfast to its tried and tested principles and time-honored traditions, wisely and fairly and progressively adjusting their application to the needs of the day.

To that end, we must stand together, counsel with each other and work together. We must give voice to our convictions. We must become a militant phalanx in the cause of that which we profoundly believe to be right and wise and just and making for the greatness of America and the happiness and welfare of her people. We are living in a portentous time, big with the destiny of the world, for good or ill, for generations to come. The problems of the immediate future *loom large before us. That nation which will best know how to combine the dictates of social justice with incentive and protection to individual effort will secure the prize of world leadership no less than of opportunity, well-being and contentment for the masses of its own people.*

Some fifty years ago, President Lincoln addressed these words to Congress:

"You cannot, if you would, be blind to the signs of the times. I beg of you a calm and enlarged consideration of them, ranging, if it may be, far above personal and partisan politics. . . . So much good has not been done, by one effort, in all past time, as in the Providences of God it is now your high privilege to do. May the vast future not have to lament that you have neglected it."

Our collective responsibility as well as the responsibility of each patriotic and thoughtful American is heavy indeed in the face of the times and the signs of the times. Well may we pray that the spirit of that noble invocation and the tolerance and moderation, the deep human understanding and wise, dispassionate vision of the immortal American who uttered it, may lead and inspire the American people and those constituted by them in authority, in the trials of the present and the perplexities of the future. Well may we pray that we be vouchsafed the guidance of that spirit both in the solemn days of sacrifice and consecration through which we are passing, and in the high task of making fruitful, for the good of our own country and of all the world, the victory and the triumph which will crown our righteous cause.

PART II

The Government and the Railroads

Questions of War Taxation

Paternalistic control, even when entirely benevolent in intent, is generally harmful in effect. It is apt to be doubly so when, as sometimes occurs, it is punitive in intent.

THE GOVERNMENT AND THE RAILROADS

The history of our railroads in the last ten years is a case in point. In their early youth our railroads were allowed to grow up like spoiled, wilful, untamed children. They were given pretty nearly everything they asked for, and what they were not freely given they were apt to get somehow, anyhow. They fought amongst themselves and in doing so were liable to do harm to persons and objects in the neighborhood. They were overbearing and inconsiderate and did not show proper respect to their parent, i. e., the people. But the fond parent, seeing how strong and sturdy they were and on the whole, how hustling and effective in their work, and how, with all their faults of temper and demeanor, they made themselves so useful around the house that he could not really get along without them, only smiled complacently at their occasional mischief or looked the other way. Moreover, he was really too busy with other matters to give proper attention to their education and upbringing.

As the railroads grew toward man's estate and married and begot other railroads, they gradually sloughed off the roughness and objectionable ways of their early youth, and though they did not sprout wings and though once in a while they still did shock the community, they were amazingly capable at their work and really rendered service of inestimable value.

But meanwhile, for various reasons and owing to sundry influences, the father had grown testy and rather sour on them. He cut their allowance, he restrained them in various ways, some wise, some less so, he changed his will in their disfavor, he showed marked preference to other children of his. And one fine day, partly because he was annoyed at the discovery of some wrongdoing in which, despite his repeated warnings, a few of the railroads had indulged (though the overwhelming majority were blameless) and partly at the prompting of plausible self-seekers or well-meaning specialists in the improvement of everybody and everything—one fine day he lost his temper and with it his sense of proportion. He struck blindly at the railroads, he appointed guardians (called commissions) to whom they would have to report daily, who would prescribe certain rigid rules of conduct for them, who would henceforth determine their allowance and supervise their method of spending it, etc. And these commissions, naturally wishing to act in the spirit of the parent who had designated them, but actually being, as guardians are liable to be, more harsh and severe and unrelenting than he would have been or really meant to be, put the railroads on a starvation diet and otherwise so exercised their functions, with good intent, doubtless, in most cases, that after a while those railroads, formerly so vigorous and capable, became quite emaciated and several of them succumbed under the strain of the regime imposed upon them. And then, seeing their condition and having need, owing to special emergencies, of railroad services which required great physical strength and endurance, one fine morning the parent determined upon the drastic step of taking things into his own hands. And so forth . . .

To drop the style of story telling: Individual enterprise has given us what is admittedly the most efficent railroad system in the world. It has done so whilst making our average capitalization per mile of road less, the scale of wages higher, the average rates lower, the service and conveniences offered to the shipper and the traveler greater than in any other of the principal countries. It must be admitted that in the pioneer period of railroad development, and for some years thereafter, numerous things were done, and although generally known to be done,

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were tolerated by the Government and the public, which should never have been permitted. But during the second administration and upon the courageous initiative of President Roosevelt these evils and abuses were resolutely tackled and a definite and effective stop put to most of them. Means were provided by salutary legislation, fortified by decisions of the Supreme Court, for adequate supervision and regulation of railroads.

The railroads promptly fell in line with the countrywide summons for a more exacting standard of business ethics. The spirit and practices of railroad administration became standardized, so to speak, at a moral level certainly not inferior to that of any other calling. It is true, certain regrettable abuses and incidents of misconduct still came to light in subsequent years, but these were sporadic instances, by no means characteristic of railroading methods and practices in general, condemned by the great body of those responsible for the conduct of our railroads, no less than by the public at large, and entirely capable of being dealt with by the existing law, possibly amended in nonessential features, and by the force of public opinion.

Unfortunately, the law enacted under President Roosevelt's administration was not allowed to stand for a sufficient length of time to test its effects. The enactment of new railroad legislation in 1909, largely shaped by Congressmen and Senators of very radical tendencies and hostile to the railroads, and acquiesced in by President Taft with ill-advised and opportunist complacency, established, for the first time in America, paternalistic control over the railroads. It was an unscientific and ill-devised statute, gravely defective in important respects and bearing evidence of having been shaped in heat, hurry and anger. Mr. Taft himself, it seems, has since recognized its faultiness, for he has repeatedly and publicly protested against the over-regulation, the starvation and the oppression of the railroads, which were the inevitable and easy-to-be-forseen consequences of its enactment. The States, to the extent that they had not already anticipated it, were not slow to follow the precedent set by the Federal Government. The resulting structure of federal and state laws under which the railroads were compelled to carry on their business, was little short of a legislative monstrosity.

You all know the result. The spirit of enterprise in railroading was killed. Subjected to an obsolete and incongruous national policy, hampered, confined, harassed by multifarious, minute, narrow, and sometimes flatly contradictory regulations and restrictions, state and federal, starved as to rates in the face of steadily mounting costs of labor and materials—that great industry began to fall away. Initiative on the part of those in charge became chilled, the free flow of investment capital was halted, creative ability was stopped, growth was stifled, credit was crippled. The theory of governmental regulation and supervision was entirely right. No fair-minded man would quarrel with that. The railroads had exercised great, and in certain respects undoubtedly excessive power for a long time, and all power tends to breed abuses and requires limitations and restraints. But the practical application of that theory was wholly at fault and in defiance of both economic law and common sense. It was bound to lead to a crisis. It is not the railroads that have broken down, it is our railroad legislation and commissions which have broken down.

And now the Government, in the emergency of war, probably wisely and, in view of the prevailing circumstances, necessarily, has assumed the operation of the railroads. The Director General of Railroads, rightly and courageously, proceeded to do immediately that which the railroads for years had again and again asked in vain to be permitted to do—only more so. Freight rates were raised 25 per cent, passenger rates in varying degrees up to 50 per cent. Many wasteful and needless practices heretofore compulsorily imposed were done away with. Passenger train service, for the abolition of some of which the railroads had petitioned unsuccessfully for years, was cut to the extent of an aggregate train mileage of over 47,000,000. The system of pooling for which since years many of the railroads had in vain endeavored to obtain legal sanction was promptly adopted with the natural result of greater simplicity and directness of service and of considerable savings. The whole theory under which intelligent, effective and systematic co-operation between the different railways had been made impossible formerly, was thrown into the scrap heap.

Incidentally, certain services and conveniences were abolished, of which the railroad managements would never have sought to deprive the public, and the very suggestion of the abrogation of which would have led to indignant and quickly effective protest had it been attempted in the days of private control. Lest this remark might be misunderstood, let me say that I have no word of criticism against Mr. McAdoo's administration of the railoads, as far as I have been able to observe it. I think, on the contrary, that he is entitled to great praise and that he has handled the formidable and complex task confided to him with a high degree of ability, fine courage, indefatigable energy, and with the evident determination to keep the running of the railroads clear of politics and to make them above all things effective instruments in our war effort.

Time does not permit me to enter into the general subject of Government ownership or operation of railroads. For a concise statement of the results accomplished elsewhere under that system, I would recommend you to obtain from the Public Printer, and to read, a short pamphlet entitled "Historical Sketch of Government Ownership of Railroads in Foreign Countries," presented to the Joint Committee of Congress on Interstate Commerce by the great English authority, Mr. W. M. Acworth. It will well repay you the half hour spent in its perusal. You will learn from it that, prior to the war, about 50 per cent of the railways in Europe were state railways; that in practically every case of the substitution of government for private operation (with the exception, subject to certain reservations, of Germany) the service deteriorated, the discipline and consequently the punctuality and safety of train service diminished, politics came to be a factor in the administraton and the cost of operatons increased vastly. (The net revenue, for example, of The Western Railway of France in the worst year of private ownership was $13,750,000; in the fourth year of government operation it fell to $5,350,000.) He quotes the eminent French economist, Leory-Beaulieu, as follows:

> "One may readily see how dangerous to the liberty of citizens the extension of the industrial regime of the State would be, where the number of functionaries would be indefinitely multiplied. . . . From all points of view the experience of State Railways in France is unfavorable as was foreseen by all those who had reflected upon the bad reults given by the other industrial undertakings of the State. . . . The State, above all, under an elective government, cannot be a good commercial manager. . . . The experience which we have recently gained has provoked a very lively movement, not only against acquisition of the railways by the State, but against all extension of State industry. I hope . . . that not only we, but our neighbors also may profit by the lesson of these facts."

Mr. Acworth mentions as a characteristic indication that after years of sad experience with governmentally owned and operated railways, the Italian Government, just before the war, started on the new departure (or rather returned to the old system) of granting a concession to a private enterpise which was to take over a portion of the existing state railway, build an extension with the aid of state subsidies, *and then work on its own account both sections as one undertaking under private management.* I may add, as a fact within my own knowledge, that shortly before the outbreak of the war the Belgian Government was studying the question of returning its state railways to pivate enterprise and management.

Mr. Acworth relates a resolution *unanimously* passed by the French Senate a few years after the State had taken over certain lines, beginning: "The deplorable situation of the State system, the insecurity and irregularity of its workings." He gives figures demonstrating the invariably greater efficiency, economy and superiority of service of private management as compared to State management in countries where these two systems are in operation side by side. He treats of the effect of the conflicting interests, sectional and otherwise, which necessarily come into play under government control when the question arises where new lines are to be built and what extensions to be made of existing lines.

He asks: "Can it be expected that they (these questions) will be decided rightly by a Minister responsible to a democratic legislature, each member of which, naturally and rightly, makes the best case he can for his own constituents, while he is quite ignorant, even if not careless, of the interests, not only of his neighbor's constituency, but of the public at large? And he replied: "The answer is written large in railway history. . . . The facts show that Parliamentary interference has meant running the railways, not for the benefit of the people at large, but to satisfy local and sectional or even personal interests." He maintains that in a country governed on the Prussian principles railroad operation and planning may be conducted by the Government with a fair degree of success, as an Executive function, but in democratic countries, he points out that in normal times, "it is the legislative branch of the government which not only decides policy but dictates always in main outline, often down to the detail of a particular appointment or a special rate, how the policy shall be carried out."

For corroboration of this latter statement we need only turn to the array of statutes in our own States, which not only fix certain railroad rates by legislative enactment, but deal with such details as the repair of equipment, the maximum movement of freight cars, the kind of headlights to be used on locomotives, the safety appliances to be installed, etc.—and all this in the face of the fact that these States have Public Service Commissions whose function it is to supervise and regulate the railroads.

The reason why the system of state railways in Germany was largely free from most, though by no means all, of the unfavorable features and results produced by government ownership and operation elsewhere, is inherent in the habits and conditions created in that country by generations of autocratic and bureaucratic government. But Mr. Acworth points out very acutely that while German manufacturers, merchants, financiers, physicians, scientists, etc., "have taught the world a good deal in the twenty years preceding the war, German railway men have taught the world nothing." And he asks: "Why is this?" And his answer is: "Because they were state officials, and, as such, bureaucrats and routiniers, and without incentive to invent and progress themselves or to encourage or welcome or even accept inventions and progress. It is the private railways of England and France, and particularly of America, which have led the world in improvements and new ideas, whilst it would be difficult to mention a single reform or invention for which the world is indebted to the state railways of Germany."

The question of the disposition to be made of the railroads after the war is one of the most important and far-reaching of the post-bellum questions which will confront us. It will be one of the great test questions, the answer to which will determine whither we are bound. And, it seems to me, one of the duties of business men is to inform themselves accurately and carefully on this subject, so as to be ready to take their due and legitimate part in shaping public opinion, and indeed to start on that task now, before public opinion, one-sidedly informed and fed of set purpose with adroitly colored statements of half truths, crystallizes into definite judgment.

My concern is not for the stock and bond holders. They will, I have no doubt, be properly and fairly taken care of in case the Government were definitely to acquire the railroads. Indeed, it may well be that, from the standpoint of their selfish interests, a reasonable guarantee or other fixed compensation by the Government would be preferable to the financial risks and uncertainties under private railroad operation in the new and untried era which we shall enter after the war. I know, indeed, that not a few large holders of railroad securities take this view and therefore have this preference.

Nor do I speak as one who believes that the railroad situation can be restored just as it was before the war. The function, responsibility and obligation of the railroads as a whole are primarily to serve the interests and economic requirements of the Nation. The disjointed operation of the railroads, each one considering merely its own system (and being under the law practically prevented from doing otherwise) will, I am sure, not be permitted again. The relinquishment of certain features of our existing legislation, the addition of others, a more clearly defined and purposeful relationship of the Nation to the railroads, involving amongst other things possibly some financial interest of the Government in the results of railroad operations, are certain to come from our experiences under Government operation and from a fresh study of the subject, in case the railroads, as I hope, are returned to private management.

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Personally I believe that in its underlying principle, the system gradually evolved in America but never as yet given a fair chance for adequate translation into practical execution, is an almost ideal one. It preserves for the country, in the conduct of its railroads, the inestimable advantage of private initiative, efficiency, resourcefulness and financial responsibility, while at the same time through governmental regulation and supervision it emphasizes the semi-public character and duties of railroads, protects the community's rights and just claims and guards against those evils and excesses of unrestrained individualism which experience has indicated. It is, I am profoundly convinced, a far better system than government ownership of railroads, which, wherever tested, has proved its inferiority except, to an extent, in the Germany on which the Prussian Junker planted his heel and of which he made a scourge and a horrible example to the world; and the very reasons which have made state railways measurably successful in *that* Germany are the reasons which would make government ownership and operation in America a menace to our free institutions, a detriment to our racial characteristics and a grave economic disservice.

PUNITIVE PATERNALISM IN TAXATION

I have spoken of the treatment of our railroads in the past ten years as "punitive paternalism." In some respects this same term may be applied to our existing and proposed war taxation.

Of course, the burden of meeting the cost of the war must be laid according to capacity to bear it. It would be crass selfishness to wish it laid otherwise and fatuous folly to endeavor to have it laid otherwise. We all agree that the principal single sources of war revenue must necessarily be business and accumulated capital, but these sources should not be used excessively and to the exclusion of others. The structure of taxation should be harmonious and symmetrical. No part of it should be so planned as to produce an unscientific and dangerous strain. The science of taxation consists in raising the largest obtainable amount of needed revenue in the most equitable manner, with the least economic disturbance, and, as far as possible, with the effect of promoting thrift.

The House Bill proposes to raise from income, excess or war profits and inheritance taxes $5,686,000,000 out of an estimated total of $8,182,000,000. In other words, almost 70 per cent of our stupendous total taxation is to come from these few sources. It seems to me that the effect and meaning of this is to penalize capital, to fine business success, as well as thrift and self-denial practised in the past, thereby tending to discourage saving. The House bill fails, on the other hand, to impose certain taxes the effect of which is to promote saving. Intentionally or not, yet effectively, it penalizes certain callings and sections of the country and favors others.

Let me say at the outset that my criticism does not refer to the principle of an 80 per cent war profits tax. Indeed, I have from the very beginning advocated a high tax on war profits. To permit individuals and corporations to enrich themselves out of the dreadful calamity of war is repugnant to one's sense of justice and gravely detrimental to the war morale of the people.

Strictly from the economic point of view, the 80 per cent war profits tax is not entirely free from objection. Whether England did wisely on the whole in fixing the tax at quite so high a rate is a debatable point, and is being questioned by some economists of high standing in that country, not from the point of view of tenderness for the beneficiaries from war profits, but from that of national advantage. Moreover, conditions in America and England are not quite identical, and I believe it to be a justifiable statement that British industry is better able to stand so high a tax than American industry, for reasons inherent in the respective business situations and methods. However, everything considered, circumstances being what they are, I believe the enactment of the proposed 80 per cent war profits tax to be expedient, provided that, like in England, the standard of comparison with pre-war profits is fairly fixed and due and fair allowance made, in determining taxable profits, for such bona fide items of depreciation and other write-offs as a reasonably conservative business man would ordinarily take into account before arriving at net profits.

Amongst the principles of correct and effective taxation, which are axiomatic, are these:

1. No tax should be so burdensome as to extinguish or seriously jeopardize the source from which it derives its productivity. In other words, do not be so eager to secure every possible golden egg, that you kill the goose which lays them.

2. In war time, when the practice of thrift is of more vital importance than ever to the nation, one of the most valuable by-products which taxation should aim to secure is to compel reduction in individual expenditures.

3. Taxation should be as widely diffused as possible, at however small a rate the minimum contribution may be fixed, if only to give the greatest possible number of citizens an interest to watch governmental expenditure, and an incentive to curb governmental extravagance.

It may safely be asserted that our war taxation runs counter to every one of these tested principles.

The characteristic difference between the House Bill and the revenue measures of Great Britain (I am not referring to those of France and Germany because they are incomparably less drastic than ours or Great Britain's) is, first, that we do not resort to consumption taxes and only to a limited degree to general stamp taxes, and, secondly, that our income tax on small and moderate incomes is far smaller, on large incomes somewhat smaller and on the largest incomes a great deal heavier. The House rate of taxation on incomes up to, say, $5,000, averages only one-fifth of what it is in England; the House rate of taxation on maximum incomes is approximately 50 per cent higher than it is in England. Moreover, married men with incomes of less than $2,000 are entirely exempted from taxation in this country. In England all incomes from $650 on are subject to taxation.

I believe, on the whole, our system of graduation is juster than the English system, but I think we are going to an extreme at both ends. And it must be borne in mind that our actual taxation of high incomes is not even measured by the rates fixed in the House Bill, because to them must be added State and Municipal taxes. There must further be added what to all intents and purposes is, though a voluntary act, yet in effect for all right minded citizens tantamount to taxation, namely, a man's habitual expenditures for charities and his contributions to the Red Cross and other war relief works.

The sentimental and thereby the actual effect of extreme income taxation is not confined to the relatively small number of people in possession of very large incomes directly affected by it. The apprehension caused by the contemplation of an excessively high ratio of taxation is contagious and apt to react unfavorably on constructive activity.

It is highly important that taxation should not reach a point at which business would be crippled, cash resources unduly curtailed and the incentive to maximum effort and enterprise destroyed. And it should not be forgotten that both theoretically and actually the spending of money by the Government cannot and does not have the same effect on the prosperity of the country as productive use of his funds by the individual.

If all European nations have stopped during the war at a certain maximum limit of individual income and inheritance taxation, even after four years of war, the reason is surely not that they love rich men more than we do or that they are all less democratic than we are. The reason is that these nations, including the financially wisest and most experienced, recognize the unwisdom and economic ill effect under existing conditions of going beyond that limit.

The same observations hold good in the case of our proposed inheritance taxation (maximum proposed here 40 per cent, as against 20 per cent maximum in England and much less in all other countries.) And again there are to be added to federal taxation the rates of state legacy and inheritance taxation.

Inheritance taxation, moreover, has that inevitable element of unfairness that it leaves entirely untouched the wastrel who never laid by a cent in his life, and penalizes him who practiced industry, self-denial and thrift. And it cannot be too often said that the encouragement of thrift and enterprise is of the utmost desirability under the circumstances in which the world finds itself, because it is only by the intensified creation of wealth through savings and production that the world can be re-established on an even keel after the ravages and the waste of the war. Furthermore, business men, of necessity, have only a limited amount of their capital in liquid or quickly realizable form, and through the absorption by the inheritance tax of a large proportion of such assets, many a business may find itself with insufficient current capital to continue operations after the death of a partner. This effect is not only unfair in itself, but is made doubly so, as being a discrimination in favor of corporations as against private business men and business houses, inasmuch as corporations are, of course, not amenable to inheritance taxation.

Whilst in the case of the rich we discourage saving by the very hugeness of our taxation, or make it impossible, we fail to use the instrument of taxation to promote saving in the case of those with moderate incomes. And the enormous preponderance of saving which could and should be effected does not lie within the possibilities of the relatively small number of people with large means, but of the huge number of people with moderate incomes. Moreover, while the rich, in consequence of taxation, limitation of profits, etc., have become less able to spend freely since our entrance into the war, workingmen and farmers, through increased wages, steadier employment and higher prices of crops, respectively, have become able to spend more freely.

Workingmen are in receipt of wages never approached in pre-war times, many of them making incomes a good deal higher than the average professional man, while the profits of business, generally speaking, are rather on a declining scale and certain branches of business have been brought virtually or even completely to a standstill.

Of our total national income, conservatively estimated at, say, $40,000,000,000 for the last year before our entrance into the war, i.e., the year 1916, it is safe to say that not more than $2,000,000,000 goes to those with incomes of, say, $15,000 and above, whilst $38,000,000,000 goes to those with lower incomes.

A carefully compiled statement issued by the Bankers Trust Company of New York estimates the total individual incomes of the nation for the fiscal year ending June 30, 1919, at about $53,000,000,000, and calculates that families with incomes of $15,000 or less receive $48,250,000,000 of that total; or, applying the calculation to families with incomes of $5,000 or less, it is found that they receive $46,000,000,000 of that total.

Whilst the House Bill imposes luxury and semi-luxury taxes, it fails—as I have mentioned before—to resort to consumption taxes of a general kind—a deliberate, but, in my opinion, unwarrantable omission.

My advocacy of consumption and similar taxes, such as stamp taxes of many kinds, is not actuated by any desire to relieve those with large incomes from the maximum of contribution which may wisely and fairly be imposed on them. I advocate consumption and general stamp taxes—such as every other belligerent country without exception has found it well to impose—because of the well attested fact that while productive of a very large revenue in the aggregate, they are easily borne, causing no strain or dislocation, and automatically collected; and because of the further fact that they tend to induce economy than which nothing is more important at this time and which, as far as I can observe, is not being practised by the rank and file of our people to a degree comparable to what it is in England and France.

The tendency of the House Bill is to rely mostly on heavy taxation—in some respects unprecedentedly heavy—of a relatively limited selection of items. I am—as I have already said—in favor of the highest possible war profits tax and of at least as high a rate of income and inheritance taxation during war as exist in any other country. But apart from these and a few other items which can naturally support very heavy taxation, such, for instance, as cigars and tobacco, I believe that the maximum of revenue and the minimum of economic disadvantage and dislocation can be secured not by the very heavy taxation of a relatively limited selection, but by a comparatively light taxation distributed over a vast number of items. I believe such taxes would be productive enough to make good the impending revenue losses from Prohibition. I think, for instance, the imposition of a tax of one per cent on every single purchase exceeding, say, two dollars (the tax to be borne by the purchaser, not by the seller) would be productive of a large amount of revenue and be harmful to none. A

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similar tax was imposed in the course of the Civil War and appears to have functioned so well and met with such ready acceptance that it was not repealed until several years after the close of that war.

There is apparently small limit to the zeal of many politicians and others when it is a question of taxing business and business men, especially those guilty of success. We are, I believe, justified in inquiring to what extent there is a relation between this tendency and political considerations which ought to be remote fom the treatment of economic subjects such as taxation.

Let us take, as an instance, the case of the farmer. I do not pretend to judge whether in these war times the farmers of the country are bearing an equitable share of taxation in proportion to other callings or not. I certainly recognize that they are entitled to be dealt with liberally, even generously, for I know the rigors of the farmers' life, the ups and downs of their industry's productivity, and fully appreciate that there work lies at the very basis of national existence. Everything that can fairly make for the contentment, well being and prosperity of the farmer is to be wholeheartedly welcomed and promoted.

Yet, we cannot avoid noticing that the average value of farm lands in this country is estimated to have increased between 1900 and 1918 more than 200 per cent, that the value of farm products has been vastly enhanced, but that according to the latest published details of income tax returns, the farmer contributes but a very small percentage to the total income tax collected. Of twenty-two selected occupations the farmers' class contributes the least in the aggregate, although it is numerically the largest class in the country.

Let it be clearly understood that I have not the remotest thought of suggesting "tax dodging" on the part of the farmers. I know well how fully they are doing their part toward winning the war, and am entirely certain that they are just as ready to carry patriotically their due share of the financial cost of achieving victory as the splendid young fellows taken from the farms, many of whom I met in Europe, have been ready to bear their full share of the cost in life and limb of achieving victory.

The point of my question is not the action and attitude of the farmer. But here is a great industry exempt from the excess profit and war profit tax and apparently not effectively reached by the income tax, which is entirely natural, because in this case the income tax can neither be retained at the source nor are the large body of the farmers, many of whom do not keep and cannot be expected to keep books, in a position to determine their taxable income. Is it conceivable that the politicians who are so rigorous in their watchfulness that no business profit shall escape the tax-gatherer would not devise means to lay an effective tax if the same situation existed in a business industry? The point of my question is, taking the case of the farmers as an instance, whether in framing our system and method of taxation, the steady aim has been to ascertain impartially what is equitable and wisely proudctive of revenue and to act accordingly, or whether considerations of the anticipated effect of taxation measures upon the fortunes of individual legislators or of their party, have been permitted unduly to sway their deliberations and conclusions.

Turning aside from this interrogation mark, I will only add, in returning to our general scheme of taxation, that there are numerous taxes of a tried and tested and socially just kind—some of them applied in this country during the Civil War and the Spanish War—which would raise a very large amount of revenue and yet would be little felt by the individual. Some of them have been suggested to our legislators, but have not found favor in their eyes. Their non-imposition, taken together with the entire character of our taxation program, the burden of which falls to an enormously preponderant extent upon the mainly industrial States and the business classes, not only proportionately, which, of course, is just, but discriminatingly, which is not just, seems hardly explainable except on the theory that the intention of those who were primarily in charge of framing that program was punitive and corrective and that they were influenced—though I am willing to believe unconsciously—by sectional and vocational partiality.

The fact that the revenue bill was passed in the House by a unanimous vote does not mean, of course, that it met with unanimous approval on the part of Congessmen. The debate shows this. The bill, as reported after months of labor, either had to be approved practically as it stood or rejected and returned to the Committee. It is not possible for a body of 400 men to deal in a detailed manner with a subject so complex as a taxation measure of the magnitude of the present one. The bill could not be made over or materially amended in the House. In view of the urgency of the emergency and the vital need to raise the sum asked for by the Treasury, no patriotic course was open to the House but to accept the bill and pass it up to the Senate.

I know it is not popular to say things in criticism of war burdens of a financial nature. One's motives are liable to be misunderstood or misinterpreted and he is very apt to have it scornfully pointed out to him how small relatively is the sacrifice asked of him, compared with the sacrifice of position, prospects, and life itself, so willingly and proudly offered by the young manhood of the land. It is a natural and effective rejoinder, but it is not a sound or logical one. Heaven knows, my heart goes out to our splendid boys, and my admiration for their conduct and achievements and my reverence for the spirit which animates them knows no bounds. But I am acquainted with hundreds of business men who bemoan their gray hair and their responsibilities, which prevent them from having the privilege of fighting our foe arms in hand. And I know no American business man worthy of the name, who would not willingly give his life and all his possessions if the country's safety and honor required that sacrifice.

The Merchant Marine and the Railroads

By H. A. WHEELER, President, Chamber of Commerce of the United States, and Vice-President of the Union Trust Co. of Chicago.

In order that you may acquit me of indiscretion in the choice of a subject, or of lack of appreciation of the extent of its ramification, I must confide in you that this subject is of your President's choosing rather than mine, and I am obeying orders to present for your consideration some observations that may perchance furnish a little food for thought, even though they offer no conclusion or point to no solution.

The subject is in reality "Transportation." The inquiry is with regard to its present and future development and control.

Transportation—rail, inland water, and overseas—has, as a result of war emergency, been lifted out of the field of academic discussion and today constitutes a problem of the most vital character to all classes of our people. The solution demands impartial study, flexible thinking, and a willingness to abandon some cherished ideas for the sake of truth and progress.

Conditions that influence our thinking with respect to development, ownership, control, operation, or regulation, have so far changed as to compel the abandonment of declarations that were once most common regarding the possibility and effect of public control, and we are confronted with a new set of facts which overthrow our old barriers of thought, force a suspension of pre-war conclusions, and compel a new survey of the field and an adjustment not to theories but to outstanding though to some unpalatable facts.

Transportation lies at the root of national prosperity. It is of paramount importance in war time in carrying out the war program, but with the return of peace it becomes the foundation stone beneath our economic structure.

If we could put our problems with respect to both merchant marine and railroad in the form of laboratory exhibits and analyze them with scientific impartiality, we would, at least, come to know the problems better and the solution would be more in keeping with public welfare than with either political or private interest.

As a nation we have no reason to be proud of our merchant marine policy as expressed in legislation of the decade prior to 1914. If our legislative course was destructive, the fault was not wholly with the law makers, who doubtless believed that they were accurately registering public sentiment, but with the lack of consciousness of the necessity of a merchant marine as contributing to our national prosperity.

To produce a creditable overseas service involved the settlement of a number of highly controversial questions upon which we were divided politically and geographically without regard to politics. The interior was quarrelling with the coast over mail subventions and subsidies. The coast was pointing to labor differentials as between the United States and other maritime nations, and asserting that ships could neither be built in American yards nor sailed under our flag until the differentials had been removed or equalized. Sellers of raw materials for export exceeded sellers of finished products, and bottoms flying foreign flags were available to carry our raw products abroad, while finished products must await the pleasure of competitive countries to provide us with deliveries to markets awaiting our products.

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We lost sight of three controlling factors:

1. That permanent or enduring national prosperity depends not upon selling our raw products and buying back the finished commodities, but in converting our raw products and retaining both profits at home.

2. That if we would add to the variety of raw products for conversion, we must be able to provide for their transportation to our own shores, and in the same bottoms return our finished manufactures to the countries from whom we buy.

3. That subvention and subsidy are expansive as between competing nations, and never can be depended upon to equalize permanently existing differentials in cost of ships and of operation.

Successful building of merchant ships depends upon standardization, upon willingness to exercise the same courage, ingenuity and skill that have characterized our development of other industries, and upon getting into the consciousness of the people, not the reasons why we cannot succeed, but the confidence that we can and must overcome all obstacles, not by artificial and temporary aids, but by efficiency and skill as the only paramount levelers of competitive conditions.

Successful operation of merchant ships depends, not upon cheap labor and subvention of subsidy, but upon efficient and well paid labor in whom the spirit of team play can be instilled and whose interest in winning lies in something more than multiplying profits to the employer.

Successful operation of merchant ships depends upon quick turn around and the number of ton miles constituting the year's work rather than the number of days at anchor or at berth awaiting discharge or receipt of cargo. This necessitates port facilities of modern type and co-operation of land transportation agencies working in close harmony with vessel movement.

Successful operation of merchant ships depends upon abundant available cargo for round trip, and with our lack of appreciation of export trade, our short-sighted policy in solicitation, in adapting our productions to the demands of our would-be customers, and in our inadequate and often unintelligent facilities for financing export operations, we find one of the most difficult of all obstacles to the maintenance of a successful American merchant marine.

Part of our problem is being solved for us by the demands of war. Whereas in 1916 our merchant marine had dwindled to two and one-half million dead weight tons of ships, two million tons of which were in coastwise trade, we have today, by one authority, more than four million tons of our own and three million tons seized and chartered, while another authority estimates the American merchant marine controlled by the Shipping Board at 2,185 vessels, aggregating nine and one-half million tons, while the ship program comprises 2,300 contract ships of thirteen and one-half million dead weight tons. In other words, our American merchant marine, when the present program is fulfilled, will consist of more than twenty million dead weight tons, or about the equivalent of Great Britain's merchant shipping at the beginning of the war.

Our problem is, how shall we use this new instrumentality which the emergency of war has placed in our hands?

Ships have no value except as cargo carriers. If a nation has no ambition to acquire foreign markets for its production, or if it uses foreign markets only as a dumping ground of its surpluses, it cannot sustain a merchant marine, nor doe it deserve onue.

It will require more intensive education and propaganda than we have conducted in the past to make the search for foreign markets a practice rather than a plaything. It involves training our boys to go to foreign lands and live—to carry with them not a line of samples only, but a consciousness that they are the advance agents of the nation, establishing commercial relationships which are to persist and which some day, when conditions are depressed at home, will save their business from loss or disintegration.

Upon the American banker as an individual more than upon any other factor rests the responsibility for encouraging and even pushing out into larger fields the timid or self-satisfied producer whose adviser you are.

Under what flag shall this great merchant marine we are building sail? Today under the Stars and Stripes. That flag a few short months ago was so seldom seen in a foreign port as to make it a novelty. Now across Western and Southern Europe it is being carried in the interest of human liberty by the truest, bravest and fittest army that ever trod the soil of old Europe. These men and that flag represent to the war ridden peoples whom they have come to succor and defend the unselfishness and ideals of the crusader—liberty, national integrity, honor, salvation, and, please God, on the sea from this day forward, as on the land, that symbol we love and for which no sacrifice is too great, shall be the symbol in commerce of the same high purpose as that which carries it across Europe's bloody battlefields.

Under what control, federal or private, shall it be operated? That question, involving so much of American policy, must be approached with an open mind, and upon the right solution will depend whether success and progress, or failure and retrogression, accompanies this return of America upon the high seas.

Now, turn with me for a few minutes to the railroad problem.

Our national policy in the decade prior to the war, with respect to development and operation of our steam railroad facilities, was almost as destructive as our merchant marine policy.

I will not discuss the abuses and faults that gave rise to such a policy. That unlovely chapter in our history is closed, finis has been written upon its closing page, and except as we turn the pages, from time to time, to study past errors for the purpose of avoiding a repetition of an unwholesome experience, we should be content to lay the volume aside and forget the wrongs and bitterness and prejudices that are therein contained.

The President's proclamation on December 26, 1917, assuming possession and operation of all of the railroads in continental United States, terminated forever the old railroad order, and the return of the properties to private ownership, if this shall come at the end of twenty-one months from the close of the war, will be preceded by the enactment of new laws and new agencies of control and regulation will be created out of the experience of the months or years in which complete centralization of control by federal authority shall continue.

Traffic rivalry has been suspended, traffic individuality destroyed, and it follows that the property and the going business which the Government is to convey to the owners cannot be physically or commercially the same as that originally borrowed.

If the properties cannot be restored to the owners substantially as borrowed, than an opportunity is offered for working out a new status to terminate the borrowing by the Government that will correct maladjustments of the past and provide a system better adapted to the needs of the country in the years to come.

With the advantage of a new point of departure in our transportation system, we are also confronted with the danger of making some calamitous blunder, and the decision may determine whether or not the America of the future is to be an America of individual self-reliance and opportunity.

There are three basic factors in our economic life—the banking and credit system, transportation, and industry. By rare good fortune, the first of those had been

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adjusted on an exceptionally satisfactory basis before the war. This provides the sub-structure essential for any durable edifice affecting the two other prime factors. Transportation comes next, or rather transportation and industry come now together, for they have common elements to be dealt with, notably the sweeping inhibitions of the Sherman Act.

Immediately before the war, defects in the system of railroad operation had been the subject of organized study and recommendation for their correction. Much was learned from the administration of the Railroads' War Board. More will be learned from the present regime. Keeping our grasp upon the thread of discussion before the war, with the popudar mind, because of what has occurred, open to new conceptions, the hour is here for framing a constructive plan to be perfected and put in effect as soon as practicable upon the return of peace.

Drafting legislation is essentially the duty of the committees of Congress. Inasmuch, however, as legislation is responsive to public opinion, the statesman is entitled to all the aid that business men can give him, and there are a number of general principles which it may be useful to suggest with what light we have.

For the sake not only of being well served with transportation, but of rededicating ourselves all along the line to the American principle of individual initiative, should we not rely first and last on the investment public to furnish railroad capital and to employ railroad managers? What are some reasons for adhering to that policy?

Our citizens as users of transportation will cling tenaciously to their hard-won right of appeal from the railroad operator to some regulatory authority. Such an appeal can be effective only if the Government does the regulating and a functionary outside the Government is the operator. A Government officer cannot be said to "regulate" his subordinates. When a political power both regulates and operates, policies proceed from the top down. In that case, you have bureaucratic rigidity, mediocrity and stagnation. When the political power regulates and a non-political functionary operates, the policies proceed from below, out of current experience, and, under a workable practice, meet interference only when they conflict with the general interest or with particular rights. Then we can have supervision, but we shall also have elasticity, robust growth and progress.

Again, will our people willingly give up competition? They have seen in the war an elimination of duplication and a pooling of facilities. They recognize the advantage of these innovations and will resist any attempt to re-establish waste. This whole matter, however, is going to be settled on the basis of actualities, and means will be found for preserving whatever form of competition between railroad corporations is necessary to assure continuous advance in the art. The career in railroading should be open for promotion inside each corporation without other influence than that of merit as judged by a responsible chief executive or his deputies; or for transfer from one corporation to another which is entirely free to compete for services of valuable men.

Will not the people insist again upon competition between regional populations? They may rightly demand, subject to federal control, which must be paramount, an organized and weighty influence in negotiating or adjudicating advantages desired for the industrial contest with the people of other localities. State lines do not correspond to traffic areas. Concurrent jurisdiction of nation and state has not operated satisfactorily and is involved in the uncertainty of continual litigation before the Supreme Court. The people of local communities may ask for some arrangement under which, while submitting to an ultimate federal authority, they can have in matters of regulation affecting them strong local initiative and a wide measure of local autonomy.

If we are to rely upon the investment public to furnish railroad capital, war loan campaigns have given several million of our people their first taste of investment. Granted public confidence in railway earnings, these newcomers to the realm of thrift may become an important factor. We stand at a juncture analagous to that when the locomotive was new and localities made great sacrifices in their desperate deal to obtain for their neighborhoods this improvement over the canal and the post road. Today provision of railway facilities is behind the demand. The people of localities are calling for additions, betterments and new mileage. Coupling the two motives of investment and community prosperity, these new sons and daughters of thrift may supply in our day the place of the federal, state, county and municipal bond issues which were used in the last century to induce railroad facilities. A material enlargement of the number of shareholders would bring into play such individual influence for focusing the public mind of each region upon the affirmative project of developing railway facilities.

But how shall the public be induced to invest in railroads? By making adequacy of facilities the principal aim in regulation of rates and service. This means attraction of capital by permitting earnings which will pay a return that attracts. That involves acquisition of mechanism and personnel, federal and local, to perform a function of regulation never yet performed in our government, because no functionary has ever been explicitly delegated by Congress to perform it. That function is to sanction revenues sufficient to meet all authorized expenses plus a margin calculated to sustain credit, and since authorized expenses include wages, and adequacy of facilities embraces continuous operation, it is a part of this function to regulate wages, to make railway labor responsible in its organized capacity, and to maintain interstate traffic free of interruption from large scale strikes.

Our willingness to make adequacy the chief aim of regulation is as good a test as any of what kind of an America we are headed for. If transportation facilities are adequate, other things being favorable, the United States can compete, hold her position, and aspire to world leadership; if transportation facilities are inadequate, the whole structure of commerce is undermined and the national position put in jeopardy. Adequacy is to be assured by exercise of the old-fashioned virtues of foresight and provision.

I believe the bankers, in union with other business interests, will in a businesslike way equip themselves with whatever of organization and of leadership they need in order to co-operate helpfully and effectively with the general public in the diffusion of intelligence and the exchange of views, and with the political authorities in the translation of the popular will into statute.

When our banking system became obsolete and great danger of financial collapse confronted us, you joined with others in the creation of an organization known as the National Citizens' League, for the promotion of a sound banking system, that through the development of certain sound principles gave to the country the educational basis for the Federal Reserve Law, and by informing the public upon the underlying principles of sound finance, brought definite relief to a highly controversial and technical subject.

Second only to sound finance, is the importance of wisely solving the future control of our transportation instrumentalities, and I make bold to offer for your consideration the duplication, in this field of study and research and determination, of the machinery that served us so well in those other days.

Cherished ideas, supposedly unbreakable precedents, and fixed policies, have been shattered over night by the emergency of war.

Powers to deal with lives, property and things have been conferred upon executive authority that constitute

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the highest form of autocracy in the midst of a democratic country.

Controls that in pre-war days could have been introduced only after a social and economic cataclysm have come to pass without a ripple of surprise or a murmur of protest.

Old things and old nations have passed with the discard.

Such are the by-products of war, and these things we must acknowledge, accept and work with in the days when by accommodation; adjustment and reorganization we rebuild our economic structure to the music of a new civilization and in recognition of the new relationship which will direct our domestic and international intercourse when victory has crowned our arms.

Necessity of Greater Effort to Stimulate Agriculture

By CLARENCE OUSLEY, Assistant Secretary of Agriculture.

At the outset I wish to acknowledge the great service rendered to agriculture by bankers generally in the agricultural regions of the United States, and especially to the agricultural commission of the American Bankers' Association and the agricultural committees of the several state bankers' associations. I shall speak later somewhat in detail of these services. I wish first to get into our minds the background of the common obligation, not to say the imperious necessity of greater effort to stimulate agriculture and to hearten producers.

War experiences are reminding us of elemental things which many of the elders had forgotten and many of the middle-aged and the young never knew. Among them is the fact that wealth as represented in the commodities of industry, and money as the measure of wages and income, derive their primary value to humankind from what they will purchase in food and raiment. Moreover, we find that the high cost of living is of secondary importance to securing food and raiment enough at any price. The richest man in the warring nations has discovered that his wealth is of no avail now to purchase more than the limited ration which his government allows in the equitable apportionment of a limited supply. In times of food crisis Dives and Lazarus are of equal rank in the bread line.

Such experiences throw agriculture into the perspective of a new—or rather an old but forgotten—relation of vast significance. Not once but several times, during the last four fateful years, the cause of civilization and human freedom as it is conceived by democratic peoples trembled and staggered in the faintness of near famine. It was news of hunger at home as much as seductive German propagandism in Italia Irredenta that caused the Italian *debacle* last autumn. It was hunger as well as ignorance that caused the Russian collapse. And the London *Daily News* lately has said that: "Only those in the inner councils of the Ministry of Food know how the specter of starvation haunted us last winter, how perilously near we were to disaster, how our fate and the fate of our allies hung upon the capacity of the United States to feed us."

Nor is the food crisis to be reckoned only as a peril of war to pass when peace comes to crown the certain victory of the Allies. It had been approaching for years before the war because the world in general and the United States in particular had begun to worship idols of wealth in the fashion of speculative commerce, industrial exploitation and easy living. Except for the efforts of a few scientists and economists, who were almost as a voice crying in the wilderness, every enlightened nation except Germany had been guilty of more or less neglect of agriculture, and Germany had developed it only as the instrument of a malign purpose of world war. It is to the everlasting credit of the United States, through the wisdom of a few statesmen fifty years ago who provided for the establishment of the United States Department of Agriculture and the land grant Agricultural Colleges, that we had an organization sufficient for the emergency, that the American farmers in spite of reduced man power and increasing difficulties responded to that leadership with increased acreage and harder work, and that the American people responded cheerfully to the appeals and the regulations of the Food Administration and so, on the whole, we contrived to save the world from the unspeakable disaster of the Dominion of the Beast.

But our duty is not done; our task is not finished, nor will it be finished when the war ends. We are called upon for increased production and for continuing economy as a necessity for bringing the war to a successful conclusion, but the task will be even greater during the period of demobilizing and redistributing the forces of war, which will last perhaps nearly or quite as long as the war itself, for the moment we sign treaties of peace with the Central Powers their hungry millions will be in the market for our products. We deny them now as a measure of war; we cannot deny them then in mere retribution. For my part I shall not be quick to forgive them their infamies; I believe in punishing the wicked, not for vengeance but for example to those who may be tempted hereafter to do wrong, but I am willing to sell them food while they repent.

In view of this present and probably continuing disparity between supply and demand for food, we confront a situation which brings distress to a large part of our own population and of the world's population in the high cost of food products. In the natural course of events, that disparity will disappear through the slow processes of economic readjustment. Continuing high prices and improved methods of agriculture will make farming so comparatively profitable that men of the towns and cities will turn to farming as a vocation just as ambitious young men from the farms heretofore have been attracted to the cities because of the lure of wealth. After all, in the long range of experience, nothing so surely and so justly balances occupation, industry and gain as the free play of human forces and human aspirations. In war times, as a matter of national necessity, we may be compelled to resort to the artifices of price regulation on the one hand or price stimulation on the other, but in normal times the surest and the safest regulator of inequality is self-interest and self-protection in full liberty of personal activity and free choice. In such times the only justification for the exercise of governmental powers of control is in restraint of monopoly or combinations of men to oppress their fellows.

But there is much that we can do to eliminate waste and needless expense and thereby to reduce comparatively the cost of living without reducing proportionately the rewards of the producers. We have made some progress during the last few years in reducing the cost of distribution of food products from the farm to the

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table, yet much remains to be done. In 1915 the ratio of the farm price to the retail price on several of the principal food products was as follows:

Wheat	59	Eggs	59
Potatoes	60	Hens	59
Onions	46	Beef cattle	47
Beans	60	Hogs	34

In July, 1918, the ratios were:

Wheat	70	Eggs	67
Potatoes	50	Hens	61
Onions	54	Beef cattle	46
Beans	57	Hogs	42

On all except potatoes, beans and beef cattle the ratio had increased, and on these it had decreased. On the average there is some improvement, but yet it costs from 60 to 30 per cent of the retail value of the product to get it from the farm to the table. The cost with perishable products is much greater.

Improvement has been effected during the last few years chiefly by the activities of the Bureau of Markets of the Department of Agriculture, by the marketing activities of the land grant college extension forces, and by marketing bureaus of several of the states, all of which have made a beginning in the development of more intelligent and more economical marketing, better grading, wiser distribution and more serviceable brokerage. Marketing is the business side of agriculture and it is the side that has been the most neglected because, to a large extent, heretofore commerce has made little attempt to serve agriculture in the true sense but has taken advantage of the farmer's lack of information and aloofness from the currents of trade to exploit his products. This is too large a subject to permit the discussion of details, but I have said enough to show that it is a matter of common interest, the interest of the consumer as well as the producer, to develop better methods in marketing farm products. To this end I think it not too much to say that it is becoming for bankers in the agricultural regions, by means of their influence over credits and commercial obligations generally, to set themselves against waste and exploitation in the marketing of farm products. In nearly all agricultural regions there are the beginnings of cooperative marketing by farmers. Many of these undertakings have been wrecked by lack of skill or lack of perseverance, or lack of cohesion; many others have been wrecked by the steady and sometimes by the unfair opposition of men of commerce. I raise here a moral as well as an economic question. The farmer on the one hand and the consumer on the other are entitled to fair service and fair prices. The necessary middleman is entitled to fair profit, but I think it is not necessary to particularize for the sake of demonstrating the truth of the statement that many of the transactions between the farmer and the consumer are unnecessary and wasteful, and some of them are mere sharp practice which should not be countenanced in honorable commerce. I think I am not stating the case too strongly when I say that it is in the power of the bankers of the United States to influence a standard of dealing in farm products that will discountenance exploitation, and I submit that it is within the range of their dutiful obligations to society and industry to contribute what they can of their wisdom in the solution of the problem of economical marketing.

The time has passed for indulging the German practice of "the survival of the fittest" in the sense that the strong or the smart may be permitted at will to exploit the weak or the dull. Every commercial practice, as every social practice, flourishes or perishes accordingly as it receives the approval or the disapproval of the community. We are all responsible in a degree for what is done in our midst.

But my concern for agriculture is deeper than a solicitude for the outcome of the present emergency. I believe with my whole mind and heart that a prosperous, cultured and contented husbandry is the only sound basis of a wholesome and enduring society. The production of food and raiment is the first necessity of existence and it is a monstrous social injustice for the creators of the means of subsistence as a whole or as a class to receive less of the comforts of life than the distributers of their products. Such injustice long practiced will bring retribution. It has always been so. Where cities prosper and rural places stagnate there is industrial, political and social ill health and sooner or later there will be deterioration and collapse in the body-politic and the body-social.

As I said at the outset, I acknowledge the very great service which has been rendered to agriculture by bankers generally in the agricultural regions of the United States and especially by the agricultural commission of the American Bankers' Association and the agricultural committees of the several state bankers' associations. I hope by these remarks to stimulate the bankers to greater effort, and I trust that what I have said indicates in some degree that the service is not merely one of class benefit, but is one of general and far reaching value to the whole of society.

During the last few years, and especially during the last year, bankers in many parts of the United States have been potential factors in agricultural improvement. Thousands of farmers have followed the advice of their bankers in diversifying their agricultural and especially in multiplying and improving their live stock, and more thousands of boys and girls have been aided by bankers in the financing of pig clubs, sheep clubs, baby beef clubs, poultry clubs and other clubs. Among the states conspicuous for such accomplishments are Illinois, with a live stock campaign; Wisconsin and Michigan, with a dairy campaign; Utah with a pig campaign; Missouri, Kansas, Washington, California, Pennsylvania and Colorado with varying projects, and almost the entire South with a persistent and efficient campaign for safe farming by raising food and feed to sustain the family and the live stock, and making cotton a cash crop.

A few years ago when a banker became interested through the boys' and girls' club work organization he usually offered cash prizes to the members securing the greatest results, a little later it became the more general practice to offer educational trips, canning outfits and other utility prizes, or if cash prizes were furnished they were restricted to savings accounts for the purchase of scholarships, etc. During the past four years, however, many bankers have found an unusual opportunity for good among the younger members of their community, and through them among the adults, by bringing into the community, under arrangements perfected by the state club leaders, a sufficient number of pure bred pigs, brood sows, etc., to distribute to the club members. The usual practice is for the banker to advance sufficient money for the purchase of the animals and to go through the form of selling them to the club members at cost and taking the notes of the members at a reasonable interest in payment therefor, these notes being indorsed by the parents if thought advisable. Under this arrangement not only does the club member receive some practical business training but he is enabled to secure a pure bred animal and make payment for such animal at a later date when cash returns are possible. It brings into the community a higher grade of stock and furnishes the foundation for an extension of animal industry in that territory.

Such arrangements are now in operation in practically every state although, of course, some of the states have progressed further than others due either to greater need for such arrangement or to other causes. As an illustration of what may be done in such efforts, I cite the case of Utah, where the State Club Leader made arrangements through the Ogden and Salt Lake City Stock

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Yards and the bankers to distribute four or five carloads of pure bred sows. It was soon seen that more animals could be handled to advantage, and six car-loads were purchased. A month later the number of cars so distributed had grown to ten, none of the cars containing anything but pure bred sows bred to farrow in April. The demand for pigs was so great that following this distribution 800 eight-weeks' old pigs were distributed on the same plan by the first of July. In Salt Lake County the distribution was made during a blinding snow storm and many of the boys drove fifteen miles to secure their animals. The State Club Leader reports that the distribution of these animals has laid a foundation of much improvement in the quality of the pigs raised in Utah. Club members were of course impressed with the importance of maintaining a pure strain. It is an interesting point that many of the pure bred pigs secured were purchased from a father and son in the State of Nebraska who were in the hog business as a result of a prize pig won by the boy in his corn club work four years previously.

While I am trying to impress the larger social and national duty for the reward of the consciousness of a service performed, it is not amiss to be reminded that the boy who is aided by a banker in making a success of his first business undertaking is not apt to forget that banker in the days of his manhood. Extending this point of view a little farther, it is well to remember that the prosperous farmer is apt to carry a good deposit which is likely to remain with little diminution until a new harvest. He is a valuable customer.

Another very great service which I take pleasure in acknowledging is the aid that many bankers in the agricultural regions, particularly in the South, have given to the establishment of farm demonstration or county agent work conducted cooperatively by the Federal Department of Agriculture and the agricultural colleges. The banker who gave a thought beyond the rate of interest and the value of collateral was quick to recognize in the county agent an efficiency expert which the business of agriculture needed just as every business needs the constant observation and suggestion of the best skill in organization and operation. The county agent cannot be an expert in all the sciences of animal and plant life because each in itself is a lifetime study, but he can bring to the farmer the learning of the scientists in each of the many fields of agricultural research, experimentation and demonstration. Of greater value than his contribution to the farmer's agricultural knowledge is the county agent's work in bringing farmers together for a coordination of their efforts and for learning from one another. He is to the agricultural community what the manager of the chamber of commerce is to the urban community.

I cannot phrase my thought on this point better than to quote from a statement made by your chairman, Mr. Joseph Hirsch, whose personal activities in Texas have been of incalculable value to the agriculture of that state and whose leadership in this work has been attended by remarkable success. In his report last year he said:

"The Agricultural Commission of the American Bankers' Association enters upon the fifth year of its existence at a time when measures the Commission has been advocating ever since its organization—increased food, feed and live stock production—have become a vital factor in the successful prosecution of the great enterprise upon which this nation has engaged—that lofty adventure which, untarnished by desire for material benefit, aims to make the peoples of the world free, as we are free, to enjoy the blessings of liberty and self-government.

"We have found that, to accomplish this purpose, agricultural preparedness is just as necessary as military preparation, and it is this doctrine which the Commission has been endeavoring to spread to the bankers of America. This nation-wide campaign which, within a few years' time, has aroused the most intense interest among the bankers of this country, has been directed with the view to increasing our agricultural efficiency. We have heard much of efficiency these past few years. Efficiency experts have helped to make every line of business safer, and several of our large banking institutions have engaged the services of these experts and have placed them at the disposal of their customers in order that the banks themselves might have a sounder basis for the extension of credit.

"We are endeavoring to apply these efficiency methods to the business of farming—the greatest business of this country. The real purpose of the Agricultural Commission and of the State Bankers' Association agricultural committees is to increase our agricultural prosperity, and, at the same time, make the banking business more profitable and infinitely safer, by lending direction and financial assistance to the sound farming projects advocaated by those efficiency experts, the field forces of the United States and State colleges of agriculture."

I cannot say too much to impress the fact that the banker who enters actively into the concerns of agriculture in his region can wield a greater influence than any other single man. He is a man of affairs; he is a man of money, and every citizen naturally expects of him sound judgment in regard to all matters of profit making. He can easily become the financial counsellor to every farmer in his neighborhood.

I take occasion to say that I have had opportunity to observe the fine influence of *The Banker-Farmer*, the admirable publication by your committee circulated through your membership and through the agricultural committees of the state bankers' associations. It is a unique publication and I have reason to know that it has been an inspiration to many bankers, to many extension workers, and to many farmers. While I do not indulge the Utopian notion that we may eliminate selfishness and can give the buyer and the seller of the commodity the same point of view, still there is common ground of service and accommodation for mutual benefit which the men of the farm and the men of commerce can occupy. Through the conferences of bankers and farmers and the agricultural forces of the colleges and the Department, and through the inspirational service of *The Banker-Farmer*, we have made substantial progress in the occupancy of this common ground.

Finally let me say as a spur to the increased activities for which I plead, that the war crisis has not passed. We all rejoice in the new strength and vigor of allied arms. We stand in rapt admiration of the masterful strategy of Marshal Foch. We rejoice that the American Republic, the first democracy of the world, has turned back the Hun as he was battering at the very gates of Paris, and furnished the necessary supplement of man power to recover the losses of his bloody spring crusade. We are hopeful of other and greater victories in the immediate future; we are confident of the final result, for we know our strength, and we have faith in the righteousness of our cause; we know we cannot fail. But it is yet a long way from the little remnant of Belgium lying against the North Sea, and from the Allied lines in northern France, to the Rhine. The enemy's front has been shortened and unless his morale completely collapses he will fight more desperately over every inch of his further retreat because he realizes that he is losing all, that he has nothing to gain, and his own covetous and cruel philosophy teaches him to fear that we will take and hold his territory as he intended to take and hold ours. The Kaiser has well said that this contest is a struggle between the Anglo-Saxon concept of civilization and the German concept. It is a fight to the finish. There can be no compromise between the ideals of the allied democracies and the ideals of the Teutonic autocrats. We may not safely assume an early ending of the war; we must mobilize all our resources and energies for a continuingly bitter and desperate struggle. It is now plain that Germany cannot be starved. On the other hand, if she can compose any considerable part of Russia she will be economically invincible. But however the currents of public opinion may run in Germany or in Russia, and whatever may be the subtle psychology of German despair or Austrian revolution or Russian resurrection, the sure means and the quickest means of victory is the mighty momentum of all our resources organized and projected into a force

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that will plow its way irresistibly into Germany, and if need be, to the very gates of Potsdam. This means the employment of every man and every woman, and the utilization of every resource of soil or factory and agency of distribution in devoted consecration to the single end of fierce, terrible and uncompromising war as the instrument of a new and more lasting peace than the world has ever known before.

Relations Between Employer and Employe

By W. H. VANDERVOORT. Root & Vandervoort Engineering Co. and H. & V. Wagner Ordnance Co., East Moline, Ill.

A man's patriotism and loyalty to his country are measured by the same standards as those used in the measuring of his loyalty to his employer. It matters not whether he is a common laborer in an industrial plant, or the President of a great institution; it is the grade of purity and not its magnitude that constitutes the measure of loyalty in both cases.

With our nation involved in the most terrible war in history, it must depend for its success upon those qualities in men given without limitation.

This war from the standpoint of destruction has passed almost beyond the conception of the human mind and we now realize that we threw into the balance none too soon the weight of our nation with its marvelous resources in men, wealth and material.

We have watched with increasing concern the methods of the great Prussian military monster that for more than forty years groomed itself for this conflict. Its purposes have become self-evident. Like a great vulture we have seen it single out and swoop down on its prey—Belgium, Serbia, Roumania, Poland, Russia. We have seen it enslave the people and strip these countries of their resources.

More and more are we becoming imbued with the stern necessities of the situation and a firm determination to conquer at all costs that autocratic power which, grown arrogant through its successes, now seeks to dominate the world. The safety of our national existence is at stake; there can be no turning back—no compromise.

Within the past ten days our President has, in his reply to Austria-Hungary's proposal for a peace conference, so clearly expressed the temper of the American people.

With the development of the war, we as a peace-loving nation, totally unprepared for conflict, heeded not the handwriting so plainly written for us in the sinking of the Lusitania and other German atrocities and permitted two and a half years to pass without turning a wheel toward preparation This must go down in history as our greatest national blunder. That, however, is as water that has passed over the dam, gone,—an opportunity lost. It may mean the loss of thousands of our sons and certainly billions of money.

With the declaration of war the great machinery of war organization and production was set in motion. Slowly it moved at first, then faster and faster, until now our country has become one vast training camp teeming with men preparing for overseas duty and nearly two million of our boys are now on the various fronts defending our national honor. That their weight is turning the tide of battle is evidenced by the results of the past few weeks of fighting.

Our participation in the second battle of the Marne and at St. Mihiel have indicated the temper of the American boys and clearly forecasts the fall of Metz and the opening up of the road to Berlin.

Throughout the length and breadth of our great land the wheels of industry hum as never before. Capital, employer and employe have taken on the spirit of co-operation and they will not stop short of complete victory.

What greater expression of loyalty from a people could be asked than the readiness with which our young men—the flower of the nation—responded to the call? The registration and the draft have caused scarcely a murmur. The levying of taxes for the raising of fabulous sums of money have met with no opposition. We have opened our coffers to the Red Cross and kindred works of mercy. We have thrice over-subscribed Liberty Loans and the fourth is already assured, as will be the fifth, sixth and as many more as may become necessary in order that we may forever establish the principles of democracy throughout the world.

This war can only be won by the wisest use of our economic resources and by the closest cooperation. The lives and fortunes of those who are permitted to remain at home, safe from the dangers and hardships of the front, should be dedicated to the purpose of furnishing the supplies and equipment which are necessary to our boys "over there," and we as individuals and as a nation must not rest until the great task with which we are confronted is completed.

We already have a great military army in Europe and that army in size is rapidly increasing. For its support we must maintain at home an industrial army in the fields and in the factories ten times as great in numbers. Undoubtedly the success of our army abroad is dependent upon the proper control and utilization of this great industrial army at home.

The fundamental policy declared by the Council of National Defense soon after our entry into the war, and affirmed by the Secretary of Labor, Mr Wilson, clearly indicated their recognition of the grave difficulties that might arise through the efforts of employers and employes to take advantage of a situation brought about through a national crisis. This policy declared "that employers and employes in private industry should not attempt to take advantage of the abnormal conditions existing to change the standards which they were unable to change under normal conditions." Had labor accepted this as did the employers, this country would have been spared much of the industrial strife that has held back seriously the production so necessary to our winning of this war.

Realizing that the successful prosecution of the war must be based upon industrial peace at home, and firm in the belief that a common ground should be found upon which both employer and employe might stand for the balance of the war, The National Industrial Conference Board, the recognized representative of American industrial institutions, presented a year ago to the Secretary of War a memorial suggesting the appointment of a Board comprised of equal numbers of representatives of employers and employes—this Board to draft a set of principles to govern in the settlement of labor controversies throughout the period of the war.

This recommendation resulted in the appointment of the National War Labor Conference Board, which entered upon its deliberations in early March and after a month of sincere effort agreed upon the principles which

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now constitute the foundation upon which the decisions of the National War Labor Board are based.

The National Industrial Conference Board is made up of nineteen great national employers' associations and fairly represents a very large percentage of the employers of the country. The employes' representatives on the National War Labor Conference Board, appointed by the American Federation of Labor, represent some three million organized employes out of the thirty million workers in the United States, thus leaving the great masses of employes not represented by the National War Labor Board.

I believe that if honest and proper interpretations can be placed on the principles, and decisions are rendered in accordance with these principles, then will this labor treaty, backed by a strong public opinion and the moral influence of the better elements among employers and employes, become effective.

This is no time for employes to take advantage of the opportunity created by the nation's emergency to press their demands beyond the lines of reason. It is no time for organized labor to proclaim a nation-wide campaign for unionization of all industry and by sending their paid emissaries into peaceful communities, create by their pernicious activities, unrest among satisfied employes, thereby retarding production of those materials so necessary to the war program.

Yet this is precisely what the American Federation of Labor determined upon, at its recent convention, in its effort to fortify the condition of union labor at the end of the war. That public sentiment should agree that any class be allowed to put its private gains above the public needs in times like these is inconceivable.

It is not in the interest of the nation to create imaginery troubles, nor should the will of a small minority of the employes in any industrial institution be permitted to make demands upon or prefer unreasonable charges against their employers for the sole purpose of bringing the case before the National War Labor Board under the threat of tying up that industry by strike.

The first principle of the Labor Treaty states "*There should be no strikes or lockouts during the war.*" Since the President proclaimed, on April 8th, these principles as the basis of understanding for the period of the war, there have occurred in this country more than five hundred and fifty strikes, involving the loss of more than a million and a quarter days of labor, in direct violation of the principles. Regrettable as is the fact, substantially all of these have occurred as the result of the activities of organized labor.

It is not in the interest of the nation to create imaginary troubles or to, in any way, disturb the loyal, energetic workman who by his steady efforts is upholding his country in its hour of peril.

This is no time to undertake to force a shorter work day. Industry has been asked to do almost the impossible. Limited as it is on fuel, materials, transportation and the loss of millions of men to make up the fighting army, it finds itself in a position where it is impossible to reduce hours and maintain production.

Our allies have found it necessary to work more than eight hours in order to supply their armies. Our President recognized the necessity when at our country's entrance into the war he set aside the eight-hour restriction on all work as performed in the government arsenals and navy yards. Surely, workmen who have all their lives worked in excess of eight hours per day cannot insist in the present emergency that their health, welfare and proper comfort demand it. The men in the trenches are not limiting their efforts to any such hours, nor can they think kindly of those at home who in any way restrict production while they endure the dangers, privations and suffering at the front.

The demand for the basic eight-hour day can be construed only as a wage demand, as employes do not expect to work only eight hours. What they do want, where these demands are being pressed, is the overtime wage for the hours worked in excess of eight hours, and not infrequently do we find cases where men are deliberately declining to work during regular hours in order that they may secure the added remuneration by working the overtime hours.

The principles of the National War Labor Board on the subject of hours are perfectly clear. They provide that the basic eight-hour day shall be recognized as applying in all cases in which existing law requires it. In all other cases the question of hours of labor shall be settled with due regard to government necessities and the welfare, health and proper comfort of the workers. Also, that in fixing wages, hours and conditions of labor, regard should always be had to the labor standards, wage scales and other conditions prevaling in the localities affected.

In the face of these principles, demands for a shorter day are being made where the facts and evidence brought out justify no changes in the hours of labor.

Our men at the front are not restricting their hours or limiting their output. When we learn of the conditions under which those men fight their country's battle, certainly we can have little sympathy for those of the millions safe at home who in any way shirk the responsibilities placed upon them.

General Pershing has cabled "Give me plenty of men, guns and supplies and we will win the war in 1919." There is no question about the men. Will industry and the workers of this country give him the guns and supplies? There can be but one answer,—"Yes"—and if there are those among the workers at home who persistently shirk their duty, then will it become the duty of this government to put them in the ranks abroad, and in the front line trenches. In our present emergency there is no room for the obstructionist.

Organized labor argues that they must, during the period of the war, keep tolerable the working conditions in this country in order that the men returning from the front may find conditions to their liking. If in the following out of this idea there should result any shortage of munitions and supplies, then must organized labor assume the responsibility. The employers of the country, on the other hand, must not seek to impose new and unreasonable conditions upon their employes. They have a right to maintain the pre-war conditions and to expect of every worker his full cooperation and best efforts. How apt the quotation—

> "It ain't the guns nor armaments,
> Nor funds that they can pay,
> But the close cooperation
> That makes them win the day.
>
> It ain't the individual, nor the
> Army as a whole,
> But the everlasting teamwork of
> Every blooming soul."

Success is dependent upon cooperation. A world fit for all to live in after this war demands our success. In order to accomplish that end all must unite in giving our country and our allies every dollar and every ounce of energy we are capable of producing.

I speak for the great body of independent workers who constitute the majority of the employes in the great Open Shop institutions of our country. They are measuring out their efforts by no artificial standards. They are going along doing their utmost without loud proclamations of their patriotism. *They are not deliberately calling strikes in order that they may be promptly ordered back to work and then proclaim to the world that they returned through motives of patriotism.*

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The Open Shop platform is one that can be subscribed to by every fair-minded American, and is one that will endure. It is the very foundation of our government and at this critical hour the government has come out openly in its declaration for the Open Shop and has emphatically renounced any suggestion of introducing the Closed Shop in plants doing government work under cover of settling labor disputes.

You ask, "What should be the relations between employer and employe?" The answer is—CO-OPERATION—real, unselfish co-operation, a full appreciation of the principles for which we fight and a realization of what our boys at the front are doing and what an interruption of the flow of supplies—the products of our factories and fields—means to them.

If it were possible, the first thing I would suggest would be that all of us forget that we are either employers or employes. The employers of this country are not at war as such, neither are the employes. Our country is at war and the primary interest of each of us in this war is in our capacity as citizens of the United States. The moment that you describe a person as belonging to any particular class, immediately he becomes surrounded, both in his own mind and in the mind of others, with all the traditional interests, prejudices, hatreds, friendships and other relationships that have grown up about him as a member of that class. But his nation is greater than his class, so his citizenship should be more important than any possible class interest, and this applies also to any possible interest he could have as an individual.

If the business interests of our country, pursuing their selfish aims, should cause the nation's defeat, what temporary gain could possibly offset their permanent loss? So, too, if the workers of the nation, influenced by motives of temporary gain and class interest, should, by the pursuit of that interest or the withholding of full effort, bring our country to defeat, what would the future hold for them? Employer and employe, business man and worker, find their greatest stake in the future of our country, in the expansion of its trade and commerce, in the increasing of its demand for labor, and in its ability to produce and sell in the markets of the world a product which would enable all our people together to live in comfort and material well-being. Such things can only be if our nation is successful in this war. Defeat can only mean world markets shut off, demand for labor reduced, capital and labor unemployed, and a nation overflowing with plenty turned into a country of misery and want.

I even cherish the hope that after coming through such an ordeal together a great mutual respect, understanding and sympathy will have developed between those who have endured the hardships at the front and those who have bravely suffered at home. So I repeat, that if it were possible I should like to have all of us forget such distinctions as employer and employe and remember only our common citizenship in a country which at this time faces the crisis of its national history and in the outcome of which all of our future hope depends.

But since we can hardly expect to forget the employment relation entirely, since it is perhaps the greatest fact common to us all, there are a few thoughts concerning employer and employe that I should like to leave with you.

Have you ever stopped to think just who were employers and who were employes, and if you do think carefully about this question for a moment, do you not very quickly reach the conclusion that the two classes are almost indistinguishable? The man who enters a factory and performs a certain service for a certain wage thinks of himself as an employe and puts himself definitely in that class, but he has not made anything in that factory that he can take away with him for his own personal use or to supply the needs of his family. He has probably made only a small part, which when added to a great many other small parts made by other workers will become a finished product, which quite possibly will be shipped to some distant point and not even be used in the locality where it was made. In the making of that small part, this man is an employe, but in all the other industrial relationships of life he is an employer. He boards a street car, and the payment of his fare really constitutes his employment of the street car company, the men at the power plant and the motorman and conductor to transport him to his destination. He buys a pair of shoes and by doing so has employed the workmen who made those shoes, the manager who has directed the work, the transportation agencies which brought them to the particular point, the merchant who had them in his stock and the clerk who fitted them to his feet. Without that employment by him and others like him, these shoes would not have been made. If the shoe workers, the railroad employes and others whose services he has used in producing for him that pair of shoes get high wages, then he has to pay more for his shoes.

The real employers of the country, the ones upon whose patronage all industry depends, and who by their giving or withholding of that patronage determine the rates both of wages and of profits, are the final consumers. And the great bulk of the consumers of the country are people who work for wages. Labor, to a large extent is, therefore, labor's employer. If the workers in any industry are underpaid, all workers are sharing in that inequality and exploitation. By the same token, if workers in some other industry are overpaid, receiving monopoly wages and performing less than a fair day's work for those wages, then all workers are being cheated and exploited by that particular group of their own number.

Right here, there is an economic fallacy that many people fall into that I should like to speak about. That is the belief that if a group of workers slow down upon their efforts and so reduce their output, they have increased the demand for labor by making necessary the employment of more men to do the work. I speak of this, not in a spirit of criticism, but because this notion is one held in good faith by many workers and because nothing could be more detrimental to their own best interests. A little thought will make this clear. If workers, by slowing down, compel the employment of a larger number to do a given piece of work, and the wage rate remains the same, it follows that the labor cost of the article produced will be increased to the extent of the additional wages paid the extra men. If the article costs more to produce, then it must be sold at a higher price, and if the price cannot be secured, then the whole production stops and all of the men are out of a job. If some other manufacturer, perhaps in some other country where labor receives less wages or is more efficient, can produce that article at less cost, then that foreign manufacturer is the one who secures the world's markets and the one whose workmen have steady employment.

The increase of production cost by restriction of output results, therefore, in a restricted market for the article produced and perhaps in a destruction of the market entirely. On the other hand, what happens if, through good management and a high labor efficiency, the cost of producing that article can be decreased? It can, of course, be sold at a lower price. That means that more people are able to buy it and will buy it. The larger demand for the article means an increased demand for labor to make the article, so that labor efficiency directly leads to an increased demand for labor. Also, the lower price of articles puts them within the reach of the workers who are able to buy more with their money.

But there is more to it than this. If the manufacturer makes more of a particular article because of its low

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price and larger market, that means that he must have more machinery, more buildings and more materials, and his demand for all these things means a demand for labor in all the various industries which supply them. He is not only able, therefore, to furnish steady employment and give high wages to his own workmen, but he increases the demand for labor in a great many other industries outside of his own.

In a nation where a high degree of efficiency through good management and full co-operation on the part of employer and employe is secured, there will result, naturally, steady employment, high wages and low prices for goods. The workers who once opposed labor-saving machinery have come to learn that it is their best friend and that it has increased rather than diminished the demand for labor. The man at any time, either in peace or in war, who advises limiting the productive efficiency of industry or the nation, is a common enemy, and to the worker he is the greatest enemy of all.

Again, it occurs to me that we are much too prone to see the mote in the other fellow's eye and to forget the beam in our own. Employers of labor should first concern themselves with their own conduct and management of industry before finding too much fault with the worker. The employer who tells his workmen to be patriotic and efficient, but at the same time either wastes the results of their labors in poor management or takes advantage of his country's necessity to exact the last ounce of profit, is not a good citizen. In this time of peril, it should be the duty of each of us to set his own house in order, to search his own heart, and to see that his motives and his conduct square with the fundamental principles of fairness, justice and patriotism.

If we must think of ourselves as employers and employes, let me suggest a new cleavage, a new arrangement of forces, a new recognition of community of interest. Since our war started, there have been many selfish, mean, mercenary and unpatriotic employers and business men who have taken advantage of the situation for their individual profit. Likewise, there have been many in the ranks of labor who saw an opportunity to use the situation for the furtherance of their selfish class interests. But I am sure you agree with me that the great mass of the business men of the nation, and the great majority of its workers, are loyal and patriotic; that they are eager and anxious to serve the nation in its time of need without undue personal gain; that they are willing to sacrifice, if need be, to the uttermost in order that our country's principles and honor may be vindicated. It is unfortunate that the action of comparatively few business men should be made the occasion for condemning business men as a class. It is likewise unfortunate that the action of radical and unpatriotic labor leaders, following their personal aims and ambitions, should have been used to question the good faith and loyalty of workers as a class. I believe the time has come for the better elements among the business and employing classes to unite with the better elements among the workers to condemn and put beyond the pale those in both groups whose actions are a common menace and a common disgrace. Let the fair, progressive and able manager of industry and the honest, upright, ambitious and efficient workman join forces. Too long we have permitted the unworthy elements among us to have a disproportionate influence in industry. Poor management wastes wealth. Selfish and unfair management provokes bitterness and class conflict. Likewise, the radical and the demagogue in the ranks of labor reduces industrial efficiency, develops hostility and bitterness, prevents cooperation, and is a common evil to us all. Fairness and efficiency on the part of labor have a common ground upon which to stand, and if they will find this ground and recognize their mutual interest, our industrial problems, both in peace and in war, will be solved.

To-day we stand behind our President a united nation. A hundred million people have turned their determined faces toward the East and are offering to him and to our noble Allies all that may be necessary in men and in material wealth to avenge their wrongs and stamp out forever the menace of Prussian militarism. We have answered the call of our Allies in no uncertain way, and have made prophetic those wonderful lines of Tennyson:

"Gigantic daughter of the West
We drink to thee across the flood,
We know thee most, we love thee best,
For art thou not of British blood?
Should war's mad blast again be blown,
Permit not thou the tyrant powers
To fight thy Mother here alone,
But let thy broadside roar with ours,
O rise, our strong Atlantic sons,
When war against our freedom springs!
O speak to Europe through your guns,
They can be understood by kings."

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Committee and Officers' Reports—Banking Section

Annual Address of the Retiring President, Charles A. Hinsch

To the Members of the American Bankers' Association and Guests:

LADIES AND GENTLEMEN: In this most momentous year in modern history, there have been changes whose import we will not fully comprehend until they have been sifted through the fingers of time. What we do comprehend is that we are all actors in a tragic drama which has been thrust upon us by the greed and ambition of Germany. Whether the transition in the world will be for good or ill, we do not know. The world of civilization is shaken to its foundations. The forces of society, of politics, of business, are working to a solution of the problems that present themselves for consideration, from the rule of autocracy to the rule of the people—from the control of the few to the control of the many. And all we understand is that it is our part to see that in the final evolution we, as a nation, survive and thus make secure the opportunity to carry the gospel of freedom to the ends of the earth, redeeming with our own future the future of those whose power to care for themselves is not so great as ours. We began this struggle not on April 6, 1917, but on July 4, 1776; we fought for it first at Concord and Lexington and we will fight for it last, if Providence so wills, when the last armed German has been beaten to the earth.

Not knowing what the future holds for us, but supremely confident of the justice and righteousness of our cause, we are gathered here to take an accounting—to make an inventory of our achievements and our situation in respect to those adjuncts and accessories of war defined as financial and economic. We seek this accounting and this inventory in no spirit of vainglory—in no desire for self-congratulation, but humbly and prayerfully, that we may better plan the future and so organize our resources that we may successfully resist the processes of economic waste and disintegration.

AMERICAN BANKERS' ASSOCIATION

The American Bankers' Association enlisted for the war on April 6, 1917, and it has been fighting ever since. It is going to keep on fighting, not to the last dollar, but to the last unit of credit that our superb banking organization can provide.

We hereby reaffirm and renew our pledge of loyalty to the President, and rededicate our lives and fortunes to the attainment of a victorious peace. No peace that Germany will approve will satisfy America, we must not conclude a negotiated peace, nothing should be considered but an unconditional surrender. This war cannot, must not end until the menace of the Hun is removed for all time.

LIBERTY BONDS AND WAR SAVINGS STAMPS

The banks of the nation have patriotically responded to the call for service, and have been potent factors in marketing ten billions of Liberty Bonds. In response to the call of Mr. Vanderlip, The American Bankers' Association undertook the task of enrolling the banks as selling agents for the sale of War Savings Stamps and Thrift Stamps.

For five months the Association conducted a bureau in Washington for this purpose and eighteen thousand banks were enrolled in this service. At least seven thousand additional banks agreed to sell these securities, but declined to qualify as agents.

This is the greatest thrift campaign ever inaugurated and will have far-reaching effects. The habit of thrift once contracted will not readily be surrendered, and it is to be hoped that this movement will result in converting a nation of spenders into a nation of savers.

Never in the forty-five years of its existence has The American Bankers' Association been so well equipped for great service as now.

MEMBERSHIP

The membership of the Association is now 19,043, a gain of 1,715 members for the year. That point has now been reached where we may truthfully say that the banks of the country need the Association fully as much as the Association needs the banks. If the best interests of the banking fraternity are to be served and the nation is to be given the most effective banking service, the banks must stand together, work together and strive for common ends. Never was unity of purpose so necessary. Never was cooperation so imperative as now. Nothing can resist the dynamic force of cooperation properly directed.

EFFICIENCY AND SERVICE

The demand of the hour is for efficiency in every line of endeavor, in service to the nation, to our allies, and to those with whom we come in touch in industrial pursuits.

In harmony with this spirit The American Bankers' Association in its desire to render the greatest possible degree of efficient service to its membership, will present to you through its Committee on Co-ordination of Activities, a number of amendments to the constitution, constructive in character, which, if adopted, we believe will result in a greater degree of cooperation among the several sections of the Association, and a coordination of the activities of the various State Associations with The American Bankers' Association.

At the present time the Administrative Committee of the Association consists of the President, Vice-President, Ex-President and two members selected from the Executive Council. It is now proposed to add to the Committee the Presidents of the four sections typifying the different classes of banking, viz.: National, State, Savings and Trust.

In this way the heads of these several sections will participate in administering the affairs of the Association and they will thus be brought in close touch with the aims and policies of the Association as a whole, which will insure a coordination of effort, and unity of purpose, highly beneficial to the membership.

The Vice-Presidents of these sections should be members of the Executive Council, and it is proposed that the Constitution be so amended.

It is believed that these amendments, if adopted, will lead to team work, that has not been possible of accomplishment in the past.

It is also proposed to give the several sections a greater degree of latitude in the matter of State and Federal legislation. Under this plan, if a difference of opinion exists between two or more sections as to the wisdom or desirability of the passage of pending legislation, representatives from these sections are expected to attempt to adjust their differences. Failing to accomplish this purpose, they will be permitted to take such action in the premises as they may deem advisable, and may do so in the name of the section they represent. Obviously, if representatives of two or more sections appear before Committees in Congress with divergent views, they cannot expect to accomplish their purpose.

It is confidently believed, therefore, that this amendment to the constitution if adopted, will be a potent factor in bringing about an amicable adjustment of differences that may exist between the sections.

"FIELD SERVICE"

The members of our Association, generally speaking, are not aware of the services that we are prepared to render, and arrangements have been perfected by which The American Bankers' Association will be represented hereafter at the annual conventions of the various State Bankers' Association throughout the nation, by some one who can speak with authority and who has a knowledge of the aims and policies of the Association. For this purpose the officers, members of the Administrative Committee and heads of Departments, will be drafted for Field Service.

OFFICE CONFERENCES

Office conferences have been held at stated periods during the year by the Officers and Department Heads in the general offices of the Association, resulting in an exchange of ideas, and a coordination of effort highly beneficial to the Association.

APPRECIATION

It seems appropriate that I should at this time give expression to the deep sense of appreciation I feel for the loyal support and hearty cooperation extended me by the members of the Administrative Committee, Officers of the Association, heads of departments and, in fact, all identified with the activities of the General Office.

They have all responded cheerfully to the call for service during the most trying period the Association has ever experienced.

JOURNAL

The future policy of the publicity organ of the Association, known as the Journal, has been the subject of considerable thought and discussion. It is believed that the membership would appreciate the publication of a weekly bulletin or magazine presenting terse, up-to-date information on subjects in which the bankers of the nation are interested.

Such a publication, however, would entail considerable expense, and in consideration of this subject it was deemed advisable to respond to the insistent demand that has been made for advertising space in our publication. This proposition received the most unanimous approval of the Executive Council at the recent meeting held at Hot Springs. The revenue derived therefrom will enable the Association to publish a weekly bulletin.

Considerable discussion has taken place from time to time, relative to moving the general offices to Washington. This subject was considered by the Committee on Co-ordination, who deemed it inadvisable, at this time, to recommend the proposed change.

The Committee will, however, recommend to you that the Association establish an office and maintain a representative in Washington, which will enable it to keep in close touch with the Federal Reserve Board, Treasury Department and pending legislation affecting the banking interests.

These changes and developments, with suggestions of minor importance, should place the Association in such a position that membership in it will be indispensable to the banker who wishes to keep abreast of the times, and discharge his full duty to himself and his community. The aim is to give The American Bankers' Association the equipment necessary to serve all the needs of its members.

FIDELITY AND BURGLARY INSURANCE

There has been an insistent demand for a number of years that consideration be given to the question of organizing a company within the membership of The American Bankers' Association, devoted to the writing of Fidelity and Burglary Insurance for member banks, this demand being the product of the belief that the rates now charged by the old line companies are out of harmony with the risk assumed.

At the Atlantic City Convention a special Committee was authorized to consider this subject. The Committee devoted considerable time to the preparation of data, which was presented at the Spring Meeting, with the recommendation that the Executive Council take favorable action in advocating the organization of an Insurance Company along the lines suggested. The Executive Council approved the suggestion and the proposition will be presented to you at this meeting for final action.

It is the belief of the Committee that a Company organized along the lines suggested, under proper management, can extend rates materially lower than those now charged, and at the same time pay reasonable dividends upon the capital invested. It is distinctly under-

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stood that if the Company is organized, it will not adopt a title that will indicate that The American Bankers' Association is either directly or indirectly identified with the movement. If the Company is launched, The American Bankers' Association will not have any financial interest in the enterprise, nor any voice in its management, and will therefore not in any way be responsible for its future.

FEDERAL RESERVE CAMPAIGN COMMITTEE

The American Bankers' Association in June, 1917, was instrumental in securing the passage of amendments to the Federal Reserve Act designed to meet all the objections which had been raised by State Banks to membership in the Federal Reserve System.

In recognition of the necessity of mobilizing the financial resources of the Nation, to enable the Government to successfully prosecute the war to a victorious conclusion, The American Bankers' Association appointed a Committee to co-operate with the Federal Reserve Board, and with the officers of the several Federal Reserve Banks, with a view of conducting an educational campaign, having for its object the bringing into the Federal Reserve System all the eligible non-member banks.

The Committee has a representative in each Federal Reserve District, with authority to appoint assistants in each State in the District.

In addition to the efforts they are making to induce non-member banks to join the System, they are also charged with the responsibility of securing the passage of such remedial State legislation as may be necessary to enable the eligible banks to join the System. The results attained have been most satisfactory and those identified with directing the affairs of the Federal Reserve Banks have expressed their deep appreciation of the services rendered by The American Bankers' Association. I sincerely hope that this Convention will authorize a continuation of this constructive work.

COMMITTEE OF FIVE

The Committee of Five succeeded in securing the passage of legislation which it was hoped would enable country banks to obtain reasonable remuneration for services rendered. By request of the Federal Reserve Board, General Counsel Paton submitted a brief outlining his interpretation of Sections 13 and 16 of the Federal Reserve Act as amended. The opinion rendered expressed in the most convincing and exhaustive terms, that the Federal Reserve Board were obliged under the amendment to fix and allow reasonable service charges to Member banks, but having received an adverse opinion from the Attorney General, the Board has refused to allow the service charge.

THE AGRICULTURAL COMMISSION

The Agricultural Commission under the leadership of its efficient Chairman, has rendered potential aid in stimulating an increased supply of farm products.

The *Banker-Farmer,* official publication of the Commission, has taken a front rank among the magazines devoted to farm topics, and has been signally recognized by the United States Department of Agriculture during the past year.

This important Committee should be made a permanent standing committee of the Convention, and the Chairman a member of the Executive Council, and an amendment to the Constitution in harmony with this thought will be submitted for your decision.

MEXICO

The attention of the Association has been directed to the unfortunate conditions existing in Mexico, especially to the confiscatory provisions of the new Constitution adopted by the Republic.

This situation has been the occasion of several conferences and considerable correspondence between the officials of your Association, parties directly interested, and the State Department.

American citizens and interests have been shamefully treated, but we hope that through the good offices of the State Department, an amicable adjustment may be effected through diplomatic channels.

Mexico will doubtless finally realize that we have no ulterior motives: and that we sincerely desire to be of material benefit in assisting her to solve her internal problems.

AMERICAN TRADE ACCEPTANCE COUNCIL

In recognition of the necessity of conserving and utilizing the credit facilities provided by the Federal Reserve Act, the American Bankers' Association in co-operation with the United States Chamber of Commerce, National Association of Credit Men and National Association of Manufacturers, formed a joint Committee known as the American Trade Acceptance Council. This organization has conducted an intensive campaign of education during the past year, calling attention to the advantage and necessity of converting open book accounts into liquid credit instruments known as Trade Acceptances, and the results attained have been most gratifying.

CO-OPERATION

Freed from the restraints imposed by law and the Interstate Commerce Commission, the railroads have increased their carrying power; under the trained command of business men, ships are being launched and munitions are being produced. The Government has called in business men to conduct the multifarious enterprises connected with war. The Government, instead of restraining business, is now encouraging it to speed up the war. May we not hope for a continuation of this spirit of co-operation between the Government and business at the conclusion of the war?

However, out of the chaos into which the nation was plunged, is coming the semblance of order. Americans are following their natural creative bent. They are working for new ends—to create an industrial machine behind the war machine—and from new motives—to produce, what is needed, for the joy of it as well as the necessity.

It is all intensely democratic in its spirit and in its desire to serve for the common good. The draft is democratic—the Liberty Loans are democratic. The conservation of food is democratic. At every turn the test to be applied is not whether any single act is the result of the exercise of centralized authority, but whether it indicates the will of the people. Democracy is ascendant in the minds of men. A note of partisanship has a jarring sound. It makes a discord in the effort for social harmony.

In this great drive for order in the world—for the elimination of every shred and remnant of autocracy, the great organizations of business men are working in co-operation. On these organizations rests the responsibility of leadership. To their ingenuity we look for the plans that will bring social peace and satisfaction. To these composite representatives of action we must look for the initiation of the movements and the execution of the works that will make this nation worthy of its destiny.

It is most fortunate that in these circumstances The American Bankers' Association has stepped out of its isolation and has joined hands with the Chamber of Commerce of the United States, with the National Association of Manufacturers, with the National Association of Credit Men, with the Foreign Trade Council and with the International High Commission, in the development of enterprises and ideas which give promise of general advantage. Each of these organizations has a special field, but they have as their common purpose the winning of the war, the progress of the country and the promotion of anything and everything that makes for prosperity and happiness.

Joint committees are working out ideas on particular subjects. Your president has been honored by presiding over the Finance Sections of the meetings of the Chamber of Commerce and the Foreign Trade Council. With other organizations, of more specialized nature—The League to Enforce Peace, the National Security League and The National Association of Owners of Railroad Securities, for instance—we are in co-operation and the Association has been represented at many meetings for the consideration of National problems.

NON-PARTISAN LEAGUE

The extreme manifestation of social unrest is found in the so-called Non-Partisan League. Price-fixing is now one of the most alluring arguments of its advance agents. Appealing to the farmers' normal prejudices, against the supposed exploiters of his toil, the agents point convincingly to the fact that the price of his wheat has been fixed, but the price of cotton and oil has not. The war, they declare, has been made in the interests of predatory wealth and profiteers, so why not beat the enemies of honest toil by paying Mr. Townley $16.00 and joining the League for two years?

The avowed purpose of this organization, now strong in sixteen States, is political control by a class for a class, and co-operative selling and buying. They already control many newspapers and they propose running stores, elevators, banks and courts.

They are too shrewd to attempt to launch a new political party, their scheme is to secure control of the dominant political party of the city, county and State where they are operating; with the millions at their disposal, this plan has been easy of accomplishment, and they are practically in control of the State of North Dakota. This movement should be curbed before it assumes the proportions of a prairie fire.

NATIONAL SPIRIT

Against these various manifestations of discontent and determination for social and economic change, there are evidences of intelligence, loyalty and devotion which are reassuring. To the men of the drafted army and all others, we may turn in the confident expectation of finding democracy of purpose. In attending eighteen State Conventions of bankers, I found opportunities to visit several of the concentration camps and aviation fields. At all of them there was displayed the same sturdy Americanism, the same enthusiasm, the same devotion to country that is exemplified in every dispatch from the battlefields of Europe.

SELECTIVE DRAFT

The selective draft act—that miracle of legislation, in its application to all classes, has given us an army superior in intellect, initiative, courage and physical strength.

UNIVERSAL MILITARY TRAINING

Universal military training has won approval because its influence must inevitably be democratizing. But universal military training is as inevitably joined to the question of social unrest as the question of social unrest is joined to the plans and prospects of the Non-Partisan League which is a manifestation of it. Commercial expansion and industrial growth depend on the training of our young men as much as on our financial strength. These young men will receive from military training a new sense of the meaning and obligations of citizenship; they must have the physical and intellectual preparation for service to the country and those of alien birth must have a common participation in public duties and share the common pride in our national achievements. Once that has been done, movements like that of the Non-Partisan League, as menacing as it is, will be merged in a democracy of purpose and patriotism.

DEMOBILIZATION

When our young men return from the battlefields of Europe, they will have something to say about the conduct of those of us who have stayed at home. They will be privileged to ask us what we have done to place ourselves as nearly as possible with them on the same level of sacrifice and suffering. They are privileged to make the demand and have an honest answer. What will they say to those who, by reason of the sacrifice and suffering of the men at the front, have gained power or wealth through profit or have secured unearned wages by threatening to make the sacrifices and suffering more intense?

To these men we owe an accounting, and it may not be satisfactory to them if it is not based on honest intention to make this country contented and prosperous. Their future is a part of the whole vast problem. To some extent the younger ones may be compensated for their services by education at the Government's expense. That is a partial solution, but there lies further opportunity for study and an application of the knowledge of our greatest educators and vocational experts. The influence of the decision as to these men's future on our social and industrial status, may be momentous. The demobilization of the great armies we are gathering may be a greater task than their mobilization. From whatever angle we approach the subject of war and "after the war," we encounter the same questions.

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MERCHANT MARINE

Linked up inseparably with both these questions is that of our merchant marine. Forced at last by the grim necessity of war, we are producing tonnage at an unprecedented rate. When the war is over these ships, however owned, must be profitably employed.

But construction of ships is not the whole thing; unless there is due provision for the operation of these ships on the competitive basis under American ownership, the American flag will disappear and we shall be in the position of building ships for other nations to operate. But it is, of course, highly desirable that their operation as well as their construction should be American. The revenue from their merchant marine has been one of the large factors of British income for years.

There were three or four factors which absorbed the bulk of our favorable export balance prior to the war. One was interest on capital advances which Europe had made in this country, one was expenditures by American travelers in Europe, one was remittances by immigrants to their families in Europe, and one—a very substantial one—was payment for service of the British and German merchant marine and insurance on American goods carried in foreign bottoms.

A well-known authority recently said: "Without a sound, well-endowed system of American shipping, banking and marine insurance, the three welded together into one harmonious whole, there can be no world's trade for America."

"We of the interior have for generations opposed ship subsidy because we had no Coast cities; forgetting that Coast cities are the open gate to and from inland industries."

"We must take stock of our prejudices, in the new light shed upon this subject, and we must be prepared to scrap them, if necessary, as we would scrap worn-out machinery."

Many of the restrictive features of the Seaman's Act should be repealed, and the Shipping Board should be given broad discretionary powers, with the view of placing the shipping interests of America on as favorable a basis as that of other nations.

In 1914 our world trade amounted to $3,800,000,000, about $40.00 per capita. American ships carried only 9½ per cent. of it. Chairman Hurley, of the Shipping Board, said recently: "With something like 25,000,000 tons of shipping to be employed within two years, the United States Shipping Board feels that it is none too early to look around for cargoes, both in this country and abroad."

FOREIGN TRADE

Then he added that "ships will be of little use when peace comes, unless the American business man has by that time learned to think in terms of ships and world trade. He must learn to regard the whole world as his market."

"This will mean more than selling factory goods to foreign customers. Foreign countries have raw materials and finished products to exchange with us. He must learn to swap jack-knives without trying to keep both knives."

"The American manufacturer must run his factory with a view to utilizing the raw materials of other countries, thus aiding in their development. We must learn to develop other countries by investing our money in them, laying a basis for trade as the English and Germans have done."

The passage of the Webb-Pomerene bill permitting combinations in connection with foreign trade, and the evolution of the Federal Reserve System, are both factors that will aid tremendously in developing foreign trade connections. It has been suggested that a commercial attaché be established in each of our foreign consulates, or possibly the appointment of higher class men as foreign consuls, with more training, who could possibly organize a commercial bureau for the benefit of America's trade abroad. Accurate information about foreign trade conditions and government co-operation in meeting them, would certainly be of great benefit.

FEDERAL RESERVE SYSTEM

The banking business is not immune to these changes that are taking place before our eyes. Now and then we thank Providence for the reserve system. It has been the salvation of the country. When all the forces of transportation, industry and agriculture had to be stimulated, reconstructed and reorganized, when citizens had to be turned into soldiers over night, we have been spared the need of revising our banking system.

The Federal Reserve Act has provided the facilities for the opening of new fields, the opportunity for developing foreign business, the certainties that have succeeded the uncertainties, and the numerous advantages without which it would be impossible for us even to think of competing in world markets.

NEW ERA.

The new era for business is not going to begin when the war ends—it has already begun. It began when the war began, even for us. Commerce and production are the aims of the nations and commercial domination has been the aim and purpose of Germany. Peace as the result of military adjustments might be simple, but peace as the result of the settlement of commercial differences and spheres of control will be difficult or impossible without a military victory. Every discussion of possible terms of peace makes still clearer Germany's purpose to retain the foundation of her commercial power, which goes hand in hand with her military power, so that, if she is to cease to be a menace to the peace of the world, Germany must be overcome commercially as well as militarily. The single alternative is that she be so placed and give such guarantees, if that is possible, for a nation with no sense of respect for a solemn treaty, that she may be accepted again as a member of the league of nations.

COMMERCIAL AND INDUSTRIAL EXPANSION

This country stands, then, firmly committed to a great policy of commercial and industrial expansion, if not as a matter of desire, then as a matter of necessity. It is as inevitable as it was that we would become participants in the war, whether we wanted to or not. If this is not our policy, we must admit we are willing to surrender our position in the world and lapse into the state of a second-rate and decadent nation.

The maintenance of this position demands of us an assembling of our forces and a co-ordination of our efforts not only as great but even greater than has been made necessary by the war. In this scheme the Government looms large as the influence which alone can give us the compact organization necessary to meet the competition of other nations organized down to the last refinement of efficiency.

RAILROADS

A few years ago none of us would have believed that such an outcome would be possible. We would have scoffed at the idea of this Government's appearing as the conductor or director of, or participant in, business of all kinds. But here we are—all in agreement that never again can we go back to the old method of conducting the railroads and only wondering how we can reach the solution of the problem without Government ownership and operation.

Public sentiment as to the railroads has been largely the product of appeal to passion and prejudice. Demagogues have capitalized and nursed hatred of the roads.

A reliable authority states that the whole equipment for transportation is ten years behind the times. Why? Because the Interstate Commerce Commission has forbidden the roads during that period of time to charge just and fair rates for their product, tracks, locomotives and cars have been steadily wearing out and there have been no adequate funds to replace them. This has sapped railroad credit, and at no time in the last ten years have the roads been able to raise sufficient funds to keep their equipment abreast of the times. This has produced not only physical discomfort to the business world through hampered transportation facilities, but has had a more far-reaching effect upon the country's prosperity.

GOVERNMENT CONTROL

Under the circumstances, it is indeed fortunate for the railroads that the Government has undertaken to direct their activities during the period of the war, and it is to be hoped that as a product of this experience, a policy will crystallize which will place the railroads in a sound economic position.

The banks of the nation are vitally interested in the future of the railroads and are anticipating the consummation of contracts with the United States Railroad Administration, which will be in harmony with the assurance of the President when the properties were taken over, that the stockholders could rely on receiving a square deal from the Government. The railroads would thus be placed in a position where they could count with absolute certainty upon the amount of revenue available for the payment of dividends and other fixed charges. The recent advance in freight and passenger rates was convincing proof that the railroads were justified in the demands they have made during the past several years for an advance in rates.

COORDINATION

The Government, by common consent, is looked to as the guiding influence in business, but if it is to guide competently, it must have wisdom in counsel and supply a form of leadership or direction which, through an understanding of it, is in sympathy with business.

What is transpiring in this country seems also to have been happening elsewhere. England, for instance, has ceased to be a commercial battleground of freely competing manufacturers and merchants. It has become a single workshop, whose various activities have been coordinated either through voluntary cooperation or by order of business men in government positions, backed by laws. One estimate places the number of such men in positions of authority over business at two hundred thousand.

That is a position which is rapidly being attained in this country, if, indeed, we have not already reached it. The government, we say, is in control for the necessary purpose of winning the war, but the winning of the war depends on industrial organization. The conclusion comes inevitably that what will win the war will also win the "war after the war." Therefore, for this later undertaking, we must have the same coordination of effort, the same strong directing authority, which must be above the suspicion of selfish motives, and the same combination and standardization for the sake of economy and efficiency.

The problem of the business world, in view of the tendencies of the times, is such utilization of centralized direction as well be beneficial to business. The problem of government is such a directing influence over business as well be beneficial to the country. In this there is community of interest rather than conflict. In any event, it is the situation that confronts us whether we like it or not; it will continue to confront us for the period of the war and some months thereafter.

In this connection a further demonstration of the tendency toward government direction is found in the Capital Issues Committee and the War Finance Corporation. These were frankly organized for war purposes, but already they have found opportunities for service and action rather different from anything that was originally intended. Chiefly they have shown the possibilities that may be attained by banks organized for service.

BRITISH TRADE CORPORATION

Prophecy is idle, but in looking over these enterprises, we are reminded that England has gone much farther. The British Trade Corporation, with an authorized capital of $50,000,000, was incorporated under royal charter over a year ago. This corporation is the authorized agent of the Government and may act for the Government whenever the latter desires that "British capital shall participate in financial operations and requires an agent for the representation of British interests so far as relates to trade or finance."

The Trade Corporation insures credits, and so makes possible longer credits to foreign buyers of British goods; it gives financial support to British enterprise in any part of the world; it finances inventions and inventors, and through its commercial intelligence department provides information as to trade opportunities and finances them. Its purpose is not particularly to make profit for itself but to increase industry and commerce and so make profit possible.

Thus, England is preparing for world business. Our experience in point of trade necessity parallels England's. We are in fact traveling the same road and in many ways are applying similar methods

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in an effort to reach the same destination. The life of our War Finance Corporation is fixed. Our railroads are under government direction for the term of the war and twenty-one months thereafter. It was the same in England originally, but a few months ago the Chairman of the British Committee on Trade and Industrial Reconstruction advised the public that the same control would have to be submitted to after the war ends.

None of these questions can be considered independently. Every single line of activity runs into all the others. Every question is tied up with all the others—questions of banking, financing, transportation by land and sea and by lake, river and canal as well, questions of industrial and agricultural production, of wages, efficiency, of social content and social unrest, and the still subtler questions concerned with the health, vigor, education and morality of the people—all are linked up together.

So it is that we cannot conduct the war without also conducting "the war after the war." It is not permitted that we live only for the day. Prudence demands that the work of this week and this month be so ordered that the work of next week and next month be developed rationally and normally. Whatever our inclinations, we find ourselves inevitably looking forward.

NON-ESSENTIALS

We see, therefore, that in our zeal for war essentials, we must not wholly destroy what are loosely classed as non-essentials. These must be curtailed; they must be compelled to mark time, but only the direst need would justify their destruction. A secure foundation must be left under them or the future will be freighted with distress and disaster.

In discussing this subject, a well-known authority said:

"There should be no permanent dismantling of any substantial phases of America's business activities.

"They will all, even the now so-called non-essentials, be required again in an increasing degree to meet the world's new needs as conditions after the war gradually return to normal. In the coming peace, just as in the present war, America will be called upon for greater service to the world than ever before.

"We who are so largely responsible for the business welfare of the country, should, both from motives of patriotism and also of faithfulness to our business stewardship, see to it that when the war is victoriously ended, America shall stand financially stronger and sounder in every way than ever before to meet the world needs to which it will be her duty to minister. We must not let war weaken us, but rather strengthen us, to carry on the great salvage of civilization to which we have devoted ourselves."

Upon the banker rests a grave responsibility in this trying hour and the future welfare of our country depends largely upon the ability of the banker to convince his patrons of the necessity of abstaining from a declaration of large dividends. Abnormal profits should be used in the liquidation of outstanding bonds and fixed or floating indebtedness, liberal depreciation reserves should be set up covering plant, machinery and inventories.

Bankers can be largely instrumental in the adoption of efficient methods of cost accounting and should insist upon receiving financial statements audited by certified accountants.

If these policies are adopted the business of the Nation will be placed on a high plane of efficiency and we can then hope to compete successfully for our full share of the trade of the world, as we will be prepared for any eventuality.

CONFIDENCE IN FUTURE

In the face of all the difficulties that confront us, our hope merges into confidence. We are privileged to contrast our creative genius with the destructive mania of the Hun. We are setting freedom on a pinnacle and burying slavery deep in a dugout. We are releasing the energies of the world for service and stamping out power for greed and selfishness. We are putting autocracy down, but we have still to set democracy up. Until that has been accomplished, the struggle will go on indefinitely, sometimes on blood-soaked battlefields where armed forces clash, but oftener in the social ranks where the weapons will be ideas.

It is our privilege to live in the most eventful era of the world's history.

What a wonderful opportunity for the development of our national spirit, for service, for sacrifice, for achievement, and to prove ourselves worthy of the lofty ideals cherished by our forefathers.

We have emerged from our policy of isolation, and have assumed a new relationship in the family of Nations. America has proven to mankind that we are not the sordid, mercenary people we have been pictured. I am proud of the role that has been assumed by the banks of the Nation, they have given ample evidence of their willingness to serve in this great cause, without hope or expectation of reward. America has a great mission to perform, with the advent of peace, in the reconstruction period to follow. It will fall to our lot to bind up the wounds of mankind, to assuage the grief of the bereaved and afflicted, to feed the hungry, clothe the naked, house the homeless. Problems will be presented for solution that will tax our ingenuity and skill to the uttermost. We must give sober thought to these changed conditions, lest we find ourselves as poorly prepared for peace as we were for war. We will be brought face to face with situations requiring business sagacity and humanitarianism, with opportunity for commercial and financial achievement unparalleled in the world's history.

If there is to be victory in this latter struggle, there must be leadership—learership in business and industry—leadership in politics, leadership by men without fear, who will not be influenced by favor—by men not representative of party or faction, but firm in their allegiance to the highest ideals of the republic.

Annual Report of the General Secretary, Fred. E. Farnsworth

New York City, September 1, 1918.

To the American Bankers' Association.

GENTLEMEN: As required by the constitution, I submit herewith a general report of my administration as General Secretary of the American Bankers' Association during the fiscal year commencing September 1, 1917, and ending August 31, 1918.

The year that has just passed, the eleventh of my connection with the Association, has been the busiest and at the same time the most fruitful year of its existence. Many new problems have arisen which in their solution have demanded the utmost care and diplomacy on the part of your executive officers. Thanks to their efforts, the Association today is stronger and its prestige higher than ever before in its history.

Before proceeding with an extended description of the Association's activities, it seems appropriate to give credit where credit is due. In the conduct of the affairs of the Association during the past year no man has shown a keener insight into the details of its working machinery, a broader appreciation of its problems and a greater capacity for the executive direction of the organization than President Charles A. Hinsch. From first to last he has been in close touch with every single factor entering into the marvellous growth of the Association during the past year, and to him should be awarded the greatest measure of credit for the constructive policies which have been shaping themselves for the future guidance and progress of the American Bankers' Association.

In reeviewing the work of the General Secretary's office I shall touch very briefly on those matters which are of a purely routine nature, dwelling only on those which are sufficiently unusual to require more than a casual mention. It must not be inferred that because only a short reference is made to some department or committee that it is any reflection on the importance of the work done. All of the manifold activities of the Association are important and all merit commendation for work well performed, for on the extent to which they function harmoniously and co-operate with one another depends the orderly conduct of the Association's business.

EXECUTIVE COUNCIL

The Executive Council held its Spring Meeting at Hot Springs, Ark., May 9, 10 and 11. There were only sixteen absentees, and the character of the work accomplished shows conclusively that these meetings are worth while and promote the efficiency of the Association's operations. An outline of the transactions of the Spring Meeting was published in the JOURNAL for June.

When the new Council meets as constituted at present for organization after the adjournment of this convention it will comprise 32 members in the one-year class, 36 in the two-year class, 33 in the three-year class and 16 ex-officio, making a total of 117. This is an increase of 9 since last year.

If the three proposed amendments to the Constitution relating to Article 5, Section 2, wherein the membership of the Executive Council will be affected, are adopted the following members ex-officio will be added:

Second Vice President A. B. A.	1
Vice President Clearing House Section	1
Vice President American Institute of Banking Section	1
Vice President State Secretaries Section	1
Chairman Currency Commission	1
Chairman Agricultural Commission	1
	—
	6

With the above number added there will be a total ex-officio membership of 22 and a grand total of membership on the Council of 123.

Tentative elections were made for membership on the Executive Council by California, Kansas and Missouri, but a sufficient number of members was not secured by August 31 in order to enable those elected to qualify.

SECTIONS AND COMMITTEES

Of equal importance with the work of the Executive Council is that of the several Sections of the Association and the numerous committees. Inasmuch as every one of these bodies renders a detailed report to the convention, in some form or another, it seems unnecessary to elaborate on their activities here. It is proper, however, to state that the Sections are all making satisfactory progress and are co-operating heartily with the parent organization in all that concerns the general welfare of the Association. During the past year steps have been taken to the end that there shall be no conflict of interests between Sections, and if this convention sees fit to pass the proposed amendment to the constitution, making the Section Presidents members of the Administrative Committee, I am sure the working force of the Sections will constitute a more homogeneous, more closely correlated whole than ever before.

So far as the committees are concerned, it would be unfair to single out any for special mention, where all have done so well. It has been a busy year for all of them and their accomplishments have been brought to the attention of the members many times.

This has been a most unusual year from the standpoint of committees and committee work. In addition to the regular standing committees, as provided for in the Constitution, and with the special committees appointed at the Atlantic City Convention by the Association, President Hinsch has ever been alert in appointing special committees during the year, where their services were required and demanded, to take up special work of importance. As an evidence of this unusual activity, it is only necessary to point to the fact that during the week of the convention the regular schedule of meetings shows there are sixty-five sessions. President Hinsch has also appointed, between the sessions of the Executive Council and Annual Convention, many delegates to represent the Association at conferences and conventions of important commercial organizations throughout the country.

The Agricultural Commission has been of splendid assistance to the farmers in this time of crisis. The labors of the Protective Committee, which acts in conjunction with the Protective Department, appear in the excellent record of protection against criminal operations furnished to Association members. This is a feature which is worth everything it costs and which has brought many expressions of approval and strong endorsement, not only of the work of the Protective Committee and Department, but also of the William J. Burns International Detective Agency, Inc. The report of the Burns Agency, which is

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under contract to handle the investigation work, appears every year in the printed book of proceedings and is worth the attention of every member.

The Currency Commission is an important body which for some time past has not been called upon for any active work, but it is always ready for duty nevertheless and its retention for possible service seems to be well advised. Both legislative committees, Federal and State, have done efficient work, acting in conjunction with the General Counsel. The Insurance Committee has just brought out a new copyright burglary and robbery policy, which was published in the last issue of the JOURNAL and which should be consulted very carefully by the members. The committee has lost the services of its former very efficient secretary, B. A. Ruffin, and in the interim Manager L. W. Gammon of the Protective Department has been acting as Secretary.

DEPARTMENTS

The normal efficiency of the departments carrying on the routine business of the Association has been considerably increased by the interchange of views secured through regular meetings of the Office Conference.

To General Counsel Paton, Assistant Secretary Fitzwilson, the several heads of departments, the secretaries of sections and in fact the entire clerical force of the general offices, my thanks are due for faithful and loyal service at all times.

No further additions have been made to the office space, which comprises the entire twelfth floor of the Hanover Bank Building at 5 Nassau street, New York, and whatever additional facilities our growth has required have been provided by the utilization of existing room. The conveniences of the general offices, including the use of stenographers, the library, etc., are all at the disposal of members who may be visiting in New York and who are not only cordially invited, but urged, to call at the offices and inspect the working machinery of the organization.

THE JOURNAL

During the past year two events of importance have taken place in connection with your official publication, THE JOURNAL OF THE AMERICAN BANKERS' ASSOCIATION: First, the elimination of the "Bulletin" section and with it the subscription arrangement with the Institute: and secondly, the unanimous decision of your Executive Council directing the JOURNAL to publish paid advertising. The elimination of the Bulletin meant at the outset a loss of about 17,000 subscriptions, but as these were given at about half the actual cost of producing the publication it meant a saving to the JOURNAL of one dollar for every dollar of subscriptions cancelled. Furthermore, several thousand Institute members have shown their interest in the JOURNAL by subscribing for it at the new special Institute rate, which just about covers the cost, and today our total circulation is nearly 25,000 copies a month. The decision to take advertising was reached at the Spring Meeting of the Executive Council, and although there was little time in which to work, a good beginning was made with the July number. It is evident that there is a strong demand for advertising space in the JOURNAL and there is no doubt that with normal business conditions after the war there are large possibilities for adding to the Association's revenue through this channel. In the meantime, during the fiscal year just closed the expense of publishing the JOURNAL has been less than the amount received from the Association on account of membership subscriptions, a most unusual feat in the publication of any periodical.

THE STATE BANKS

There has been organized during the past year a National Council of State Banking Associations, composed of representatives of state bankers' associations in every state. This movement appears to have arisen as the result of a desire on the part of the state banks for a strong medium of self-expression. So far as your General Secretary is able to ascertain, this National Council does not appear to be in conflict with the aims and purposes of the American Bankers' Association. In fact, it is difficult to see where the objects sought by the new organization could not just as well be served by the State Bank Section of the American Bankers' Association. This Association certainly has no more loyal supporters than its state bank members, who have only to raise their voices in this grand old organization to secure for themselves a respectful hearing. In this connection, I recommend to your careful consideration the proposed amendment to the Constitution, upon which you are to act at this convention, making a change in the personnel of our chief elective officers so as to give the state banks a greater representation.

ROLL OF HONOR

The general offices of the Association have undertaken to compile statistics showing the number of men who have left banking positions to enter the nation's service in the army and navy. For this purpose, blanks were sent to all banks in the United States, member and non-member, and from the reports received up to and including August 28, 1918, it appears that out of the 4,220 banks making the returns, 4,220 have supplied a total of 15,422 men. These are divided as follows Army, 13,015, of whom 1,859 are commissioned officers: navy, 2,427, of whom 190 are commissioned officers. The banks were also asked to report the names of those who had lost their lives in the service, and these names, comprising the bankers' "Roll of Honor," are being published every month in the JOURNAL, together with the statistics previously referred to. Thus far, the reports show that 411 men have lost their lives in the service. It is a matter of regret that a larger number of banks have not complied with our request for this information, as it would be doubly valuable if there were a better response.

MEMBERSHIP

At the Spring Meeting of the Executive Council it was decided to inaugurate a campaign for "Twenty thousand members by August 31, 1918." Owing to the fact that there were only three months of the fiscal year remaining when the campaign began, the goal aimed at was not reached; but nevertheless we closed our fiscal year, August 31, with 19,043, as compared with 17,328 at the end of the fiscal year 1917, a gain of 1,715. It must be remembered that a membership campaign requires careful preparation and takes time to get under way; hence I regard the gain made as an exceptionally fine showing and I am convinced that we have not yet received the full benefit of the efforts made during the campaign and that further substantial additions to our roll may be expected in the course of the coming year.

Analyzing the increase in membership by states, we find that Illinois comes first with 106 new members, a total of 1,145; Texas is second with 105 new members, a total of 728; Minnesota stands third with 104 new members, a total of 675; Nebraska is fourth with 99 new members, a total of 658; Iowa is fifth with 98 new members, a total of 1,003; South Dakota sixth with 93 new members, a total of 419; North Carolina is seventh with 87 new members, a total of 301; Wisconsin follows with 78 new members, a total of 501; then comes Ohio with 57, a total of 765; Indiana with 56, a total of 477; Kansas with 49, a total of 869; North Dakota with 47, a total of 405; Tennessee with 44, a total of 300; Montana with 43, a total of 351, and Oklahoma 43 new members, with a total of 614.

As last year, Illinois stands first in its membership in the Association with 1,145, New York is second with 1,100, Pennsylvania third with 1,011, Iowa fourth with 1,003; Kansas comes fifth with 869; Ohio is sixth with 765; Missouri seventh with 746, then follows Texas with 728, California with 683, Minnesota with 675, Nebraska with 658 and Oklahoma with 614.

Alaska enjoys the distinction of having every bank a member of the Association; the District of Columbia has only one bank not an A. B. A. member; Nevada only two non-members and Arizona but four non-members; Delaware and Rhode Island must supply nine and six, respectively, to come within the full-membership column.

The increase in Association membership, through the efforts of various Sections and officials of the Association, by applications known to have been received through their labors for the fiscal year ending August 31, 1918, fourteen new members and over is as follows:

Administrative Committee	76
State Bank Section, with the assistance of Messrs. C. B. Hazlewood, J. W. Butler, Secretary W. A. Philpott, Jr., and others	76
H. H. Ostenberg, State Vice President for Nebraska	61
James A. Gray, Jr., President North Carolina Bankers Association	54
John W. Wadden, member Executive Council, South Dakota	53
National Bank Section	48
A. F. Balch, State Vice President for Iowa	39
J. E. Fox, State Vice President for Tennessee	33
Savings Bank Section	30
Trust Company Section	8
E. Beissbarth, State Vice President for North Dakota	28
Walter Kasten and H. A. Moehlenpah, members Executive Council, Wisconsin, in joint co-operation	28
F. A. Lemme, State Vice President for Minnesota	25
Robert Neill, State Vice President for Arkansas	23
Henry Reis, State Vice President for Indiana	19
George D. Bartlett, Secretary Wisconsin Bankers Association	17
D. L. Bell, State Vice President for Kentucky	17
Kelsey S. Chase, member Executive Council, Minnesota	16
W. C. Gordon, member Executive Council, Missouri	14

President Hinsch attended some eighteen State Banker Association Conventions and instituted a vigorous campaign for new members, and is entitled to much credit for the large increase in the membership of the Association through his efforts.

The thanks of the Association are due to the Executive Council members, State Vice-Presidents, State Association Secretaries and others who by their untiring efforts have aided in securing this record increase in membership. The credit for the greatest individual accomplishment in the membership campaigns for the year belongs to our State Vice President for Nebraska, Mr. H. H. Ostenberg.

Following is a summary of membership gains for the year:

MEMBERSHIP

August 31, 1917		17,328
Erased from the rolls through failure, liquidation, consolidation and withdrawal December 1, 1917		1,023
Membership		16,305
August 31, 1918, new members joined during the year	1,991	
Regained members (secured from the above)	747	2,738
August 31, 1918, membership		19,043
A net increase for the fiscal year		1,715
A net loss for the year in failures, consolidations, etc.	132	
A net loss for the year in delinquents	144	276
Making the actual gain in new members		1,991

I wish to call your attention particularly to the figures just given, relating to the list of delinquents, those who refused to pay their dues for the last fiscal year. There were 144. In proportion to the number of members, this is the smallest delinquent list in the history of the Association. The delinquents for the year 1916-1917 were 171 with a membership at the beginning of the year of 16,016. At the beginning of the fiscal year of 1917-1918, the membership was 17,328—1,312 more members and 27 fewer delinquent members. Can anyone question the loyalty of our membership?

Gratifying results are also shown in the usual lists of losses in membership by failures, consolidations and liquidations. For 1916-1917 the list was 137; and for the years 1917-1918 the list was 132. The total net losses as shown in the reports for delinquents, failures, consolidations and liquidations were 308 for the year 1916-1917 and 276 for the year 1917-1918.

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The aggregate resources of our membership is estimated at twenty-six billion dollars.

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	233,915.00
August 14, 1915	15,010	245,651.00
August 31, 1916	16,016	264,529.17
August 31, 1917	17,328	302,705.00
August 31, 1918	19,043 (estimated)	332,490.78

INCOME

Interest on Bonds and Corporate Stock	$4,730.00
Interest on Bank Balances (estimated)	2,200.00
Estimated Annual Dues for Fiscal Year Ending August 31, 1919	332,490.78
Making Total Income, year ending August 31, 1919	$339,420.78

MEMBERSHIP BY YEARS

Year.	Membership.	Gross Loss by Failures, Merger, Delinquents, etc.	Net Loss by Failures, Merger, Delinquents, etc.	Gross Gain.	Net Gain.
1897	2,813	371	....	892	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	769	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
1915	15,010	924	434	1,214	290
1916	16,016	883	416	1,889	1,006
1917	17,328	876	308	2,188	1,312
1918	19,043	1,023	276	2,738	1,715

MEMBERSHIP OF STATES AND TERRITORIES

HAVING LESS THAN 100 MEMBERS

(As of August 31, 1918)

Arizona	93	Bolivia	2
Delaware	48	Canada	61
Nevada	33	China	1
New Hampshire	74	Costa Rica	2
Rhode Island	48	Cuba	22
Vermont	79	Isle of Pines	1
Alaska	19	Mexico	19
Canal Zone	1	Panama	1
Hawaii	17	Santo Domingo	5
Philippine Islands	4	Venezuela	4
Porto Rico	18		
		Total	552

MEMBERSHIP

DIVISION OF BANKS IN ASSOCIATION, AUGUST 31, 1918.

State or Territory	Nat'l	State	Private	Trust Co.'s	Sav. Banks	State Sec'y	A.I.B. Chaps.	Total
Alabama	60	88	2	24	7	1	1	183
Arizona	15	56	0	20	1	1	0	93
Arkansas	57	206	2	31	2	1	1	300
California	225	320	6	38	88	1	5	683
Colorado	116	130	7	16	10	1	1	281
Connecticut	69	9	7	47	61	1	2	196
Delaware	23	5	1	16	2	1	0	48
Dist. of Columbia	14	3	3	3	27	1	1	52
Florida	51	134	4	13	4	1	0	207
Georgia	83	258	7	19	14	1	1	383
Idaho	57	109	2	9	3	1	0	181
Illinois	367	418	211	101	46	1	1	1,145
Indiana	166	185	42	79	4	1	0	477
Iowa	264	270	52	52	364	1	0	1,003
Kansas	207	644	2	6	9	1	0	869
Kentucky	85	103	1	24	6	1	1	221
Louisiana	35	136	1	28	7	1	1	209
Maine	59	0	0	43	22	1	0	125
Maryland	88	52	23	17	30	1	1	212
Massachusetts	163	9	27	77	130	1	1	408
Michigan	93	208	43	13	184	1	1	543
Minnesota	214	439	6	7	6	1	2	675
Mississippi	33	147	1	17	2	1	0	201
Missouri	117	511	20	61	34	1	2	746
Montana	98	219	19	13	0	1	1	351
Nebraska	191	447	5	10	4	1	0	658
Nevada	10	20	0	2	0	1	0	33
New Hampshire	48	1	0	7	17	1	0	74
New Jersey	186	27	4	106	19	1	0	343
New Mexico	41	45	1	11	4	1	0	103
New York	443	291	141	115	102	1	7	1,100
North Carolina	69	169	1	52	9	1	0	301
North Dakota	125	271	0	4	4	1	0	405
Ohio	286	201	63	69	142	1	3	765
Oklahoma	259	342	0	11	1	1	0	614
Oregon	78	112	10	11	7	1	1	220
Pennsylvania	598	118	52	206	32	1	4	1,011
Rhode Island	17	1	1	19	8	1	1	48
South Carolina	46	145	1	12	19	1	1	225
South Dakota	104	286	3	9	16	1	0	419
Tennessee	84	141	1	63	9	1	1	300
Texas	365	264	29	64	2	1	3	728
Utah	25	65	4	7	11	1	1	114
Vermont	41	0	0	24	13	1	0	79
Virginia	111	160	11	19	12	1	1	315
Washington	72	232	16	20	10	1	2	353
West Virginia	91	125	2	19	4	1	1	243
Wisconsin	129	332	3	12	23	1	1	501
Wyoming	33	81	1	6	0	1	0	122
Alaska	3	15	1	0	0	0	0	19
Canal Zone	1	0	0	0	0	0	0	1
Hawaii	2	8	2	5	0	0	0	17
Philippine Islands	1	3	0	0	0	0	0	4
Porto Rico	1	15	2	0	0	0	0	18
Bolivia	0	0	2	0	0	0	0	2
Canada	0	60	0	1	0	0	0	61
China	0	0	0	1	0	0	0	1
Costa Rica	0	2	0	0	0	0	0	2
Cuba	1	18	2	1	0	0	0	22
Isle of Pines	1	0	0	0	0	0	0	1
Mexico	0	7	11	1	0	0	0	19
Panama	1	0	0	0	0	0	0	1
Santo Domingo	5	0	0	0	0	0	0	5
Venezuela	0	4	0	0	0	0	0	4
	6,227	8,667	858	1,661	1,531	49	59	19,043

STATE ASSOCIATIONS

In the state bankers' associations, of which there are now one for each state, for the District of Columbia and Alaska, a total of fifty, we have a powerful force which has been of inestimable value. By attending conventions, group meetings, banquets, etc., your General Secretary has made it a point to keep constantly in touch with these organizations, and at every opportunity to cement the good fellowship and cordiality that now exist between these associations and The American Bankers' Association. The state secretaries, particularly, have been an ever present help in some branches of our work in which we regard their assistance as almost indispensable.

FINANCES

The report of the Treasurer shows a cash balance of $6,449.22, as compared with $3,098.58 in 1917. There is no deficit in the actual running expenses of the Association for the past fiscal year. As will be seen, the receipts exceed the actual expenditures; and there are no outstanding bills, all current expenses having been paid.

ROUTINE WORK

During the fiscal year just ended we sent out from the General Offices more than 574,000 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	14,787	
Circular letters, etc	104,476	
First-class mail matter other than letters, such as typewritten lists, etc	1,741	
		121,004

SECOND, THIRD AND FOURTH CLASS MAIL MATTER

*JOURNAL-BULLETINS	147,765	
Journals	186,977	
Codes	1,970	
Signs	2,017	
Lists of members	29,752	
Packages	1,645	
		370,126
Total A. B. A. mail matter		491,130

SECTIONS AND DEPARTMENTS

Total first-class mail matter	60,830	
Total second, third and fourth-class mail matter	14,829	
		75,659
Total mail matter		566,789
Express packages		7,399
Grand total		574,188

* Bulletin Section dropped July 31, 1917, from the JOURNAL-BULLETIN, which is now published as "THE JOURNAL." The first number of the "Bulletin" which is now issued by the American Institute of Banking Section, quarterly, was published July 1.

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IN MEMORIAM

During the year just closed, death has claimed a goodly number of those who have served the Association faithfully and well, in official capacities and as individuals. The list includes: Ralph W. Cutler of Connecticut, former President of the Trust Company Section; Tom Randolph of Missouri, former member of the Executive Council; George E. Haverstick of Nebraska, who was taken away at the very beginning of a useful career on the Executive Council; William M. Hill of Virginia, Anderson D. Buckner of Missouri and William H. High of California, all former members of the Executive Council; George E. Edwards of New York and Newton F. Hawley of Minnesota, both former Presidents of the Savings Bank Section; and John Corbett of New Mexico, Vice President of the Association from that state.

CHICAGO

Since the organization of the American Bankers Association at Saratoga Springs, N. Y., in 1875, including the present convention, we have held four of our annual meetings in the western metropolis—in 1885, in 1893, in 1909 and in 1918.

At the 1885 convention, the Hon. Lyman J. Gage was President and presided. He was then president of the First National Bank of Chicago; and since that time, has honorably filled the position of Secretary of the Treasury. He is now retired and is passing his golden days in peace and contentment in southern California. The convention was largely given up to addresses on the silver question and many valuable statistics and tables were furnished the convention; and are part of the records of the Association, the leaders in the addresses and discussions being among the most prominent bankers and economists of the United States. The Treasurer's report showed the receipts for the fiscal year to have been $10,940; the membership 1,395.

The convention of 1893 was presided over by William H. Rhawn, president of the National Bank of the Republic, Philadelphia. Among those who made addresses was the Hon. James H. Eckels, Comptroller of the Currency. The addresses and discussions were largely on bank legislation, money and currency reform. The membership at that time was 1,672; receipts for the year from all sources $15,783.80. The Association had $10,000 in securities as an investment; and a cash balance of $357.32—reported by the Treasurer, George F. Baker of New York City.

It is nine years since the American Bankers Association has held a meeting in Chicago. At the 1909 meeting, that distinguished Chicagoan, George M. Reynolds, as President, presided over the deliberations of this body. The membership at that time was 10,682 and the yearly income was $175,000. It is interesting to recall that among the speakers on that occasion were the Hon. Joseph G. Cannon and the late James J. Hill, besides some well known members of our own family of bankers. Their addresses dealt with the problems of peace, while our speakers today treat of war and its successful prosecution. In either event, I am sure that no better setting could be supplied and no finer hospitality rendered than what we have received from the big, live American city of Chicago. Everything that Chicago does, she does well; and I know that I merely anticipate the report of our Resolutions Committee when I say that for the many courtesies shown during convention week, for the excellent arrangements made for handling and expediting our business and for all of those innumerable details which go to make a successful convention, our heartiest thanks are due the city of Chicago.

In conclusion, I wish to express my appreciation of the valuable aid rendered during the past year by all the officers of the Association, Council members and committeemen, all of whom have spared no effort to make this the banner year of the American Bankers Association.

FRED E. FARNSWORTH,
General Secretary.

Annual Report of General Counsel, Thomas B. Paton

The work of the General Council in behalf of the Association, its committees and its members comprises so much of detail that it is somewhat difficult, in framing an annual report, to determine just where to draw the line of demarcation between the general and the particular. In the most general form of statement, the work of the General Counsel is susceptible of three broad divisions, legislative, advisory and executive, the legislative comprehending all the activities for or on behalf of the Committees on Federal and State Legislation, the advisory including advice on matters of law to individual members and upon matters of both law and policy to various committees and officers of the Association and the executive embracing a variety of document drafting—proposed laws, resolutions, amendments, contracts—as well as secretarial work for the legislative committees.

FEDERAL LEGISLATION AND LEGISLATIVE MACHINERY

Probably the most important branch of the work during the past year has been in connection with the Committee on Federal Legislation. Congress has had before it important amendments of the Federal Reserve Act, all the new legislation growing out of the war and a variety of other details affecting the banking interests. No detailed statement of all these subjects of legislation, their progress or status, or of the attitude of the Association concerning them, is called for in this report; such statement is appropriately made in the report of the Committee on Federal Legislation. But it is appropriate to point out that in connection with the important work of the Committee on Federal Legislation and of its auxiliary, the Federal Legislative Council, it is the function and duty of the General Counsel to advise and keep the members of the Committee fully posted upon all legislative matters of importance, as well as to operate the necessary machinery to carry out, in their behalf, the legislative policies of the Association.

In the Sixty-fifth Congress, over one hundred bills affecting banks favorably or unfavorably have been examined and digested and their progress—where they have made progress—watched. Particular measures and amendments to existing bills have been drafted and urged in the interest of the Association. Advice concerning bills of importance has been communicated to the Federal Legislative Committee and Federal Legislative Council by confidential bulletin, by letter and by wire; the stand or policy of the Association upon particular measures requiring immediate decision has been referred to the Federal Legislative Council and determined by referendum vote; there have been personal interviews and correspondence with the members of Congressional committees in presenting the claims of our Association and meetings with our own committees in Washington in connection with Federal legislation and departmental matters. It is believed that efficient service has been rendered with the means at command. A suggestion has been made that the service be extended by the establishment of a local office in Washington in charge of a competent representative who would be an assistant of the General Counsel. Such a local office might prove an advantage, for, in addition to closer touch with the activities of the committees of Congress and with their views and policies upon various banking and financial questions, there are many matters which are presented to various departments of Government involving interpretation of the Federal Reserve, Revenue, Selective Service and other laws.

It is but fitting here to gratefully acknowledge the invaluable aid received from Mr. H. H. McKee of Washington, D. C., former Chairman of our Committee on Federal Legislation, whose sound judgment has been relied upon in many emergencies and who, at the sacrifice of much time, has gratuitously assisted the General Counsel in the performance of numerous important duties at Washington in connection with legislative and departmental work.

COMMITTEE OF FIVE

The General Counsel has been associated with the work of the Committee of Five, the successor of the Committee of Twenty-five, in its efforts first, through the Committee on Federal Legislation, to obtain the enactment by Congress of an amendment of the Federal Reserve Act which would make clear the right of member banks to make exchange charges in remitting for checks presented through the Federal Reserve Banks and, secondly, having procured such amendment, though in emasculated form, in its efforts to obtain the fixing of reasonable charges by the Federal Reserve Board under a proper interpretation of the amended law. A hearing was given the Committee by the Federal Reserve Board at which the contentions of the Committee were presented and later a legal brief was prepared and submitted in support of the proposition that it is the duty of the Federal Reserve Board to determine and regulate reasonable charges to be made for remitting the proceeds of all checks presented by the Federal Reserve Banks, except checks of which the Federal Reserve Bank is owner, and that a Federal Reserve Bank which pays such charge for remitting, is entitled to charge the same against its principal, the depositor or owner of the check, anything to the contrary in Section 16 of the Federal Reserve Act is impliedly repealed by the later amendment. A full report of the activities of the Committee of Five has been forwarded by its Secretary, Mr. Jerome Thralls, to every member of the Association and will be presented to this Convention.

TRADE ACCEPTANCES

There has been co-operation with the American Trade Acceptance Council in promoting a standard form of trade acceptance. Aid has been given in the preparation of such form and a number of legal opinions have been rendered the Council and others upon the legal effect of the trade acceptance and upon many questions of law connected with its use. Among these are (1) the right of a bank at which a trade acceptance is made payable to pay and charge up the same when presented at maturity without express instruction from the customer, (2) The duty of the bank as to payment without express instruction where the acceptance is not presented until after maturity, (3) the seller's right of replevin where a trade acceptance is taken, (4) the effect of taking a trade acceptance on mechanic's lien rights, and (5) negotiability of various forms of trade acceptance. Questions have also been considered with reference to the possible effect of anti-trust laws where resolutions have been adopted by associated bodies recommending to members that they urge the use by their customers of trade acceptances in substitution for open accounts and recommending uniform and favorable terms of credit to be offered by members to customers. An attempt was unsuccessfully made to procure an interpretation of the revenue law under which trade acceptances would be exempted from the stamp tax.

MEXICAN SITUATION

Your Counsel has co-operated with the President of the Association in matters connected with the Mexican situation and has had numerous conferences and correspondence relative to this subject and as to the attitude the Association should take in connection with the Administration's policy in dealing with Mexico to the end that the lives and property of American citizens in that disordered country may be fully protected.

WAREHOUSE RECEIPTS

Considerable work has been done in promulgating the standard form of warehouse receipt which conforms to the requirements of the Uniform Warehouse Receipts Act and which has been jointly recommended by the American Bankers Association and the American Warehousemen's Association. This has entailed a considerable correspondence with many members of the Association in explaining the use of the forms. The form so recommended while conforming to the Uniform Warehouse Receipts Act which has been passed in a large number of states and while available for general merchandise warehousing, does not conform to the requirements of the Federal Warehouse Act, and a different form is necessary for agricultural products warehoused under that act. There has been correspondence on this subject with experts in the Agricultural Department and the completion of the form is awaiting the promulgation of regulations by the Secretary of Agriculture.

STATE LEGISLATION

The present has been an off year in the matter of state legislation. Only eleven state legislatures met in regular sessions this year and very few of our Association measures have been enacted. In New York the Bad Check bill has been passed. Next year, it is hoped, better results will be attained as over forty state legislatures meet in regular session. In connection with the proposed law to prevent the secret

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assignment of accounts receivable, which subject will be presented in the report of the Committee on State Legislation, your Counsel has had several interviews with the Secretary and Attorney of the National Association of Credit Men preparatory to drafting a suitable statute for state enactment which will prevent fraud in the secret transfer of these accounts.

ADVISORY WORK FOR MEMBERS

The advisory work of the office of General Counsel shows no sign of abating but with the increase of membership continues to increase. For some years now the number of letters received from members requesting opinions upon submitted questions has been upwards of 600 annually, and in the last two or three years the average is still higher. These questions range all the way from simple and easily answered propositions to difficult questions of law, involving much time and research. A majority of the questions involve actual transactions in which the inquiring bank has figured and in which a question of right or liability is involved; many questions, however, are of a hypothetical nature, although their solution is useful in determining the proper rule or procedure in a given case. Where a congestion of questions develops among those requiring time for consideration, the rule adopted is to give priority to the earliest in date and to prefer actual transactions to hypothetical questions. The General Counsel is occasionally honored by being appointed to arbitrate disputes between member banks upon submission of an agreed statement of facts with an agreement to abide by the decision given.

TEN YEARS' WORK

The office of General Counsel was created ten years ago and the present incumbent elected to fill the position. Prior to that time on the initiative of Lewis E. Pierson, now an ex-President of the Association, there had been created two important committees of the Association, one upon Bills of Lading to promote a better form of bill and more adequate laws governing such instruments and a Standing Law Committee, to promote uniformity and adequacy of state laws affecting banking business, and your Counsel had acted in an advisory capacity to those Committees. Thereafter the work of these committees continued and increased and their respective functions were finally absorbed by the Committees on Federal and State Legislation, respectively. The work of the Bills of Lading Committee had its fruition in the adoption and recommendation by the Interstate Commerce Commission of a uniform bill of lading, in two forms, for straight and order shipments, the order or negotiable form being so framed as to safeguard against frauds previously common and, later, after the specific Bills of Lading Committee had gone out of existence, in the passage by Congress of a Federal Bills of Lading law incorporating as one of its main features the principle of liability of the carrier to bona fide holders of order bills where the carrier's agent mistakenly, collusively, or as matter of accommodation, issued to the shipper a bill of lading reciting the receipt of goods which never had been received. The manifold subjects of legislation which yearly receive the constant attention of the Committee on Federal Legislation and with which your Counsel in his dual capacity as Counsel and Secretary of the Committee is in a measure identified, need not be dwelt upon.

In the matter of state legislation, the work of promoting, under the auspices of the Committee on State Legislation, the passage of the Negotiable Instruments Act has progressed until this law is now on the statute books of every state in the Union with two exceptions, Georgia and Texas; the Uniform Act on Warehouse Receipts has, beginning with the year 1907, been passed in forty states; beginning with the year 1910 the Uniform Bills of Lading Act has, down to the present time, been passed in nineteen states and the Uniform Stock Transfer Act, also recommended by our Association and having its first enactment in 1910, has now been passed in ten states. In addition special acts to more adequately punish fraud and make certain banking transactions safer have been framed and their enactment procured in a considerable number of states. The bill to punish the making of false statements to obtain credit, framed jointly by the Counsel for the National Association of Credit Men and General Counsel of this Association in 1909, has been passed in thirty-four states; the bill relating to derogatory statements affecting banks drafted by General Counsel in December, 1907, aimed to suppress and punish persons who maliciously circulate slanders upon banks—a kind of evil to which these institutions are peculiarly subject—has now been passed in twenty-four states. The bill limiting the time of liability of a bank to its depositor for payment of forged or raised checks, after return of vouchers, has been passed to date in twenty-three states with varying time limits ranging from thirty days to one year. The bill to punish the giving of checks or drafts against insufficient funds, commonly known as the "Bad Check" bill, has been passed with more or less modification of provision in thirty-four states, the latest enactment being, as already shown in this report, in the State of New York. Without going into further detail, bills on a number of other subjects—relating to the competency of bank notaries, the non-payment of checks through error, the punishment of burglary with explosives and the payment of joint and trust deposits—framed by the General Counsel have been passed in a considerable number of states.

During the ten years' service more than 3,000 written opinions have been rendered to members upon legal questions arising in their business and there has been a variety of detailed work for committees and officers of the Association.

During the last two years it has been the policy of the Committee on Federal Legislation and also of the Committee on State Legislation to organize the committee work on an enlarged basis of efficiency by extending the organization of the Committees on Federal and State Legislation, respectively, and the creation of auxiliary committees known as the Federal Legislative Council and the State Legislative Council, having a representative in each state, which representative, in turn, forms a sub-committee in his own state to more effectively carry on the work. This policy of extension has been sanctioned by appropriate amendments to the Constitution. Upon General Counsel, as secretary of the legislative committees, has devolved much of the detailed work and correspondence essential to the proper organization and effective operation of these enlarged committees.

General Counsel has in his office as legal associates or assistants Mr. Herrick J. Skinner and Mr. Frank W. Jones, both of proved value; also two stenographers, Catherine Rose and Florence Murphy, whose faithful and efficient service for ten and seven years respectively is deserving of recognition. He has been deprived of the legal services of Thomas B. Paton, Jr., who was called to the colors in April, 1917, and after serving with the American Expeditionary Forces in France as a Lieutenant of infantry, has recently been ordered back to this country in connection with the formation of new divisions. Mr. Paton had about completed in manuscript form a digest of published legal opinions of the General Counsel; completion and publication of this work has been unavoidably delayed owing to the press of matters for attention.

For the future, it is expected to continue the lines of work now carried on and to enlarge the field of operations as time will permit. There are still many subjects of conflict in the decisions of the different states governing banking transactions which can be simplified and the rule made uniform by the enactment of state statutes, the drafting and urging of which it is hoped to accomplish; also a digest of state banking statutes, classified as to subject and kept up to date by yearly additions would be most valuable.

The advent of the war has presented many changed conditions and many new problems and the legal effect of war legislation upon the banking business has created much additional work in the General Counsel's office. The revenue legislation, as to which the change of unjust provisions has been urged, as well as the interpretation of the law on many doubtful points; the Soldiers' and Sailors' Civil Relief Act and its effect upon remedies upon negotiable paper and other obligations of soldiers and sailors held by banks; the selective service acts and the question of the application of the law to bank officers and employees in vitally essential positions of service—all of these subjects have presented new fields of activity. But these are all temporary matters and when the war is won, our country and its allies victorious and democracy triumphant, which is as inevitable as the rising of the sun, there will dawn a new and better era with America, ennobled by self-sacrifice and disciplined by hardship and habits of economy, standing foremost among the nations of the earth in both moral and economic greatness.

THOMAS B. PATON,
General Counsel.

Report of the Insurance Committee

To Members of the American Bankers Association.

GENTLEMEN: The business of insurance is a highly technical and scientific one. Knowing this, your committee soon after its appointment engaged the services of an expert who has given to us his training and ability at a very reasonable cost. The four years' experience of the present members, together with the training of the Secretary, has enabled your committee to meet the foremost insurance authorities time and time again upon their own ground with great credit and profit to the membership of the American Bankers Association.

There have been devised by this committee and brought into general use, insurance contract forms that really and actually pay the losses intended to be covered. Every attack upon member banks has been inquired into by your committee and the proper application of the insurance coverage has been defined and secured. Forms are being continually improved and we find that changes are necessary to be made from time to time to meet new conditions. As a result, burglary and robbery claims have increased from 7 per cent. of the premiums paid in 1913 by member banks to 30 per cent. of the premiums paid today. These claims in 1913 were $30,000; in 1915, $71,000; in 1917, $103,000, and for the past term of twelve months, 1918, they are $167,000. The number of attacks have been no greater than heretofore. Can a greater insurance service be performed for member banks than obtaining the settlement of just claims?

Your committee at no time asked any insurance company to pay an improper claim; on the contrary, we have sought to maintain only a just and fair and honorable relation to the insurance companies; this attitude has been more or less recognized, and the insurance companies are tending to submit cases in controversy to your committee for decision. Very recently, for instance, one of the largest insurance companies in the business submitted a case involving a loss of $3,000, which the company thought it should not pay; your committee, through its Secretary, set forth in reply the reasons why in the committee's judgment the claim should be paid. On April 29, the company replied as follows: "Perhaps the only comment that is necessary is that we have decided to pay the claim."

With respect to insurance rates, it has been the experience of your committee that the banks of this Association prefer adequate insurance protection at proper cost, rather than any possible question involved in cheap insurance. For instance, we announced in our 1914 report and again in 1916, that a rate of $2.50 per $1,000 on the fidelity bond was fair; we nevertheless obtained and submitted to you later a proposal to reduce this rate 20 per cent., this proposal coming from certain interests which already had the strong endorsement of many large member banks of the Association; one bank, and one only, elected to avail itself of this reduction. We have reported to you previously that the insurance companies have a wide margin of profit in the burglary insurance business of member banks. While we have obtained no reduction in these rates, we feel that obtaining proper coverage and settlement of claims reflected in the largely increased payments to banks has been a more valuable service.

In some states the local insurance situation may seem to demand the organization of mutual companies to care for the interest of banks and bankers in these states. This has been done in states, we are informed, with apparent degree of success, and we understand that other states have similar plans in contemplation. Your committee has heretofore, and will continue to co-operate with such state enterprises. In our report of Sept. 25, 1916, we outlined the possible advantages of an insurance company operated by or under close relation with the American Bankers Association and at that time we stated—"Notwithstanding these possibilities, your committee does not believe that the American Bankers Association should either directly or indirectly engage in the insurance business, other than by maintaining some committee for performing an advisory service as is now being done." The facts submitted in this, our report, today, indicate the realization of all these possibilities through the activity of your present insurance committee, and we deem it our duty to bring to your attention again our 1916 report

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above quoted. This business is a hazardous one; many companies have failed; it may bring the Association into an embarrassing situation should it become sponsor for any business undertaking fraught with risk of loss and with so many causes of disputes as that of insurance.

The member banks of this Association are paying premiums for various forms of fidelity and burglary insurance of approximately three million dollars per annum; we have always maintained that the greatest service can be rendered its members by this Association in the maintenance of a committee to represent the interests of the members in a supervisory and regulatory capacity. The mere existence of the committee prevents abuses, and a comparison of conditions as they existed five years ago and those of today will convince the most skeptical of the great service the Association has rendered its members in this connection. Your committee today has attained to such a position that it commands the respect of the insurance companies, and its interpretation of policy contracts in disputed or uncertain claims is usually accepted. Can the Association afford to terminate its insurance work along these lines with the result that former unsatisfactory settlement of claims would soon obtain? In fact, we are sure that for the first time in many years there are no representatives of insurance companies attending our meetings. Why? The reason is apparent—they feel that the conflict of ideas regarding the insurance question which has arisen may lead to an abandonment of the work of this committee.

We have to advise you of the resignation of the committee's Secretary, Mr. B. A. Ruffin, to accept an official position with one of the leading accident insurance companies, which company, however, does not write fidelity bank insurance. Mr. Ruffin's office is now in New York City, and since the appointment of Mr. L. W. Gammon as Acting Secretary of the committee, Mr. Ruffin has rendered valuable assistance in connection with furnishing information and statistics relative to the past activities of the insurance committee and the insurance situation generally.

The cost of the insurance committee we desire to emphasize has never exceeded 25 cents per member per annum, and at the present time is costing approximately 15 cents per member per annum.

After Mr. Ruffin's resignation Mr. Gammon was requested by the insurance committee to take charge of its office affairs, and later he was made Acting Secretary. The correspondence of the committee has been kept up to date, reports of losses have been followed up, and various claims investigated and assistance given in the adjustment of same.

Meetings have been held with various insurance companies and the burglary association in connection with the new burglary and robbery policy, which has been finally approved and adopted. This new form contains such material changes that the attention of members should be called to it in this report. Some of the changes are as follows:

1—All bank burglary policies heretofore have assumed liability for attacks upon the equipment of the bank only while such equipment was located in the banking rooms described in the policy. The new policy extends the coverage to the safe or safes while located in the banking rooms "or while located in any other place after removal by thieves or robbers or their accomplices."

2—The robbery or hold-up liability has heretofore been limited to the usual and regular office hours of the bank. The new policy provides that the insurance company shall be liable for robbery or hold-up not only during the regular office hours of the bank, but "at any time while two or more officers or office employees are engaged at work in the said premises."

3—Dispute has arisen from time to time as to the amount of return premium due the bank on cancelled policies. In order to secure an exact unearned return premium on all cancellations, it has been provided in the new policy that all unearned premiums shall be computed "pro rata."

4—The liability of the insurance company for robbery has heretofore been limited to a felonious and forcible taking of property by violence inflicted upon the person or persons in the actual care and custody of the property at the time, or by putting such person or persons in fear of violence. The new policy has broadened this liability to include loss due to any "overt felonious act committed in the presence of such person or persons, and of which such person or persons were actually cognizant at the time of its occurrence." As the so-called "snatch theft" losses have never been heretofore covered except in the high-priced blanket bond or in the Lloyd's policy, it is to be expected that this change in the new policy will pay many losses of member banks covering which heretofore they have had no claim.

Licenses are being issued to all reputable insurance companies applying for same, and the insurance agents or companies with whom the banks have heretofore transacted their insurance business should be able to supply promptly the new policy upon request.

An article appeared in the September issue of the JOURNAL of the American Bankers Association, together with copy of the new policy in full, and we urge that members of the Association read over this policy and the comments relative to same, and insist on the insurance companies writing this form of policy for them.

Respectfully submitted,
H. G. PARKER,
Chairman.
OLIVER J. SANDS,
H. P. BECKWITH.

L. W. GAMMON,
Acting Secretary.

Report of the Administrative Committee by Charles A. Hinsch

To the Members of the Executive Council of the American Bankers' Association.

GENTLEMEN: I take great pleasure in submitting for your consideration a review of the activities of the Administrative Committee since the Spring Meeting of the Executive Council held at Hot Springs, Arkansas.

We have held three meetings since that occasion, one in Hot Springs and two in Chicago. I will advise you of the deliberations of your Committee at each of the several meetings.

FIRST MEETING

The first meeting was held May 11th at the Eastman Hotel, Hot Springs; present—C. A. Hinsch, Chairman; Vice-President R. F. Maddox, Ex-President P. W. Goebel; Messrs. W. P. Sharer and R. S. Hawes, and General Secretary Fred. E. Farnsworth. The Sections were also represented by President Cox and Secretary Thralls of the National Bank Section; President Noel and Secretary Harrison of the Savings Bank Section; President Blair and Secretary Mershon of the Trust Company Section; President McHugh of the Clearing House Section; President Huxford, Ex-President Puelicher and Secretary Allen of the State Bank Section.

The question of Section programs for the Annual Convention in Chicago was considered. Messrs. Huxford and Puelicher for the State Bank Section, advocated two days for section sessions. Mr. Noel suggested that there be a half day's session devoted to a meeting of the Trust Company, Savings Bank and National Bank Sections. Mr. Blair also favored a half day's joint session. Mr. Cox stated that the arrangement of last year's program was satisfactory to the National Bank Section.

After a final discussion of the subject, it was decided that a joint meeting of the Sections be held on Tuesday evening of Convention week, and Mr. Puelicher was authorized to invite all Sections to participate in an open meeting on Tuesday evening of Convention week, to discuss the subject of eligible State Banks joining the Federal Reserve System.

As a result of a conference the following Sections' program was submitted and adopted:

Tuesday morning:
Savings Bank Section, open meeting.
Trust Company Section, business session.
Clearing House Section, open meeting.
Tuesday afternoon:
Savings Bank Section, business meeting.
Clearing House Section, business session.
Trust Company Section, open meeting.
State Bank Section, open meeting, at which Bankers' Insurance matters will be discussed. All bankers to be invited.
Wednesday morning:
National Bank Section, open meeting.
State Bank Section, business meeting.
Wednesday afternoon:
National Bank Section, business meeting.
State Bank Section, open meeting.

A general discussion relative to the progress of the General Convention ensued, and the following speakers and suggested subjects were recommended:

Earl of Reading, "Economy."
Charles M. Schwab, "War Supplies."
Otto H. Kahn, "Finance After the War."
Josephus Daniels, "Patriotism."
Judge Lovett, "Railroads."
Senator Chamberlain, "Universal Military Training."
Harry A. Wheeler, "Merchant Marine."
W. M. Vandervoort, "Labor."
Secretary Baker.
Bishop Williams of Detroit, "Red Cross."
Ex-Governor Stokes of New Jersey.
John R. Mott.
James A. Farrell.

It was decided to have the report of the Insurance Referendum Committee on Friday afternoon of the general Convention sessions.

The second meeting of the Administrative Committee was held in Chicago at the Congress Hotel Saturday, Sept. 14th. Present: Chairman C. A. Hinsch, Vice-President R. F. Maddox, Ex-President P. W. Goebel, and Messrs. W. P. Sharer and R. S. Hawes, and F. E. Farnsworth, General Secretary.

President Hinsch reported having appointed the following Committees since the Spring Meeting, all of which were duly ratified and approved:

Special Committee on Forms for Excess Profit and Income—Elias Doar, Cashier, Bank of Dorchester, Summerville, S. C., Chairman; George M. White, President, National Metropolitan Bank, Washington, D. C.; John Poole, President, Federal National Bank, Washington, D. C.

Delegates to Annual Convention of the Farm Mortgage Bankers' Association of America, Kansas City, Mo., Sept. 17th to 19th, next—P. W. Goebel, President, Commercial National Bank, Kansas City, Kans.; J. W. Perry, President, Southwest National Bank of Commerce, Kansas City, Mo.; P. G. Walton, Vice-President, New England National Bank, Kansas City, Mo.

Mr. H. H. McKee to represent A. B. A.—(at request of Capital Issues Commitee) to conference called at instance of Investment Bankers' Association, having for purpose of conference the restriction of the marketing of so-called fraudulent issues.

A. B. A. Delegation of Cotton Growing States Convention in New Orleans, July 5th, 1918—Lynn H. Dinkins, Chairman; G. O. Vincent, R. S. Hecht, L. M. Pool and Walker Broach (all of New Orleans).

Delegates to National Conference on War Economy Called by Academy of Political Science of New York and National Municipal League—Walter H. Bennett, Vice-President, American Exchange National Bank, New York; L. F. Kiesewetter, Vice-President, The Bank of New York, New York; Frank L. Hilton, Vice-President, Merchants National Bank, New York.

COMMITTEE ON COORDINATION OF ACTIVITIES

Your President reported having attended a meeting of the Committee on Coordination of Activities, held in Chicago on July 14th, 1918, and a detailed report of the Committee, outlining their recommendations was submitted for the information of the Administrative Committee.

This report will be submitted by the Committee for your consideration to the Convention.

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NATIONAL ASSOCIATION OF OWNERS OF RAILROAD SECURITIES

Your President reported having attended a conference of the Executive Committee of The National Association of Owners of Railroad Securities, held in New York on July 18th. The meeting was called for the purpose of considering a contract prepared by the United States Railroad Administration, that had been submitted to the Railroad Executives, setting forth the terms, conditions and compensation the Government proposed to grant to the Railroads during the period of the War, and 21 months thereafter.

After a final discussion of the contract, a special Committee was appointed to confer with the Railroad Administration with a view of securing a modification of the terms. This meeting was held in Washington on July 23rd. Your President not being able to be present, sent a telegram as follows:

"Regret exceedingly my inability to attend conference called for tomorrow in Washington. You are authorized to say for me, as President of The American Bankers' Association, that I feel the contentions of your Association are fully justified, and I hope you will be able to convince the Finance Committee of the United States Railroad Administration of the justice of your cause. The banks of the nation are vitally interested in the future welfare of the railroads and any contract submitted not in harmony with the assurance given by the President when the properties were taken over, that the railroads would receive a square deal at the hands of the Government will, I am sure, be viewed with grave apprehension by the holders of Railroad Securities. The railroads should be placed in a position where they can count with absolute certainty upon the amount of revenue available for the payment of dividends and other fixed charges.

"The recent advance in freight and passenger rates provides convincing proof that the railroads were justified in the demands they have made during the past several years for an advance in rates."

Some concessions were agreed to, but the final contract submitted, said to have been agreed to by a majority of the Railroad Executives, subject to the approval of the stockholders, is regarded as unsatisfactory to the Association of Security Owners, and the suggestion has been made that the question be submitted to the Courts, for the purpose of securing a judicial interpretation of the Act of Congress, under which the Government assumed control of the Railroads. A meeting was held in New York on September 11th to consider the question. Your President being unable to attend, sent a telegram reading as follows:

"Regret my inability to be present at the meeting called for tomorrow. Do not approve of taking any drastic action at this time. I think we can afford under the circumstances to rely upon the promise of the President that the railroads would be given a square deal."

It is to be hoped that an amicable adjustment may be reached in harmony with the announcement of President Wilson, when the properties were taken over.

The activities of your President in these negotiations were ratified and approved by the Administrative Committee.

INSURANCE REFERENDUM COMMITTEE

Your President also reported having attended a conference held in New York on August 17th, pursuant to an invitation extended by Mr. W. B. Joyce, President of The National Surety Company.

The purpose of the meeting as explained by Mr. Joyce, was to arrive, if possible, at an amicable adjustment of rates to Members of the A. B. A. in connection with Surety, Fidelity and Burglary Insurance, which would preclude the necessity or desirability of organizing the proposed Bankers' Assurance Company.

Mr. George D. Bartlett, President of the Secretary's Section, and Member f the Insurance Referendum Committee, and your President, represented The American Bankers' Association, and President Joyce, of the National Surety Co., and President Hillis, of the Fidelity and Casualty Co., represented the Surety Companies. As a result of the conference, President Joyce agreed to recommend a reduction of 10 per cent in rates charged A. B. A. Members, on account of the maintenance of the protective department, and stated that the National Surety Co. would grant such a reduction, regardless of the action of the other Surety Companies, if we would agree not to put a new Company in the field.

On August 31st, at a meeting of the Insurance Referendum Commitee held in Chicago, your President was authorzied to notify President Joyce that his proposition met with the approval of the Committee. The response of President Joyce reads in part as follows:

"I have your letter of Aug. 26th, 1918, and yesterday I wired you that we were unable to get the Surety Companies together to discuss the rate question.

"I may say to you that this Company acted promptly and energetically in the matter and it was ready to recommend to the Towner Rating Bureau that it make an investigation and consent to a ten per cent reduction in the rates because we were anxious to avoid any controversy with the bankers of the United States..

"If in all fairness to its associates in the Towner Rating Bureau the National Surety Company could have reduced its rates it would have reduced the rate on bank business by 10 per cent, even had it eliminated all of the profit, but to have followed such a course, notwithstanding the optimistic statement I made to you when you and Mr. Bartlett were here would have been a very grave administrative error; it would destroy the surety and burglary insurance business and would end in bankruptcy without any doubt."

The Committee having failed to secure an adjustment of rates, decided to proceed with the organization of a Bankers' Assurance Co. The details, however, will be explained to you in the report of the Chairman of the Committee.

FOURTH LIBERTY BOND CAMPAIGN

When it was currently rumored that September 25th had been selected as the date for the opening of the Fourth Liberty Bond Campaign, your President called the attention of the Treasury officials to the fact that the Annual Meeting of The American Bankers' Association had been fixed for September 23rd to the 27th, inclusive, and that it would be impossible to change the date, and suggesting that if the best interests of the Government would not suffer thereby, that a later date be fixed for the opening of the Campaign.

The suggestion evidently had the desired effect, because the date as finally announced, was fixed for September 28th, the day after our Convention.

Another effort, however, was made to fix the date for Monday, September 30th, but the Treasury officials stated that it would be impossible to fix a later date.

Your Administrative Committee, however, feel that we were very fortunate in not having the date fixed as originally intended.

INSURANCE COMMITTEE

The President reported having appointed Mr. Gammon Secretary of the Insurance Committee pursuant to the request of the Chairman of the Committee. The action of the President was approved.

COUNCIL U. S. STATE BANKING ASSOCIATION

The President submitted a letter from W. H. Booth, President of the Council of U. S. State Banking Association, reading in part as follows:

"I share with all of the other members of the Executive Committee, the ambition that this new organization shall work in harmonious cooperation with The American Bankers' Association.

"I have called a meeting of the Executive Committee in Chicago on September 23rd to complete details of the operations. I will be very glad indeed to discuss these with you, and I would also be pleased if you so desire, to present our plan of activities to the American Bankers' Association so that all the members would realize what we are endeavoring to do."

The President was requested to advise President Booth of our desire to cooperate and work in harmony with the new Association, and extending him a cordial invitation to address the Association as suggested.

BANK EMPLOYES AS NON-ESSENTIALS

Last May when Provost Marshal General Crowder issued his famous order of "Work or Fight" providing for a re-classification of drafted men, bank officials and clerks were reported to have been classed as non-essentials; as a result of considerable correspondence with Treasury officials, Federal Reserve Board officials and others, your President was advised that the order had been interpreted as follows:

"I beg to advise you that bank clerks are excepted from the operation of the regulations which provide for the withdrawal of deferred classification, and order number of registrants found to be idlers or engaged in non-productive occupations or employments.

"The recent so-called 'Work or Fight' regulation does not effect registrants who are officials of banking institutions or clerks employed in banks. In other words, under the present Selective Service Regulations, bank officials and bank clerks may remain in such employment until they are regularly called, by their various local boards, for military service. E. H. CROWDER, Provost Marshal General."

This announcement was welcomed by bankers throughout the country.

BANKING AS ESSENTIAL TO NATIONAL WELFARE

The requirement of the new draft measure necessitating all men to register between the age of eighteen and forty-five, has been the occasion of considerable apprehension on the part of bankers throughout the nation, as it includes a large percentage of the active bank officials, and pivotal bank employes. Through the good offices of Mr. H. H. McKee, we were able to send out a bulletin to our members reading as follows:

"The Provost Marshal General has ruled that banking is an occupation necessary to the maintenance of the national welfare; and that skilled officers and employes of banks may claim exemption or deferred classification, under the new draft law, on the ground that their services are vital to the continuance of the business in which they are engaged.

"The Provost Marshal General states that waiving the right to be placed in a deferred classification is a mistaken act of patriotism. He urges every person affected by the law to state frankly and honestly his exemption status, as by so doing he will aid materially in the task of classifying regstrants.

"Therefore, bank officials and employes whose services are essential to the business should not hesitate for fear of criticism, to claim exemption or deferred classification on occupational grounds. To do otherwise would be a hindrance rather than a help at this time. If officers and clerks in banks, however, neglect or refuse to claim the exemption to which they are entitled, that claim may be made for them by the bank in which they are employed. Thus, if an officer or a clerk fears unjust criticism or believes his act may be misconstrued, the bank which employs him may file a claim for his exemption on occupational grounds with the District Board of Appeals. It is most earnestly desired, however, by the authorities at Washington that every one state frankly and honestly his exemption status as it will be considered more patriotic and helpful to do so than it would be to waive his rights.

It has been suggested from a banking source that wherever practicable, a bank should file with the local exemption Board a list of its officers and employes whom it deems essential for its operations and the grounds upon which its claims are based, as many bank men will not claim exemption even though entitled.

Regulations have been issued and should be studied carefully by bank employers and employes.

Bank men are not exempt because they happen to be bank men, and the right to exemption or deferred classification will depend upon the condition of service which will have to be proved. The final determination under the regulations will rest with the District Board of Appeals.

BANKS ON PRIORITY LIST FOR SUPPLIES

Mr. McKee also presented to the War Industries Board a request that banks be placed on the Priority list in connection with supplies essential to their operation, such as coal, paper, etc. He was referred to Mr. Penfield, who flatly refused to admit that a bank is a necessary or essential adjunct to the economic structure at this time.

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He said that banks must get their coal as they need it in the order set forth under the head of "Domestic Consumers and Public Institutions in the buildings listed in Class 3, Preference List No. 2, issued September 3, 1918."

"If a bank has not already stocked up it will not be permitted to do so now, but must take what it can get from time to time as the need arises."

Your President then addresses a communication to Mr. Baruch, Chairman of the War Industries Board, as follows:

CINCINNATI, OHIO, September 16, 1918.

MY DEAR SIR:—It has come to my attention recently that several prominent banks in the United States have experienced some difficulty in getting supplies, including coal, absolutely needed to keep their business going.

I find that banks are not listed as essential occupations entitled to preferential treatment in Preference List No. 2 issued September 3, 1918; and after investigation by trusted representatives in Washington, I find that there seems to be a lack of understanding or appreciation of the work the banks are doing in this crisis.

It seems to be admitted that banks are necessary in some degree, but that their existence and ability to continue business is a matter of secondary importance to those industries and occupations specified in the Preferential List.

Practically all of our business is being done on credit today. The banks are the instruments which create the credit and cause it to flow through the channels of trade.

The sale of Liberty Bonds, Thrift Stamps, and U. S. Treasury Certificates of Indebtedness has been undertaken by the banks willingly in addition to taking care of an abnormal amount of ordinary business.

It would seem that the assistance the banks have given the Treasury in the furtherance of the fiscal policies of the Government, should cause them to be recognized as indispensable at this time, even though their relation to the world of industry, trade and commerce be ignored.

From a purely economic aspect, banking is absolutely the keystone in the arch of business, and anything that tends to impair its strength and efficiency menaces our whole economic fabric. General Crowder, the Provost Marshal General, has publicly stated his recognition of that fact.

Therefore, it is respectfully suggested that the facts set forth be considered by the War Trade Board, and if possible the business of banking be made co-equal in importance with other essential industries in the matter of securing coal to heat the banking rooms, and other supplies needed to maintain the business.

The amount of supplies needed will not be large, but inability to obtain even a moderate amount may work incalculable harm to an occupation that is superlatively essential at this time.

Copies of this communication were sent to Governor Harding and Secretary McAdoo.

Secretary Farnsworth was instructed to invite the United States Chamber of Commerce, National Foreign Trade Council, National Association of Credit Men, and the National Association of Manufacturers, to send representatives to our Annual Meeting; this in recognition of these Associations having extended similar invitations to our Association and with a view of encouraging co-operative effort in connection with these great organizations.

The Finance Committee reported the balance on hand as of September 1, 1918, as $6,000.00, as compared with $3,000.00 a year ago. Also advised having borrowed $20,000.00 to temporarily reimburse the Treasury in connection with the liquidation of a loan for the same amount which was outstanding a year ago, but which was liquidated out of the advance dues paid by the membership. This would indicate that we have had a net gain for the year of about $3,000.00 in spite of the fact that nearly $5,000.00 was expended in connection with the War Savings Stamp Campaign.

This record your Committee feels is a most satisfactory one. The Membership Committee reported that our membership on September 1st amounted to 19,043, a net gain of 1,715, the largest net gain in any single year during the life of the Association.

The program as arranged was presented for consideration of the Committee and unanimously approved.

The Protective Committee have recommended that we enter into a renewal of the present contract with the Burns Detective Agency, which will expire in October, for a further period of three years on the same terms as heretofore, which permits either party to the contract to cancel same upon 90 days' written notice, the Administrative Committee unanimously recommend that the Executive Council authorize a renewal of this contract.

Inasmuch as the Liberty Bond Campaign will begin on Saturday, September 28th, and many members will therefore desire to return to their homes Friday evening, your Administrative Committee decided to ask the unanimous consent of the Executive Council that the Annual Meeting be held Friday night instead of Saturday morning as provided by the Constitution.

Our third meeting was held in Chicago at the Congress Hotel, on September 22nd, 1918.

Present: Chairman C. A. Hinsch, Vice-President R. F. Maddox, Ex-President P. W. Goebel and Messrs. W. P. Sharer, R. S. Hawes, and Gen'l Sec'y F. E. Farnsworth.

The President reported having represented the American Bankers' Association at the following State Bankers' Conventions: Kentucky, Arkansas, Texas, Kansas, Missouri, Georgia, Tennessee, Iowa, Connecticut, Massachusetts, New Hampshire, Vermont, Maine, Rhode Island, Michigan, Ohio, Indiana and West Virginia, during the past year, at all of which addresses were made, outlining the aims and policies of our Association, its activities, and the facilities we are prepared to extend to our Membership.

A most cordial reception was extended to your President at each and all of these gatherings, and the same dominant spirit of patriotism was in evidence which characterizes the reports we receive from the "Boys Over There." At the following State Bankers' Conventions the Association was represented by:

Fred. E. Farnsworth, General Secretary—Arkansas and Joint Convention of New England Bankers' Associations.

L. A. Mershon, Sec'y Trust Company Section—Pennsylvania and Michigan.

M. W. Harrison, Sec'y Savings Bank Section—Montana, New York Savings Bank Association, Virginia, and two Virginia Group Meetings.

A. D. Welton, Manager Department of Public Relations—Nebraska, New York.

W. G. Fitzwilson, Assistant Secretary—New York State Bankers' Association.

George E. Allen, Secretary State Bank Section—Washington, Oregon, Utah, South Dakota, New Mexico, Colorado, Pennsylvania, Texas and American Institute of Banking.

L. W. Gammon, Manager Department of Public Relations—New York and Delaware.

Jerome Thralls, Secretary Clearing House and National Bank Sections—Wisconsin, Tennessee, Illinois, Minnesota and North Dakota.

George D. Bartlett, President State Secretaries' Section, attended the California Bankers' Association Convention.

Too much emphasis cannot be laid upon the desirability of our Association being represented in the future, at all of these State Conventions by some one who can speak with authority for the Association, having a knowledge of the facilities it has to offer.

Your President made an address at the Annual Meeting of the American Trade Acceptance Council, held in Chicago on June 17th, and on the following day addressed the National Association of Credit Men.

I was deeply impressed with the personnel of the Membership of this organization, and with the officers charged with directing its activities, and do not hesitate to recommend a close co-operation in connection with the subjects in which we have a kindred interest.

In conclusion I desire to express my gratitude to the members of the Administrative Committee, the General Office force, members of Committees, and in fact the entire Executive Council, for the support they have extended during the past year. All have responded cheerfully to the call for service, and this spirit has been largely responsible for the record your Association has made during the past year.

The Administrative Committee will appreciate the adoption of a resolution endorsing their administration of the affairs of the Association since the last meeting of the Council, as outlined in this report.

Report of Agricultural Commission by Joseph Hirsch, Chairman

The Chairman of the Agricultural Commission is required to make an annual report to the American Bankers' Association. A full report of the manifold activities of our Commission would fill a good sized volume, and its reading would consume so much time that I ask the privilege of printing the full report which will appear in the proceedings of your Association, and present at this time a resume of our main activities, and then outline and ask for your wholehearted support of the War program for increased agricultural production in which the American Bankers' Association has been asked to join by the Food Administration and the United States Department of Agriculture.

From the beginning of this work, six years ago, it has been our constant object to stimulate the Bankers' interest in a better and more profitable agriculture and in the development of rural education. To do this, it has been necessary to organize the Bankers' State Committees, and although our Agricultural Commission has no direct authority over these State Agricultural Committees, it bears about the same relationship to them that the Council of National Defense does to the State Councils, for if this work is to be brought to the fullest measure of its possibilities we must have some well-defined national program which in turn can be promulgated through the state committees, and thence through county and community bankers' agricultural committees. How far we have succeeded in this may be evidenced by the fact that today we have forty-two bankers' agricultural committees; ten of these now have a standing committee in every county. Among the state associations which have recently created agricultural committees may be mentioned Nebraska, Kentucky, New Mexico, Oklahoma and Connecticut.

Your Commission has continued to urge the placing of a Government demonstration agent in every agricultural county and the employment of home demonstration agents—women agents for the farm women and children. During the past year, this work has been greatly stimulated, for by congressional emergency appropriations, the Department of Agriculture as a War measure has been endeavoring to place a county agent and a woman farm adviser in every agricultural county of the Union. At last reports there were three thousand and forty-nine demonstration agents and sixteen hundred and ninety women agents in twenty-eight hundred agricultural counties of the United States. Crop demonstrations were conducted on five hundred thousand acres, more than six hundred thousand farmers have joined the farm bureaus and five million women and girls have enlisted in the home demonstration work. What your Agricultural Commission has been urging for six years was the first War measure engaged upon by the United States Department of Agriculture. Its first move to increase food production was to place more county agents in the field.

Your Agricultural Commission has continued to stress the importance of the organization of pig, calf and sheep clubs by banks and hundreds of these clubs have been organized as a result of the Commission's activities. The boys' and girls' clubs,—pig, sheep and calf clubs, oats, wheat, corn and cotton clubs; the girls' canning and poultry clubs have received the enthusiastic support of American Bankers.

More than two million boys and girls are enrolled in these live stock clubs today, and this work has been not only of tremendous financial benefit to the country generally, but its importance in an educational way cannot be overestimated, while it has been a pure delight to every banker who has engaged upon it.

ACTIVITIES OF THE STATE COMMITTEES

Many of the state agricultural committees have issued timely circulars calling attention to specific problems, such as the testing of seed corn and the introduction of better varieties of grain. A number of the state committees arranged for the purchase of pedigreed seed which has been distributed to farmers at cost. Several of the associations continue to furnish scholarships at the agricultural colleges, while the New York Association has been awarding medals of merit to boys and girls who have completed the "school-home" products' work of the college.

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A notable activity of the State associations has been the distribution of Farm Accounting Sheets. The new income tax laws finally aroused the farmer to the necessity of keeping accounts and the bankers' committees have performed a genuine service in the distribution of these farm accounting sheets. Your Agricultural Commission has distributed more than sixty thousand copies of a very simple account sheet which have been purchased by banks for distribution among farmers.

BANKER-FARMER MEETINGS

The Commission has continued to urge the importance of Banker-Farmer meetings at the agricultural colleges. The Wisconsin, Washington and California Commissions have continued to hold these meetings, as they bring to the banker a new vision of the apportunities presented for country development and business building.

THE BANK AGRICULTURIST

A most interesting development has been the employment of bank agriculturists. The employment of these trained men by some twenty-five banks of the Union marks an important step forward in country banking. These men are bringing the bankers into closer touch with their farmer customers. They are pointing out new ways by which bankers can develop their business, increase their deposits, and improve the security of their loans. They bear about the same relationship to the country bank that the New Business Department does to the City Institution, with this marked difference,—these bank agriculturists are *creators* of wealth; they are assisting in the preservation of our soil; they are helping to build up the live stock industry; they are increasing production, and are assisting the farmer in his vexatious marketing problems; they are doing more than merely adding to bank deposits; they are making for the prosperity of the entire community.

THE "BANKER-FARMER"

The activities of your Commission and the State committees are brought to the attention of the farmers of this country through the pages of our official magazine, "The Banker-Farmer." As I have stated on several occasions, this little magazine occupies a unique position among the publications of this country. It is not a farm journal; nt does not claim to teach farmers how to farm; that is the province of the agricultural paper; neither is it the usual bank journal in that it touches but lightly on ordinary questions of banking, but it deals specifically with the things that bankers are doing to develop the agricultural resources of this country. It shows the bankers in Washington and Maine what those in California and Florida are doing; Texas learns from Minnesota, and Alabama takes a lesson from North Dakota. Hundreds, yes, I believe thousands of bankers have started some form of agricultural development,—a live stock club—something has been done, some betterment created, as a result of reading the pages of "The Banker-Farmer."

During the twelve months ending August 31, 1918, three hundred seventy-two thousand nine hundred sixty-three copies of the "Banker-Farmer" were published. Of these, one hundred ninety thousand three hundred and ten copies have been circulated to member banks through the state associations, while the remaining one hundred seventy-seven thousand six hundred fifty-three copies have been distributed by banks among the farmers of this country. Thus the paper has an important psychological effect, for it is showing the farmer that American bankers are evincing genuine interest in their success and prosperity, and are lending them every effort to develop the live stock and agricultural resources of this country. The U. S. Department of Agriculture has been intensely interested in the constructive work of the magazine and has been furnishing us with monthly articles which have been prepared especially for the bankers of this country. In July the "Banker-Farmer" co-operating with the U. S. Bureau of Education published a special issue devoted to the necessity for improving rural education. This number contained the rough draft of a bill for Federal aid for rural schools and involves the consolidation of rural schools.

Your Commission urges every thoughtful, forward-looking banker to study this proposed measure, which it is to be hoped will presently be enacted into law, bringing to your country the same benefits that have been derived through the passage of the Smith-Lever and the Smith-Hughes Acts. The *development of rural education is of vital importance to the Nation.*

So much for the work of your Commission during the past year. Our greatest task—the most important work we have ever undertaken lies ahead of us. We have been called upon by our Government, acting through the Federal Department of Agriculture, to assist—to play a part in the stupendous task of increasing food production, that our armies and those of our allies and the civilian populations at home and abroad may be sustained. This is absolutely essential, absolutely vital to the winning of the war. There never was a truer saying than "Food will win the war."

We must raise more wheat, more butter and fats to feed our own people and our Allies. We must produce more cotton and more wool to clothe them. And we must perform these tasks in the face of a tremendous decline in farm-man power, due to the selective draft and the further fact that much labor has left the farm to seek more profitable industrial employment. From all over the land comes the cry of a shortage of farm labor, immigration has practically ceased, while in the Southwest thousands of Mexican laborers fled across the border fearing they would be pressed into the military service. A serious shortage of fertilizer has added to our difficulties.

How we can help to cope with this situation, the part the American bankers can play in this great enterprise, I shall endeavor to outline as clearly and as briefly as possible.

The United States Department of Agriculture and the Food Administration, working in conjunction with the land grant colleges, the State Departments of Agriculture, the agrciultural journals, the farmers' union, the granges and other farm organizations, and backed up by the patriotic farmers of America, have outlined a program, which despite the difficulties confronting us, will meet our national requirements providing these forces obtain the undivided support and co-operation of the bankers and business men of this country.

This plan provides (1) for an increase in production by the use of scientific methods of intensive cultivation, and to this end, as before stated, the Department of Agriculture is providing for the employment of Government Demonstration agents in practically every agricultural county of the Union. (2) For an increase in grain and pork production, allotting to the several states fixed measures of such increase, based upon climatic or other conditions. (3) Working in conjunction with the United States Department of Labor, a well defined program has been mapped out for procuring farm labor. The "Work or Fight" order will play an important part in bringing this about, as it will release many men from non-essential occupations who can and should be employed upon American farms. (4) Every community will be encouraged to raise its own supply of perishable food products. The nation-wide campaign for home gardens, home canning and preserving will be continued. (5) Wherever possible home markets will be supplied by home production. This is not only economically important, but will greatly relieve transportation. (6) The Bureau of Markets will cantinue its efforts to eliminate hoarding and speculation, finding markets for communities that produce a surplus of perishable or other products and wherever possible bringing the producer into direct connection with the consumer. These are a few of the many things planned by the most efficient agricultural agency the world has ever known, the United States Department of Agriculture.

But the Department of Agriculture and its field workers, the county agents, who bear the brunt of the burden, cannot put these measures into effect unless they are backed up by those who direct the business energies of the country, and this is where the bankers of the Union can perform possibly the greatest service they have ever rendered their country. For the banker is the recognized community leader. We, more than any other class of men, can put this program into effect. The Government may place a demonstration agent in the county, but unless the bankers co-operate by assisting in the purchase of pure bred live stock; by the organization of the boys' and girls' live stock clubs; by the purchase and distribution of pure bred seed and by the scores of projects which are being carried out by bankers who have become interested in this work through the propaganda of the Agricultural Commission of the American Bankers' Association, the efforts of the county agents will be of little avail.

In recruiting man power for the farms, the banker can largely direct community thought and action; the man power can be released from the bank as well as from the shop; the girl who plays the piano can play the adding machine, and it is the banker's duty to fill the places in his bank whenever possible by mobilizing the woman power of his community.

The Honorable Clarence Ousley, Assistant Secretary of Agriculture, in a notable address delivered before the Virginia Bankers' Association in June, called attention to the fact that last year, in many rural communities, the people of the towns and villages closed their stores and shops and offices for a day or for such time as was necessary and helped to save the crops. The stores can do business any day, business would go along if we opened our shops only four days in the week, *but the crops will not wait.*

Man power, man power for the farm, is the cry of the hour. It can be procured, it *must* be procured, it *shall* be procured, and the American banker, the most potential force in his community, can sound the clarion call that will send thousands of men to the farms where they are so sorely needed. In all these things which I have enumerated the American banker can play an important part. We can do it not only because of the influence that we wield in our communities, but we can do it doubly well because we are the only great organization in America, outside of the United States Department of Agriculture itself, that has created a commission dealing strictly with the agricultural and live stock problems of the country. I deem it a fortunate thing in the great crisis which has fallen upon our people that we have set in motion a piece of machinery that can perform an invaluable public service, and I call upon you today, my friends, members of the American Bankers' Association, Presidents and Secretaries and Bankers' Agricultural Committees, to help the Agricultural Commission of the American Bankers' Association in the great work which it has undertaken, that work which has always met with the approbation and the undivided support and co-operation of the United States Department of Agriculture.

For the past six years we have been calling upon you as an economic duty to organize an agricultural force within your state associations. We have pointed out ways and furnished plans for the bankers' agricultural committees. We have helped to create forty-two of these committees. Many of them are doing excellent work, but some are practically dormant, and today, *because your country needs you,* we call upon you to revitalize your committees. We call upon you today for the organization of a Bankers' Agricultural Committee in every state and for the creation of sub-commitees in every county of the states. We call upon every bankers' association to join forces with the American Bankers' Association in the distribution of our official magazine, "The Banker-Farmer," by which our propaganda may reach every banker in the land. We ask the American Bankers' Association to place at the disposal of your Commission adequate funds in order that the ambitious program we have mapped out may be carried into effect.

I am authorized to announce that the U. S. Department of Agriculture is planning a conference between the Secretary of Agriculture and the Agricultural Commission of the American Bankers' Association, to be held in November or early December, at which time the Government's program for increasing food production during 1919 will be outlined; in which program your association is going to be called upon to play an important part. If carried out, this plan will require the personal service of every member of your Commission and of the state committees, and in order that we may efficiently perform the service demanded of us by our Government, we call upon the president of every bankers' association to appoint the very strongest man to the position of chairman of your agricultural committee, and we urge that the best banking brains of this country be appointed on your agricultural committees—men who will pledge themselves to perform the tasks allotted to them. I call upon you today to join us in this great work. *We cannot do it alone.* We *need the undivided support and co-operation of the officers* of the American Bankers' Association, of every state organization, and of every individual banker in America.

For years we have been pointing out that this agricultural development work is economically sound; that it makes for the development, prosperity and contentment of the country; that it is of the greatest

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material benefit to the banker who engages upon it; that it is bringing about a new viewpoint on the part of the farmer, who now begins to see the banker in the light of a friend and benefactor in place of an oppressor. This movement has now become of vital importance to the nation.

We call upon you today, not for material benefit you may reap or that may inure to your community, but we ask you to bend yourselves to this task with every ounce of energy you possess because of the service you may render to your country.

Report of the Executive Council, by Charles A. Hinsch

Members of The American Bankers' Association and Guests:

LADIES AND GENTLEMEN:—In harmony with the Constitution, and as Chairman of the Executive Council, I submit for your consideration and I trust, approval, a resume of the activities of the Association entrusted to our care since our last annual meeting held in Atlantic City, September 24th to 29th, 1917.

On September 28th, after the close of the Convention, the Executive Council convened for reorganization. Seventy-one members responded to roll call. The following officers were duly elected: Fred E. Farnsworth, General Secretary; James D. Hoge, Treasurer; William G. Fitzwilson, Assistant Secretary, and Thomas B. Paton, General Counsel.

The Committee on Nominations submitted their report, and the nominations suggested therein were unanimously adopted.

Attention was called to the fact that in submitting their report the Nominating Committee failed to take into consideration the change in the Constitution, enlarging the State and Federal Legislative Committees, and on motion the Administrative Committee was authorized to make the appointments. Similar action was taken relative to the Vice-Presidents for the dependencies of Alaska, Canal Zone, Hawaii, Philippine Islands and Porto Rico.

As the personnel of the various Committees was published in THE JOURNAL, I will refrain from going into details on this occasion.

The report submitted by the Finance Committee estimated the receipts for the ensuing year at $....., and recommended appropriations for the fiscal year, beginning September 1, 1917, amounting to $..... The several items included in this budget were duly considered, and the report approved.

The Union Savings and Trust Company of Seattle, The Continental and Commercial National Bank of Chicago, and The National Bank of Commerce, New York, were designated and approved as depositaries for the ensuing year.

Several invitations were presented in connection with the Spring Meeting of Council and after some discussion, a resolution was passed directing the Administrative Committee to perfect arrangements with the Eastman Hotel, Hot Springs, provided the necessary accommodations and rates were available.

Chicago was similarly decided upon as the place for the Annual Meeting of The American Bankers' Association, the date selected being September 23rd to 28th, 1918.

The Association responded to the call for service in connection with the launching of the War Savings Stamp Campaign and maintained a bureau in Washington for a period of five months, under the direction of your President. Messrs. Thralls, Harrison and Ayres, from the General Office, rendered most efficient services in connection with this movement and letters of appreciation were received from Mr. Vanderlip and others.

In recognition of the splendid educational work being conducted by the United States Chamber of Commerce, many of whose activities are identical with those of The American Bankers' Association, it was deemed advisable for our Association to become a member of the Chamber of Commerce and the General Secretary was directed to make application for membership in this organization at an annual cost of $700.

It is the intention so far as possible, for similar Committees of each organization to work as a joint committee, believing that in this way more effective work can be accomplished.

The following delegates were named to represent our Association in connection with the activities of the Chamber: Mr. H. H. McKee as Counsellor; Mr. R. F. Maddox, Vice-Counsellor; the Presidents of the several Sections, with the Vice-Presidents as alternates; the Chairmen of the State and Federal Legislative Committees, with Col. Fred E. Farnsworth and Judge Thomas B. Paton as alternates.

The Chamber of Commerce of the United States submitted Referendum No. 23, being a proposal to discriminate against Germany in trade after the War, if necessary for self-defense. After a full discussion on the subject your Administrative Committee decided to vote "Yes" on the referendum. This question was presented in the following preambles and resolutions:

WHEREAS, The size of Germany's present armament and her militaristic attitude have been due to the fact that her government is a military autocracy, not responsible to the German people; and

WHEREAS, The size of the German armament after the war will be the measure of the greatness of the armament forced on all nations; and

WHEREAS, Careful analysis of economic conditions shows that the size of Germany's future armament will fundamentally depend on her after-war receipts of raw materials and profit from her foreign trade; and

WHEREAS, In our opinion the American people for the purpose of preventing an excessive armament will assuredly enter an economic combination against Germany if governmental conditions in Germany make it necessary for self-defense; and

WHEREAS, We believe the American people will not join in discrimination against German goods after the war if the danger of excessive armament has been removed by the fact that the German government has in reality become a responsible instrument controlled by the German people; therefore, be it

Resolved, That the Chamber of Commerce of the United States of America earnestly calls the attention of the business men of Germany to these conditions and urges them also to study this situation and to co-operate to the end that a disastrous economic war may be averted and that a lasting peace may be made certain.

You will be interested to learn the result of this referendum. The vote was as follows:

In favor	1,204
Opposed	151

In harmony with the instructions of the Atlantic City Convention, a Committee on Co-operation of State Bankers' Associations with the American Bankers' Association was appointed, consisting of the secretaries of the various State Bankers' Associations, with Mr. William George as chairman.

Pursuant to the resolutions adopted at the Atlantic City Convention, the following appointments were made on the Federal Reserve Campaign Committee, to embody a representative in each of the twelve Federal Reserve Districts:

J. H. Puelicher, Marshall & Illsley Bank, Milwaukee, Wis.
Philip Stockton, Old Colony Trust Co., Boston, Mass.
F. H. Sisson, Guaranty Trust Co., New York, N. Y.
J. H. Mason, Commercial Trust Co., Philadelphia, Pa.
H. C. McEldowney, Union Trust Co., Pittsurgh, Pa.
Wm. Ingle, Baltimore Trust Co., Baltimore, Md.
A. P. Coles, Central Bank & Trust Corp., Atlanta, Ga.
Breckinridge Jones, Mississippi Valley Trust Co., St. Louis, Mo.
S. B. Montgomery, State Savings, Loan & Trust Co., Quincy, Ill.
George E. Tremble, Fidelity Trust Co., Kansas City, Mo.
Nathan Adams, American Exchange National Bank, Dallas, Texas.
F. W. Ellsworth, Hibernia Trust & Savings Bank, New Orleans, La.
R. S. Rutter, Spokane & Eastern Trust Co., Spokane, Wash.

The following communication from the Hon. W. P. G. Harding, Governor of the Federal Reserve Board, indicates a deep sense of appreciation of the services rendered during the past year by our Federal Membership Campaign Committee:

"MY DEAR MR. HINSCH.—I desire, on behalf of the Federal Reserve Board, to express its appreciation of the cordial co-operation which has been given it by your administration, and particularly of the excellent work which has been done by your Association's Committee on Federal Reserve Membership of State Banks.

"At the time of the appointment of this Committee, on September 17, 1917, there were 86 State banks which were members of the system, with total resources of $1,217,258,914, while to-day the number of State bank members has been increased to 748, and their total resources to $6,668,259,717.

"Your Committee has been untiring in its efforts, and the Board feels that the large increase in State bank membership is due in a great degree to the work which has been done by the Committee. There are a large number of State banks eligible for membership which are still outside of the Federal Reserve System, and the reasons which were given in October last by the President of the United States why State banks should become members, and which have been so thoroughly elaborated upon by your Committee, are more potent now than ever.

"The Board therefore wishes to express the hope that your Association will see fit to have the Committee continue the good work which it has thus far prosecuted so successfully.

"(Signed) W. P. G. HARDING, *Governor.*"

Mr. O. J. Sands was appointed on the Trade Acceptance Committee in lieu of Mr. Joseph Wayne, resigned.

The Trade Acceptance Committee of our Association, in conjunction with the United States Chamber of Commerce, the National Association of Credit Men and the National Association of Manufacturers, formed the American Trade Acceptance Council. This joint committee has conducted an active campaign of education to promote the general use of trade acceptances in the settlement of open accounts.

The Administrative Committee approved of the action of the President in accepting membership on the Executive Committee of the National Association of Owners of Railroad Securities.

There have been a number of members in different parts of the country who thought we should urge upon the Administration a more rigid policy in dealing with Mexico, for the protection of American lives and property. There is $1,500,000,000 invested in Mexico, which investment is in danger of confiscation. There has been a new confiscatory constitution adopted in Mexico—it was adopted in 1917—which they do not as yet dare to enforce. Another element in the Association thought this is not the appropriate time to urge a radical attitude towards Mexico. They point out that the South American countries have long been suspicious of the aggressive policy of the United States, and only now are they coming into more friendly relations, and an aggressive policy towards Mexico at this time would set up opposition and create suspicion in these South American countries.

The matter was referred to your President and General Counsel, who have given this subject a great deal of careful thought and attention, and in connection therewith have conferred with the State Department in Washington, with Mr. E. M. Van Zandt, Jr., Vice-President of the A. B. A. for Mexico, and the United States Chamber of Commerce. As the matter now stands, if the Chamber deems it advisable to appoint a Committee, your President has been authorized to appoint a similar Committee, not with the idea of advocating the taking of any drastic action at this time, but to keep in touch with the situation with a view of recommending that American interests in Mexico be extended the greatest degree of protection possible under existing circumstances.

The following delegates to various meetings were selected to represent our Association:

National Foreign Trade Council.
Mr. C. A. Hinsch, W. P. Shearer, G. P. Griffith.

League to Enforce Peace, National Convention in Philadelphia, Pa.
Mr. Joseph Wayne, Jr., Waldo Newcomer, Levi L. Rue.

National Security League, Convention in Chicago.
Mr. Nelson N. Lamport, M. A. Taylor, Wm. G. Edens.

Annual Meeting of American Academy of Political and Social Science, at Philadelphia, Pa.
Mr. William A. Law, J. R. McAllister, E. F. Shanbacker.

Committee to Co-operate with a Committee of the Chamber of Commerce of the United States regarding Foreign Exchange.
Mr. J. H. Fulton, F. A. Goodhue, William A. Law.

The Administrative Committee extended its moral support to the Capital Issues Committee in the adoption of the following resolutions:

Whereas, The Secretary of the Treasury requested the Federal Reserve Board to take up the question of a limitation of the issue of new securities throughout the United States along the lines of the conservation

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of capital for the prosecution of the war—that is to say, to limit so far as possible the issue of new securities for non-essential securities, in order that essential financing, including the Government financing itself, can be made possible; and

Whereas, Pursuant thereto the Federal Reserve Board has named Mr. Warburg, Mr. Delano and Mr. Hamlin on a Committee to be known as the Capital Issues Committee:

Now, therefore, be it Resolved, That we, the Administrative Committee of the American Bankers' Association, are in full accord with this movement and give it our hearty and unqualified support; and, further, that we recommend to the members of the American Bankers' Association that they also extend their hearty support in carrying out the purposes for which the Capital Issues Committee was appointed.

A campaign was launched having for its purpose the increase in our membership to 20,000. While we did not reach the desired goal, a material increase in our membership was secured; in fact we have had the greatest increase ever attained in the history of the Association.

The Spring Meeting of the Executive Council was held at the Hotel Eastman, May 9, 10 and 11, 1918, at Hot Springs, Arkansas; 59 members responded to roll call.

Reports from the Federal and State Legislative Committees were submitted, and the action taken by them and their recommendations were ratified and approved. The action taken by the President relative to the measure providing for the guaranty of deposits was ratified and approved.

The Insurance Referendum Committee submitted its report and recommended that a bankers' insurance company be organized upon the stock company plan. The report was approved and the Committee were authorized to prepare and submit their plans to the September Meeting of Council for final action.

The President presented for the consideration of Council a number of constructive changes, which were published in full in the June edition of the JOURNAL. I will therefore refrain from going into details in this review. The suggestions were referred to a Committee on Coordination of Activities, with instructions to submit their recommendations to the September Meeting of the Council.

The President reported that he had conferred with the Hon. J. H. Moyle, Assistant Secretary of the Treasury, concerning the elimination of individual National Bank notes, and the issuance of a uniform bill which would omit the name of the bank of issue. This proposed uniform bill would mean a saving of considerable expense to the Government and to the National Banks maintaining circulation. The plan, if carried into operation, would eliminate the necessity of the five per cent. Redemption Fund.

A referendum of the Federal Legislative Council was taken on this proposed legislation, and a majority of the members of the Council approved of the measure.

A difference of opinion seems to exist in the Treasury Department as to the wisdom of carrying out this program, and the Federal Legislative Committee may introduce legislation in connection therewith.

Last May when Provost Marshal General Crowder issued his famous order of "Work or Fight," providing for a reclassification of drafted men, bank officials and clerks were reported to have been classed as non-essential; as a result of considerable correspondence with Treasury officials, Federal Reserve Board officials and others, your President was advised that the order had been interpreted as follows:

"I beg to advise you that bank clerks are excepted from the operation of the regulations, which provide for the withdrawal of deferred classification.

"The recent so-called 'Work or Fight' regulation does not affect registrants who are officials of banking institutions or clerks employed in banks. In other words, under the present Selective Service Regulations, bank officials and bank clerks may remain in such employment until they are regularly called, by their various local boards, for military service. "E. H. CROWDER, *Provost Marshal General.*"

This announcement was welcomed by bankers throughout the country.

The requirement of the new draft measure, necessitating all men to register betwkeen the ages of eighteen and forty-five, has been the occasion of considerable apprehension on the part of bankers throughout the nation, as it includes a large percentage of the active bank officials and pivotal bank employees. Through the good offices of Mr. H. H. McKee, we were able to send out a bulletin to our members reading as follows:

"The Provost Marshal General has ruled that banking is an occupation necessary to the maintenance of the national welfare; and that skilled officers and employees of banks may claim exemption or deferred classification, under the new draft law, on the ground that their services are vital to the continuance of the business in which they are engaged.

"The Provost Marshal General states that waiving the right to be placed in a deferred classification is a mistaken act of patriotism. He urges every person affected by the law to state frankly and honestly his exemption status, as by so doing he will aid materially in the task of classifying registrants."

Therefore, bank officers and employees whose services are essential to the business should not hesitate, for fear of criticism, to claim exemption or deferred classification on occupational grounds. To do otherwise would be a hindrance rather than a help at this time.

If officers and clerks in banks, however, neglect or refuse to claim the exemption to which they are entitled, that claim may be made for them by the bank in which they are employed. Thus, if an officer or a clerk fears unjust criticism or believes his act may be misconstrued, the bank which employs him may file a claim for his exemption on occupational grounds with the district board of appeals. It is most earnestly desired, however, by the authorities at Washington that every one state frankly and honestly his exemption status, as it will be considered more patriotic and helpful to do so than it would be to waive his rights."

It has been suggested from a banking source that wherever practicable a bank should file with the local exemption board a list of its officers and employees whom it deems essential for its operations and the grounds upon which its claims are based, as many bank men will not claim exemption even though entitled.

Regulations have been issued and should be studied carefully by bank employers and employees.

Bank men are not exempt because they happen to be bank men, and the right to exemption or deferred classification will depend upon the conditions of service which will have to be proved. The final determination under the regulations will rest with the district board of appeals.

Mr. McKee also presented to the War Industries Board, a request that banks be placed in the Priority List in connection with supplies essential to their operation, such as coal, paper, etc. He was referred to Mr. Penfield, who flatly refused to admit that a bank is a necessary or essential adjunct to the economic structure at this time. He said that banks must get their coal as they need it in the order set forth under the head of "Domestic consumers and public institutions in buildings listed in Class 3, Preference List No. 2, issued September 3, 1918."

"If a bank has not already stocked up it will not be permitted to do so now, but must take what it can get from time to time as the need arises."

Your president then addressed a communication to Mr. Baruch, chairman of the War Industries Board as follows:

"CINCINNATI, OHIO, September 16, 1918.

"MY DEAR SIR.—It has come to my attention recently that several prominent banks in the United States have experienced some difficulty in getting supplies, including coal, absolutely needed to keep their business going.

"I find that banks are not listed as essential occupations entitled to preferential treatment in Preference List No. 2, issued September 3, 1918; and after investigation by trusted representatives in Washington, I find that there seems to be a lack of understanding or appreciation of the work the banks are doing in this crisis.

"It seems to be admitted that banks are necessary in some degree, but that their existence and ability to continue business is a matter of secondary importance to those industries and occupations specified in the Preferential List.

"Practically all of our business is being done on credit to-day. The banks are the instruments which create credit and cause it to flow through the channels of trade.

"The sale of Liberty Bonds, Thrift Stamps and U. S. Treasury Certificates of Indebtedness has been undertaken by the banks willingly in addition to taking care of the abnormal amount of ordinary business.

"It would seem that the assistance the banks have given the Treasury in the furtherance of the fiscal policies of the Government should cause them to be recognized as indispensable at this time, even though their relation to the world of industry, trade and commerce be ignored.

"From a purely economic aspect, banking is absolutely the keystone in the arch of business, and anything that tends to impair its strength and efficiency menaces our whole economic fabric.

"General Crowder, the Provost Marshal General, has publicly stated his recognition of that fact.

"Therefore, it is respectfully suggested that the facts set forth be considered by the War Trade Board, and if possible the business of banking be made co-equal in importance with other essential industries in the matter of securing coal to heat the banking rooms, and other supplies needed to maintain the business.

"The amount of supplies needed will not be large, but inability to obtain even a moderate amount may work incalculable harm to an occupation that is superlatively essential at this time."

Copies of this communication were sent to Governor Harding and Secretary McAdoo.

The several members of the Administrative Committee have been a great comfort during the past year, and their co-operation and wise counsel have been deeply appreciated.

The officers and memers of the Executive Committees of the several Sections have been of material assistance in solving the many problems that have presented themselves for consideration.

The members of the Executive Council and the several committees have shown by their devotion to the banks assigned to them a deep and sincere interest in promotingi the welfare of the organization.

The exigencies of the times have added tremendously to the demand for service from all identified with the General Offices, and in this emergency I have had the sympathetic and intelligent co-operation of our General Secretary, Colonel Farnsworth, who has been equal to every emergency.

In directing the affairs of the Association during the past year I have enjoyed the cordial, loyal, conscientious and efficient support of Judge Paton and Messrs. Fitzwilson, Welton, Allen, Thralls, Harrison, Mershon, Gammon and Scott, to all of whom I extend my sincere thanks.

Report of the Committee on Acceptances, by R. H. Treman, Chairman

To the Forty-fifth Annual Convention of the American Bankers' Association:

Very soon after the Atlantic City Convention of the American Bankers' Association your committee, which was created there, conferred with similar committees representing the Chamber of Commerce of the United States and the National Association of Credit Men and formed a joint committee of the representatives present, organizing as the American Trade Acceptance Council, with Lewis E. Pierson as its Chairman; R. H. Treman, Vice Chairman; J. H. Tregoe, Secretary, and Wm. Walker Orr and Jerome Thralls, Assistant Secretaries. The Council has since been enlarged to include representatives of the National Manufacturers' Association and many other leading business organizations throughout the United States. Its purpose has been to gather and disseminate information regarding the Trade and Bankers' Acceptances, their value and how to use them. The efforts of the Council have been concentrated largely upon the Trade Acceptance.

In addition to the members of your committee, the President and General Secretary of the American Bankers Association were made members of the Council and Jerome Thralls, Secretary of the Clearing House and National Bank Sections of the American Bankers Association was made Chairman of the Council's Publicity Committee, and was placed in charge of the detail operations and the correspondence so far as concerns the Bankers' division of the work.

An organization, nation wide, has been perfected. It includes a com-

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mittee of three wide-awake bankers appointed by the Bankers Association of each state. In many states these committees have in turn appointed a chairman for each group or certain sub-divisions. The group chairmen have appointed a chairman for each county in their respective groups. It is the duty of these county chairmen to arouse the interest of bankers in their respective counties and get them to inform their patrons who are possible users as to the merits of Acceptances.

The President of the American Institute of Banking, at our request, appointed a committee of three or more junior bank officers in each Federal Reserve and branch Federal Reserve city. To these latter committees detail problems are referred for consideration and report.

One of the first steps of the Council was the development of a standard form of Trade Acceptance. This form is designed with due regard to law, the rules and regulations of the Federal Reserve Board and the various Federal Reserve Banks. It has the approval of the Federal Reserve Board and the Counsel of the American Bankers' Association and various other leading authorities. (A copy of this form—Exhibit A—is included as a part of this report.) The form may be altered to meet the needs of any particular line or trade. The Council's recommendations, however, have always been that the form used should be as simple as possible and free from entangling notations that might hamper or hinder its negotiability.

During the greater period of its existence the New York members of the Council have held weekly meetings at which problems arising regarding the Trade Acceptance, policies of the Council and other matters of importance were discussed.

Two general Trade Acceptance conferences were held under the auspices of the Council in New York City. These meetings were attended by representatives of banks and various lines of industry from many of the leading cities throughout the country. A similar conference was held in the city of Philadelphia. A general Trade Acceptance convention was held at Chicago under the auspices of the Council under date of June 17th. A splendid program was offered, dealing with all phases of the Trade Acceptance and bringing out all objections that might be raised to its use in any particular business, as well as the benefits that would be derived in the way of improvement of the credit system and the strengthening of the banking position that would result from its general use. This convention was attended by more than 800 business men and bankers representing every section of the United States and practically every line of industry. The entire day and evening were devoted to the one subject. The fact that at no time were there less than 600 people in the convention room indicates the real interest that was taken.

The Council has undertaken to keep a constant flow of material going to its various committees, to the bank and trade journals and general press. It has published and distributed many thousands of pamphlets on the Trade Acceptance. These include the "Trade Acceptance Catechism," "Practical Questions and Answers" and "Opinions of Users." It organized a Speakers' Bureau through which it has furnished speakers for conventions, meetings and gatherings of bankers and business people throughout the United States.

The Council has received splendid co-operation and assistance from the various Bankers Associations, the press, and many of the leading business organizations.

Mr. Thralls has prepared and issued weekly from the offices of the American Bankers Association, under the auspices of the Council, a Trade Acceptance Service Bulletin containing up-to-the-minute information. This Bulletin has been distributed not only to the seven hundred or more banker committeemen, but to one thousand committeemen representing various lines of business and to the press. This Bulletin has been the means of keeping the subject and its important developments immediately before the people. Its publication certainly should continue for the period of another year at least.

One year ago the available records indicated but 185 known users of the Trade Acceptance. This list has grown to many thousands and the Trade Acceptance is now being used in every section of the United States and in practically every line of business. Out of the thousands of reports which have been received from users, there is not one that raises serious objection and all praise the use of the Trade Acceptance most highly. They indicate that it actually has been a means of making an equal amount of capital do greater service, has enabled them to reduce their Bills Payable account, to buy a greater amount of Liberty Bonds, to take care of without difficulty the increasing volume of their business in spite of the high prices, to shorten the credit period, to reduce claims and disputes, to afford an immediate check-up on all transactions, to make collections more prompt, and to generally stabilize their business. This, aside from producing a vast amount of paper eligible for rediscount at the Federal Reserve Banks and as a basis of currency issue.

In a great many instances there has been united action on the part of a whole trade in adopting the Trade Acceptances as a term of sale. This plan was followed with great success by the flour milling industry in the state of Washington, the lumber mills of the West Coast, the National Raw Silk Dealers, a number of hardwood manufacturing associations and various others.

The Bankers Associations of thirty-four states passed strong resolutions at their recent annual conventions commending the Trade Acceptance and urging its widest possible use in their respective states.

In the development of the Trade Acceptance the bankers are confronted with a number of important problems—(1) That of perfecting a comprehensive discount market; (2) That of meeting the general demand that is being made by the users for a preferential rate; (3) That of providing the most economical and efficient method of handling Trade Acceptances in the banks and in the business houses; (4) Evolving a satisfactory schedule of service, exchange and collection charges for handling Trade Acceptances.

Considerable progress has been made with the open discount market proposition. A number of large so-called discount houses which will deal largely in Trade and Bankers Acceptances have been organized in New York City and a number of other leading cities: J. P. Morgan & Co., a number of the large commercial banks and trust companies and private bankers of New York City are now lending on call at a rate of 4½% against Trade and Bankers Acceptance collateral.

The laws of the states of California, Connecticut, Massachusetts and New York have been so amended as to provide for the investment by Savings Banks of a part of their assets in Bankers Acceptances and in some cases other prime bills. Effort is being made to get further amendments which will permit the Savings Banks to invest a certain percentage of their assets in prime Trade Acceptances endorsed by members of the Federal Reserve System or banks or trust companies operating under charters of the states wherein the buying banks are domiciled. A great many other banks, as well as Reserve City banks, that have heretofore been in the market for commercial paper are now turning their attention to the purchase of Trade Acceptances.

The Second problem—that of meeting the demand of users for preferential rate can be solved by the element of time only. We now have a lender's market. The banks can find ready demand for all of their funds at favorable rates. When conditions have changed the rates, of course, will fluctuate. Buyers will always take into consideration the name and character of business of the makers and acceptors. The prime names will naturally be accorded a better rate than the unknown names and the acceptances which cover business of an unstable nature.

The Third Problem—that of the most economical system of handling Trade Acceptances, is now in the hands of twenty-three committees of junior bank officers, representing the American Institute of Banking. It is hoped that these committees will come to an agreement upon a plan that will be satisfactory to all at a very early date.

The Fourth problem—that of service, exchange and collection charges, should be given careful consideration and study by every banker. It is likewise in the hands of twenty-three special committees.

The appropriations aggregate $1500 made by the American Bankers Association were paid over to the American Trade Acceptance Council. The full amount has been expended; in addition your Committee has incurred expenses aggregating $501.05. We hope this amount will be appropriated by the Finance Committee, and that, in addition, a liberal appropriation will be made for continuing the work.

While the use of Acceptances is developing rapidly, your Committee believes that in view of the importance of these instruments to the credit and financial system, that every possible effort to encourage their future use should be made. The movement is one of education and publicity. Your Committee would respectfully recommend that the work now being undertaken jointly with similar committees of other important organizations be contnued for the period of at least one more year. Acceptances may serve as a most valuable aid in conserving and directing credit into the channels of essential production. The demands upon our commercial, industrial and financial interests will increase at a remendous pace. It is therefore essential that every dollar's worth of credit in this nation shall be whipped into such shape as will enable it to render its maximum of service.

No valid objections to the use of Trade Acceptances have been raised. Thousands of commendations are at hand.

Some have injected the thought that the use of Trade Acceptances should not be *urged on patriotic grounds.* Certainly, aside from patriotism, there are ample other good reasons for their use. Your Committee believes, however, that to waste credit or to fail to apply it in the most efficient manner at this hour, when the nation needs every dollar of its resources to prosecute its fight for human freedom and independence is as unpatriotic as is the waste of food or other essentials.

The Committee would suggest that local Trade Acceptance Councils be formed in the principal cities throughout the United States. These Councils to include in their membership a representative of each of the important lnes of industry in their respective cities. This plan has been followed with success in a number of cities. By co-ordinating the efforts of all factors and taking up one line each week and centering all efforts on that line, good results can be accomplished. With 200 such councils formed and supplied with information from headquarters for dissemination through the councils to their members, success with the movement should be certain in a short time and at small expense.

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Detailed Report of Proceedings

FORTY-FOURTH ANNUAL CONVENTION, HELD AT CHICAGO, ILL., SEPT. 26 and 27, 1918

FIRST DAY'S PROCEEDINGS.

MORNING SESSION.

Thursday, September 26, 1918.

CHARLES A. HINSCH, President, presiding.

FREDERICK E. FARNSWORTH, General Secretary,
The Auditorium Theatre.

The President called the meeting to order at 10 A. M.

THE PRESIDENT: Members of the American Bankers' Association, Ladies and Gentlemen—It was with deep regret that I find it necessary to announce that we will not have with us this morning the Great Lakes Training Camp Band, owing to the fact that they are in quarantine due to the breaking out of influenza. But we are hopeful that they will be relieved in time for the afternoon session.

I will now ask you all to rise while Bishop Nicholson asks the blessings of Almighty God upon the deliberations of this convention.

I take great pleasure in extending a cordial invitation to all members of the Executive Council and ex-members and ex-Presidents of the Association to take places on the platform. We should be very glad to have you do so.

I now have great pleasure in reading to this convention a telegram just received from the President of the United States:

"Charles A. Hinsch,
"President, American Bankers' Association,
"Chicago, Ill.

"Please present my cordial greetings to the bankers and express to them the gratification which I have felt in common with the whole country at the splendid spirit and efficiency with which the bankers of the country have assisted the Government in the all important matter of the loans. WOODROW WILSON."

MR. GOEBEL: Mr. Chairman, allow me to present to you a telegram sent in response to the telegram just read from President Wilson, which I will ask the delegates to ratify after I read it, by a rising vote to be called for by our President.

"Hon. Woodrow Wilson,
"President of the United States,
"Washington, D. C.

"The delegates representing the membership of the American Bankers' Association, in convention assembled at Chicago, September 26th, receive with deep appreciation your inspiring message of September 25th. Every ounce of energy and every resource at the command of the bankers of the nation are pledged to the cause of human freedom and independence. We will loyally support and follow your lead as our Commander-in-Chief in the mobilization of every effort and every resource of America, to the end that all the power and strength of this great land shall be made available for war on the common enemy until victory for the Allied arms shall have been attained and the world made safe for democracy.

"CHARLES A. HINSCH,
"President, American Bankers' Assn."

THE PRESIDENT: It is now my great pleasure to introduce the first speaker of today, a man who has high ideals, a man with the courage of his convictions, a man who has given this great State of Illinois a magnificent administration—a man who has given Illinois a business administration.

He has been largely instrumental in the passage of legislation which has made it possible for this great State to have sixty million dollars available for the construction of good roads. He has abandoned many commissions in this State which were of very little value, and in their stead has created a cabinet, and in this way has given to Illinois the best administration she has ever had. He has been instrumental also in providing for a possible Amendment to the Constitution which will give the State of Illinois a commission form of government. This, I am told, will be presented to the people of this State in November.

I take great pleasure in introducing to you Illinois' war Governor, Governor Lowden.

Address of Gov. Lowden of Illinois

MR. PRESIDENT AND LADIES AND GENTLEMEN: It is a great privilege to welcome to our State this great and powerful organization. It is a double privilege to welcome you at this time because, useful as your association has been in the past, it is only in the midst of this great conflict that you have risen to your full stature of usefulness and patriotism and devotion to your country's cause.

We needed two things, men and money, to win this war. Our men were being mobilized, and now almost two million of them are either in training or on the battle fronts of Europe. You have mobilized the wealth of the nation until today that wealth matches our magnificent manhood, and the two, our men and money, have turned the tide of the great conflict.

This morning I note by the press that the Chancellor of Germany has again taken part in a peace offensive. I observe that he repeats again that this was a war of defense. I observe also that he is tremendously interested in some sort of an international forum for a settlement of international disputes. I want to say to the bankers of America that until Germany admits the plain truth that this war was her war; that she was the aggressor; that this war was waged in pursuance of a half century old conspiracy, the only answer that she is entitled to from America is that magnificent answer which President Wilson made last week to the Austrian Prime Minister.

I can imagine one of your bankers who had been defrauded by a customer years agone, again after the lapse of time resuming negotiations with that customer; but I can't imagine one of you permitting him to open up a new account in your bank until he confessed that he had robbed you before.

So, if the Central Empires want to resume relations with the rest of the world, they must first repent, and you can't repent, as Bishop Nicholson will tell you, until you first confess your faults.

Now, with reference to their second proposition of an international court for the settlement of all disputes. I want to read to you from a recent article published in one of the leading German magazines, from the pen of Professor Spahn, a famous professor of the University of Strasburg. This is what he says even after the lapse of four years of the war: "The need of the present hour is not yet universal peace and rule of law and freedom of peoples, but clearness about the vital condition of the German people as a State and about the full development of our own state of existence. Unity must be based upon the leadership of the most efficient people. Only a race so full of idealism as the Germans is capable of lighting the horizon of humanity with an ideal as great and so eternal." In other words, therefore, this elimination of armament concerning which the Germans are now so eager, as it seems, and for the great tribunal in which the nations of the world may adjust their differences, must be a tribunal under the leadership of the German people. And when they reach some provisions made for the rights of smaller nations, they want Germany to be the ultimate umpire in determining what those rights are. I am sure that neither this great association nor the American people will be misled by these appeals which are now being made by German statesmen. I have no doubt that all of you, or nearly all, have read letters from the battle fronts, in which our brave boys have described the impetuous manner in which their German enemies, when they have been beaten, threw up their hands, and with a smile on their lips, but hate in their hearts, have cried "Kamerad," yet as those boys have told you, at the first opportunity, treachery follows that claim of comradeship. So the statements of Vienna and Berlin today are imitations of the statements of their soldiers on the battle fronts. Their cry of "Kamerad" is merely a subterfuge to gain a respite in which some new crime against civilization and humanity may be committed. I am equally sure that this peace offensive will be as futile as the five offensives on the battle lines which they have conducted since last spring.

We would be faithless to every soldier dead in Flanders and France and Italy and Serbia if we were to listen to a proposal of peace until the great ends for which these brave men died are attained, and attained not simply for ourselves but for our children and all who shall come after them.

I want to make one suggestion to this great association of a thing that seems to me to be of importance. We have, as you know, better than anyone, the wealth to win this war, but we haven't the money. We are spending more money each few months than the total stock of money in the United States, as experts tell us, and therefore it is necessary in some sort of way to make this other form of wealth fight in the ranks. No other body can do it but the bankers of America. You can't make my farm fight on the battle front, but the bankers of America can in some sort of way utilize credit because of my possession of that farm, and help win the war. That is your great task. In other words, you are mobilizing the wealth, and no one else can mobilize the wealth but yourselves. However, there is one thing that ought to be done, and in my opinion, ought to be done now. That is, with the experience that we have had, we ought to be able to know how much money we can safely raise by taxation without crippling the essential industries of the country. We ought to know how much money we can safely raise by the issue of bonds. I have no doubt, with our great wealth, that it can be worked out mathematically so that we should be able to raise enough money by these two methods to finance this war indefinitely, but unless a concrete program is laid out and adhered to, we can't tell when we are going to find ourselves in trouble. There never was a bank account so big that you could permit even the most prudent man to draw upon it without knowing what its limit was and how rapidly it was being reduced, without disaster. All the wealth of the Indies would not be sufficient to permit just one individual, without knowing what its limitations are, without knowing how from day to day it was fluctuating, to draw with safety upon that wealth. I don't care how great a business is (and the greater, the truer is what I am about to say), if the manager of that business hasn't the courage to look his balance sheet in the face, that business is near a receivership.

Now then (and no body of men is as well qualified to work this out as this association), if we will go about it to ascertain how much money (and of course we must co-operate with the Government at Washington in ascertaining that) we can raise by taxation and how much we can raise by bonds, we will find that when we have ascertained that limit, the Government will live within it, and will find that amount of money sufficient. But so long as there is no program, so long as we disdain business methods and so long as we are simply drawing on this almost illimitable wealth, as we think, we will find that danger is ahead, and we will discover when it is too late that we have spent more money than we can afford, simply because of the lack of courage on our part to look at our national balance sheet.

Now, that is one of the things that I think the great financial men of this country, the Treasury Department and the Congress of the

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United States should go to work upon. Another thing: When you have ascertained that and when we have adopted the principle of universal military training as a part of our policy and that should be adopted now, we can sit serenely back and say to the junker gentleman in Prussia: "Since you want the world to be ruled by force, since according to your kultur there is no other way to do it, we are prepared to play the game indefinitely. We have the men and we have the money and we can do it."

It isn't that I want a long war. There isn't any man, woman or child in America who would not like to see peace come soon, but the more thoroughly we prepare for an indefinite war, the more thoroughly we organize our resources and our men upon the theory that we shall fight indefinitely until we attain our ends, that moment we have shortened the duration of the war and brought peace immeasurably nearer.

Of course, we have had many victories of late, but let us not delude ourselves. The Central Empires are still fighting on foreign soil. We haven't even reached the German first line of defense. I do not mean to underestimate the victories we have won, but if any one of us should permit our wishes to guide us and predict an early peace, we would surely relax our efforts and as surely prolong the war. The program I have indicated is the one safe program. It is true, as you financial men have pointed out, that Germany's interest upon her bonded indebtedness exceeds her income. That spells bankruptcy. But I have been told by some of your number that the hardest competition in all the world while it lasts is competition with a bankrupt concern. As a business man, I have had some experience of that kind myself. The worst battles in which I ever found myself were battles in which the other side was bankrupt. They had everything to gain and nothing to lose. The German junkers are in that situation today. There is one thing you must admit about them, they are logical in their brute philosophy. They know that unless they can make a conquest of Europe and America their doom is sounded. They know that with any such peace as the Allies now would make, they would be relegated to the limbo of the past, and will play no part in the future of the German Empire. So they will fight to the end, having all to gain and nothing to lose, because they are lost anyway unless they win a complete victory in this war. That is the most desperate enemy to which you can be opposed.

I am going to say just one or two things about after the war, bearing on this same question. I don't know when it is going to end, but this financial program that I spoke of a little while ago is essential, looking to the period following the war. We are told on every hand that we should not only be thinking about when the war is going to end, but we should be thinking now while the war is on of how we shall bind up the wounds after the war is over, and how we shall reconstitute and reconstruct the country after peace. One of the most essential preparations for those days is to be considering all the while that the financial problems at that time are going to be the most important of all. I notice that you have been discussing what is going to happen to the railroads after the war, and what is going to happen to lots of other things. Let me tell you, when this war is over the first thing America is going to think about is how we are going to pay the debts incurred during the war. That is one of the things which will be foremost in the minds of the American people. We ought now to so plan that as soon as peace comes we shall begin the first year to pay off some portion of the principal of that debt. If we don't do it then and do it promptly, we shall only have won a half victory, and you can only do that if we begin budget work now.

There are great changes coming to us as individuals as a result of this war. You can't fight for four years in the cause of civilization, humanity and righteousness without having your viewpoint of the universe changed. I don't know how many of you have read letters that have come from the battlefronts. I assume that all have, and I want to call you to witness that these letters breathe a finer spirit than the letters of any of our youth in a generation. Such letters could not have been written two or three years ago. I want to call you to witness the eternal truth that the spiritual things of this world are again emerging supreme. So, we are going to approach the world after the war is over in a new spirit of comradeship. We were separating into classes before the war arose. We were becoming very conscious of our own classes and very indifferent to others; but when the workingman and his employer fight side by side in a trench, as they are doing on every battle front, when the war is over, they are going to have a keener sense of the right of the other and that spirit of comradeship which this war has engendered will be brought into all the relations of our business and civil life. I observe in my own State that a new spirit of comradeship is coming to those who remained at home. I am discovering that the old differences between religious creeds are breaking down; that the differences between the political parties are breaking down; that social differences are breaking down and that the new test of American manhood and American womanhood is worth and loyalty to their country's flag. We are fighting in the name of righteousness and we are fighting in the faith that there is a God above all and that in some sort of way, subtle and unseen though the spiritual forces of the universe are, these forces in the end will control. We are fighting against the doctrine that physical superiority is the test of everything. We are fighting against the philosophy that the earth and all it contains belong to the strong alone, for that is the philosophy in the name of which the German armies crossed the Belgian frontier. So, whatever our problems after the war, we are going to consider them in a larger spirit of human brotherhood and justice than we have in all our past, as I believe. So we can look forward to those anxious days of reconstruction with a full faith that American manhood, whether on the battlefront or at home, shall vindicate its right to exist under the flag of freedom.

I want to read to you just a few words from a letter that was written by a boy whose home is away out in Idaho, Cadet Joseph R. Baine, in which he said:

"I have become more 'akin with my kind' I think, a more thoroughly socialized human being. College should have done that for me, and it did it, in a sort of abstract, scientific way. Teaching should have finished the process of adding a personalism that college failed to give, but it didn't do it, except in a sort of chauvinistic professional way. But the army and the war, and my natural maturing mind have gone another step, I think, added an 'interest in humans,' a warm, personal fellow feeling that I have lacked.

"'Ye must be born again'; the war is the great pregnant mother from which the world will be born anew, I hope. I am sure that millions of individuals are experiencing their renascence in these days. That is why the war is taking on—no, has long since taken on the aspects of a sacred crusade; why the American soldiers, 'the solemn-looking blokes,' have astounded the world by their absolute faith, their wordless determination, their businesslike attitude, yet without hatred or rancor in their hearts. I am sure the public mind of America, taken as a whole, more nearly represents the 'righteous wrath' of the prophets than any other national spectacle in history. I tell you, a moment of life in these days is worth an endless death; to feel that a single ego is the greatest thing in the world, if it be dedicated to the world; to see bright days for humanity behind the murk; to know that the smile in childish eyes shall not be driven out, and that we have a hand in this—what greater destiny could a man desire?"

Think of that. Could any young man of America three years ago have written this? There is a renascence of all that is fine and spiritual in our life as a result of this war, because for the first time in the history of all the world the spiritual forces of all the world have been arrayed on the one hand against the brute material forces on the other. This battle, as old as the earth and which has finally engirdled the earth, is being fought to a finish and the events of the last few weeks give evidence that the spiritual forces are to vanquish, and vanquish forever, the old brutal creed that might is right and that strength and strength alone shall rule the world.

What can we do to show our appreciation of these fine young men who are found on every battle front? I know how the thought came to you when the glorious news was flashed under the sea that our soldiers had won immortal fame at Belleau Woods, "What can I do to show my appreciation?" Now the opportunity again is about to present itself of how we can answer the challenge that came from Belleau Woods, and that is by doing everything in our power to make the life of those brave boys as comfortable and as free from pain as we can and by showing them that we know that they are fighting and dying for us and our civilization. The answer to Belleau Woods is to subscribe and subscribe liberally to all the war activities and the Liberty Bonds.

We are thrilled through and through with the story of the first appearance of our khaki-clad boys from the west of Chateau Thierry when they turned the tide of that great critical battle, and we then asked ourselves, "How can we show those boys that we are worthy of them?" The opportunity is with us every day, and we can only call them comrades in our hearts when we recall at the end of each day that we have done something during that day to make their lot a little less hard to bear. Then only shall we respond to Chateau Thierry, St. Mihiel and a dozen, aye, two score or more of other glorious battle fields whose names will become forever a part of the great history of our nation. They admonish us that we can only match the heroism of those boys day by day by taking up our less heroic and less perilous duties, and by meeting those duties with the same unflinching determination that they display on the battle fronts.

I am sure, Mr. President and gentlemen of this association, judging by your splendid past, that you will prove yourselves to be the comrades of these sons of ours who are challenging the admiration of the world and winning the eternal gratitude of mankind. I thank you.

THE PRESIDENT: I know I can truthfully say that Governor Lowden has voiced the sentiment of every man, woman and child in this audience. It is now my great pleasure to introduce to you a man who really needs no introduction to a meeting of the American Bankers' Association; a man who is highly regarded by the Association; one of the most popular bankers in Chicago. I take great pleasure in introducing to you Mr. W. T. Fenton, Vice-President National Bank of the Republic, Chicago, who will welcome this meeting on behalf of the bankers of Chicago.

Address of Welcome by W. T. Fenton

MR. CHAIRMAN, LADIES AND GENTLEMEN:

On behalf of the Chicago Clearing House Association I have the pleasure of welcoming you to Chicago for the Forty-fourth Annual Convention. When I speak for the one hundred banks of Chicago I speak also for the directors of these banks and for the stockholders, and, inferentially, I may assume to speak for the hundreds of thousands of people who are having daily intercourse with the banks of this city. And in *their* behalf I bid you welcome.

The bankers of Chicago congratulate themselves and they congratulate the members of the American Bankers' Association that we are able in these trying times to utilize the provisions of the Federal Reserve Act. Without its flexibility and ready responsiveness to the extreme demands made upon our financial resources during the past four years a condition bordering upon financial chaos must have reigned, while the great loans and tax levies which we now contemplate with equanimity would have been virtually impossible of accomplishment.

For over twenty years the bankers of this country stood at the doors of Congress appealing in vain for currency reform legislation; and today we may thank President Wilson, whose masterful mind forced the Federal Reserve Bill through a hesitating Congress, for the ultimate benefit of hesitating, if not unwilling, bankers. Some of us inclined to shy at this bill during its first stages, as it appeared under the name of the "Glass Bill," or the "Glass-Owens Bill"; some of us were inclined to "kick out of the traces" when it was finally put through. But we are tame now, and I am willing to give my personal guarantee, for whatever it is worth, that today every banker in the United States will "stand without hitching." Our Federal Reserve system has stood the test through the most serious convulsion of commercial and financial affairs the world has ever seen, and today financial authorities everywhere concede that it is the best banking system in the world; and because of this legislation, you, gentlemen, are able to be here today.

You are here as the guests of Chicago, and I welcome you to the third largest city in the civilized world. And when I say the civilized

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world, I do NOT include Germany. If some one should ask me about the city of Berlin, I would reply that I do not know at this time what the population of the city of Berlin is, but I do know that if General Pershing keeps up his present pace it will not be long before half the population of Berlin is living in prison camps. And I hope among them will be the Kaiser himself.

As you walk about the streets in the central district of this city you will be treading upon ground made sacred by the footsteps of Abraham Lincoln; you will visit places hallowed by the memory of that great soldier, General Ulysses S. Grant, "Unconditional Surrender Grant," who, although a resident of Galena, Illinois, was a familiar figure in Chicago in its early days. If you care to visit the residential sections you may pass the boyhood home of a man whose fame belongs to the world, whose name is being uttered in the grateful foreign accents of all the Allied countries today, that soldier and warrior, General John J. Pershing.

Chicago is not old enough to have many traditions, but influenced by the memories of such men as I have mentioned the spirit of Americanism is so deeply imbedded in its structure that it stands today, in the center of the Mississippi Valley, a type of the ruggedness and strength of American patriotism and endeavor.

Twenty-five years ago many of you met here in the Nineteenth Annual Convention of the American Bankers' Association, at a time when the nations of the world had gathered together here at the World's Columbian Exposition, meeting in peaceful, friendly rivalry, vieing with each other in the exhibition of the products of their industry, their art and science. Here was a portrayal of the progress of civilization for hundreds of years. No such coming together for such a purpose, no such contribution to the civilizing influences which uplift the world has ever been conceived or executed before.

You will call to mind that beautiful picture of world unity and cooperation which we believed was genuine among all the nations taking part in that vast educational and inspirational assemblage of high ideals. We would not have believed it *then* had we been told that one of our guests was a Judas nation, investigating and examining the exhibits of its neighbors only to plot their undoing and ours.

From that picture of the triumphs of the world's honest industry, from a world advancing in peaceful international co-operation, good will toward men and nations, I ask you to turn to the spectacle the world presents today—a world plunged into a vortex of bloodshed, murder, degradation. And this because one only of that galaxy of nations which placed their best before you twenty-five years ago, because one of those nations turned back, permitted itself to revert to its animal instincts: brute force, greed, avarice. One nation broke the ranks—fell back, with the result that the whole world has had to pause, stand still, and at last to fight for the place we believed we had already won.

While I am clothed with authority to speak for the bankers of Chicago, the occasion gives me the opportunity and the spirit of the times gives me license to express my own opinions, and with your leave I will take advantage of it.

It is not my purpose to intrude on your time in this early stage of the proceedings, but I may not have another opportunity to bring before you a subject which concerns every true American and every American home in this broad land of ours. And I beg your indulgence, because I am going to make a request.

Some of you may recall the time when the people of this country were accustomed to gather together on the Fourth of July to commemorate in a patriotic American spirit the event which made us not only a nation but a *world* center for democracy and freedom. You will recall the simple, homely custom of all the people attending the annual holiday celebration, with ceremonies strong in their appeal to the people; and you will remember the organization for this celebration in every county seat, township and hamlet. Perhaps you lived in the county seat, the center of the day's festivities; everybody up early in the morning; all is bustle and stir; men, women and children, hurrying to and fro, working under the local committee, busy cleaning up the streets, putting out flags, decorating the buildings red, white and blue everywhere. It's America's Day! Everybody on the lookout for the township delegation; drums, fifes, and brass bands—Young America having *its* day! You watched the gala processions coming from every direction, headed by the military band, the large float following, and on the float young girls radiant in the habiliments of patriotism, each representing a state or territory, the American flags floating on the breezes above them. You saw these processions winding along the country roads, finally merging into *one* in the public square and wending its way to the fair grounds into the grove, under the trees, to listen to the reading of the Declaration of Independence, addresses by noted men, and the singing of our patriotic songs.

Then the climax, when the local committee in the county seat awarded the prize to the township having the largest delegation. I think you know, my friends, what the prize was—it was the American flag, a silk flag! And the people loved it; they took it home and they cherished it.

How is it that this beautiful custom dropped out—was set aside, unnoticed? Why was it? Why have we stopped celebrating the Fourth of July? Why have we given over this day to some one else? I'll tell you why: Some one came along—and it was always an office seeker—and he told you that you might hurt somebody's feelings—you who have so hospitably opened your doors to the downtrodden of all nations—that you might hurt *their* feelings; that it would be better not to have the celebration on the Fourth of July because some hyphenated society wanted to have its annual picnic on that day and they wanted to use the fair grounds where your patriotic celebrations always had been held. And you believed the lie he manufactured. You omitted the Fourth of July celebration, and after a while we forgot to meet in that beautiful American spirit which helped to keep alive in our hearts the standards of freedom to which the whole world of democracy is looking for help today.

This designing, treacherous element has in every way taken advantage of our hospitality in its attempts to undermine our national institution. We little thought when we observed the hyphenated singing societies coming to the fore that our children seldom heard the words of our national songs; many of them to-day do not know whether "America" or "The Star Spangled Banner" is our national anthem, and they are at a loss when you ask them the name of our national flower. But *we used to know* these things with a thrill of national pride.

Why were we told that the expression of our love for our country might hurt some foreigner's feelings? It was because the people who made those statements were, consciously or unconsciously, under the influence of an insidious, world-wide foreign propaganda. In our generous American hospitality we were duped by the false arguments of self-seeking politicians who were playing for the foreign vote—the tools of the Kaiser. And we yielded to *them* our good, old-fashioned Fourth of July.

One might almost think Milton was describing the type of our enemy when he put into the mouth of Comus the words:

> "I, under fair pretense of friendly ends,
> And well-placed words of glozing courtesy,
> Baited with reasons not unplausible,
> Wind me into the easy-hearted man,
> And hug him into snares."

Now, there is nothing that makes the average American more angry than to realize that he has been made the victim of a confidence game; that he has been taken for a "sucker." *We* can understand why the American boys want to fight.

My friends, I said I wanted to make a request of you. It is this: When you go to your homes I want you to begin at once to organize your county and every township in it so that next year and every year thereafter there will be Fourth of July celebrations all over this country. In this way the simple, homely customs of our ancestors shall again be restored to our children.

And when you start to organize for the Independence Day celebration at the fair grounds—or wherever it may be—if any office seeker comes to you and tells you that you may "hurt somebody's feelings"—and he is probably the same man who has been advocating the "safe and sane Fourth"—you tell him he is a damned liar; it won't hurt anybody's feelings, but it may interfere with somebody's foreign propaganda.

In this atmosphere, teeming with patriotism and heroic deeds, you take up your deliberations here today. But what we say and do at this convention will be of little consequence unless we consecrate ourselves unselfishly to the full support of the Government. We must give the best that is in us with the same spirit of self-sacrifice that our boys at the front are exhibiting. This is no time for non-essentials. Without our backing our soldiers will give their lives in vain. They who are dying in the trenches and on the battlefield, and those who are facing death a dozen times a day, must know that the American Bankers' Association is back of them.

Over in France they are calling us a nation of baseball players. They are right! We are *all* in the game. It's a good democratic game, indigenous to our soil. And the winning of it depends not upon one man but upon *every* man on the team. Could you conceive of a ball player failing to support his pitcher? So we stand back of the President. President Wilson is our pitcher, and in that sixty-eight word note of his to Austria he threw an "inshoot." To paraphrase an expression once used by a former occupant of the White House, the President's note to Austria was "short but ugly."

While over there processions of stretcher bearers, ambulances, and Red Cross workers move incessantly about the battlefields, straining every nerve to undo the work of enemy shrapnel and shell, working under fire and in all-night vigils, we at home must make it possible for them to keep up that work until the war is won. Our work here is not dramatic; it is not spectacular; but it is going on in every home. Every woman in the land is doing her part in all the branches of war work open to her—yes, and more; in many cases she is filling the places of the men who are gone.

And you, the bankers of America, will go back to your homes to take up the work for the Government—the work of the Liberty Loan campaign which is coming on immediately; the work in connection with the War Savings Stamps; the work in connection with the Red Cross; attending meetings; heading delegations; serving on committees and planning ways to raise money to push this fight to the finish.

Our people are thinking of the banks in a new and more personal way, thinking of them as avenues through which they may support the armies which represent American freedom. So it is all over the United States. There could be no need for the Government to formally take over the banks of this country. It has them already. They have volunteered.

This Auditorium was built by public spirited citizens of Chicago and dedicated to Music. It was for many years the home of the Theodore Thomas Orchestra and it is now the home of the Chicago Grand Opera Association. It is the harmonious expression of the citizens of Chicago and in it all of its musical festivals are held.

Latterly during these troublous days it has been used by Chicago people for great patriotic meetings and the marvelous thing about it, the almost weird thing, is that as soon as we get into the atmosphere of these surroundings we are all of one mind. The very foundation of this building and every fibre of every timber in it are imbued with harmony, and we feel sure that in this meeting, at this time, in this place, you are to have a harmonious convention.

The men of Chicago, often coming together in this great Auditorium, have a conviction that finally almost expresses itself in a slogan, and this slogan is, "Don't fight each other—fight the Kaiser."

THE PRESIDENT: I am now going to call upon Mr. Robert F. Maddox, Vice-President of the Association, to respond to these splendid addresses of welcome.

Response to Addresses of Welcome, Robert F. Maddox

Mr. President, Governor Lowden, Mr. Fenton, Ladies and Gentlemen of the Convention, I have been requested to respond in a few words to the splendid addresses of welcome which have been delivered, to this, our forty-fourth convention. To a great many of us who have had the good fortune to attend the conventions held in Chicago in former years, these words of greeting and hospitality are no sur-

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prise; and I am sure that all of the delegates to the convention who are so fortunate as to be here today, will, when they go to their homes realize the pleasure and privilege that has been afforded them in coming here, and at that realization will add another link in the chain which now binds us so closely to Chicago and her people. The delegates of this convention coming from every section of the country have long admired the matchless spirit of the Middle West, and the great city of Chicago, which is its magnificent metropolis. Your state in its agricultural development has made rural life both pleasant and profitable; and long ago won the admiration of, and has been the example for, all those who would till the soil with the greatest hope of reward. Your manufacturing plants have taught us, and been our object lessons in good business management. Your banks now tower among the banking institutions of the world. Your bankers are among the foremost bankers of our nation. They have frequently held the highest office in this association, and its wonderful progress has been in no small degree due to their active friendship and co-operation. The wholesale and retail stores of Chicago have been developed by the ablest business men in modern marts of trade, and are a credit to our country. Our stock yards and food factories are our best examples of the efficiency of big business. Your mail order houses have carried in their catalogue the message of good values, and American fair dealing throughout the civilized world. Chicago was the first great city to properly appreciate the commercial and social importance of parks and play grounds, and the wisdom and beauty in which they have been developed have won the admiration of every American municipality.

It is therefore fitting that the bankers of America should gather here in the heart of the continent at this shrine of patriotic and progressive Americanism, while our nation is throbbing with the new sensation of war, and pledge anew our determination to lay aside every sectional rivalry, every political partisanship, every personal interest, and make any sacrifice that may be necessary to win the war; by our united effort seeing that the ideals and traditions of our Republic are respected and maintained so that our cities, our states and our nation may continue to grow in greatness and in glory.

The bankers of this country have already demonstrated in no uncertain way their loyalty and their patriotism. They have co-operated with our Government in all of its gigantic financing and have promoted to the best of their ability the industry and commerce of our country. Our association recently made an effort to ascertain the number of bank officers and officials who have already entered the service of our Army and Navy, or various other branches of the Government. A questionnaire was sent out to all the banks of the country. Thus far we have only heard from 4200, which is just about one-seventh of the total in the country. Out of the 4200 banks heard from, it was found that 15,000 bank officers, officials and employes have already entered the service and are now fighting with the colors; and 411 have already made the supreme sacrifice.

We fully appreciate the seriousness and the importance of the work in which we are engaged; and while we realize that the march to Berlin has started, the end is not yet. We are resolved to stand by our splendid President and his administration until the insults to our flag are avenged, and the wrongs done our citizens are righted, and the cause for which we and our Allies are fighting is crowned with victory, and German autocracy can never again put its iron heel upon the free nations of the earth. We who have sons on the battle front today, would welcome peace, and we would be glad for the time to come when all those now over seas may come back safely to America. But we realize in their hearts there beats the determination to conquer every enemy of American liberty and break through every line; and we would be unjust to them and unworthy of our country if we should allow their noble efforts to fail, or those who have fallen to have suffered in vain.

I believe that an Omniscient God now holds the plan of battle in His Almighty hand, and that in His own appointed time the profits of piracy will be returned to their rightful owners; all wrongs will be righted; and the Hohenzollern and the Hapsburg will be torn from their dishonored thrones. Then will the fires of liberty and democracy which were first lighted on American shores burn with increasing brilliancy throughout the world and lead all nations into a Universal, righteous and everlasting peace. I thank you.

Annual Address of President Charles A. Hinsch

[President Hinsch's address will be found on pages 119 to 122 of this publication.]

THE PRESIDENT: Gentlemen, it will now be our great pleasure to hear from Governor Harding, who has just a few minutes to address us, and I just want to say during the past year Governor Harding has been of tremendous value to the banks of this country. At all times has he given sympathetic hearing and ear to the suggestions that we have made to him in connection, not only with amendments to the Federal Reserve Act, but in connection with the rules governing the several Federal Reserve Banks. I take great pleasure in introducing to you Governor Harding of the Federal Reserve Board.

Remarks of Governor Harding of the Federal Reserve Board

GOVERNOR HARDING: Mr. Chairman, Ladies and Gentlemen—I have only a moment to spare before my train leaves. I had the pleasure of addressing the National Bank Section yesterday afternoon. I can only add one word. You gentlemen who are holding the financial trenches in this war are about to engage in a campaign to raise six billions of dollars, the greatest financial undertaking ever known. There is no question whatever but that you will make a grand success of this; that is a foregone conclusion. But we are all vitally interested, and you particularly, in seeing that the purchase power of that money which you are going to raise for the Government will be preserved as far as possible. The Government does not need the actual money; it does the service, the goods and the raw material and supplies that that money will purchase.

Now, one word about the conservation of credits. I want to emphasize what I said yesterday afternoon, that at this particular time, when our business is war, in the winning of the war we must see to it that private interests do not conflict with the great public interest in getting these goods that are needed for the conduct of the war.

I beg you gentlemen to let your activities settle on this one thought. While we do not, of course, wish any property destroyed or any waste, it is all right for you to make your loans to conserve legitimate business, keep it more or less out of non-essentials until the war is over, because all business will be needed again during the period of reconstruction which is to follow, and concentrate your loans on the essentials, or semi-essentials as far as possible.

One other thought, remember that great as our national resources are, there is a limit to them. We must not revolve around this vicious circle and have a continued advance in prices everlastingly, because the further prices advance the more difficult our problems are and the more money will have to be raised. In making your loans, I beg to make your customers tell you what they are going to do with the money. You have a right at this time of all others to give your customers the benefit of your counsel and advice, and in your dealings, those of you who are members of the Federal Reserve System, in your dealings in the Federal Reserve Banks be frank and candid with them. When you offer them paper for discount, say what your policy has been. Do not, I pray, make loans merely for the sake of profit at this time. Do not extend your credit loans because we can get six or eight or ten per cent, and rediscount with the Federal Reserve at 4¾ or 5. We must maintain the strength of our banking position. If we do not, it will react against us.

I am sorry I have not time to elaborate on this idea. I know that we all are going into this campaign with an inspiration that we have never had before, because we believe this fourth Liberty Loan may well pass into history as our first Victory loan. Military events just now are very inspiriting to us. We can see the proper ending of the war just over the hills. We are going to fight this thing through until the issue is settled right. We could have had at any time within the last eighteen months a peace, a German peace, but we are going to have a permanent peace, the right kind of peace, a peace made in Germany but dictated by the Allied Powers.

GREETINGS FROM UNITED WAR WORK CAMPAIGN CONVENTION

THE PRESIDENT: Mr. George.

MR. WILLIAM GEORGE: Mr. Chairman, Mr. Forgan and I had two connected matters we wished to present briefly. The United War Work Campaign Convention at Chicago assembled, September 2, composed of representatives of the Young Men's Christian Association, Young Women's Christian Association, National Catholic War Council, Jewish Welfare Board, War Camp Community Service, American Library Association and the Salvation Army, send greetings to the American Bankers' Association convened in its forty-fourth Convention at Chicago.

Resolved, by the United War Work Campaign Convention, that whereas, all we are, all we have and all we hope to be is summed up in the final victory and success of the Allied armies, Therefore, we beseech you, the members of the American Bankers' Association, you who have the controlling custody of the credit of these United States and largely of the world, to give your whole-hearted assistance, co-operation and effort to this great campaign for funds, to promote and perpetuate the morale of the Allied soldiers.

Young Men's Christian Association	$100,000,000
Young Women's Christian Association	15,000,000
National Catholic War Council	30,000,000
Jewish Welfare Board	3,500,000
War Camp Community Service	15,000,000
American Library Association	3,500,000
Salvation Army	3,500,000
Total combined national budget as recommended by President Wilson in his letter of September 3d	$170,500,000

Respectfully submitted,

WILLIAM GEORGE,
J. B. FORGAN,
H. J. ROGERS,
Committee.

CONVENTION ADOPTS RESOLUTION IN FAVOR OF CONGRESSIONAL ACTION LEGALIZING CONTRIBUTION OF BANKS TO UNITED WELFARE WORK

MR. J. B. FORGAN: Mr. Chairman and Gentlemen—I take great pleasure in moving that the greeting which has been presented to the Convention be received with thanks, and that its recommendation, which voices the sentiment of President Wilson in his public letter of September 3rd, be accepted, and that we as bankers collectively and individually pledge ourselves to aid in this great relief fund.

No body of business men has excelled the bankers in patriotism or in their willingness to serve the Government in its supreme effort to win the war. I am sure there is not a banker here who will not personally contribute to the great campaign in November for the $170,000,000 required for the mental, moral and spiritual welfare of our boys at the front. They will, however, also want the privilege of having their banks, along with other business corporations, make liberal contributions to the fund. I hold in my hand here a circular issued to the national banks by the Comptroller of the Currency dated June 10th last. This circular refers to an Act of Congress authorizing National banks to make contributions to the American National Red Cross during the period of the war and warns the same banks that "contributions to other charitable and war relief organizations can be made only with the unanimous consent of the shareholders of the contributing banks." It appears, therefore, as a practical proposition that before the National Banks can contribute to the united drive of these seven organizations for $170,000,000 to carry on their indispensable work, legislation must be had to enable them to do so. I therefore offer the following resolution on the subject:

Resolved, That the American Bankers' Association in Convention assembled at Chicago this twenty-sixth day of September, 1918, favors and urges legislation by Congress which, for the duration of the

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war, will legalize (as has already been done in regard to the American National Red Cross) the making of contributions by national banks toward the funds required for the united war work of the following organizations: Young Men's Christian Association, Young Women's Christian Association, National Catholic War Council, Jewish Welfare Board, War Camp Community Service, American Library Association and the Salvation Army, such contributions to be made on the vote of the boards of directors, and charged to the expense account of the banks making them.

Resolved Further, That the secretary of the Association shall send a copy of this resolution to the President of the United States, the chairman of the Banking Committee of the United States Senate and House of Representatives for the information of their respective committees, and to the Comptroller of the Currency.

I take pleasure in offering that resolution.

THE PRESIDENT: What is your pleasure in regard to this resolution? Under our constitution, resolutions should be in our hands fifteen days before the Convention. Of course, this was not done, but it seems to me that this is so important for the future welfare of this country, we can well consider giving our unanimous consent to the consideration of this resolution.

MR. HAMILTON: I move the rule be suspended and we unanimously adopt the recommendation of Mr. Forgan.

THE PRESIDENT: Is there a second? (Motion seconded.)

Gentlemen, you have heard the motion, duly seconded. This is not upon the adoption; it is considering the resolution, as I understand. All in favor of considering the resolution will please signify by saying "Aye." Contrary, "No." Carried.

Now upon the adoption of the resolution as submitted by Mr. Forgan.

MR. HAMILTON: I move the adoption of the resolution. (Motion seconded.)

THE PRESIDENT: All in favor of the resolution presented by Mr. Forgan will please indicate by saying "Aye." Contrary-minded, "No." It is adopted.

MR. BERGER: Mr. President, may I offer a resolution at this time?

THE PRESIDENT: I think so, yes. I would suggest, however, you present it, and then it will take the same course as the other.

MR. DIXMUDE: The next order of business is the report of Committees. The time is long past.

THE PRESIDENT: For your information, Mr. Dixmude, Senator Chamberlain will probably not arrive until tomorrow. Gov. Harding really took his place this morning on the program.

RESOLUTION IN FAVOR OF MAINTAINING GOLD PRODUCTION

MR. BERGER: I offer this resolution and ask that the Secretary read it. He can be heard better than myself.

THE GENERAL SECRETARY: (Reading.)

WHEREAS, the gold production of the world is rapidly decreasing, having declined from $469,000,000 in 1915 to $430,000,000 in 1917 as the World's output. Of this decrease, the United States declined from $101,000,000 in 1915 to $84,000,000 in 1917, and it is predicted by those conversant with the facts, that the decrease in the United States this year will be much larger in proportion, it being estimated by government officials to be $11,000,000, based upon the production for the six months ending June 30, 1918.

WHEREAS, this decline in production is due entirely to the fact that the cost of producing the gold ounce as a commodity has exceeded the fixed monetary price of 20.6718 per ounce, and

WHEREAS, the only form of relief that will prove effective and can be applied promptly is action by the United States government in such form and by such methods as may be deemed fit and proper under the circumstances, and,

WHEREAS, gold is the standard of value and the basis of all credit, and is vitally important to the financial and commercial life of the nation and of the world and,

WHEREAS, the Secretary of the Treasury of the United States has stated that, next to food and ammunition, gold is the one most needed war essential; NOW, THEREFORE, be it

RESOLVED, that the American Bankers Association in convention assembled request and urge upon the government of the United States the desirability of maintaining the production of gold to at least its pre-war volume, and ask that steps be taken immediately to that end. And be it further

RESOLVED, that the Secretary of this Convention be and he is hereby instructed to send a copy of this resolution to the President of the United States, Secretary of the Treasury, and Secretary of the Interior, advising them of its adoption.

MR. BERGER: Now, Mr. President, if the Chair rules that suspension of the rules is necessary for the consideration of that at this time, I make such motion.

THE GENERAL SECRETARY: All resolutions unless they are submitted fifteen days before the Convention to the Secretary can come before the Convention, with this proviso without being submitted and then the presiding officer shall submit the following question to the Convention, Shall the resolution or the subject matter proposed, as the case may be, be considered by the Convention? If that question shall be determined affirmatively by a vote of the majority of the members present in convention and voting, the resolution or subject matter shall be in regular order and shall be considered and acted upon accordingly, provided that this Section shall not apply to any proposed amendment to the Constitution or by-laws.

THE PRESIDENT: Now the question is, shall we consider a question of voting upon this resolution?

MR. DOWLING: I am entirely in accord with the motive on which they present this resolution, but I can see a nigger in the woodpile.

THE PRESIDENT: This is not debatable. The question is, Shall we consider?

MR. DOWLING: I think the gentleman introducing it will agree. There should be something in that resolution providing that there should be no higher price paid than the present established price for gold by the government during the war, excepting such gold as may be taken out of the ground since the war was declared.

MR. BERGER: This is not a debatable matter. I will reply if the gentleman will permit me.

THE PRESIDENT: I am going to rule that we must first decide whether we consider this question. That is the question now. I will permit you to speak on it afterwards. (Motion seconded.)

MR. HAMILTON: I move as a substitute for that motion, the matter is of grave importance, and should be referred to the Committee on Resolutions with instructions to report. I make that as a substitute motion. (Motion seconded.)

THE PRESIDENT: Gentlemen, the question is on the amendment suggested by Mr. Hamilton. Any remarks?

MR. BERGER: I would like to have the chair rule as to whether you can use a substitute motion for a non-debatable question. If the substitute motion can be considered, we can debate it.

THE PRESIDENT: I should rule that it would be not debatable, and therefore I would say the amendment would not carry. So now the question is upon the original motion, that we consider this question at this time. Are you ready for that question? All in favor will please signify by saying "aye." Contrary-minded "no." The motion is lost.

MR. COLLINS: Mr. President, I move now the resolution be referred to the Resolutions Committee. It is a question that carries too much for us to pass on it here without giving it some consideration. I think it ought to be passed on. (Motion seconded.)

THE PRESIDENT: Any remarks?

MR. BERGER: That gives me opportunity to state to this Convention that this matter was thoroughly considered and discussed by your Executive Council and by them referred to the Resolutions Committee, affirmatively, and it was recommended that the resolution be passed at this convention. All that matter has been passed.

THE PRESIDENT: All in favor of the motion made by Mr. Collins of Tennessee that this matter be referred to the Committee on Resolutions, signify by saying "aye." Contrary-minded, "no." It will be so referred.

I will now call upon the Secretary for his report.

Report of the General Secretary Fred E. Farnsworth

[The report of Mr. Farnsworth will be found on page 122 of this publication.]

MR. DOWLING: Mr. Chairman, I did not wish by the statement I made when this gentleman introduced this resolution, to cast any suspicion on his motives, and I raise the question of personal privilege to state my position in the matter. If this resolution is intended for the purpose of providing an adequate wage to the gold miner equal to every other miner, and if it is intended for the purpose of bringing returns on the capital invested in gold mining enterprises equal to the return on other mining enterprises, I favor it. If it is intended to provide a higher price for hoarded gold, whether coined or in bullion, I oppose it for the reason that the national banks have been compelled to transport their gold reserves to the Federal Reserve Bank and the state banks have willingly handed over their gold reserve, and we do not want any gold hoarder making any money on the premium of the gold now not in public circulation.

THE PRESIDENT: I have to announce that it is now 12:30 and the next order of business will take quite a little time and consideration, and I believe it would be wise at this time to entertain a motion to adjourn.

(Motion to adjourn was made, seconded, put to a vote and carried. Whereupon the meeting stood adjourned.)

AFTERNOON SESSION—2 P. M.

President Hinsch presiding.

General Secretary Farnsworth.

(The President called the meeting to order at 2:20 P. M.)

THE PRESIDENT: I know that I express the sentiments of every man, woman and child in this house when I express my deep appreciation for this splendid band which we have with us today.

Now, in vie wof the fact that we have not fully assembled for the afternoon session and in view of the importance of the Committee on Co-ordination, I am going to inflict upon you at this time my report for the past year as chairman of the Executive Council.

Report of the Executive Council

[The report of the Executive Council is given on page 131 of this publication.]

MR. GOEBEL: I move that this splendid report by President Hinsch of the doings of the Executive Council Administrative Committee and his own wonderful services be approved by this convention.

(Motion seconded and carried.)

MR. GOEBEL: I desire to move that the reports of the Treasurer, General Counsel, Protective Departments, Department of Public Relations and Library and contract be not read now, that the reading be waived, and that we proceed to hear and act upon the report of the Committee on Co-ordination.

(Motion seconded and carried.)

THE PRESIDENT: These reports have all been printed and if you want to read them you will find them distributed around on the seats here in the hall.

Report of Committee on Co-ordination of Activities

I will now call on Mr. Waldo Newcomer, who will submit the report of the Committee on Co-ordination of Activities.

MR. NEWCOMER: I realize the great importance of this report, but I am not going to let it turn me aside from the desire to save time. The report contains fifteen recommendations, nine of which involve changes in the constitution and by-laws. All of these matters will

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come up under the next order of business, and with your permission I will simply read the last six changes, which do not involve changes in the constitution and by-laws, all of which have been approved by the Executive Council except the last one, which was referred to the Executive Committee.

Recommendation number 10 is: Location of Headquarters. The question of moving the headquarters of the association to Washington or Chicago was earnestly discussed, but your committee does not believe such a move advisable or practicable at this time. We do, however, think that an office should be opened in Washington, as soon as practicable, with a competent resident representative as assistant to the General Counsel and with such other duties as may be assigned by the Administrative Committee.

Recommendation No. 11—Cabinet Conferences. The heads of the various departments now meet from time to time as a Cabinet Conference. We think this is a most valuable custom, and we strongly recommend that such conferences be held at frequent intervals, not less than every two weeks.

Recommendation No. 12—State Committee on American Bankers' Association Membership. We recommend that a committee to work for an increase in the membership of the Association be formed in each state by the Administrative Committee of the Association, consisting of the Secretary of the State Association, as chairman, the State Vice-President, the local Vice-Presidents of Sections and local members of the Executive Council, and that said committee be under the supervision of the Field Committee provided for in the next recommendation.

Recommendation No. 13—Field Committee. We recommend that the Administrative Committee create within the general offices a Field Committee, of which the General Secretary shall be chairman. Said Field Committee to superintend the work of the various Membership Committees provided for in our recommendation, and also to arrange with some competent representative of this Association to be present at the various state conventions, any speeches of such representative being under the supervision of the said Field Committee and of the President of the Association. This plan to be tried for one year.

The first nine sections of the report could best be brought before you by taking up the "Amendments to the Constitution."

THE PRESIDENT: It seems to me as these recommendations which have been made do not require any change in the constitution that you should pass upon those recommendations at this time. I will therefore entertain a mation having for its purpose the approval of these recommendations made by the committee up to this time.

I move you that the recommendations of the committee as just read be approved. (Motion seconded.)

MR. GOLDWATER (Arizona): Did that last resolution say that the secretaries wanted assistant secretaries?

MR. NEWCOMER: No. It said: That as the State Secretaries had no representation in the general offices, where the Savings Bank Section and the others have secretaries, that we suggest or recommend that a person employed now in the general offices be designated as an assistant secretary in charge of the State Secretaries' Section.

I understand we put that in under the impression that the States Secretaries' Association would be pleased with it. It was approved by Mr. Bartlett and referred to the Administrative Committee.

MR. GOLDWATER: The secretaries have said they have elected a secretary of their own and do not want this assistant secretary.

THE PRESIDENT: The thought was that an assistant secretary in the general offices would be in a position to furnish the secretary of the Secretaries' Section with the information they should have in order to enable them to co-ordinate their efforts with the work of the General Association.

MR. GOLDWATER: I may be the only secretary here, but yesterday at the secretaries' meeting it was decided that Mr. Greetinger of Illinois would be the secretary of the Secretaries' Association, and the work imposed on him was not of such magnitude that we needed another assistant. We have too many assistants right now.

MR. NEWCOMER: Mr. President, we thought that the section would like to have represntation in the general office. If they do not want it, do not force it on them. So the committee is glad to withdraw that part of its recommendation.

MR. BARTLETT: Mr. President, I wish to confirm what Mr. Goldwater has said, that the Secretaries' Section feel that in their view no assistant secretary should be selected at this time in the general offices.

THE PRESIDENT: There has been similar complaint. In going about the country I learned that, about the failure to receive information on the part of the various secretaries of the State Bankers' Association of the activities as outlined in the deliberations of the General Association and this assistant secretary who would give you the information desired by you, he would furnish that and you would be in position to communicate with your membership with a view to co-operate with the general offices. If that is not your thought, we will not inflict it upon you.

MR. GOEBEL: I would move that consideration of Section 15 of this report be omitted. (Motion seconded.)

AMENDMENTS 10 TO 14 ADOPTED.

THE PRESIDENT: We will then vote on the report of the committee, Sections 10 to 14. All in favor of their adoption say I; opposed, no. It is carried, and they are adopted.

Now, Mr. Newcomer, please read the amendments to the constitution that you have to offer.

AMENDMENTS TO CONSTITUTION AND BY-LAWS.

MR. NEWCOMER: These constitutional amendments are necessary to carry out the provisions of what has been approved by the Executive Council. These have been printed and I will read them.

Amend Article V, Section 15, (d), of the constitution to read as follows (matters eliminated in brackets; new matter in italics):

(d) The Executive Council at its first meeting as aforesaid, shall elect from its membership, one person from the one-year class, one person from the two-year class, who with the President of the Association, the Vice-President of the Association [and] the last living ex-President *and the Presidents of the National Bank Section, State Bank Section, Savings Bank Section and Trust Company Section* shall coonstitute THE ADMINISTRATIVE COMMITTEE, and whose membership shall expire with the membership in the Council, and annually thereafter, shall elect one person from the two-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.

The effect of that will be to add to the present committee the Presidents of the four sections representing specific classes of banks, so that the Administrative Committee would consist of nine members, the President, the Vice-President, who would be the First Vice-President, in case an amendment hereafter proposed in case of First and Second Vice-President is adopted, the last ex-President, two elective members, as at present, and in addition the Presidents of the National Bank Section, State Bank Section, Savings Bank Section, and Trust Company Section, and that Article V, Section 15 of the constitution be amended accordingly.

MR. BECKWITH: I move the adoption of that amendment. (Seconded and carried.)

MR. CHASE: If it is the proposition to adopt or amend these, would it not be advisable to take up the amendment to Article 3, Section 6? It provides for two Vice-Presidents and I notice in the language of these next following amendments, that we have just voted on, that it provided for the "Vice-Presidents" it would be better to settle the amendment I speak of first.

MR. NEWCOMER: I do not see any objection to following the present order of business, Mr. President.

MR. CHASE: I would then suggest that I read all of these amendments where it says Vice-Presidents.

THE PRESIDENT: I think we will proceed with the regular order unless there is general objection.

MR. NEWCOMER: The next is Article V, Section 2 of the constitution.

Amend Article V, Section 2, of the constitution to read as follows (matter eliminated in brackets; new matter in italics):

Sec. 2. The Executive Council shall be composed of members elected by the states, groups of states, and the District of Columbia, and of the President of the Association, the Vice-President of the Association, ex-Presidents of the Association for a period of three years immediately after the expiration of their terms of office as President, and the Presidents *and Vice-Presidents* of the sections, ex-officio. [Any section having more than 1,000 members may elect one additional official as a member of the Executive Council ex-officio.]

We suggest adding First Vice-Presidents of the sections, ex-officio, and we strike out "Any section having more than 1,000 members may elect one additional official as the member of the Executive Council ex-officio."

It was thought wise to add the Vice-Presidents of the sections to the Executive Council in order that they might get the necessary training with the inside information, as they usually succeed to the Presidency of their sections, and to avoid enlarging the Council to unnecessary limits. We felt this woould give each section two members in there and those two members would be more developed than with the former arrangement.

MR. WATSON: The Chairman said, First Vice-President, while the printed form said Vice-Presidents.

MR. NEWCOMER: That objection is well taken.

MR. WATSON: I move that the proposed amendment to amend as recommended by the chairman of the committee, so that it shall read "the Presidents and the First Vice-Presidents of the section" be adopted. (Motion seconded and carried.)

THE PRESIDENT: Now the question is on the amendment itself. Are you ready for the question? All in favor say "Aye!"; opposed, "No!" It is carired, and the amendment is adopted.

MR. NEWCOMER: The next is an attempt to clear up the meaning of the constitution. The change is in Article V, Section 9 of the constitution. We believe it was the intention of Article V of the constitution to make the offices of General Secretary and Treasurer and General Counsel of equal rank, and that the reference in Section 11 to subordinate officers and employes was not intended to include the General Counsel as one of such subordinates and that he should be, beyond question, of the same rank as the General Secretary. We understand that a few years ago a resolution was passed by the then Administrative Committee declaring that the General Counsel was under the supervision of the General Secretary. We recommend that this resolution be rescinded, that the question be cleared of all doubt by an amendment of Article V, Section 9 of the constitution, which is submitted herewith.

CO-ORDINATE AND SUBORDINATE OFFICERS

Amend Article V, Section 9 of the constitution to read as follows (matter eliminated in brackets; new matter in italics):

Sec. 9. The Executive Council at the meeting provided for in Section 8, of this Article, shall elect a General Secretary [and Assistant Secretaries], a General Counsel and a Treasurer *who shall be co-ordinate officers; also elect one or more Assistant Secretaries,* and shall appoint or authorize the appointment of such *subordinate officers and* other employes as the Council may deem necessary and at its discretion the Council may remove any or all of such officers and employes from office or employment.

The term of office of the Treasurer shall begin on December 1st following the date of his election by the Executive Council.

MR. NEWCOMER: The next was amended in the council and I shall read it as the legal notice was given. It is to amend Article VI under "Section Secretaries" by changing the paragraph immediately following subdivision (g) to read as follows: "Salaries and compensations of Secretaries and employes of sections shall (instead of

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may) be fixed by the Executive Council and all such officers and employes shall be subject to the supervision of the General Secretary and Executive Council in all matters and functions not inconsistent with the orders of the presidents and executive committees of such sections, provided nothing in this section shall be construed to affect the power of the Executive Council as provided by Article XI of the constitution.

MR. BECKWITH: I move that the amendment be approved. (Motion seconded and carried.)

THE PRESIDENT: The question is now on the amendment as amonded. All in favor say "Aye"; opposed, "No!" (Motion carried and amendment adopted.)

MR. NEWCOMER: The next is on the question of "Section Legislative Matters." This has given rise to a great deal of discussion in the committee. To meet a situation which we will appreciate and want to treat fairly without getting into trouble, we made this recommendation. You know we have a Federal Legislative Committee and a State Legislative Committee for the whole Association. When legislation comes up which affects one section favorably and another section adversely, it becomes a question as to what should be done. We do not want to deprive one section of its rights, and we cannot afford to put this Association on record as favoring one section as against another, so we suggest this:

Amend the last paragraph of by-law sixth to read as follows (new matter in italics):

Subjects of national and state legislation originating in any Section shall not be urged independently but presented through the Committee on State Legislation as to state legislation and through the Committee on Federal Legislation as to national legislation for dual approval of the Executive Council and General Convention, and action if approved in accordance with Article V, Section 16 (a) and 16 (b) of the constitution. *Provided, however, that where upon any subject of legislation two Sections are adversely interested the matters of difference shall be submitted by such Sections to the Committee on State or Federal Legislation as the case may be, whose duty it shall be to earnestly endeavor to bring about an agreement, if possible, between such Sections and in case of agreement such subject of legislation shall be presented for the approval and action of the Association as provided in the constitution. In the event of non-approval and non-action by the Association or of failure of the Sections to agree, any Section interested shall have the right to take independent action on such subject of legislation in the name of such Section, but not in the name of, nor at the expense of the Association.*

THE PRESIDENT: Gentlemen, you have heard this suggested amendment to our constitution.

MR. BOWERMAN: I move its adoption, Mr. President. (Motion seconded and carried and the amendment is adopted.)

AMENDMENT TO CHANGE THE JOURNAL OF THE A. B. A. FROM MONTHLY TO WEEKLY ADOPTED

MR. NEWCOMER: The next is the question of the journal. We recommend that the journal be published weekly commencing as soon as practicable, the number of pages be reduced if necessary and that by-law three be amended accordingly.

Amend the first sentence of by-law third to read as follows (matter eliminated in brackets; new matter in italics):

Third. The official publication of the Association shall be issued [monthly] *weekly* under the direction of the General Secretary, assisted by the Manager of the Department of Public Relations and shall be called "*The Nation's Finances,*" *with a sub-title,* The Journal of the American Bankers Association. *So much of this amendment as changes the issue of the official publication from monthly to weekly shall take effect only upon approval of the Administrative Committee whose function it shall be to determine when such change is practicable.*

Council in considering this matter decided not to approve of the name and so the amended article stands as follows: "Third. The official publication of the Association shall be issued weekly under the direction of the General Secretary assisted by the Manager of the Department of Public Relations and shall be called 'The Journal of the American Bankers' Association.' So much of this amendment as changes the issue of the official publication from monthly to weekly shall take effect only upon approval of the Administrative Committee whose function it shall be to determine when such change is practicable."

THE PRESIDENT: The question is upon the amendment as amended.

MR. BECKWITH: I move that we approve. (Motion seconded and carried.)

THE PRESIDENT: The question is now on the adoption of the amendment as amended.

MR. BECKWITH: I move its adoption. (Motion seconded, stated and carried.)

MR. NEWCOMER: The next relates to the Agricultural Commission. This Agricultural Commission stands on about the same basis as the Currency Commission as far as it is organized, but it was never recognized in our constitution. It is an important commission; its chairman should be a member of the Executive Council, and if that is done the Chairman of the Currency Commission should also be a member of the Council. That is a courtesy which we were glad to pay to Mr. Hepburn. This would make it read as follows: "Agricultural Commission—Section 1. An Agricultural Commission is hereby created to arouse the interest of bankers in a better and more profitable agriculture, in the improvement of rural education and the bettering of rural conditions generally. The commission shall be composed of seven members whose terms shall expire annually, to be appointed by the Executive Council from the membership of the Association at its meeting for organization provided in Article V, Section 8. Such members to be selected, so far as possible, because of their special knowledge of the subject and also in view of their geographic location. Vacancies in the commission shall be filled by the Executive Council at its first meeting after such vacancy shall have occurrel."

Another motion is to amend Article V, Section 2, by adding at the end thereof the following:

"The Chairman of the Currency Commission and of the Agricultural Commission shall also be members, ex-officio, of the Executive Council."

THE PRESIDENT: It is the wish of those directing the affairs of the General Association that those attending the convention shall take part in the discussion. Do I hear a motion to approve these two motions, amendments rather, first that the Agricultural Commission be made a standing committee, and that the chairman of the Agricultural Commission and the chairman of the Currency Commission be made members of the Executive Council. (Motion made, seconded and carried, adopting the two proposed amendments.)

PROPOSED AMENDMENT CONCERNING INVESTMENT BANKERS VOTED DOWN

MR. NEWCOMER: Next is an amendment to Article II, Section 6, regarding associate members. Our report on that part was adopted by the Council.

In order to preserve our membership and yet meet the views of those who object that surety companies, investment bankers and certain others not directly connected with the four recognized branches of banking should not have a voice in the Association matters, we recommend that such corporations, firms and individuals be admitted to associate membership with full privileges but no vote, and we submit an amendment to Article II of the constitution so providing. Certain large investment houses which receive deposits as part of their business are now full members of the Association under the provisions of Article II, Section 1, which makes eligible any private banker or banking firm, and the recommendations that investment bankers be admitted to associate membership is not, of course, intended to apply to such class of members.

This is as it was in the original notice:

The addition that the committee recommends is: "Associate members consisting of investment bankers or dealers in investment securities who are not private bankers or banking firms within the meaning of Section 1 of Article II, dealers in commercial paper, mortgage companies, title companies, fidelity, casualty and other surety companies, safety deposit companies, Morris Plan companies, building and loan companies or associations, certified public accountants and individuals formerly or indirectly identified by the banking business, located within the territory of the United States, may be elected as members now are, and present members of the character last named are hereby made associate members. Such members shall have the privileges of membership except the right to vote. All associate members shall be subject to the provisions of Sections 2, 4 and 5 of this article."

In the Council there was an objection to throwing open the doors to associate membership so wide. Under the action of the Council the lines should read: "Associate members consisting of investment bankers or dealers in investment securities who are not private bankers or banking firms within the meaning of Section 1 of Article II, dealers in commercial papers, mortgage companies, title companies, fidelity, casualty, and other surety companies, safe deposit companies, Morris Plan companies, building and loan companies or associations, certified public accountants, and individuals formerly or indirectly identified with the banking business."

THE PRESIDENT: The question is upon the amendment as amended. Do I hear a motion to approve?

MR. BECKWITH: I move its approval. (Motion seconded.)

MR. WELLS: Does that mean that unless an investment banker carries or takes deposits he is not eligible to membership in the Association on the present basis? Investment bankers who do not receive deposits would not be eligible for full membership.

MR. ENGLESON (Iowa): I cannot see any reason for excluding the Morris Plan banks. They are banks just as much as savings banks are. Why are they excluded? I would like to suggest that this amendment be so worded that it incorporates the Morris Plan banks. I offer that as an amendment. (Motion seconded.)

MR. DINWIDDIE: I happen to be a Savings Bank man, and I should feel I wanted to change my business if the Morris Plan banks were put on the same basis. It does not accept deposits; it is not a bank; it is a copyrighted plan sold for profit to people who want to make a good profit on their stock investment, so that people who want to borrow money pay a high price for it under the guise of helping the laboring man.

When the Association undertakes to place that class of people in its membership, then it is time for the savings banks to go elsewhere.

MR. WING: I move that the whole amendment be laid on the table. (Seconded.)

THE PRESIDENT: Are there any remarks? I would explain the wisdom of that—we want to define, if we can, who are eligible for membership in the American Bankers' Association. We have been a little loose in the past, but now is the time to correct it, and the motion to lay on the table will not correct it, as we have many members in the Association whom many of us think should not be members.

MR. HARRISON: May I suggest that the amendment be read again? (Amendment reread.)

MR. WING: I think we should strike out the whole section of "Associate members." This is strictly a banking association, with only active members.

THE PRESIDENT: Do you realize we have quite a number already in our Association whom it is suggested should not be members? Do you consent to leave them in?

MR. WING: No.

THE PRESIDENT: But they are already in. They are now full-fledged members. Some of them have been so for ten years.

MR. MOEHLENPAH: This question has been before the Executive Council to my absolute knowledge for three years. I have protested at each meeting of the Executive Council about it. The time has

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come when the constitution of this Association should be enforced as to members.

THE PRESIDENT: I think you are mistaken in your understanding of what I said. I said I did not know why they were admitted at the time they were admitted. At that time I was not on the Executive Council.

THE GENERAL SECRETARY: This is as the constitution stands today on membership:

Article II, Section 1: "Any National Bank, State Bank, Savings Bank, Trust Company, private bankers, banking firms, and branch of any of such, any Chapter of the American Institute of Banking, and secretary of any State Bankers' Association, located within the territory of the United States or its dependencies, may become a member of the Association upon application to the General Secretary, and approved by the Membership Committee."

In regard to associate members, there is a provision in the constitution now for them. That provision applies entirely to members of the American Bankers' Association outside of the United States and dependencies. We have a number of banks in Canada that want the privilege of joining and the same in Mexico and Cuba and China and in Hawaii. We have all of these banks. Mr. Moehlenpah was a little mistaken on his point. The Council amendment cuts out the surety companies.

Now, the Surety Companies and the title companies and trust companies were members of the American Bankers' Association long before I went down to New York. The only ones I have cut out were the banks connected with the department stores. That was a wide provision as we have had a number of them fail. As regards investment bankers, we should clear that question up in some way.

MR. MOEHLENPAH: I want to rise to state that I am not mixed on this matter. I stated we should abide by the constitution, and I do not think it is a question of whether these companies and firms and individuals have been admitted as members before. My protest was that they should not stay there any longer by reason of our inaction.

THE PRESIDENT: The purpose of the report of the Committee is to let the Convention itself take the responsibility of excluding them.

MR. DINWIDDIE: At the last meeting of the council it was discussed and I personally had some assurance that those who had been let in, regardless of the constitution, would be courteously dismissed or something to that effect. I am surprised now that there is to be an argument from the Secretary excusing these things.

THE GENERAL SECRETARY: I made this remark in the council and it will be carried out: If that amendment is passed with the resolution we can take the Morris Banks and the other people such as the Kidder, Peabody & Company, Kuhn, Loeb & Company, and dump them out; and on the first of August when drafts are drawn they will be eliminated.

Up to the present time we were without any instruction from the council or the association to get them out. Now we have an order, it will be followed. In the investment bankers there are 360 of them—such firms as Kuhn, Loeb & Company, Kidder, Peabody, Brown Brothers, J. P. Morgan & Company—they are the class that investment bankers refer to here.

MR. TAGGERT: Do not those banks take deposits?

THE GENERAL SECRETARY: Not all of them.

MR. TAGGERT: Does not Morgan & Company?

THE GENERAL SECRETARY: Yes.

THE PRESIDENT: The question is upon letting this entire section in relation to associate members lie on the table.

MR. GOEBEL: Does the gentleman contemplate that to strike out the admission as Associate Members of banks in Canada and Mexico and adjacent countries would be the effect of his motion? It is of tremendous importance that these banks in Canada be retained as Associate Members, as there is hardly any bankers who do not get into communication with them. And we cannot furnish the A. B. A. code unless they are members.

MR. TAGGERT: Then I move to strike out the provision as to those banks only.

MR. WILSON (California): Do I understand the by-laws as they are now, are broad enough to include everybody in the banking business?

THE PRESIDENT: I should say so.

MR. WILSON: Why amend them, then?

THE PRESIDENT: It is proposed that these amendments be dropped and the section remain as it now is.

THE GENERAL SECRETARY: We want an interpretation of what a private banker means, as it is now used in the subject of membership.

THE PRESIDENT: Is it your wish that the investment bankers of this country be eliminated entirely, Mr. Wing?

MR. WING: I think so. I think the Association membership should be confined to bankers.

MR. DINWIDDIE: If your plan prevails does that mean that these Morris Plan Bankers will be in?

THE PRESIDENT: The question is on the elimination of all of Section nine except what was just read. That is to do away with the whole question. All in favor say aye, contrary minded, no. The ayes have it.

MR. DINWIDDIE: I would like to ask for a construction there, which the Chair refused to give.

THE PRESIDENT: That will be up to the Administrative Committee for construction.

FEDERAL LAND BANKS ADMITTED AS SPECIAL MEMBERS

MR. NEWCOMER: The next amendment is concerning a provision for giving Federal Land Banks the same kind of representation, as special members, that the Federal Reserve Banks now have. We add the words, "and the Federal Farm Loan Board, respectively," etc.

(It was moved and seconded that the amendment be adopted. The motion prevailed, on a rising vote.)

AMENDMENT TO PROVIDE FOR TWO VICE-PRESIDENTS OF THE A. B. A. ADOPTED.

MR. NEWCOMER: Next is to amend Article III, section 6, so as to provide for two Vice-Presidents instead of one as at present—one of such vice-presidents to be a national banker and one to represent a State institution or private bank. I would like to explain that at the Council meeting those words, "one of such vice-presidents shall be a national banker, and one shall represent a state institution or private bank," were ordered stricken out, and this comes before you with the recommendation of the Executive Council approving of having two Vice-Presidents, but without that restriction. At the time, our Commitee opposed that change. First, we had put it in, not under compulsion, not under threat, and not under fear; but because we thought that ordinary, decent fairness provided for the provision fixing a probable alternation in the highest offices of this Association, of a national and state banker; and we expected it to be received with open arms by the state banks and damned by the national banks. The matter was attacked in the Council by the State banks, who disapproved of that particular clause; and our only fear, speaking as a member of the Committee, was that if two Vice-Presidents were appointed without that restriction, and it should happen that two national bankers were put in at any time, the state bankers would say that the Committee had handed them a gold brick; that we had pretended to do something to help them, but really tied the national bankers in for three years in succession. However, we are on record as having thrown out that suggestion, and the Council disapproved of the restriction, and the Committee accepts the recommendation of the Council, and recommends the acceptance of the two Vice-Presidents without the restriction there put in—speaking for a majority of the committee.

MR. DOWLING: Mr. President, I rise to a point of order. This proposed amendment is not properly before this Convention, for the reasons: First, it was considered by the Executive Council when there was no quorum present; and, second, the Executive Council put in new matter, and where new matter is put in, according to the Constitution, there must fifteen days elapse before the Convention can consider the same. I call upon the Chair for a ruling.

THE PRESIDENT: I will ask Mr. Newcomer to answer you.

MR. NEWCOMER: Mr. President, I object, with all due respect, to the point of order. There is no provision in the Constitution that the Executive Council has to pass on this at all. Notices of these amendments have been furnished to the Secretary, and published thirty days before, and issued to every member in advance of this meeting; and they come before you without anything whatever from the Executive Council. The Executive Council had nothing in the world to do, except that we reported it to them as a matter of courtesy and would have been glad to have their backing. The Constitution further provides that any amendments to these amendments may be introduced on the floor, but require a two-thirds vote to pass. This amendment may therefore fairly be considered as being advanced on the floor at the request of the Executive Council; or if a question is raised upon that, I think there are individuals enough to say that they have put it in.

MR. DOWLING: Is it not a fact that the Chairman of the Committee that submitted this amendment to the Executive Council objected to the amendment made by the Executive Council?

MR. NEWCOMER: It is, sir, and I explained why I objected, and why I have withdrawn the objection.

MR. DOWLING: Is it not also true that there is new matter in this amendment, as proposed, that was not published, according to the Constitution and By-laws of this Association?

MR. NEWCOMER: No, sir. There is an amendment to strike out a certain part which is there, which is an amendment to the amendment.

MR. DOWLING: If anything is stricken out, it is just the same as though something were added.

MR. NEWCOMER: No, sir. Tell me the meaning of the Constitution, which says that this may be amended on the floor by a two-thirds vote. What else can you do, if you cannot strike out and add?

MR. DOWLING: But this has been amended by a Council that did not have a quorum, and it was not introduced on the floor.

MR. NEWCOMER: It has not been amended at all, sir. It is up to you for amendment.

THE PRESIDENT: The Council has no power to amend the Constitution.

THE GENERAL SECRETARY: Let me read the Constitution on that point:

> Art. XI. Amendments.—Sec. 1. This Constitution may be amended at any annual session of the general convention, by a vote of two-thirds of the members present and voting, notice of the proposed amendment having been submitted to the General Secretary at least thirty days before such annual session, and the General Secretary shall forward to every member of the Association a copy of such proposed amendment at the same time the notices of said session are sent out; and the General Secretary shall submit all amendments to the Executive Council, that they may arrange to bring them before the general convention under the regular order of business. Any proposed amendment to the Constitution may itself be amended in the general convention by a two-thirds vote of the members voting.

The amendments were in my hands as printed, submitted by the Committee on Co-ordination, thirty days in advance of today. They were published in THE JOURNAL, in accordance with the Constitution. Now, as you will see by this, they are submitted to the Executive Council, and by the Executive Council are ordered to be presented to the Convention. These amendments are suggestions that have been made by the Council, that could be made by any member.

MR. GOEBEL: Mr. President, in regard to the first point of order raised by the gentleman I will say that it does not make any difference at all whether there was a quorum present or not when the Executive Council discussed this matter, because it is not necessary to have the recommendation of the Executive Council in order that any amendment may be passed by the Convention. But I will say it is my opinion that there was a quorum; aye, I know that there was a quorum when we finally voted on this proposition at the session of the Executive Council.

THE PRESIDENT: In any event, your Chairman declared that a quorum was present, and I believe that ends it. There was no question raised at the time, as to the ruling of the Chairman.

MR. AITCHISON: We have come together here as members of an organization, and as men of intelligence. We have selected our officers, and it seems that we should have sufficient confidence in those officers so that when they present matters to us here we should have

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faith in them, and abiding faith. Otherwise, they would not be worthy of being officers of this great Association. It seems to me that all of this discussion is absolutely out of place. I, for one, have absolute confidence in the gentlemen who are at the head of this great organization.

MR. NEWCOMER: Mr. President, I beg to offer this resolution—that this amendment suggested by the Council, whether legally or illegally, consisting of the words, "one of such Vice-presidents shall be a national banker, and one shall represent a State institution or private bank," be stricken out. That is my amendment to the original motion to adopt the Section.

MR. STEPHENSON: I second the motion.

(Motion put, and prevailed.)

THE PRESIDENT: Now, the question is on the amendment, which provides for two Vice-presidents.

MR. STEPHENSON: I move that we approve the recommendation of the Committee.

(Motion seconded.)

Mr. GOEBEL: Mr. President and Gentlemen of the Convention: This is an important proposition, and I believe that we should discuss it in a spirit of fairness and broadness with the idea of arriving at a conclusion that will be for the benefit of this great association, and the people whom we serve. I believe that there should be two Vice-presidents, because this great Association needs a continuity of effort and policy; and it is but a short time, two years from the time that a man is elected Vice-president, until he is elevated to the Presidency of this great Association, during which he must get in touch with the policies of the Association as they have been shaped by the Convention, and are being carried out by the Executive Council and the officers of the Association. I know there has been an undercurrent for some years that national bankers have been elected to the Presidency oftener than they should be in view of the numbers of State bankers and national bankers. Gentlemen, I have been in touch with this Association for a good many years. The nominating committees of this Association have been the very best men that you in your own States could find to represent you on those great committees. I believe, barring only the time when you made the mistake of electing me, that every man who has been elected President of this great Association has been selected because the membership thought him fitted for that great position; and I believe that this policy will continue. I was in favor of striking out "National Banker or State Banker," because I believed that this Convention, if this amendment carries—and I hope it may—would establish an unwritten law that will never be broken, except in some great emergency, that there shall be rotation in these great offices. If this amendment carries, gentlemen, I shall ask your unanimous consent to consider a resolution that I desire to introduce along these lines. One gentleman said to me the other evening, objecting to having two Vice-presidents, "Why, if we elect a great big banker for Vice-president of this Association, do you think that he will want to wait two years?" My answer was, "The office is greater than any man in the country." I hope, gentlemen, that this amendment will carry, because I believe it is a step in the right direction of more efficiently carrying out, in the harmony that is so much needed, the great policies of this great Association.

MR. DOWLING: Mr. President, I agree with the gentleman who just sat down, in that this amendment, as amended, is a better amendment than it would have been with the words "State and National" attached thereto. I cannot agree with him that this amendment ought to be adopted by this Convention. I think there are many men in this room who have attended conventions for many years, and they will remember that at one time it was necessary, before you could be elected Vice-president, to be Chairman of the Council. In the wisdom of the delegates to this American Bankers' Convention, that was wiped out, and it was left to elect a President and Vice-president. Then the unwritten law came into force that the Vice-president would succeed the President. When you elect two Vice-presidents—and I am speaking now as a State banker who is supposed to be one of the beneficiaries of this amendment—the delegates at this meeting in Chicago are electing the President of this Association for two years to come; and before those two years have elapsed, with the help of the boys in khaki, and the boys of the Navy, and our Allies, we expect to have the Hun on his knees; and when we do, we do not want any third rate banker to slip in because he happens to be a State banker, and be up for President of this Association, and have our hands tied, and be unable to elect the man of the hour! Gentlemen, I would go further than oppose this amendment. I would say that it ought to commence right now at this convention, that there no longer would be any unwritten law in this Association; but that when we elect a Vice-president of this Association, we elect him to fill the position that the words mean, to take the place of the President when he is incapacitated, or when he cannot be reached for the purposes of filling his office; and that he should not be tagged for election as President in the next year, or at the next convention. I believe that the delegates to the next convention the next year should have the right—and they have the right, although this is an unwritten law—to elect any man in this convention President; and that the condition of our country and the banking system in our country should lead us to pick the man of the hour.

MR. NEWCOMER: Mr. President, I rise to a point of order. There is not a word in this section providing for who shall succeed to the Presidency, or any unwritten law, or anything else. You are really speaking to the motion that Mr. Goebel is going to introduce later, concerning which I have absolutely no responsibility.

MR. DOWLING: Mr. President, I am speaking to the question of whether we shall have, as now, one Vice-president; or, as this amendment calls for, two Vice-presidents.

MR. NEWCOMER: But you said you were objecting to somebody succeeding to the Presidency, which is not mentioned in the section.

MR. DOWLING: That is a part of the argument I am using, to show why we should not have two rather than one. There is an unwritten law as to the one. Now, Mr. President, I am not going to take up any more of your time.

THE PRESIDENT: I would call the attention of Mr. Dowling and the gentlemen of the convention to the fact that this amendment if adopted, will not preclude the members of this convention from naming from the floor any candidates that they may desire to name for President, or Vice-president, of this Association. This does not bind your hands. It does provide for two Vice-presidents, candidates for which office may be named by your Nominating Committee; and, as I said before, if the gentlemen of the Convention do not approve of those nominations, it is their privilege to nominate from the floor.

MR. DOWLING: Then, Mr. President, I will ask this question: Why kill two Vice-presidents next year rather than one?

MR. WATTS: Mr. President, and Gentlemen of the American Bankers' Association: I have received at your hands every gift within your giving, and for more than three years I have in every possible way endeavored not to attempt in any way to influence the decision of this organization, other than as a private in the ranks. I feel, however, that this is an occasion when I would not be true, when I would not be doing my duty in loyalty to this convention, if I did not arise even at the risk of having my motives misunderstood. I cannot agree with the gentleman from Minnesota; I do not believe he intended to say just what he did, when he referred to third rate bankers. There has never been a time when the American Bankers' Association would elevate to the highest office within its gift a third rate banker. I have heard in the corridors of the hotel here a discussion of the names mentioned for preferment by you, and I say without any doubt or fear of contradiction that there has been no third rate banker's name mentioned. Neither has there been any second rate banker's name mentioned. The only names that I have heard—and I speak with knowledge—are those of first rate bankers. Gentlemen, it is quite unfortunate that in a meeting of this kind we are uncertain whether the discussion is of real war, or war between classes of bankers. I was delighted to hear that the Executive Council had requested this body to eliminate from the proposed amendment any reference to any kind of banker. I hope the time will never come when this association will elevate to its head any man because he is any kind of banker; but that this Association will elevate a man because he is a first rate banker, and has rendered conspicuous service to the American Bankers' Association. It seems to me, gentlemen, that in the multiplicity of activities that have come before the bankers of this country, we need the advice of not only one man at the head of this organization but two men, three men or four men. I could recount to you many activities which would be worthy of the mental effort of every man that you could put in office as Vice-president of this Association. Your Committee upon Activities has just recommended that you have a field service—a splendid recommendation. And how is that field service to become effective? It is only to become effective by some officer of your Association—not an officer having charge of the clerical affairs, but some executive officer—taking charge of the matter; and who would be more fit for it than a President, a Vice-president or a second Vice-president? I dare say that in time it is more than likely that, adopting what has become, because of its saving effect to the country, almost a habit, we will adopt a regional system and probably have a Vice-president of the Association for the twelve regions of this country. Then they will see that in all the activities in which the bankers should engage and should be the leaders in this country, there is a direct representative of this organization, ready to see that we do our part, and if anything, more than our part, in the great times that are to come after we have won a victorious decision, and are ready to begin a readjustment and reconstruction of the commercial affairs of this country. I thank you.

MR. WING: Mr. President, two years ago this Association adopted a new Constitution, which eliminated a great many officeholders and committees. The Administrative Committee was reduced to three. It has now been increased several more. Every time we come here we are asked to increase the Executive Council or some committee, or add a committee; now we are asked to add more officers. If we want to fill the office of Vice-president, it can be done very easily by electing a State banker, beginning at this Convention. It is unfortunate that two Vice-presidents have already been selected, although the Nominating Committee has not yet met. I believe there is as much excuse for having two Vice-presidents of this Association as there would be for a cat to have two tails.

THE PRESIDENT: The question is upon the recommendation that the Constitution be amended.

MR. HAZLEWOOD: I rise, representing the State Bank Section, the Executive Committee, and the Vice-presidents of the different States who are Vice-presidents for our Section, to say that the question of this amendment was carefully and thoroughly considered at an informal meeting which was held on Monday morning; and that our men were unanimous in feeling that not only would we as State Bankers suggest to our fellow bankers in the Association candidates who would be truly representative of the Association, but that we felt, under the existing circumstances, it was the right and proper thing to do to put through this amendment providing for two Vice-presidents. I therefore come to you representing the Section, and state to you what the amendment, as amended, with the tag left off, has our unanimous approval.

THE PRESIDENT: The question is upon the adoption of the amendment.

MR. DOWLING: I wish to inquire from the President of the Section if that was adopted by the section, or if it is just his statement.

MR. HAZLEWOOD: In reply to that I will say that the matter was discussed, as I stated a moment ago, at a meeting of the Executive Committee of our Section, and the State Vice-presidents of the Section from each State in the Union; and the decision was reached at that meeting.

MR. DOWLING: Then, Mr. President, I wish to ask if we are governed by Executive Committees, or by the votes of the delegates to this convention?

THE PRESIDENT: I can answer that directly. It will be the delegates to this Convention.

MR. COLLINS: I desire to say that I was at the meeting at which this question was discussed, and it was merely the recommendation of the Vice-presidents, the ex-Vice-presidents, and the Executive Committee of the State Bank Section, that we recommend to the members of our Section that it would be better for us to adopt some such rotation as this, rather than have a continuous conflict and division of opinion in this Association; and I think every State Banker here owes it to the men who met there and conferred to support them in this movement for a satisfactory adjustment of these differences.

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MR. PLATTEN: Mr. President, I have never been in a discussion like this before. It so happens that I am the responsible representative of the Trust Company Section. I have heard a great deal about Mr. Dowling of Minnesota, although I have not the pleasure of personal acquaintance with him. I want to say, on behalf of the Trust Companies, that I somewhat resent the statement that there may be any third class bankers in the Trust Company line of business. I do not appreciate his remark, either, that if this amendment is made operative, the Trust Company Section would think of placing before the Nominating Committee a candidate in the form of a third class trust company man. Not for one moment would that be done; and on behalf of the trust companies, I resent that. Now, above all this, I deplore the failure to carry out the recommendation of the committee, a recommendation brought about by the honest efforts of the President of the Association, in the interests of harmony; for if there ever was a time in our history when we ought to have harmony, it is today. We have had too many disconnected units in this organization. I say that the Trust Companies, as a Section, and the state banks, and the savings banks, are entitled to consideration, and they are justified in asking consideration. This is a very happy recommendation, to help out along these lines. I am satisfied that if this amendment is carried through, a responsible candidate will be presented by the Nominating Committee to represent those three Sections; and I hope, when that is done, that the gentleman named will be President of the Association, if and provided next year the Convention permits him to be First Vice-president, so that thereafter he may become President of the Association.

THE PRESIDENT: I think we have had enough debate on this and that we are ready for the question.

(The question was called for.)

MR. DOWLING: I claim the right to the floor, as a member of this Association. Is this going to be gag rule, or are we representative men here?

THE PRESIDENT: The Chair will allow Mr. Dowling to speak. The Chair has ruled that Mr. Dowling may speak, but let this be the end.

MR. DOWLING: Mr. President, there have been third class bankers in the Association, but I am happy to say that most of them are now or have been in Leavenworth.

MR. PLATTEN: There never has been an officer, to my knowledge, who was a third class banker.

MR. DOWLING: I did not say an officer. I said we should not elect third class men and I do not believe we are going to, any more than we have in the past. But, Mr. President, when you say that this is a harmonious arrangement, I answer that it was arranged by somebody other than the delegates of this convention; and the Kaiser, whom we are fighting, would like to have just such harmony among us, so that our boys could not get over there and disturb his subjects.

THE PRESIDENT: The question is now upon the adoption of the amendment as amended. All in favor please signify by saying aye.

(The motion prevailed.)

CONGRATULATIONS TO GEN. PERSHING.

THE PRESIDENT: This message has just been handed to me: "The biggest drive of the war is now taking place on a fifty-mile front in the Champagne District. American and French troops are co-operating."

(This message was received with a prolonged outburst of cheers.)

MR. WATTS: Mr. President, I move that the Association empower the President to send a telegram at once to General Pershing expressing our sentiments to him and wishing him God-speed in this drive which we hope is the beginning of the last one.

MR. GOEOEL: I second that motion.

(Motion unanimously prevailed.)

THE PRESIDENT: Gentlemen, I want to move a rising vote of thanks to the Great Lakes Band for its splendid entertainment this afternoon.

(The motion was seconded, and unanimously carried, the Convention arising en masse and applauding.)

MR. JOHNSTON: Mr. President, I suggest that Mr. Nemcomer move the adoption of the next amendment on this same subject, without reading it. I will make that motion myself.

(Motion seconded, and prevailed.)

MR. NEWCOMER: That is all of the committee's recommendations.

GREETINGS FROM THE SECRETARY OF THE TREASURY, WILLIAM G. MCADOO.

THE PRESIDENT: The Chair would like to read a telegram which has been received from Hon. Wm. G. McAdoo:

Chas. A. Hinsch,
Prest. American Bankers' Ass'n.,
Chicago.

Will you please convey my cordial greetings to the members of the American Bankers' Association now in session at Chicago and assure them of my warm appreciation of their co-operation in carrying forward successfully the great financial operations of the Government? They have done splendid work for Liberty Loans in the past, and I know that they will, with even greater patriotism and enthusiasm, help make the Fourth Liberty Loan a success. Hearty good wishes for a successful meeting and for a fruitful outcome of your deliberations.

WM. G. MCADOO.

MR. WATTS: Mr. President, I move that this Convention acknowledge the receipt of this telegram from the Honorable Secretary of the Treasury and instruct the Secretary of the Association to send the following message, to be signed by himself:

The members of the American Bankers' Association, assembled in convention at Chicago, have received your greetings, and they instruct me to tender you, the courageous leader of the financial forces of our country, their great appreciation for the message; and they at the same time reaffirm their determination to use every means at their command to make the Fourth Liberty Loan the most forceful of all expressions from a free people, to furnish all credits and material necessary to the Government for a speedy and complete victory.

(Motion seconded, and prevailed unanimously.)

THE PRESIDENT: Our ability to solve the social questions that arise at this time will largely determine the future of this country. There is probably no man before the American people today more competent to speak upon this social problem, and the relations between employer and employe, than the next speaker, Mr. Vandervoort, President of the Root & Vandervoort Engineering Company, graduated from Michigan Agricultural College at Lansing, in the Department of Mechanical Engineering, in 1889. He entered Cornell University for a post graduate course in mechanical engineering and then returned to Michigan Agricultural College as an instructor in that department. Recently he was made a member of the National War Conference Board, and later was appointed by the President of the United States as a member of the United States War Labor Board. Last April he concluded a presidency of two years of the National Metal Trades Association. I take great pleasure in introducing to you Dr. Wm. H. Vandervoort.

Relations Between Employer and Employee, by W. H. Vandervoort

[Mr. Vandervoort's address will be found on page 115.]

THE PRESIDENT: The next speaker on the program will address us upon the subject of, "The Merchant Marine and the Railroads." There is probably no subject before the American people to-day more vital to the future welfare of this country, and I know of no one who can present this subject to you in a more able manner than the next speaker. Mr. Wheeler is a man of high ideals and broad vision, a man who saw the necessity of bringing together the great commercial organizations of the country under the name of United States Chamber of Commerce, and he was the first President of that great organization. His services were appreciated so deeply that in this hour of stress he was re-elected at the recent convention of that body. I now take great pleasure in introducing to you Mr. Harry A. Wheeler.

The Merchant Marine and the Railroads, by Harry A. Wheeler

[We print Mr. Wheeler's address in full on a subsequent page of this publication—see page 109.]

THE PRESIDENT: I think you will agree that the Chair made no mistake when he assigned the topic he did to Mr. Wheeler.

Just one or two announcements and I am going to let you go for the day. On the general resolutions of national scope, the Chair has appointed the following committee: Lucius Teter, Howard Shepard, Oscar Wells, Roland P. Grant, and W. H. Booth. The Committee on Resolutions of Thanks, Fred Collins, J. H. Stone, A. B. Jobes, M. J. Dowling, George W. Hyde. Now, we have received quite a number of resolutions that it will be impossible to consider in the convention as a whole, and with your approval I am going to turn them over to this Committee on Resolutions.

(A motion to adopt this suggestion was made, seconded and carried.)

I just want to make an announcement that to-morrow morning at eleven o'clock Mr. Otto H. Kahn, of Kuhn, Loeb & Co., will address this convention. You know something of Mr. Kahn. He is a man of nation-wide ability, and I am sure will handle the subject assigned to him with marked ability. Judge Lindsey of Denver will talk to us at twelve o'clock. Judge Lindsey has just completed a six months' trip to Europe. He was present at the time of the Chateau Thierry drive, and he was also present in Italy when the big drive took place there. For one week he messed with General Pershing, and I am sure the message he has to deliver will be most interesting. In the afternoon we hope to have Senator Chamberlain who was to advise me to-day by wire whether it would be possible for him to be here. Up to the present time I have not received any wire.

I have this message from Josephus Daniels, Secretary of the Navy: "Immediately upon arrival of the train will go to the Auditorium Theatre. After my address there I shall be glad to carry out any program that may be arranged for me, but my address to the bankers will come first." So I just want you to know what a splendid program we have in prospect to-morrow, equal to that we had to-day.

MR. DISMUKES: You overlooked the fact that no thanks had been extended to Mr. Wheeler. I do not know of any address delivered that was more cordially received or so much enjoyed.

THE PRESIDENT: I think that the thanks will come within the scope of the Committee on Resolutions on thanks, Mr. Dismukes.

A motion to adjourn is now in order.

(Motion to adjourn made, seconded and carried.)

Adjourned to Friday, September 27, 1918, 9:30 A. M.

SECOND DAY'S SESSION

Friday, September 27th, 1918.

President Hinsch presiding.

General Secretary Farnsworth.

The President called the meeting to order at 9:50 A. M. (All rise while the Great Lakes Naval Training Station Band played "Over There.")

THE PRESIDENT: All please remain standing while the Rt. Rev. Monsignor Daniel J. Riordan, P. R., St. Elizabeth's Church, Chicago, pronounces the Invocation asking the blessing of Almighty God upon the deliberations of this Convention.

VOTE ON CONSTITUTIONAL AMENDMENTS

THE PRESIDENT: I will now ask the General Secretary to present for your consideration two amendments to the Constitution.

THE GENERAL SECRETARY: The amendments to the Constitution which were submitted to the Convention yesterday and acted upon were the amendments prepared by the Committee on Co-ordination. The three amendments which follow in the printed program are to straighten out complications in the Constitution, and one amendment

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creates an extra committee. These were not prepared and submitted by the Committee on Co-ordination of Activities. These amendments, however, have been before the Administrative Committee and by them recommended to the Council, and by the Council recommended to the Association.

IV. PROPOSED BY WALDO NEWCOMER, PRESIDENT NATL. EXCHANGE BANK, BALTIMORE, MD.

MEMBERSHIP ON PERMANENT COUNCIL COMMITTEES

Amend article V, Section 15, by changing the sentence immediately following the list of permanent Council Committees to read as follows (new matter in italics):

"No member of the Executive Council shall be a member of more than one of the permanent Council committees at the same time, except *that* members of the Protective Committee and of the State and Federal Legislative Councils *who are members of the Executive Council may be members of not more than one other permanent Council Committee.*"

Explanation: The above amendment is proposed by Mr. Waldo Newcomer, President of the National Exchange Bank, Baltimore, Md., to provide against an interpretation contrary to the intention of the provision, that members of the Protective Committee and of the State and Federal Legislative Councils might be on any number of the permanent Council committees.

MR. GOEBEL: Mr. President, I move the adoption of the amendment. (Motion seconded and carried.)

THE GENERAL SECRETARY: The next is proposed by the General Secretary, and is as follows:

"New Mexico

"Amend by-law 4 by omitting from Subdivision (c) the words 'New Mexico,' so that the fourth paragraph of subdivision (c) shall read as follows (matter eliminated in brackets):

"Group No. 3 shall be composed of the States of Arizona [New Mexico] and Nevada.

"Note.—This amendment eliminates New Mexico from the Group states, that state having reached a membership in the Association in excess of one hundred."

MR. STEPHENSON: I move that this amendment be adopted by the Convention. (Motion seconded and carried.)

THE GENERAL SECRETARY: The next is Amendment six, Insurance Committee. I will say in regard to the Insurance Committee, the Association has had an Insurance Committee for a great many years. Recently, during the last two or three years, under a change in the Constitution it has been a convention committee, and was appointed by the convention. This amendment proposes to make it a permanent Council committee. The Insurance Committee, we believe, has done very valuable work for the members of the Association in the preparation of fidelity bonds and burglary insurance, which have been submitted from time to time; and in the protection of members of the Association in claims and in many other ways. The proposed amendment is as follows:

VI. INSURANCE COMMITTEE

"Amend Section 15 by adding to the list of the permanent Council Committees the following:

"(h) The Insurance Committee.

"Further amend Section 15 by adding at the end thereof the following:

"(h) The Executive Council, at its first meeting as aforesaid, shall elect from its membership one person from the one-year class, one person from the two-year class and one person from the three-year class who shall constitute THE INSURANCE COMMITTEE and whose membership shall expire with their membership in the Council, and annually thereafter shall elect one person 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 adding at the end thereof the following:

"THE INSURANCE COMMITTEE

"(h) The Insurance Committee shall have in charge the interests of the membership in their relations with insurance companies, including the procuring of reasonable premium rates, the adoption and use of proper forms of fidelity bonds, burglary policies and other insurance contracts, the giving of such information and the rendering of such services for members in connection with their insurance matters as may be proper and practicable, and the performance of such other duties as may be imposed upon the Committee from time to time by the Executive Council or the General Convention."

THE PRESIDENT: Gentlemen, you have heard the suggested amendment. Is there a motion?

MR. TAGGART: Mr. President, I move the adoption of the proposed amendment: (Motion seconded and carried.)

THE GENERAL SECRETARY: To clear up the docket here, there is one amendment, Amendment III, proposed by Thomas B. McAdams, vice-president Merchants National Bank, Richmond, Va., Mr. McAdams requested that I withdraw this amendment from consideration, as it was embodied in the amendment you have just passed in relation to first and second vice-presidents.

THE PRESIDENT: I believe it would be proper if the adoption of this further amendment be dispensed with.

MR. GRUBER: I make such a motion, Mr. President. (Motion seconded and carried.)

THE PRESIDENT: Judge Paton will represent to you am amendment which was overlooked in the report of the Committee on Coordination of Activities.

JUDGE PATON: Mr. Chairman, in the program, Amendment II, recommended by the Executive Council, has not been presented to you. It follows Amendment I which was presented yesterday by the Committee on Co-ordination of Activities. This is an important amendment which has been recommended by the Executive Council. Under our existing Constitution, emergency subjects of legislation, wherein quick, authoritative decision is required, so that the officers of the Association shall know what to do, is referred to the Federal Legislative Council. The object of this is to create the entire Federal Executive Council as the body to which amendments should be presented. It is printed here. I do not think it is necessary to go now into the technical changes in the Constitution which it provides. A motion to adopt the amendment will be in order.

MR. GRUBER: I make such amendment. (Motion seconded and carried.)

THE PRESIDENT: Adopted.

Next is the report of the American Institute of Banking, R. S. Hecht, President. The report will be presented by Mr. Thompson.

Report of American Institute of Banking

MR. THOMPSON: Mr. Chairman and Gentlemen of the Convention: Apparently the American Institute of Banking Section is the only section which rises early in the morning.

Our report will not be given this year by Mr. Hecht, as he had to leave the city unexpectedly for home the day before yesterday.

I will run briefly over the affairs of the American Institute of Banking for the past year.

Contrary to our expectation, our membership, after 3,000 have been taken away, still remains at the same figure, 21,500; located in 80 chapters, and about 4000 of those are enrolled in the Correspondence Chapter. Our educational work has gone on with little change except such as was necessary to meet the needs of the hour.

In the Institute we feel that during the coming year our supreme duty on educational lines is to meet the situation created by the great number of women employes which the banks are getting in. For that reason the course of instruction for the last year and for the coming year will be made up of elementary subjects, fitted to train these new people.

During the year we have held one conference of our Board of Regents, which is made up of two member bankers and two college men. It now consists of President Sprague of Harvard, Prof. Kemmerer of Princeton, F. I. Kent of the Bankers' Trust Co., and Frank Mortimer of the National City Bank, together with our Director, Mr. Allen.

We have added advanced courses to our program and this year offer a course in Economy. We are also studying at this time a course in foreign trade, which will be not only a course adapted to our present needs, but looking forward to the period of reconstruction and new trade after the war. We have extended our correspondence work, and we feel that we have greater co-operation in that line if we aid the men who are not able to get the benefit of closer co-operation because of not living in the big cities.

Our motto has been one of Service. We have aimed to place at the disposal of the local committee and the Government at large the facilities of every one of our chapters, and our men who have learned of the banking business have gone out as speakers for the Liberty Loan service, and as solicitors; and we are glad to tell you that Mr. Vanderlip, the Chairman of the War Savings Committee, has told us that there was no work under the War Service Committee which was better than that of the American Institute of Banking.

Our convention at Denver was made up entirely of Institute men, and men trained there—Mr. Arnold of Chicago and Mr. Levinsky of New York—developed in the American Institute of Banking. We considered the question of the lady employes in the banks; we had one of them trained in New York. Each chapter admits the women on the same basis as the men. In every chapter we are offering the same facilities to women as to men, that they may receive the same training men have had in elementary lines.

In that connection we will have some study, and have available for each bank which wants to use it, which you may hand to your women employes, pamphlets which will solve the problem of training women to do the work which the men have left. This is prepared by a woman.

The Institute of Banking enjoys a larger degree of self-government. We are glad that the American Institute of Banking has lived up to the ideals of the American Bankers' Association. We are glad to come to you this year and tell you we have done our work this year, and have done a good work, and kept within the appropriation. We intimated that we might turn back $1,000 of the money which you have given us. We will turn back $2,000. We will keep within our allowance.

We thank you for your co-operation and we hope it will continue.

THE PRESIDENT: This American Institute of Banking, I think, is one of the most important sections of the A. B. A., and I hope, therefore, it will be your pleasure to move the adoption of the report made by the new President of the Section, Mr. Thompson.

(Motion made, seconded and carried to adopt the report.)

THE PRESIDENT: Next is the report of the State Secretaries' Section, which will be presented by Mr. Bartlett, the Section's president. (No. response.)

Next is the report of the National Bank Section, J. Elwood Cox. (No response.)

Next is the report of the State Bank Section, Mr. E. D. Huxford, president.

MR. E. D. HUXFORD: Mr. President and Gentlemen of the Convention: Possibly you might think from the remarks of the President I want to take up a lot of your time.

I want to say that the State Bank Section, being the youngest section, and in a way the kindergarten branch of the Association, early adopted, as its motto, "EARLY TO BED AND EARLY TO RISE; WORK LIKE HELL, AND ADVERTISE!"

On behalf of the State Bank Section I have the honor and satisfaction to report as follows:

Report of the State Bank Section

On behalf of the State Bank Section I have the honor and satisfaction to report that the Section has continued to increase in numbers and expand in its constructive and protective work.

The officers, executive, standing and other committees, and also its members, have taken the request of President Wilson seriously, as it was intended to be taken, and have restricted their activities, except in essential or necessary cases.

Legislation at Washington has been carefully scrutinized and where the interests of State institutions were involved has had proper attention, and the interests of State institutions and the public have been protected.

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The Membership Committee of the Section has been very successful and I am pleased to report that the membership of the Section on August 31, 1918, numbered 8,606 active and 1,231 associate, or a total of 9,837, which is an indication of the approval which the policy of the State Bank Section has received at the hands of non-members and an indication also that the Section is rapidly progressing to a commanding position that will soon be of material benefit to its members and the Association.

The funds of the Section have been conserved and consistently used and out of an appropriation of $9,626.23 the Section has been able to return to the Association Treasury $3,380.64 which amount is ar example of thrift that might well be followed by some of the other Sections.

The Savings Bank teaches thrift, the State Bank Section practices thrift.

THE PRESIDENT: A motion to adopt the report is in order.

(Motion to adopt the report made, seconded and carried.)

Mr. Beckwith will now submit the report of the Insurance Committee.

Report of the Insurance Committee

[The report of the Insurance Committee is printed on page 126.]

(Motion to receive the report of the Insurance Committee and adopt it, was made, seconded and carried.)

THE PRESIDENT: The next is the report of the Clearing House Section, Mr. McAdams.

Report of Clearing House Section

The Clearing House Section has made a new record for the first time in its existence, it includes in its membership every regularly organized Clearing House Association in America.

America's entrance into the war demonstrated more clearly than ever the true value of close co-operation among banks and has proven that the Clearing House is the most valuable agency through which banks can co-operate locally, and that the Section affords a means through which the associated Clearing House banks and trust companies throughout the United States can co-operate and respond promptly and effectively on matters of common interest and of vital importance.

While giving close attention to all matters affecting banks and Clearing Housees falling within its sphere, it has devoted much of its energies to aiding the various departments of the Government. It has also been of valuable aid to the Committee on Federal Legislation and other departments of the Association in getting prompt action on matters concerning particularly the banks and trust companies in the larger cities.

The expenses of the Section during the past year were $6,653.78. From our appropriation we returned to the General Association unused $1,294.43, but like the other Sections we find that our expenses will be somewhat increased during the coming year, and are accordingly making request for an appropriation of $8,370.

The Section's activities for the coming year will include—

a Campaign of education and publicity designed to inform the public as to the true functions of banks and the objects and purposes of clearing houses. This will be done through publicity committees organized by the clearing houses in their respective communities.

b Lend its aid and assistance to the Government in its financial and general war program. This service to be extended through the American Bankers' Association proper.

c Assist and encourage the movement to create new savers and to drive home to all America the lesson of thrift and industry.

d Assist the Capital Issues Committee in its campaign to minimize the fake, bogus and worthless securities evil.

e Aid in the direction of credit into channels of essential production.

f Introduce a symbol to convey instructions to wire non-payment. also a symbol for designating checks collectible at par through the Federal Reserve banks.

g Encourage—

1. The use and standardization of the No-Protest symbol plan.
2. The widest possible use and the proper application of the Universal Numerical System.

h The organization of county and country clearing houses and the extension of the Examiner feature. Also the establishment of credit departments in the Clearing houses.

The Section has inaugurated a plan whereby it receives a monthly letter from each Clearing House covering all important changes in rules, new ideas that are evolved as well as changes in the methods, systems and practices among the members of the respective Clearing houses. A brief or bulletin containing the substance of these letters will be made up by the Section and sent in sufficient quantities to each Clearing House to allow for the distribution of one copy each to the Clearing House members, the members of the Clearing House Committee and other officers of the Clearing House.

At the meeting of the Section on Tuesday a standard form of condensed financial statement for use in connection with paper floated through note brokers was adopted. A copy of attached marked Exhibit A.

Arrangements will be made for the introduction of this form at a very early date.

The opportunities for service on the part of the Section during the coming year, we believe, will be greater than at any period in its history. Several Clearing houses during the past year have adopted rules basing the rates of interest part on bank balances on Federal Reserve discount rates and general conditions, rather than being fixed regardless of the demands for money. It is urged that every Clearing House give careful consideration to this very important and scientific plan.

Report of Currency Commission

MR. GRUBER: I make a motion to accept the report. (Motion seconded and carried.)

THE PRESIDENT: The next is the report of the Currency Commission. The General Secretary will present the report.

THE GENERAL SECRETARY: The Currency Commission presented the following report—it is in the form of a letter from A. Barton Hepburn, the chairman of the Commission:

"MY DEAR MR. SECRETARY: The Currency Commission will have no report to submit at the Bankers' Convention to be held on September 23 next. Conditions are abnormal and artificial in the extreme, and will remain so until the close of the war. Following the war, in the light of experience gained, economic laws should come in for a general study and revision, especially with reference to credit, currency and banking. It is the judgment of your Commission that in the meantime no attempt to secure general legislation should be made by the American Bankers' Association.

"A. BARTON HEPBURN, *Chairman.*"

(Motion to receive and adopt the report made, seconded and carried.)

THE PRESIDENT: Next is the report of the Committee on Federal Legislation. Mr. Newcomer will submit the report.

MR. NEWCOMER: Mr. President, with your consent I will cut the reading of this report and the full text will appear in the record.

(The report is as follows:)

Report of Committee on Federal Legislation

CHICAGO, ILL., Sept. 27, 1918.

Your Committee and its auxiliary, the Federal Legislative Council, have been constantly engaged during the past year on matters of legislation pending in the 65th Congress. A detailed report of its activities was made to the Executive Council at its Spring Meeting in May and this report will be more general in character.

LAWS PASSED

Among the Bills affecting or of interest to banks which have become laws are the following:

Senate Bill 3714, creating a War Finance Corporation with authorized capital of $500,000,000, empowered to issue bonds aggregating not more than six times its paid-in capital, was approved April 5, 1918. This Bill was favored by our Association.

House Bill 2316, known as the Webb Bill, to promote export trade by permitting the organization of exporters in associations to meet foreign competition under supervision of the Federal Trade Commission, without violation of the Anti-Trust laws, was approved April 10, 1918. This Bill was also favored and actively supported by our Association.

The Soldiers' and Sailors' Civil Relief Act (N. R. 6361), which provides a temporary suspension of legal proceedings and transactions which may prejudice the civil rights of soldiers and sailors during their term of service in the present war, was approved March 8, 1918. It is not an inflexible stay of all claims, but leaves the operation of its provisions to the discretion of the court.

The Trading with the Enemy Act, introduced in the first session of the 65th Congress and approved October 6, 1917, to define, regulate and punish trading with the enemy. The purpose of this Act is to mitigate the rules of law which prohibit all intercourse between the citizens of warring nations and to permit, under careful safeguards and restrictions, certain kinds of business to be carried on. It also provides for the care and administration of the property and property rights of enemies and their allies in this country pending the war.

A Bill, S. 4292, introduced at the request of the Secretary of the Treasury, to conserve the gold supply of the United States, was approved April 23. This law authorizes the Secretary to borrow from the Treasury and to sell as bullion not in excess of 350 million standard silver dollars, retiring a corresponding amount of outstanding silver certificates which can be replaced by Federal Reserve Bank notes, including one dollar and two dollar denominations. The bullion is to be used to settle foreign trade balances wherever possible rather than gold; also to meet the unusual demand for subsidiary coinage. The silver so borrowed is to be replaced by purchase in the market from time to time at the fixed price of one dollar per ounce and coined into standard silver dollars. There is no limit of time within which this must be done.

The Hollis Bill, S. 3235, amending Section 32 of the Federal Farm Loan Act by authorizing the Secretary of the Treasury to purchase during the fiscal years ending June 30, 1918 and 1919, respectively, from any Federal Land Bank, farm loan bonds not exceeding one hundred million dollars, was approved January 18.

No attempt will be made to detail the provisions of the Liberty Loan Bond Acts and the War Revenue Acts passed or pending in Congress. The first two Liberty Bond Acts contained provisions authorizing the Secretary of the Treasury to deposit with designated banks and trust companies any portion of the proceeds of sale of bonds, certificates of indebtedness and War Savings Stamps. The third Liberty Bond Act added permission to deposit in such designated depositaries money received from payments of income and excess profits taxes. The fourth Liberty Bond Act, approved July 9, 1918, contains a provision that any bank or trust company designated as a depository which gives security for deposits may, upon terms prescribed by the Secretary of the Treasury, act as fiscal agent of the United States in connection with the operations of selling and delivering bonds, certificates of indebtedness or War Savings Certificates of the United States.

A supplement to the Second Liberty Bond Act was reported favorably to the House by the Ways and Means Committee on Sept. 12 and has passed both Houses. The chief purpose of this legislation is to provide a limited exemption from income surtaxes and war and excess profits taxes upon income to be derived from the Fourth Liberty Loan bond issue, the flotation of which is to open on September 28, and also to free a larger portion of the income from the First, Second and Third Liberty Loan issues from similar taxation. Section 5 of the Bill incorporates the provisions of H. R. 10,691 which has already passed the House. It amends Section 5200, U. S. Revised Statutes, so as to permit any national bank to lend a borrower, in addition to one-tenth of capital and surplus, an additional amount not to exceed 10 per cent of capital and surplus in case the borrower discounts with such bank a note or notes secured by not less than a like amount of bonds of the United States issued since April 24, 1917, or certificates of indebtedness.

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creates an extra committee. These were not prepared and submitted by the Committee on Co-ordination of Activities. These amendments, however, have been before the Administrative Committee and by them recommended to the Council, and by the Council recommended to the Association.

IV. PROPOSED BY WALDO NEWCOMER, PRESIDENT NATL. EXCHANGE BANK, BALTIMORE, MD.

MEMBERSHIP ON PERMANENT COUNCIL COMMITTEES

Amend article V, Section 15, by changing the sentence immediately following the list of permanent Council Committees to read as follows (new matter in italics):

"No member of the Executive Council shall be a member of more than one of the permanent Council committees at the same time, except *that* members of the Protective Committee and of the State and Federal Legislative Councils *who are members of the Executive Council may be members of not more than one other permanent Council Committee.*"

Explanation: The above amendment is proposed by Mr. Waldo Newcomer, President of the National Exchange Bank, Baltimore, Md., to provide against an interpretation contrary to the intention of the provision, that members of the Protective Committee and of the State and Federal Legislative Councils might be on any number of the permanent Council committees.

MR. GOEBEL: Mr. President, I move the adoption of the amendment. (Motion seconded and carried.)

THE GENERAL SECRETARY: The next is proposed by the General Secretary, and is as follows:

"New Mexico

"Amend by-law 4 by omitting from Subdivision (c) the words 'New Mexico,' so that the fourth paragraph of subdivision (c) shall read as follows (matter eliminated in brackets):

"Group No. 3 shall be composed of the States of Arizona [New Mexico] and Nevada.

"Note.—This amendment eliminates New Mexico from the Group states, that state having reached a membership in the Association in excess of one hundred."

MR. STEPHENSON: I move that this amendment be adopted by the Convention. (Motion seconded and carried.)

THE GENERAL SECRETARY: The next is Amendment six, Insurance Committee. I will say in regard to the Insurance Committee, the Association has had an Insurance Committee for a great many years. Recently, during the last two or three years, under a change in the Constitution it has been a convention committee, and was appointed by the convention. This amendment proposes to make it a permanent Council committee. The Insurance Committee, we believe, has done very valuable work for the members of the Association in the preparation of fidelity bonds and burglary insurance, which have been submitted from time to time; and in the protection of members of the Association in claims and in many other ways. The proposed amendment is as follows:

VI. INSURANCE COMMITTEE

"Amend Section 15 by adding to the list of the permanent Council Committees the following:

"(h) The Insurance Committee.

"Further amend Section 15 by adding at the end thereof the following:

"(h) The Executive Council, at its first meeting as aforesaid, shall elect from its membership one person from the one-year class, one person from the two-year class and one person from the three-year class who shall constitute THE INSURANCE COMMITTEE and whose membership shall expire with their membership in the Council, and annually thereafter shall elect one person 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 adding at the end thereof the following:

"THE INSURANCE COMMITTEE

"(h) The Insurance Committee shall have in charge the interests of the membership in their relations with insurance companies, including the procuring of reasonable premium rates, the adoption and use of proper forms of fidelity bonds, burglary policies and other insurance contracts, the giving of such information and the rendering of such services for members in connection with their insurance matters as may be proper and practicable, and the performance of such other duties as may be imposed upon the Committee from time to time by the Executive Council or the General Convention."

THE PRESIDENT: Gentlemen, you have heard the suggested amendment. Is there a motion?

MR. TAGGART: Mr. President, I move the adoption of the proposed amendment: (Motion seconded and carried.)

THE GENERAL SECRETARY: To clear up the docket here, there is one amendment, Amendment III, proposed by Thomas B. McAdams, vice-president Merchants National Bank, Richmond, Va., Mr. McAdams requested that I withdraw this amendment from consideration, as it was embodied in the amendment you have just passed in relation to first and second vice-presidents.

THE PRESIDENT: I believe it would be proper if the adoption of this further amendment be dispensed with.

MR. GRUBER: I make such a motion, Mr. President. (Motion seconded and carried.)

THE PRESIDENT: Judge Paton will represent to you am amendment which was overlooked in the report of the Committee on Coordination of Activities.

JUDGE PATON: Mr. Chairman, in the program, Amendment II, recommended by the Executive Council, has not been presented to you. It follows Amendment I which was presented yesterday by the Committee on Co-ordination of Activities. This is an important amendment which has been recommended by the Executive Council. Under our existing Constitution, emergency subjects of legislation, wherein quick, authoritative decision is required, so that the officers of the Association shall know what to do, is referred to the Federal Legislative Council. The object of this is to create the entire Federal Executive Council as the body to which amendments should be presented. It is printed here. I do not think it is necessary to go now into the technical changes in the Constitution which it provides. A motion to adopt the amendment will be in order.

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THE PRESIDENT: Adopted.

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Report of American Institute of Banking

MR. THOMPSON: Mr. Chairman and Gentlemen of the Convention: Apparently the American Institute of Banking Section is the only section which rises early in the morning.

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We thank you for your co-operation and we hope it will continue.

THE PRESIDENT: This American Institute of Banking, I think, is one of the most important sections of the A. B. A., and I hope, therefore, it will be your pleasure to move the adoption of the report made by the new President of the Section, Mr. Thompson.

(Motion made, seconded and carried to adopt the report.)

THE PRESIDENT: Next is the report of the State Secretaries' Section, which will be presented by Mr. Bartlett, the Section's president. (No. response.)

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THE PRESIDENT: A motion to adopt the report is in order.

(Motion to adopt the report made, seconded and carried.)

Mr. Beckwith will now submit the report of the Insurance Committee.

Report of the Insurance Committee

[The report of the Insurance Committee is printed on page 126.]

(Motion to receive the report of the Insurance Committee and adopt it, was made, seconded and carried.)

THE PRESIDENT: The next is the report of the Clearing House Section, Mr. McAdams.

Report of Clearing House Section

The Clearing House Section has made a new record for the first time in its existence, it includes in its membership every regularly organized Clearing House Association in America.

America's entrance into the war demonstrated more clearly than ever the true value of close co-operation among banks and has proven that the Clearing House is the most valuable agency through which banks can co-operate locally, and that the Section affords a means through which the associated Clearing House banks and trust companies throughout the United States can co-operate and respond promptly and effectively on matters of common interest and of vital importance.

While giving close attention to all matters affecting banks and Clearing Housees falling within its sphere, it has devoted much of its energies to aiding the various departments of the Government. It has also been of valuable aid to the Committee on Federal Legislation and other departments of the Association in getting prompt action on matters concerning particularly the banks and trust companies in the larger cities.

The expenses of the Section during the past year were $6,653.78. From our appropriation we returned to the General Association unused $1,294.43, but like the other Sections we find that our expenses will be somewhat increased during the coming year, and are accordingly making request for an appropriation of $8,370.

The Section's activities for the coming year will include—

a Campaign of education and publicity designed to inform the public as to the true functions of banks and the objects and purposes of clearing houses. This will be done through publicity committees organized by the clearing houses in their respective communities.

b Lend its aid and assistance to the Government in its financial and general war program. This service to be extended through the American Bankers' Association proper.

c Assist and encourage the movement to create new savers and to drive home to all America the lesson of thrift and industry.

d Assist the Capital Issues Committee in its campaign to minimize the fake, bogus and worthless securities evil.

e Aid in the direction of credit into channels of essential production.

f Introduce a symbol to convey instructions to wire non-payment. also a symbol for designating checks collectible at par through the Federal Reserve banks.

g Encourage—

1. The use and standardization of the No-Protest symbol plan.
2. The widest possible use and the proper application of the Universal Numerical System.

h The organization of county and country clearing houses and the extension of the Examiner feature. Also the establishment of credit departments in the Clearing houses.

The Section has inaugurated a plan whereby it receives a monthly letter from each Clearing House covering all important changes in rules, new ideas that are evolved as well as changes in the methods. systems and practices among the members of the respective Clearing houses. A brief or bulletin containing the substance of these letters will be made up by the Section and sent in sufficient quantities to each Clearing House to allow for the distribution of one copy each to the Clearing House members, the members of the Clearing House Committee and other officers of the Clearing House.

At the meeting of the Section on Tuesday a standard form of condensed financial statement for use in connection with paper floated through note brokers was adopted. A copy of attached marked Exhibit A.

Arrangements will be made for the introduction of this form at a very early date.

The opportunities for service on the part of the Section during the coming year, we believe, will be greater than at any period in its history. Several Clearing houses during the past year have adopted rules basing the rates of interest part on bank balances on Federal Reserve discount rates and general conditions, rather than being fixed regardless of the demands for money. It is urged that every Clearing House give careful consideration to this very important and scientific plan.

Report of Currency Commission

MR. GRUBER: I make a motion to accept the report. (Motion seconded and carried.)

THE PRESIDENT: The next is the report of the Currency Commission. The General Secretary will present the report.

THE GENERAL SECRETARY: The Currency Commission presented the following report—it is in the form of a letter from A. Barton Hepburn, the chairman of the Commission:

"MY DEAR MR. SECRETARY: The Currency Commission will have no report to submit at the Bankers' Convention to be held on September 23 next. Conditions are abnormal and artificial in the extreme, and will remain so until the close of the war. Following the war, in the light of experience gained, economic laws should come in for a general study and revision, especially with reference to credit, currency and banking. It is the judgment of your Commission that in the meantime no attempt to secure general legislation should be made by the American Bankers' Association.

"A. BARTON HEPBURN, *Chairman.*"

(Motion to receive and adopt the report made, seconded and carried.)

THE PRESIDENT: Next is the report of the Committee on Federal Legislation. Mr. Newcomer will submit the report.

MR. NEWCOMER: Mr. President, with your consent I will cut the reading of this report and the full text will appear in the record.

(The report is as follows:)

Report of Committee on Federal Legislation

CHICAGO, ILL., Sept. 27, 1918.

Your Committee and its auxiliary, the Federal Legislative Council, have been constantly engaged during the past year on matters of legislation pending in the 65th Congress. A detailed report of its activities was made to the Executive Council at its Spring Meeting in May and this report will be more general in character.

LAWS PASSED

Among the Bills affecting or of interest to banks which have become laws are the following:

Senate Bill 3714, creating a War Finance Corporation with authorized capital of $500,000,000, empowered to issue bonds aggregating not more than six times its paid-in capital, was approved April 5, 1918. This Bill was favored by our Association.

House Bill 2316, known as the Webb Bill, to promote export trade by permitting the organization of exporters in associations to meet foreign competition under supervision of the Federal Trade Commission, without violation of the Anti-Trust laws, was approved April 10, 1918. This Bill was also favored and actively supported by our Association.

The Soldiers' and Sailors' Civil Relief Act (N. R. 6361), which provides a temporary suspension of legal proceedings and transactions which may prejudice the civil rights of soldiers and sailors during their term of service in the present war, was approved March 8, 1918. It is not an inflexible stay of all claims, but leaves the operation of its provisions to the discretion of the court.

The Trading with the Enemy Act, introduced in the first session of the 65th Congress and approved October 6, 1917, to define, regulate and punish trading with the enemy. The purpose of this Act is to mitigate the rules of law which prohibit all intercourse between the citizens of warring nations and to permit, under careful safeguards and restrictions, certain kinds of business to be carried on. It also provides for the care and administration of the property and property rights of enemies and their allies in this country pending the war.

A Bill, S. 4292, introduced at the request of the Secretary of the Treasury, to conserve the gold supply of the United States, was approved April 23. This law authorizes the Secretary to borrow from the Treasury and to sell as bullion not in excess of 350 million standard silver dollars, retiring a corresponding amount of outstanding silver certificates which can be replaced by Federal Reserve Bank notes, including one dollar and two dollar denominations. The bullion is to be used to settle foreign trade balances wherever possible rather than gold; also to meet the unusual demand for subsidiary coinage. The silver so borrowed is to be replaced by purchase in the market from time to time at the fixed price of one dollar per ounce and coined into standard silver dollars. There is no limit of time within which this must be done.

The Hollis Bill, S. 3235, amending Section 32 of the Federal Farm Loan Act by authorizing the Secretary of the Treasury to purchase during the fiscal years ending June 30, 1918 and 1919, respectively, from any Federal Land Bank, farm loan bonds not exceeding one hundred million dollars, was approved January 18.

No attempt will be made to detail the provisions of the Liberty Loan Bond Acts and the War Revenue Acts passed or pending in Congress. The first two Liberty Bond Acts contained provisions authorizing the Secretary of the Treasury to deposit with designated banks and trust companies any portion of the proceeds of sale of bonds, certificates of indebtedness and War Savings Stamps. The third Liberty Bond Act added permission to deposit in such designated depositaries money received from payments of income and excess profits taxes. The fourth Liberty Bond Act, approved July 9. 1918, contains a provision that any bank or trust company designated as a depository which gives security for deposits may, upon terms prescribed by the Secretary of the Treasury, act as fiscal agent of the United States in connection with the operations of selling and delivering bonds, certificates of indebtedness or War Savings Certificates of the United States.

A supplement to the Second Liberty Bond Act was reported favorably to the House by the Ways and Means Committee on Sept. 12 and has passed both Houses. The chief purpose of this legislation is to provide a limited exemption from income surtaxes and war and excess profits taxes upon income to be derived from the Fourth Liberty Loan bond issue, the flotation of which is to open on September 28, and also to free a larger portion of the income from the First, Second and Third Liberty Loan issues from similar taxation. Section 5 of the Bill incorporates the provisions of H. R. 10,691 which has already passed the House. It amends Section 5200, U. S. Revised Statutes, so as to permit any national bank to lend a borrower, in addition to one-tenth of capital and surplus, an additional amount not to exceed 10 per cent of capital and surplus in case the borrower discounts with such bank a note or notes secured by not less than a like amount of bonds of the United States issued since April 24, 1917, or certificates of indebtedness.

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PENDING MEASURES

An important Bill (H. R. 11,283) amending certain sections of the Federal Reserve Act and of the United States Revised Statutes, which has been given full attention by your committee, has passed both Houses and is now pending in conference. The bill as it passed the House amended Section 4 of the Federal Reserve Act relative to Class A and B directors; Section 11 (k) relating to trust powers of national banks; Section 16, ninth paragraph adding Federal Reserve notes of denominations of $500, $1,000, $5,000 and $10,000 to existing denominations; Section 19, paragraphs (b) and (c) relating to reserves of banks in outlying districts of reserve and central reserve cities; Section 22 relating to loans and gratuities to officers, directors, etc., and amending Sections 5208 and 5209 Revised Statutes which are penal sections relating to over-certifications of checks, embezzlement, etc., the amendment extending such provisions to officers, directors, agents or employees of Federal Reserve banks. The Senate, in passing the bill, struck out everything except the amendment adding Federal Reserve notes of large denominations and the amendment of the penal sections of the U. S. Revised Statutes.

After being in conference over two months, the Senate Conference on September 18 receded from all the Senate amendments, and the bill as finaly passed is the same as when originally passed by the House.

Senate bill 4426 for the guarantee of deposits in national banks not exceeding $5,000, which was introduced on April 23 and favorably reported to the Senate on April 24, was strenuously opposed by our Federal Legislative Committee and Council. It has made no further progress. The bill is dead so far as this session of Congress is concerned.

Like opposition was made to Senate bill 3910, favorably reported to the Senate on April 9, which provides drastic penalties for usury, and this bill, likewise, has made no further progress.

A bill, S. 3895, regulating overdrafts, which required officers of national banks to present in writing a list of all overdrafts at each board meeting, the same to be noted in the minutes and filed as a record, was favorably reported to the Senate on April 9, but was rejected by the Senate on May 8 upon the ground that it was uncalled for and unnecessary. Our Committee opposed this bill, unless its requirements were modified.

A bill providing for engraved signatures on national bank notes has been passed by the Senate (S. 3900) and a similar bill (H. R. 11,020) has been passed by the House of Representatives. The measure was approved by our Committee, but has not yet become a law.

A bill (S. 3898) requiring bank officers to give bond and to prevent erasures on the books of the bank, was reported favorably to the Senate on April 9, but was rejected when the bill came up for consideration on May 23. The principle of this bill was not opposed by our Committee, but we urged a modification of its requirements as to the condition of the bond.

This report will not be burdened with the detail of all pending measures in Congress affecting banks. Suffice it to say that close attention is constantly given by our Committee to all subjects of pending legislation and action in favor of or in opposition to particular measures taken as occasion warrants.

The Constitution of the Association makes it the duty of the Chairman of the Committee on Federal Legislation whenever in his judgment it becomes necessary to immediately determine the policy of the Association in favor of, or in opposition to, national legislation upon any subject, to submit such question of policy to the members of the Federal Legislative Council for referendum vote, the policy of the Association, determined by such vote, being subject to change by the Executive Council or by the General Convention. In pusuance of such duty eleven questions of policy have been thus submitted. Such questions and the decisions thereon are as follows:

Referendum No. 1.—That the National Bank Act be amended so as to provide for uniform national bank notes. Affirmatively decided. Decision approved by Executive Council at Spring meeting.

Referendum No. 2.—That the bill (S. 3714) creating a War Finance Corporation be favored. Decidedly affirmatively. This bill is now a law. Decision approved by Executive Council at Spring meeting.

Referendum No. 3.—That the Calder bill (S. 2908) authorizing Federal Reserve Banks to make advances upon deposit or pledge of bonds or notes of railroad, industrial or municipal corporations be favored. Decided negatively. Decision approved by Executive Council at Spring meeting.

Referendum No. 4.—That H. R. 8935, introduced by Mr. Glass, amending Section 5219 U. S. Revised Statutes, relative to state taxation of national bank shares, be favored. The bill provides that in determining the value of the shares the par amount of any bonds or other interest-bearing obligations of the United States owned by the association shall be deducted from its assets. Decided affirmatively by the Federal Legislative Council. Subsequently at a joint meeting of the Committee on Federal Legislation in conjunction with the Executive Committee of the National Bank Section this action was modified as follows: "We favor the amendment of Section 5219 U. S. Revised Statutes as provided in H. R. 8935 with the exception that the relief from taxation to the extent proposed by this amendment is not advisable at this time. We favor and urge Congress to amend Section 5219 so that banks may deduct from their assets in determining the value of the shares the average amount of United States Government bonds and other non-taxable securities held, exclusive of the average amount of such securities deposited to secure circulation or United States deposits. The total amount permitted to be deducted shall be determined by and limited to such proportion of the amount of such United States Government bonds and other non-taxable securities only as the capital, surplus and undivided profits of the bank bears to the total of capital, surplus, undivided profits and deposits, exclusive of United States Government deposits, of said bank." At the meeting of the Executive Council on May 11, this latter action was approved and it was further resolved that similar legislation be urged upon Congress giving like right of deduction to state banks and trust companies either as an amendment of the United States Revised Statutes or as a matter of independent legislation.

Referendum No. 5.—That S. 3089, proposing to amend Section 9 of the Federal Reserve Act so as to admit to membership state banks with capital of not less than $100,000, organized prior to November 1, 1914, regardless of population, be favored. Decided in the negative. Decision approved by Executive Council at Spring meeting.

Referendum No. 6.—That S. 1783, to make gold and silver certificates and Federal Reserve notes legal tender, be approved. Decided affirmatively. Decision approved by Executive Council at Spring meeting.

Referendum No. 7.—That an amendment of the Federal Reserve Act be favored which would authorize the Federal Reserve Board to classify banks in outlying districts of large cities as though they were located in independent municipalities, with respect to the requirement of carrying reserve. Decided affirmatively. Decision approved by Executive Council at Spring meeting.

Referendum No. 8.—That the American Bankers' Association favor a condition of national law which would permit national or other banks, members of the Federal Reserve System, to make loans to officers or employes upon the same terms and conditions as loans are made to other persons. Decided affirmatively. Decision modified by the Executive Council at its Spring meeting, so as to favor the provision contained in the substitute for H. R. 10,691 pending in the Senate, as follows:

"And provided further, That no note, draft, bill of exchange, or other evidence of debt, executed or indorsed by the president, cashier, or other officer of an association, shall be discounted by the bank in which such officer is employed, except by the written assent of three-fourths of the directors, and no note, draft, bill of exchange, or other evidence of debt executed or indorsed by any attorney or director of an association, or by any firm of which a director is a partner, shall be discounted by such association, except by the affirmative vote or written assent of at least a majority of the members of the board of directors."

Referendum No. 9.—That the Pomerene bill, S. 3963, which would permit income and excess profits taxes to be paid in six monthly installments, deferred payments to bear 3 per cent interest, be favored. Decided affirmatively. Decision approved by Executive Council at Spring meeting.

Referendum No. 10.—That Section 2 of H. R. 10,104, amending Section 11 (k) of the Federal Reserve Act relative to trust powers of national banks, be approved. Decided affirmatively. The Executive Council at its Spring meeting, upon recommendation of the Committee on Federal Legislation, unanimously decided that no further action be taken upon this proposition.

Referendum No. 11.—Question whether Association should favor or oppose the placing of a stamp tax upon bank checks and drafts. Decision to oppose.

The Executive Council at its Spring meeting also adopted the following resolution recommended by the Committee on Federal Legislation:

"Resolved, That the American Bankers' Association disfavor legislation at this time looking to the abolition of sub-treasuries at any definite date."

At the time of the adoption of the above resolution the Legislative, Executive and Judicial Appropriation bill, H. R. 10,358, which had passed the House, contained a provision to abolish the sub-treasuries six months after the termination of the war, and the Senate had struck out this provision and the bill was in conference. This resolution was wired to the conferees who were deadlocked over this particular provision. Finally the House receded from its disagreement and the provision abolishing the sub-treasuries was omitted from the Appropriation bill which became a law.

The Committee on Federal Legislation in concluding this report desires to express appreciation of the effective co-operation of all members of the Federal Legislative Council.

(Mr. Newcomer, continuing:) Mr. President, in connection with Referendum No. 5, regarding the capital of state banks eligible to membership, this motion has been put in my hand with the suggestion that if the body approves of the main report they will add this:

"Moved that the decision of Referendum No. 5 as reported by the Committee on Federal Legislation be changed to the extent that a policy of legislation be favored which would permit a state bank to enter the Federal Reserve System where its capital is equal to that of a national bank in the same locality, although because of increase of population since the organization of the national bank, the capital of the latter would no longer be sufficient for the organization of a new national bank in the same locality.

THE PRESIDENT: A motion to approve the report of the Committee on Federal Legislation would be in order. Do I hear such a motion?

(Motion to adopt the report made, seconded and carried.)

FAVORABLE WAR NEWS FROM EUROPE

THE PRESIDENT: I know you will be glad to know I have just had a despatch handed to me from the Central News; it is a cable to the New York News Bureau:

"Latest British attack by General Haig extends over a thirty-mile front. This follows closely on the heels of the great American blow against the Germans west of the Meuse river. The new British drive is south of the Sensee river."

(Continuing:)

"The smash against the German line in Champagne, which was to begin yesterday morning by the French in co-operation with the American Army operating to the East, is proceeding successfully, the War Office announced to-day. The number of prisoners counted so far exceeds 7,000, including 200 officers. The assault was resumed this morning, the statement said.

"The attack by the French troops in Champagne yesterday is unfolding with success from Suippe to the Argonne. The first German positions, formidably protected by a network of trenches and barbed wire more than five kilometers in depth, which the enemy had been able to avail of to strengthen his defense since 1915, were brilliantly carried by French troops on a front of about 35 kilometers and passed at certain points.

"New York despatches received this morning from Copenhagen state that the Bulgarian Premier has asked the Allied powers for an armistice."

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(Prolonged applause; the band played "The Star Spangled Banner," all the audience standing.)

MR. WATTS: Mr. President, I move that this audience stand in one moment in silent prayer, for the success of the Armies of our Allies and our boys at the front.

THE PRESIDENT: By common consent we will comply with the suggestion.

(The convention stood for a moment in silent prayer.)

THE PRESIDENT: We will now have the report of the National Bank Section.

Report of the National Bank Section to the American Bankers Association

CHICAGO, Sept. 26, 1918.

The National Bank Section now includes in its membership 6,337 banks. The American Bankers' Association derives from these institutions revenue of slightly over $115,000. The expenses of the Section during the past year were $8,241.51. The Section received an appropriation of $8,000 and closed the year with a deficit of $206.16. On account of its increased membership and constantly increasing opportunities for direct constructive service to the banks and to the nation, the Executive Committee of the Section finds it necessary to request an appropriation of $9,280 for the ensuing year.

Three hundred and eighteen National banks have joined the American Bankers' Association and become members of the Section during the past year. Fourteen hundred and nine National banks are not members of the American Bankers' Association. A campaign will be conducted in cooperation with the membership committee during the coming year with the view of making the membership 100 per cent.

While the Section has given close attention to all matters concerning policies, methods, systems, and practices among or affecting National banks and the general business public, much of our time and energy have been devoted to aiding the Government in its various war time activities.

The Section adopted a resolution renewing its pledge of undivided support and assistance to the Treasury and various other departments of the Government in carrying out the Government's financial and general war program, these services to be tendered through the American Bankers' Association proper.

Many problems of vital importance to the National banks, particularly with reference to legislation, have come up during the past year. These have received close attention at the hands of our Executive Committee. It has held five meetings during the year, one being a conference with the Committee on Federal Legislation. The Section made a determined stand against the passage of Senate Bill No. 4426, generally known as the Guaranty of Deposits Bill. The bill has been side-tracked and we hope will not receive further consideration.

The Section believes that it would be enabled through the maintenance of an office at Washington to render additional service of untold value to its members, not alone on legislative matters, but in connection with tractions, of the banks with the various departments of the Government. It therefore renews its request for permission to arrange for representation either in the name of the American Bankers' Association or in the name of the Section at Washington.

The Section believes that its Vice-Presidents in the various States ought to be included as members of the Federal Legislative Council. This is in order that they may keep constantly in touch with Federal Legislation and be in a position, not only to assist the Committee on Federal Legislation, but with the consent of the Committee on Federal Legislation to be in position to act independently on matters pertaining strictly and only to National Banks.

The National Banks throughout the country were never in better condition. There has not, according to the report of the Comptroller of Currency, been a single National Bank failure in the United States during the past nine months. The resources of the National Banks now exceed $17,000,000,000. They have served as the agency through which six thousand million dollars worth of Liberty Loan subscriptions have been taken. Their present holdings of such bonds are comparatively small and they are in splendid shape to render efficient service in the forthcoming Liberty Loan campaign.

The Federal Reserve System is working admirably; the National banks are availing themselves of the privilege of the new system and are rapidly developing the trade and Bankers' Acceptances and other important features, but in order that the system may be in position to render the maximum of service, there must be a further mobilization of the banking resources. This Section considers as one of its functions to do all in its power to encourage and assist in maintaining a proper relationship between the Federal Reserve Board and the members as a whole and also between the members and the various Federal Reserve Banks. It is pledged to the idea of using its best efforts to strengthen this great system wherever possible and to place America where she rightfully belongs, that is in the front rank of the nations of the world as a great financial power.

It was moved and seconded that the report be received and placed on file. The motion prevailed.)

THE PRESIDENT: It is our great pleasure to have with us this morning one of the foremost citizens of the United States, a man born at Mannheim, Germany, who served one year in the German Army, and who for five years was the London representative of the Deutschesbank. This man probably more than any other citizen of this great company has devoted his time, his money and his great ability in speaking and writing for the purpose of enlightening our people as to the true conditions existing in Germany and the relationship which should exist between the German-born in this country and this great country. I now take great pleasure in introducing to you Mr. Otto H. Kahn ,of New York. (Prolonged applause.)

The Menace of Paternalism and Bureaucracy

[Mr. Kahn's address complete will be found on pages 99 to 109.]

THE PRESIDENT: I know I voice the sentiments of this organization when I express to Mr. Kahn our deep appreciation of this magnificent address.

Now, gentlemen, we have a splendid address in prospect from Judge Lindsay of Denver, who has just returned from the other side after spending six months on the battle front. He messed with General Pershing, was present at the time of the Chateau-Thierry drive, and I know he has a message to deliver here this morning that you will all be glad to hear. Judge Lindsey. (Applause.)

Remarks of Judge Lindsey, of Denver

JUDGE LINDSAY: Gentlemen, I shall not take up much of your time, but I would be false to my feelings if I did not express to you my appreciation of being your guest here to say just a few words from the boys "over there." I had the honor to be with General Pershing all one week; sat at his table with him and talked with him; to be with General McAndrew out over certain sections of the front and in different sectors of the battle line, from the time I left America at the invitation of the British Government last winter to help in some of their work; then on to France, being at Soissons and down the River Aisne, and coming down that line before the Germans chased us out—thank God, you know we were not chased very long—on the Verdun; then after the battle of Chateau-Thierry to be sent to Italy by the Government on a little mission there and having the good fortune to arrive at Monte Grappa when they started the offensive I was able to look out for forty miles on the Piave to Venice and see the great, magnificent spectacle, even with all its horrors, that great Homeric, classic battle of the war. Such was my magnificent opportunity. Since I came home I have been only too glad to make up, as far as I could, for this blessed privilege by speaking over the country at the Liberty Loan meetings.

I have been up in New England among the munition workers, and let me say to you, as a part of the psychology of the war, I was delighted to receive from one of the Chambers of Commerce of a New England town this statement: That the absences among munition workers, who are now making more money than ever before and consequently have more money to spend, had decreased from 25%, relatively, to 4% (applause).

I begin to appreciate that General Pershing was everlastingly right when he said one evening when we were sitting around his table at his own headquarters, that we must remember at home there are so many angles to this war that it takes at least two men and women to keep one boy at the front and keep them supplied in such a way that they may maintain their work, which is so glorious and magnificent over there. I came to England in the dark days of the war, and I am frank to say the British were anxious, though not impatient; it was after Germany had released two million men from the Eastern front and were about to start on that terrific drive toward the Channel ports.

General Joffre, whom I have the honor to know, took two or three of us out to his home one afternoon—to give you some idea how serious that time was—and he talked seriously about the Germans being able to get to the Channel ports, and with the same anxiousness that I had been asked the same question time and time again—the inquiry always was: When were the Americans coming; the S. O. S. call, the same call that was coming from England and from all the rest: "When are you going to send men in fighting force?" It was not with offensive impatience at all, but only in deep appreciation that America was now in this war to save the day—we appreciating that victory would be impossible without the devoted work that they had done on many a battlefield before we came into this war, tardily knowing it, as we did; and they appreciating and conceding that the victory they made possible could now only be made certain by America's entrance into the war. After being some time in war-torn Soissons, one evening at the table, General Douchet said: "Monsieur, how many Americans will you have here by Christmas time?" Feeling that I might, without betraying any confidence, tell him what I knew from the G. H. S., I assured the General we would have a million and a half men in France by Christmas time. And I may say to you here—although it is not a matter, I am sure, that anyone would publish, lest it might be misunderstood—that in those dark days of the early springtime the most that we hoped to get to Europe by Christmas time was perhaps a million and a half, till the devoted British came to our rescue with a tonnage that has carried two-thirds of our boys over there, and made possible the doing what we have done. I talked with Mr. Winston Churchill, who had been at the head of the Admiralty in the early springtime, when Mr. Lloyd-George sent out his S. O. S. call to America. He said: "How can you get the men over without the tonnage?" After that I had the honor to dine with Admiral Sims a number of times; and the fact was that our Navy and the British Navy began to get their heads together upon the matter; and when we look with such appreciation, as we ought to, upon what the Army has done, let us not forget what the Navy has done to make this great feat possible.

One evening in the early days General Douchet rose up from the table and said to two of us Americans who were there on a special mission: "I tell you, 500,000 Americans now are worth more than ten million at Christmas time. This is the critical hour." We came on down by the River Aisne, through the beautiful Champagne, to the war-broken town of Rheims. We went into the once beautiful cathedral, while the shells were still bursting in the city. The old guardian, pointing, said, "There is where a shell fell this morning. It is a miracle it did not explode, for if it had it would have brought down the pillar there and with it what remained of the once beautiful cathedral, all in ruins." He showed us the long streamers of melted lead, that had fallen from the windows they tried so hard to save some time before, when the Boche set the scaffolding on fire with incendiary shells; and with tears streaming from his eyes he said, "The tears of Rheims." Those were the tears of Rheims, and you could not restrain the tears from your own eyes as you looked upon the broken, battered villages in that country, and passed through the debris in those village streets, along by the broken walls of what once were beautiful homes of France. That is Rheims to-day, with all of its historic setting, all its romance of crowned and uncrowned kings. And there was the statue of lovely Joan D'Arc, with never a scratch, although the ground round about was pitted with shell-holes. Even then the shells were falling in front of the statue; and there were the derricks and the ropes to lower the statue, so that it might be taken back to Paris to be saved for civilization. The Government did not share the confidence

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of the inhabitants, that Joan D'Arc bore a charmed life, even though in marble or bronze. I cannot help but recall now, when we went to the lower Aisne, with the boys, we passed through the little village of Domremy, where Joan D'Arc was born and raised; and the old women there would tell me, "Here is a little church where she worshipped; there is the little room where she slept, with the little closet where she kept her small belongings; and there, out on the hillside, is where she tended her flock and dreamed her visions. Ah, monsieur, these visions are still with the people hereabouts, with the old men and women, who still inherit from the family of Joan D'Arc the vision that she had, because in the darkest hour for France, when we all despaired, they came singing, telling us that they had seen the heavens filled with marching phalanxes of men, following a strange banner that they had never seen before. And then one day, monsieur," said one of the old women, "the old men and women were out on the street, under the beautiful sunlight of a French day, and we heard down the road the sound of martial music; and presently there came marching men, and at the head of the men were the banners that the old people had seen in the heavens, of the marching Americans, come to save France." And there has resounded the tramp of Pershing's men through that little village, during those dark days, and the time that followed, on their way to the lower Aisne front. And when we came from broken Rheims, after being beyond the town, Chemin des Dames and Malmaison, the French poilus seemed to have some of the freshness of our own dashing boys. I did not know what a tragedy was in store for us later on, until I had come to Verdun and spent two or three days there. I cannot stop to discuss Verdun. You know what it is. But, my friends, you do not know this war until you feel this war, and you cannot feel this war so much as when you have been over there and seen something of the horrors of this war, and what our men are putting up with in this war. When you do that, you will want to impart as much as you can of that feeling to those back here. We have not any doubt of the success of our brave allies, and we have not any doubt about what the boys from this country are going to do; but we must keep up the spiritual side of this war—being called on one day to aid the Red Cross, and the War Camp Association, and the Y. M. C. A., and the Salvation Army, and the Knights of Columbus, and the Jewish Welfare Society, and the Y. W. C. A., and all of those institutions, and we must remember that there are two angles to this war. One is the physical—cannon, guns, swords, bayonets, military material; and the other is the spiritual—the mental, in a way. One of the French Generals said one night at the front: "Monsieurs, it was our grand Napoleon who said that three-fourths of war is morale—in the mind. When the heart and soul are right, then there can be no defeat."

So all thanks to those men who, in their ministrations, which are just as important in this war as anything else—because, as the General said, this war is three-fourths a business man's job—to keep at the front not only a physically fit army, from the physical angle, but a morally fit army, from the spiritual angle, or the standpoint of morale—the finest body of men ever assembled under the banners of any nation on earth, in any war that any country ever had. I have seen them under the stars; I have seen them by the roadside; I have seen them as they were about to go over the top; I have seen and talked with them when they came back; and I feel that the father or the devoted mother of every one of those boys has as much right to be proud as had the French father with whom I happened to be at one time, and the British father, whom I followed over there. When we came back from the heights of Douamont, and looked over toward Vertelet, where 100,000 French lie buried, above their graves we saw the blood-red poppies blooming over the brave men who poured out their lives in the dark days of 1916. And as we were passing the old French Colonel stopped by a little cemetery, and before a grave he paused a moment, as though in silent prayer, as you men did here a few moments ago. And the Captain said: "I am sorry that the Colonel stopped; it affects him so, but beneath that grave lies buried all his hopes—his only son. He was my friend and chum. For three days and nights, on the heights of Douamont, we crawled from shell-hole to shell-hole, with a rain of steel coming down upon us, like hail from heaven; and how any living thing escaped is more than I shall ever know. That boy 'went west' and I went to the hospital. Now the Colonel always addresses us as you heard him, 'Mes enfants, mes fils'; and we address him as 'Mon Colonel,' because he is to us a father, and more than that." And the spirit that existed between the French poilus and the French officers was the same spirit that existed between the American boys and the American officers and the British boys and the British officers. Over on the Somme front Harry Lauder, whose heart was heavy and sad, was singing to the boys along the line; and suddenly, through some stupid error, he happened into a cemetery there, and found himself facing a little cross which read, "Here lies Capt. Jack Lauder." Poor Harry went down on his knees, and thrusting his hands in the soft soil, seemed to pull the very grave into his arms; and with his face lifted toward the stars, and the tears streaming down his face, he lifted up his arms and said: "O God, if you would only lift him up for one little minute, that I might look into his face and tell him how proud I am for what he did here, and how proud I am to be the father of a boy who died here!" But did Harry go to pieces? No. He bucked up, and down the line he came, and dashing to the platform and sang to the British Tommies as he had never sung before.

That is the spirit of father and son, as I have seen it there and here. Coming back from Verdun down the road to the little city of Chateau-Thierry, there seemed to leap from the earth a burst of sheeted flame up into the heavens. It seemed almost like the glow of sunlight, but for the booming of the cannon and the rolling of the awful thunder that shook the air. We have been told that 7,000 out of 8,000 of those devoted boys who were with us at the Chemin des Dames are now dead on the field of battle; that the German artillery almost blew that hill from the earth. They were ordered to go back, and our boys did not understand the order, but went forward, as they always had done. The line had been stripped from Soissons to Rheims to send men to the Somme front, where the British were hard pressed. The German Uhlans almost rode into Chateau-Thierry on horseback. To show you what a narrow escape we had, one of the men told me afterwards, "The automobile that you were in was blown up, and it seemed as though the world would come to an end." The men in the hospital got up on their crutches, and moved where they could. All over the floor of the station lay the wounded, with no one there to give them any aid except two devoted American nurses who came up at the last moment. We all had to get out, and go from one shell-hole to another, falling flat; when all of a sudden, above all the din and tumult, I heard coming up the road the sweetest sound that ever came to my ears. True and clear it rang, "The Yanks are coming, the Yanks are coming."

Then, forgetting all my fear in the tremendous shell fire, I saw coming at double time the Marines, who closed the gap at Chateau Thierry, and saved the day in the critical hour. I saw one of the French commanders some time after that, and recalling the early days of spring at Soissons, he said: "You remember what General Douchet said about 500,000 Americans? Well, monsieur, whether it was 10,000 or 50,000, what they did at Chateau-Thierry was worth the strength of 500,000. They saved Paris, and they saved France, and they saved the world there at Chateau-Thierry." (Tremendous applause.)

My friends, General Pershing is prouder of nothing else that has been done than he is of the way the lines of communication have been built up behind our military machine. What he was anxious about was that those lines of communication should be as complete as they are, with a thousand miles of railroad running from the central Channel ports. We were told by engineers that those ports were in such condition that we could not land more than 10,000 soldiers there, and yet last month the miracle was performed of landing nearly 300,000 soldiers at those Channel ports. A railroad was run up to the front, along which runs the most wonderful means of communication that the minds of engineers have ever conceived of, or ever builded in the same period of time. To give you a concrete illustration, our boys laid five miles of pipe line in thirty minutes. It would have taken four or five months under the old conditions. General Pershing was anxious that those lines of communication should be made complete; and they were made so complete that one of the highest French Generals said: "They are so complete that when you once get an army of fighting men, you can keep them for twenty years, and you would never have to retreat when you once went forward.

I went to the hospitals after Chateau-Thierry. There were broken boys lying all about, every place, in every nook and corner, on the stairways and in the halls, every place that would hold a cot. But I cannot begin to tell you the spirit of magnificent self-sacrifice that they displayed, and how they stood it all. I cannot begin to tell you those things. You will hear them elsewhere, and I must hurry on. I came to the Denver, Colorado, ward, supported by the devoted people of Denver, in that hospital, and the nurse took me in. She said: "There is a boy here who will probably need you. He thought he was 'going west' the other night and he called for me and put his arms around my neck as though I were his sister or mother, and said: 'You know, I am afraid, the way things are going. Before I go, if I have to, I have got to tell you that I did something wrong.' I said, 'What is it?' He said, 'I told a lie.' I said, 'What was the lie?' He said, 'Well, I swore I was eighteen when I was only seventeen.'" I said, "Thank God for liars like that." Because we have got a million more in this country who show that spirit, is the reason we are winning over there. I remember having a boy in my court once who swore he was fourteen when he was only thirteen, so that he might get a working certificate, and they wanted to send him to the Reform School. He said, "Judge, don't you think a fellow's mother ought to have a gravestone?" I said, "Yes." He said, "My mother died, and we were awfully poor, so she was buried in the Potter's Field, and all we had to mark her place was a shingle. The wind blew the shingle away and the cemetery man said to me, 'Kid, you had better get a gravestone if you want to keep track of where your mother is.' I went to the marble man and asked him about one, and he said it would cost $25. I only had $5 that I had earned from selling papers, so he said, 'If you will pay that down and pay the balance at a certain time, we will put up the stone for you; but if you don't pay it by that time, we will take it away.' And they put it up, and the time came to pay the money, and I thought if I couldn't pay it they would take it away; so that is why I swore I was fourteen so I could work and earn the money. If I could do that I would go back and never stay out of school any more." I loved that kid just because he lied, and I loved that little marine because he lied. He said: "I was pretty hot. We came up the line, and I was bugler for the outfit. All of a sudden a boy near me was hit, and he stumbled forward and dropped his rifle in the road; and the next thing I knew, I had thrown my bugle away and I had that rifle in my hands, and I was shooting hell out of the Huns." Then, turning his face to the wall, with a smile flitting over his lips, he concluded with this little piece of humor: "This here war—well, it ain't no musician's job." It is a man's job, and those boys of the Army, from the commander-in-chief down to the last doughboy, and the boys of the Navy, from the Admiral down to the last bluejacket, are fighting men that we have a right to be proud of, every one of them.

I know that you men are standing back of this war as the business men of this country never stood back of any cause, and, my friends, this is not a class war. I have been in the homes of the rich, the aristocrats, and I have been in the homes of the munition workers—all willingly giving their sons, and how contemptible is the scoundrel that would make it anything else than a peoples' war under God's providence for righteousness and justice on this earth.

But I want to say just one thing before I conclude; I was a chess player right after that battle. General Edwards said to me: "Now listen here, judge, that road up there to the Heights of Beaumont is shelled at four o'clock every day. After that it is dangerous—so on your return trip you pass that road before four o'clock." Up that road we went, and I went down in the dugout with Colonel Parker. We had mess there, and he told me what the boys had done there and practically their first battle. He says: "You get out and talk with the boys," so down in the trenches we sneaked, and we found the boys in little groups talking and joking like you would see them after a baseball game. I talked with them and they told me of their experiences. One of them said: "Old Bill was there with his finger on his trigger, and Tom was there feeding ammunition to the machine guns. We found them cold and dead." Another boy said: "Don't forget the forty-six dead Huns that had to pay for what they did to Bill and Tom."

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There is a lot of humor among these fellows. I asked one of the boys up there how they liked the Frenchmen. He said: "We like the Frenchmen pretty well, but we have been over here three months and those damned Frenchmen don't speak any more English than they did when we came."

You know things like that interested me so—I am only going to keep you a minute; I could keep you an hour telling you the things I saw. I was talking with Archie Roosevelt one day, that was before he was wounded, and he said: "You ought to have come in yesterday. We had a boy on that cot from Denver, a Lieutenant, and he lost his best arm, and I asked him if he knew you out in Denver." (Pardon a personal story; you know I am so envious of a father who has a boy over there I am like an old hen.) "That boy said: 'Do I know him? Good Lord, I reported to him for a whole year.'"

I was telling that to one of the Colonels and he said: "Do you know this war seems to bring out the good in people, the spirit of sacrifice, no matter who they were or what they were before. The other day we tried to open a safe, and we had a devil of a time. A colored boy came along and he says: 'I see you dickering with this here safe. Do you know Corporal Hall?' I said: 'Sure I do.' 'Well,' he says, 'pardon me, sir, Corporal Hall was for four years a burglar; I think, sir, he could help you,' and he did help, all right, until that safe was open."

When we got back to Colonel Parker's headquarters there came a whizz bang and down came a little church steeple, the part of it that was left, and splash went the fresh earth down that road, and I looked at my watch and it was four o'clock. I was afraid I would be shot for disobeying orders. I can never forget, it is wonderful how they joke over there, the spirit of comedy down in the trenches. The Colonel said: "The Germans brought up their 210s last night, and they are after us because we hold the key to the village of Mozelle, and they can blow us off this hill. Now it is not quite safe to go around that curve this time of day. I don't know that the Germans are going to blow us up tonight, but—well, you are perfectly welcome to stay with us here." The General's orders were to be back at six o'clock, so I and Mr. Stone from the Censor's office in Paris crawled into that automobile, and down from the Heights we came. Just ahead of us bang, went a whizz banger and up went the fresh earth; then licikety split down that road went that automobile like the devil was after the Huns. I didn't know there was such speed on earth. Another shell and that boy who was driving shouted back: "To hell with you, Fritzie. I knew you would not get us on the way."

Next day we had dinner and there were twelve colored men there. While I was thanking them for the good dinner, a military train passed by with colored troops from Tripoli and Algiers. I said to one of our colored boys: "George, what do you think of the French colored troops?" He didn't know there were such a thing on earth, but he says: "I tell you, Mr. Judge, you know they ain't like us at all. We all is Americans, but them damn niggers, they ain't nothing but Africans."

The American colored boys landed at Bordeaux, and one of them went to one of the other fellows and said: "Where is you all from?" The French colored fellows began to jabber in French. One of the Americans said: "For God's sake, them niggers don't know their own language."

We may have been accused of being boastful. I say none of us are boastful; I say we are enthusiastic, and that is quite a different thing. I believe we have a right to be enthusiastic over what they are doing over there, and there was truth in what that colored man said, because when I was up at the Toul front and I heard about a boy whose parents were born in Germany who had brought down three German airplanes, and boys whose parents were born in Italy and Austria have done the same thing. When I hear of fellows like that and others born over there, I say we are in this struggle now; we are all together, and we are all Americans, and anything short of that is nothing short of treason to this country .

Now in conclusion, my friends, may I tell you just this little pathetic thing? After Good Friday, the day when that horrible shell landed on Paris—you know where—I was in the home of Madame DeRoche. We had been visiting there, and she said: "I want to tell you what happened to a little boy, Paul, across the street. I sat next to his mother when that terrible thing happened, when bang came that shell and down fell the columns about us, debris all around, and all the shrieks and cries of women and children. When I looked up I saw little Paul on the stone floor with blood gushing from his mouth, the cruel stone above his chest pinning him down. I rolled it away and his mother grasped him to her bosom, and she went to the altar, and there the Virgin, spattered with the blood of little Paul, and when I thought it was all past and there was no use for that mother to pray there came a sudden life to his little frame. He raised up and threw his arms about his mother's neck and in a voice that could be heard above the tumult and confusion he said: 'Don't you cry, mother; I die for France,' and he fell upon her bosom stone dead, and that was the end of little Paul, and the end of a lot of little boys and girls that day." And I knew it when I went to the maternity hospital and looked at the great jagged hole in the roof of that place and the walls spattered about with blood and tender flesh of babies, born and yet unborn, untimely ripped from their mothers' wombs in that place, as I have seen the entrails of young girls and broken limbs on the surface of the sea as we passed over where that hospital ship, under the flaming banner of the Red Cross, had not been spared, but sent to the bottom, and these devoted girls, let down in life boats, blown to pieces, with all the rest, a tribute to German frightfulness and terrorism. Our answer to that is Liberty Bonds, and nothing short of a peace dictated under the banners of the Allies at Berdin.

THE PRESIDENT: We all deeply appreciate this splendid message delivered by Judge Lindsay, and I just want to read to you at this particular time a message that has just been handed to me: "The Americans have taken the entire second section of the Hindenburg Line."

MR. HARDWICK (Georgia): I move we give a rising vote of thanks to Judge Lindsey, and that we add $2,000,000 to the Fourth Liberty Loan.

THE PRESIDENT: I just want to announce, Secretary Daniels will arrive this afternoon at three o'clock. I know that you will all want to hear him, and I hope you will make it your business to tell your friends to be here at that time. Now Mr. Hardwick's motion. All in favor of the motion presented by Mr. Hardwick will please arise.

(Motion unanimously carried by rising vote.)

Adjourned to two o'clock p. m.

AFTERNOON SESSION

September 27, 1918, 2 P. M.

PRESIDENT HINSCH presiding. GENERAL SECRETARY FARNSWORTH.

THE PRESIDENT: I will call this session now to order. We will have the report of the Committee of which Mr. George is chairman.

Report of the Committee on Co-operation and Consolidation of Activities of State Bankers' Associations With American Bankers' Association

MR. GEORGE:

To the members of the American Bankers' Association:

At the annual meeting of the American Bankers' Association in Atlantic City held in 1917 a communication was presented from the Illinois Bankers' Association in the form of a resolution requesting that a committee be appointed by the American Bankers' Association to consider the question of cooperation and consolidation of the interests and activities of the American Bankers' Association and the State Associations.

The resolution was adopted and the President appointed such committee, consisting of the Secretaries of the forty-eight State Associations, with William George as its chairman.

The request for the Committee came as a result of the many inquiries made from time to time by various bankers in regard to the increasing expense incurred in the conduct of the affairs of the American Bankers' Association and other bank associations; and to the constant duplication of efforts and ofttimes absolute interference one with another.

The American Bankers' Association expends annually about $325,000; the forty-eight State Associations expend about $400,000, a total of about $725,000. There are in the United States about 30,000 banks, of which about 19,000 are members of the A. B. A.; there are about 13,000 not members of the A. B. A., but most of the 13,000 are members of some State Association.

The Committee has had two meetings without any expense to the Association; two meetings of its sub-committee, consisting of Messrs. Bartlett, Keyser, Graettinger and Chairman George. Much correspondence has been conducted with the forty-eight Secretaries, and considerable data has been secured in our efforts to obtain better cooperation and coordination between the A. B. A. and the State Associations as well as between the various State Associations.

With the constantly growing benefits secured to banks by State Associations, may it not be possible that the time is not far off when many more banks will be satisfied with a membership in the State Association alone and practice economy and thrift by eliminating their membership in the A. B. A.; providing the Associations do not get together and make the membership offer all the advantages of both.

Mr. Allen, Educational Director, in well chosen remarks made before the Committee in Chicago in February, said: "Democracy demands the interesting of all banks; big banks, middle sized banks and little banks, and resulting in eliminating class distinction."

We as a Committee are inclined to believe that sometimes the officers of the A. B. A. look upon certain things as benefits that the rank and file do not so consider; and that they are prone to believe that no great economies can be effected. As Bank Association Secretaries, closer to the average banker than the A. B. A. officers usually are, we think that we appreciate the feelings of the average bank and feel we know what can well be eliminated, and what can properly be continued.

Many times during the past year, when all banks have been called upon to perform new duties, it has been often the case that banks would receive a notice from the A. B. A., a similar notice or request from some Section or some State Officer of the A. B. A., and very often through the State Association—frequently quadrupling the work. Your Chairman has received notice or request from the A. B. A., and A. B. A. State Official; its Council Member and its legislative council. Surely that is an unnecessary duplication, and as one State secretary said, not only is there much duplication but the force of so many requests on the same matter weakens the efforts of all. We believe on this class of matters that much more effective work would be accomplished if done directly through the State Secretaries.

And this brings us to the greater question, Why not pay one fee to the State Association, and by arrangement with the A. B. A. divide the same, and thus secure all members of the forty-eight State Associations as members of the A. B. A., giving to every member of every State Association all the benefits of both Associations?

(This is a suggestion merely of the chairman and not a recommendation of the committee.)

Your Committee is not prepared at this time to submit a comprehensive plan to cover this situation, but should this convention see fit to continue the investigation of this subject there can eventually be worked out a concrete and satisfactory plan of organized coperation and coordination.

On the most important question of the apprehension of criminals, there is today, except in a few cases, no definite plan of cooperation between State Associations and the A. B. A. Of course, it is difficult to develop a proper plan so long as there are two classes of banks members of the State Association; one class members of the A. B. A. and one class not members. The former protected by the A. B. A. Protective Department and the latter that do not enjoy that protection.

If a State Association maintains a protective department, with one or more detectives employed, it is self-evident that these detectives will be employed in cases where members of the No. 1 class are involved, and there will be a duplication of expenses, for these members have protection from the A. B. A.

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Of course, if all associations employed the same detective agencies matters would be simplified. The expense could be arranged on a pro rata basis when the bank was a member of both, and when the bank was not a member of both the entire expense would be borne by the State.

Of course, as you are aware, some States have adopted the reward system and others have not. It should be understood by all thot of the 18,000 or 19,000 members of the A. B. A. nearly all are members of some State Association, and are paying their membership fee into both associations. Our Committee believes that there are only fifteen hundred banks in this country not members of any association. Your committee is inclined to believe that if there could be one membership fee it could be increased 50 or even 100 per cent. over that now paid into the State Association, and that by so doing practically every bank in the United States would become a member of the A. B. A. by virtue of its memberssip in their respective State Association, thereby giving strength and power and greater influence to the banking associations of this country not only in protective matters, but in matters of general interest, both governmental and legislative, but makes no recommendation at this time.

Your Committee has reason to feel gratified over the act of the Executive Council of the A. B. A. at its Spring meeting, for at that meeting our honored president in reporting his attendance at a meeting of our Committee said: "That if the suggestions made at the meeting of the Committee on Cooperation and Consolidation were carried out the results should be very gratifying"; and your President at said meeting further on in his report stated that he was deeply impressed with the necessity of bringing about a greater degree of efficiency and coordination of effort in our organizations.

Respectfully submitted,

WILLIAM GEORGE, *Chairman.*

(Continuing): I now move that the report be received and filed and the Committee discharged and that the subject matter covered by the report be referred to a new committee of seven members to be appointed by the President from the general membership of the Association.

THE PRESIDENT: I think we will separate the question: It has two parts—the first part is upon receiving and filing of the report. That is the question before the house. Do I hear a motion?

MR. MOEHLENPAH: I so move, Mr. President.

(Seconded and carried.)

THE PRESIDENT: The second part, that this report be referred to a new committee of seven to be appointed by the President from the general membership of the Association.

MR. NEWCOMER: Is it in order to refer that to the Administrative Committee to consider it itself, or to appoint another committee?

MR. GEORGE: Possibly in that connection it would only be proper for me to say that there has been a great deal of data collected upon this, and it is a very interesting problem, and one of vital importance to the members. In my own judgment, while I do not care to which committee it has been referred, I am of the opinion if some of the older members were on that committee that better and more satisfactory results for the rank and file of this Association, for it is the rank and file that is interested in this, would be secured. I think it is better to have a committee of seven.

(Calls for the "Question.")

THE PRESIDENT: The question is on the motion of Mr. George, duly moved and seconded. Are you ready for the question? All in favor say "Aye!"; opposed, "No!" It is carried.

We will now call for the report of the Secretaries' Section. Is Mr. Bartlett present?

Report of State Secretaries' Section

MR. BARTLETT: The Secretaries' Section is the only one the number of whose active members cannot be increased except by Act of Congress, as our membership is limited to the secretaries of the various State Associations affiliating with the American Bankers' Association, and this membership now stands at 100 per cent. Therefore, until Congress creates additional States in the Union, no more active members are possible in this section of the American Bankers' Association.

This section and its individual membership stands ready to serve its parent association in any capacity where we can be of service.

Many of us are hopeful that more opportunity for such service will be found in the future than in the past and that as co-operation between the secretary of a State Association and its banks bring about greater efficiency and extension of the co-operative spirit between the parent association and the State Associations, should be productive of better service to all concerned.

Just how the present co-operation can best be extended we are not quite agreed upon outside that of a closer relation between the protective work of the A. B. A. and of the State Association. Many of the latter maintain protective departments, and without such co-operation there are at times duplication not only of effort but of expense for the associations.

Our section yesterday appointed a committee looking toward greater unformity in many of the printed forms in general use by banks. As many as forty different forms of certificate of deposit, for example, being now used in the banks of one State. Not only does it seem desirable to secure similar forms of certificates, drafts, signature cards, etc., but a uniform size of such supplies would certainly be advantageous to the many bank employes who handle the thousands of such items daily.

This committee consists of Secretaries W. C. MacFadden of North Dakota, George H. Richards of Minnesota, and M. A. Graettinger of Illinois, who will be glad to receive suggestions from the bankers of the country as to desirable forms used in their bank.

I assure this Convention the Secretaries' Section hopes to accomplish for the parent association the valuable service which General Secretary Farnesworth and his officials had in mind when creating this section. We appreciate the honor bestowed by your designating us as a section of this great Association, and although the financial reports of the Association indicate a very small appropriation to this section, as well as the expenditure last year of but one-half of the twelve hundred dollars appropriated, we have faith to believe that greater accomplishments on our part will meet with ready assignment of additional funds by the Association as occasion requires.

We trust our usefulness to this Association may not be valued either by our expenditure of funds or our limited membership. Permit me to explain that the proceedings of our Secretaries' Section are omitted from the general proceedings simply because we feared so much "shop talk" as is indulged in at our meetings would be of little interest to you.

In closing this report may I be pardoned for stating that these secretaries are the men who are in close touch with nearly twice as many banks as are now members of the A. B. A., and that largely through their persistent efforts and faithful service all but about fifteen hundred of the banks in the entire country are to be found within the folds of either State or National Association membership, and that it is quite generally conceded that aside from the speaker, these secretaries are the "boys" who

"Plan for more than they should do, then do it;
Bite off more than they can chew, then chew it;
Who hitch their Association wagon to a star,
Sit tight, work hard, and with your help there they are."

Respectfully submitted,

GEORGE D. BARTLETT, *President.*

THE PRESIDENT: A motion to receive and file this report will be in order.

(Motion made, seconded and carried.)

Report of the Savings Bank Section

SEPTEMBER 23, 1918.

GENTLEMEN:

This year the Savings Bank Section closes its fourteenth year of service. During this time we have built an organization which today enjoys the active support and high prestige of Savings bankers throughout the country. No organization can enjoy high standing unless it constructively serves the members thereof. It has been through steady earnest effort that we have reached our present splendid position.

The work that we have ahead of us in the study of investments of savings funds, in the urging of our members to more constructively serve the communities wherein they are located and in the protection of the interests of the savings institution as well as to promote the safety and security of savings funds, makes a close application and intensive effort on our part imperative. Our section is the section of the association devoted to the study of savings and investments, and this part of banking activity is no mean part. The future of the Savings institution in the development of the community holds splendid possibilities, and the necessity for encouraging the scope of community usefulness requires our best effort.

During the past year we have given earnest study to the problem of affording relief to savings banks, which found themselves facing unusual withdrawal demands while holding practically no securities readily liquidated. These institutions were compelled either by law or by the character of their business to invest their funds in fixed interest bearing securities and mortgage loans; these investments usually run for a term of years and under normal financial conditions, a ready market exists for most of them through which excessive drains may be met. During the present war, these securities have shrunk enormously in value and are marketable only at ruinous price concessions. Several times we have called upon the Federal Reserve Board. The Board offered for our consideration, suggestions to meet the temporary need—its final deliberation eventuating in the formation of the War Finance Corporation. Information to the effect that the Savings Bank situation did more to create the War Finance Corporation than any other factor, was received from an Official Government source. As a result, the Corporation afforded a temporary relief of mind to Savings Bank officials, as they now know that an instrumentality has been created by which their unsalable securities may be used as a basis of credit. This, however, does not get at the root of our difficulties. The fundamental need of Savings Institutions is a wider appreciation of the necessity for more liquid assets than they now possess.

Hence, we have recommended to all Savings Banks:

(1) That they make liberal investments in the United States Bonds, which possess a high degree of liquidity.

(2) That they purchase a large percentage of serial securities, which would yield a constantly inflowing stream of cash—serial municipals and equipment obligations of railroads will supply the need and are readily obtainable in any given maturity.

(3) To avail themselves of the opportunities they now possess for the first time of taking on a line of Bankers' Acceptances; this report is not a suitable medium for the discussion of the merits of this instrument of credit, but we earnestly commend its study to all our Savings Banks, believing that by its use a new element of liquidity may be injected into their assets and that in it lies the root of the unification of our banking system.

The activities of the Savings Bank Section are conducted by either subordinate Committees of the Executive Committee, Committee on Federal Legislation, Committee on State Legislation, Committee of Acceptances, Committee on "Service to Members," Committee on Amortization of Mortgages, Committee on Membership, Committee on Americanization, and a special Thrift Committee for work among the colored people.

The activities of the Section next year will consist largely of the following:

(1) Campaign to secure two hundred and fifty new Savings Bank Members.

(2) Campaign to urge investment by Savings Banks of a certain portion of their funds in liquid assets.

(3) Continuous study and analysis of the Savings Bank situation and reporting periodically the results to the Banks, Members of the Section.

(4) Study of the best plan of amortization of Mortgages and Campaign among the Banks to urge the adoption of the plan.

(5) Aiding the Government in all war work whenever and wherever possible.

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(7) A definite plan of action for rendering needed service to members.

(8) Co-operating with the Bureau of Education, United States Department of the Interior, in its campaign of Americanization.

(9) Consideration of additional functions for Savings Banks.

(10) Furnish members with suggested savings advertisements in conformity with war times.

(11) Study of Savings Banks systems in foreign countries.

(12) Maintain channels of information concerning savings between our Office and Offices in foreign countries, which represent the Savings Institutions of such countries.

(13) Gather new forms and methods for the operation of Savings Banks in Savings Department of Commercial Banks and Trust Companies.

During the last year we made a net gain in membership of 333 banks. The number of our voting members is 2581 and the non-voting members is 1574, making a total membership of 4155. We have kept within our appropriation for the past year, having spent $9591.08, with a credit balance of $77.72. We have requested the Finance Committee to give us an appropriation covering the next fiscal year of $10,508.92.

The Section acknowledges with grateful appreciation the splendid support received from the various Departments, Sections and Committees, as well as the General Secretary and General Council, for their co-operation in the work of the past year. It also wishes to highly commend the excellent administration of President Hinsch. His co-operation has been a constant source of inspiration to our endeavors. We desire to extend to him our congratulations on the overwhelming success of his administration.

Respectfully submitted.

THE PRESIDENT: A motion to receive and file the report is in order.

(Motion made, seconded and carried.)

THE PRESIDENT: Next is the report of the Committee on State Legislation. Mr. Mattson cannot respond, owing to the condition of his throat, and Mr. Newcomer will present his report.

MR. NEWCOMER: (Reading.)

Report of Committee on State Legislation

Only eleven States have held regular sessions of their legislatures during the present year, compared with forty-one States wherein the legislators will meet next year, and because of the unsettled conditions growing out of the war, very little has been accomplished in the way of promoting legislation upon subjects recommended by our Association. We are pleased to report, however, that in the State of New York, after years of effort, our Association measure providing an adequate punishment for the issuing of bad checks has been passed. The law is Chapter 314, laws of New York of 1918. The Act as passed contains some modifications from the draft of bill as recommended by our Association. It provides:

"Any person who, with intent to defraud, shall make or draw or utter or deliver any check, draft or order for the payment of money upon any bank or other depositary, knowing at the time of such making, drawing, uttering or delivering that the maker or drawer has not sufficient funds in or credit with such bank or other depositary for the payment of such check, although no express representation is made in reference thereto, shall be guilty of attempted larceny, and if money or property is obtained from another thereby is guilty of larceny and punishable accordingly.

"In any prosecution under this section as against the maker or drawer thereof, the making, drawing, uttering or delivering of a check, draft or order, payment of which is refused by the drawee because of lack of funds or credit, shall be prima facie evidence of intent to defraud and of knowledge of insufficient funds in or credit with such bank or other depositary, unless such maker or drawer shall have paid the drawee thereof the amount due thereon, together with interest and protest fees, within ten days after receiving notice that such check, draft or order has not been paid by the drawee.

"The word 'credit' as used herein, shall be construed to mean an arrangement or understanding with the bank or depositary for the payment of such check, draft or order."

The insertion of the provision which allows the maker to escape punishment if he makes the amount of a check good within ten days after notice of non-payment and pays the interest and protest fees, weakens the law to a certain extent and was not, of course, favored by our Association, but as it stands, the law will doubtless act as a deterrent of the practice of issuing bad checks and the passage of a similar law in those States that have not, at yet, enacted the bill.

This report will not be extended to include a statement of the various laws passed in the different States during the present year affecting the banking business. Copies of these laws are on file in the office of the General Counsel, from whom the information may be obtained.

At the meeting of the Executive Council at Hot Springs on May 11th our Committee recommended the adoption of the following:

"*Resolved*, That the American Bankers' Association favor and the Committee on State Legislation are authorized to draft and urge, through State organizations, the passage of a uniform statute to prevent fraud in the transfer of accounts receivable by secret transfers."

The above resolution was unanimously adopted by the Executive Council and is now presented for the approval of the General Convention.

At the Spring meeting of the Executive Council, in view of the desire of the Federal Reserve Board that the aid of the American Bankers' Association be given to procure in many States the enactment of necessary legislation to enable State banks without loss or disadvantage to enter the Federal Reserve system, the Committee on State Legislation also recommended the adoption of a resolution on the subject which, after amendment by the Executive Council, was adopted as follows:

"*Resolved*, That the American Bankers' Association favor the passage by State Legislatures of laws which will authorize and make it desirable for State banks and trust companies to become members of the Federal Reserve System, and to this end the Committee on State Legislation are authorized to urge, through State organizations, the passage of such enabling legislation as may be necessary, including any or all of the following provisions and any other provisions which may be needed in particular States to accomplish the end in view.

"(a) That State banks and trust companies may subscribe to stock of, and become members of, Federal Reserve Banks.

"(b) That banks and trust companies becoming members of a Federal Reserve Bank shall be vested with all powers conferred upon member banks by the Federal Reserve Act and amendments thereto, and that such powers shall be exercised subject to the restrictions of the Federal Reserve Board made pursuant thereto.

"(c) That a compliance with the reserve requirements of the Federal Reserve Act shall be deemed a compliance with the reserve requirements of the State law.

"(d) That such banks and trust companies shall continue to be examined by their State authorities, except that the Federal Reserve Board shall have the right if it deems necessary to make examinations; and that the State authorities may disclose to the Federal Reserve Board all information in reference to the affairs of those banks or trust companies which become or desire to become members of a Federal Reserve Bank."

The above resolution is presented for the approval of the general Convention or for such action thereon as may be deemed wise.

THE PRESIDENT: Gentlemen, you have heard the report of the Committee on State Legislation. Is there any motion?

(Motion to receive and file made, seconded and carried.)

RECOMMENDATION REGARDING ENACTMENT OF NECESSARY STATE LEGISLATION TO ENABLE STATE BANKS TO JOIN FEDERAL RESERVE SYSTEM ADOPTED.

We will now read the recommendations of the report, and if it is your pleasure we will then adopt them.

(Recommendations contained in preceding report were read.)

It is in order to move to adopt them.

(Motion to adopt made, seconded and carried.)

MR. WING: Mr. President, I would like to understand the legal phase of the first phrase, "without loss," as it appears in the first part of the recommendation.

JUDGE PATON: State banks, as I understand some of them under state laws, cannot now, owing to capital and other requirements, enter the Federal System advantageously. There might be some limitation on loans in the Federal System which would prevent a state bank from entering the system. Under their local conditions, it might possibly loan a large percentage of its capital. These proposed laws for the State are all permissive, and it was a blanket power to not only empower the state bank to enter the System, but practically to compel them to enter.

THE PRESIDENT: Al in favor say aye; contrariminded, no. It is carried.

We will now have the report of the Agricultural Commission, which will be presented by the chairman of the Commission, Mr. Joseph Hirsch.

Report of the Agricultural Commission

[The report of the Agricultural Commission will be found on page 129 of this publication.]

THE PRESIDENT: After hearing this splendid report from the Chairman of our Agricultural Commission, I think you will not wonder that the Committee on Co-ordination recommended that this Committee be made a permanent standing committee of the Convention, and that its able chairman be made a member of the executive council.

I take great pleasure now in asking for Mr. Moehlenpah to make the report of the Committee on Insurance referendum.

Report of Committee on Insurance Referendum, by Mr. Moehlenpah

TO THE 1918 ANNUAL CONVENTION OF THE AMERICAN BANKERS' ASSOCIATION:

The Insurance Referendum Committee appointed by the Atlantic City Convention of the American Bankers' Association herewith submits a report supplemental to the report submitted to and approved by the Executive Council of the American Bankers' Association at its 1918 Spring meeting at Hot Springs, Arkansas.

Upon the approval of this committee's report by the Executive Council the committee proceeded to organize a company and to perfect the plans for the operation of such company, as recommended in such report, and now offers its completed work to this convention, and asks in the event of approval of the same that such committee be discharged.

In support of its request for such approval, the committee respectfully submits a brief review of the purposes of and the authority for the appointment of this committee, and the reasons for the recommendations now and heretofore submitted:

A report to the American Bankes' Association's 1911 convention by its Insurance Committee of seven members, through John L. Hamilton, Chairman, gave the results of a year's investigation into the question of insurance for banks, in which the committee summarized its conclusions to the effect that "The burglary losses of member banks were but 7 per cent of the premiums paid." The convention voted that the committee be continued.

A new committee was appointed and such committee was continued at the following convention and the same committee has been continued each year since.

At the 1913 convention the Committee reported by its Chairman, "Your Committee is convinced that the rates on fidelity bonds and burglary insurance may be materially reduced and leave a fair margin of profit to the surety companies."

The same committee in its report to the 1916 convention, held at Kansas City, stated that "the banks of the country spend annually more than four million dollars for various forms of insurance protection."

At the same 1916 convention, the committee submitted figures received by it from over 4,000 banks as to the actual premiums paid for bank burglary and fidelity insurance and the losses recovered during the same period. These figures were gathered in some fifteen

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states and showed a burglary loss ratio of about 10 per cent and a fidelity loss ratio of about 15 per cent.

The former Insurance Committee has secured changes in policy form and assisted in the settlement of claims to great advantage to the member banks. It has not, however, succeeded in obtaining any material changes in the rates for bank risks.

At the 1917 Spring meeting of the A. B. A. Council held at Briarcliff several members of the Council requested the appointment of a separate committee to ascertain the sentiment of the A. B. A. banks relative to the organization of a bankers' insurance company, and this Insurance Referendum Committee was appointed under the following resolution of that Executive Council, namely:

"That an expression from the members of the American Bankers' Association be had by referendum as to the advisability of forming either a stock or a mutual company, controlled by members of the A. B. A. to protect its members on the insurance risks of bankers-members only, and that an auxiliary committee, to be appointed by the president of the State Secretaries' Section of the Association, be authorized to secure this expression from the membership and report at the next annual Convention to be held at Atlantic City."

In accord with that Resolution Major S. B. Rankin of Ohio, President of the Secretaries' Section, A. B. A., appointed the following as members of such Insurance Referendum Committee, namely H. A. Moehlenpah of Wisconsin, Chairman; S. B. Montgomery and M. A. Graettinger of Illinois, W. C. MacFadden of North Dakota and George D. Bartlett of Wisconsin, the last three named being Association secretaries conducting insurance departments for their respective Associations.

At the 1917 Atlantic City Convention this committee submitted to the Executive Council, A. B. A., prior to the Convention sessions, a summary of the information collected by it from some 7,500 A. B. A. banks distributed through every state in the Union. Of these, 5,068 favored and but 613 opposed the organization of a bankers' company, while 1,237 were non-committal; 2,868 favored a stock bankers' company, while 2,362 favored a mutual; 4,738 banks promised business to such a company when organized and but 268 stated they would refuse to patronize it. The statistics furnished by these 7,500 banks as to bank losses showed less than 12 per cent in losses on both bankers' burglary and fidelity insurance. The Council voted to refer the report of the committee to the Convention with its approval and a request that the outgoing President and the incoming President be added to the Committee and the same be continued as a Convention Committee with authority and direction to prepare such a plan of organization as it may find necessary and desirable for securing the most satisfactory bank burglary, fidelity and surety insurance at as near cost as may be found compatible with safety and good service, and make report thereon, with its recommendations to the Spring 1918 meeting of the Executive Council before submission at the next annual Convention. These recommendations were adopted by the Convention.

Following this action by the Atlantic City Convention, the Insurance Referendum Committee, with the addition of ex-President Goebel and of President Hinsch, continued its investigations and during the latter part of 1917 formulated recommendations as to the desirability of perfecting an organization of a bankers' company upon the stock plan to be operated under the control of bankers and with its line of risks limited strictly to bankers' risks.

Tentative subscriptions to stock in such a company were secured from bankers in 45 of the 48 States with the understanding that such company would not be incorporated until the plan had been approved by the Executive Council, or the A. B. A. Convention.

The Insurance Referendum Committee submitted to the A. B. A. Executive Council at its May, 1918, meeting, at Hot Springs, Arkansas, a report in which it stated:

"This Committee has unanimously decided upon the salient points of the plan for the reduction of insurance rates to bankers, and therefore, in line with the purposes for which this committee was appointed, submits the following recommendations and expresses its confidence that with the approval of the executive Council the organization of such a company can be completed by this committee and a report thereon submitted to the coming Chicago Convention of the American Bankers' Association."

The recommendations of the Committee submitted to the executive Council at its Hot Springs, Arkansas, meeting, in May, 1918, were as follows:

(1) That a bankers' Insurance Company be organized upon the stock company plan.

(2) That the capital stock be at least $500,000, with a paid in surplus of equal amount. The stock shall be distributed as widely as possible among the bankers of the country.

(3) That the lines of business to be written by such company shall be restricted to bank lines, co-operating with the American Bankers' Association and State Associations in their protective features.

(4) That dividends which may be paid the stockholders of such company shall be limited to a reasonable return upon the investment in such stock, and that provision be made for some practical form of participation by policyholders in the excess earnings of such company.

(5) That such company shall co-operate with association mutual bankers' insurance companies, through re-insurance and otherwise; and in any state where the state bankers' association is maintaining an insurance department, such company shall not apply for a license until the state agency shall have been first offered to the insurance department of such association.

The executive Council, after a full discussion, voted to accept the report and approve the plan as submitted by the Committee.

Pursuant to this authorization, your Committee has, with the aid of expert insurance counsel, made investigation to determine upon the most convenient location for such a company and the state in which it should be incorporated, and the committee favors the location of such company in the city of Chicago, Illinois, and its incorporation in the state of Wisconsin.

The Committee finds that a central location at Chicago will be the most convenient and economical in the expense of management and that the laws of Wisconsin provide the most fully and liberally with regard to the kinds of insurance which may be transacted and other matters affecting the proposed company.

The committee has, therefore, prepared articles of organization for a company to be called "The Bankers' Assurance Company," with a capital stock of $500,000, divided into ten thousand shares of $50 each, authorized to transact a burglary and fidelity and surety business and any other insurance business which may be desired by bankers in this connection. The articles provide that the company shall be governed by a board of fifteen directors, that its home office shall be at Milwaukee, Wisconsin, and that its principal place of business shall be in Chicago, Illinois.

Your Committee has taken up with the Capital Issues Committee, at Washington, D. C., the question of approving the sale of the stock of such company, and a preliminary application for such approval has been filed. The Committee has been advised that such application will be considered immediately upon action by this Convention.

Your Committee realizes that, to many bankers, this may not seem an opportune time to complete the organization of this company. The stock subscriptions, however, will be so widely distributed throughout the country, and will be in such comparatively small amounts as to absorb no considerable amount of funds in any one district. Nor is the money which is put into the stock of such insurance company withdrawn from active use. In compliance with state laws it must be invested in government or similar securities, and it is entirely possible to invest a large part of such funds in Liberty Bonds.

Having in mind the desirability of avoiding the necessity for new organizations at this time, if possible, efforts were made by members of your Committee to secure from existing burglary and bonding companies a revision of their rate schedules applying to bank risks, with a view to obtaining some immediate benefits in case the final organizaton of the company should be delayed. The companies did not give this favorable consideration.

Your Committee believes that the organization and further conduct of such bankers' insurance company should now properly be left to the bankers who have tentatively subscribed for stock and taken part in its organization and such as may hereafter become such subscribers or stockholders, and recommends that all bankers' association members should subscribe for stock in such company.

The capital stock of such company can now be issued only upon the approval of the Capital Issues Committee and all tentative subscriptions are conditional upon such approval, and it is recommended that the organizers of such company co-operate fully with said Capital Issues Committee as to the time and manner of the issue of such stock.

In view of the conservation now necessary in financial, as in other matters, there is urgent need today for the organization of the proposed company. It is clearly demonstrated that a large saving is possible to the banks participating in such insurance. The Wisconsin and North Dakota bankers mutual companies during several years show savings of 25 per cent of the premiums actually returned to policyholders. In addition an equal saving has been accumulated and is held by both companies. This indicates a possible saving of half the present stock company cost of burglary and bonding insurance. The large saving is in the expenses, but there is also a reduction in losses where the members feel an interest in their own company.

The Committee believes like results can be had by bonding this business through the proposed bankers company with the co-operation of the bankers and the bankers associations. To that end such a company should begin its operation as soon as may be found to be practicable and fully compatible with our common national interests.

Respectfully submitted,

H. A. MOEHLENPAH,
C. A. HINSCH,
P. W. GOEBEL,
S. B. MONTGOMERY,
W. C. MCFADDEN,
GEO. D. BARTLETT,
M. A. GRAETTINGER,
Insurance Referendum Committee.

Mr. Chairman, I move the adoption of this report, and that the committee be now discharged. (Motion seconded.)

THE CHAIRMAN: Gentlemen, you have heard the motion, duly seconded. Are there any remarks?

PROJECT FOR FORMATION OF A BANKERS' ASSURANCE CORPORATION NOT APPROVED

MR. NEWCOMER: Mr. President, I realize, sir, that it requires a good deal of nerve and is rather a hopeless task to get up to object to a proceeding which apparently already has the consent of forty-five states out of forty-eight, where I am in an overwhelming minority before I start. I cannot help feeling that this association has been put somewhat in the position of the girl who received so many and such constant proposals from her sweetheart that she finally married him to get rid of him, and I believe that there are a good many of us who have come around to vote for this because it was being persisted in year after year, and it seemed the only way to get rid of it. It may be too late; the girl, represented by you, has given her promise of marriage; it may be a little late to interfere with the ceremony, but I want to make one final protest against what I believe to be a great blunder on the part of this association. I am not going into statistics. I am willing for the sake of the argument to admit Mr. Moehlenpah's statistics, and that we are overcharged by burglary insurance companies and that you are entitled to relief. I have no objection whatever to a rival company being formed. He tells you he has stock subscriptions tentatively and has the business promised. There is nothing to prevent him forming his company. But he asks this American Bankers' Association now to give a vote endorsing that company. He tells you he doesn't ask you to guarantee, he doesn't ask you to warrant it in any way, but what is the effect of your resolution then? It is either nothing at all, in which event we had better drop it, or it is what I think it to be, and that is that you are announcing to this country that the American Bankers' Association guarantees that company to be a reputable company and a probably successful one. It encourages your bankers and your members to put their money into the stock. I recall at Hot Springs one of the gentlemen who had signed that report said—and I am not quoting perhaps word for word, but I think I got the exact purport of it—that he himself would not take any stock in it, that he would not have his bank insured in it, and he did not want it in his state. I am prepared to make the same

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statement, and I believe there are men in this audience, if they will be equally frank and straightforward, who will make the same statement for their states. Now, with their stock subscribed and with their business assured, they do not need your endorsement, and they are asking you to blindly come in there and back them up. In the first place, the association is going out of its business, away out from what the Constitution intended to do; and, in the second place, you are taking a stand that, speaking for myself, I would rather buy stock in a gold mine that has not been discovered, than advise somebody to take stock in an insurance company that has not been formed and has not been tried.

I may be singing a swan song, sirs, and will be snowed under in the vote, but as I sit down I want to record in the Secretary's minutes an emphatic protest against this association endorsing any insurance company—I have nothing against this particular company—or any other outside business. I believe the day will come that some people here will wish they were in that protest also.

MR. GOEBEL: I was in hopes I would not have to get into this discussion at all, but Mr. Newcomer in quoting me did not quote all I said. I said at the meeting of the Executive Council that I would not take stock in this company, and I would not want it to enter into my state at this time, because the bankers of Kansas already have this kind of a company, and it is a success. The committee this morning stated that a rate of $3.50 on fidelity bonds was fair. We are charging $1.80 in Kansas, and making money. I do not understand that this report asks the association to get behind this stock, or asks anybody to buy stock. We have had an Iusurance Committee for ten or fifteen years. Why? Because quite a large number of the bankers of America thought that we were not getting a fair deal on our insurance rate. That is why we organized our company in Kansas, a stock company, keeping its investments entirely in municipal bonds, and still making a good profit on reduced rates. I am surprised that my distinguished friend Newcomer did not quote me in entirety. Now it is up to the convention to approve or disapprove this report. I am not going to tell you which way you shall vote.

MR. GORDON: I want to join in the protest that Mr. Newcomer has made against this report. There is a very serious doubt existing in the minds of a number of the members of this association, that this company can be all that is hoped for. I want to voice my appreciation of the efforts of this committee. I think they have worked long, arduously and faithfully, and they are deserving of the appreciation of the association for the work they have done, but I think there is a serious doubt as to the assurance of the success of this company. I do not like to differ with my very good friend, Mr. Goebel, and yet it is a fact that the Secretary of the Kansas Association, who handles all of the insurance business of that state for that great association, does not believe in the success of this proposed company; and as I see it, there is a great deal more prospect of failure in a company which operates in forty-eight states than one operating in only one state. Now, there are a number of associations which maintain insurance departments. These associations have worked long and arduously to protect their members, and have succeeded in reducing the rate. They have got it down to a point now which they regard as the lowest possible, consistent with safety. It was my pleasure to attend a meeting of the State Bankers' Section the other day at which a very illuminating address was delivered on this subject, and in the course of that address—a copy of which I have here—the speaker recited the facts that insurance rates had been reduced from 75 to 25 cents. I want to read you one thing that he said: "The correctness of this rate may be fairly inferred from the fact that no company writing an extensive volume of bank business at a lower rate can long survive." Now that is the experience of a man who has been in this business for something over twenty-three years, and he was invited to that meeting, I understand, to give the benefit of his experience along that line. I want to reiterate that there is a serious doubt in the minds of many association members as to the success of this company. Just at this time there is one thing, I think, should appeal to us all. The proposition is to form a company with a capital of $500,000 and a surplus of $500,000, making $1,000,000 in all. This association is on record as pledging to the Government its support of the request that no new securities be issued during the period of the war. I believe we ought to be consistent. We have been stirred at these meetings by the reports from the front, and by the addresses we have heard, but it seems to me that if we adopt this report now, which carries with it a provision to organize a company with $1,000,000 capital and unrplus, we are decidedly inconsistent. I do not believe we ought to do that. If I am correctly informed, this would have to go before the Capital Issues Committee for their sanction, before the company could be organized. I do not believe we even ought to ask that committee to consider this. We are all on record as opposed to the issuance of any new securities during the period of the war, and I do not believe that we even ought to consider the formation of such a company at this time.. That, to my mind, is a paramount consideration right now. We want to be consistent. We want to be patriotic; we want to support the Government, and when we have voluntarily gone on record as supporting this request of the Government, I think it is not a good time, by sidestepping the question in any way, to even endeavor to organize a new company of this sort.

MR. MOEHLENPAH: I want to remind you that for eleven years we have been marching up hill and down on this insurance proposition. The last time we went after this we went after it with a referendum, and I am standing to-day with the referendum of the bankers behind me. The largest referendum that was ever taken by this association; and it is in writing. That referendum is an expression of seventy-five hundred of the smaller banks, perhaps, of our country—men who understand what a cash rebate means. It supplies service to them in their respective associations. I want to say to you, gentlemen, that the State Bank Section of this association has gone on record twice. We have a right to hear the voice of the small bankers of our country. They are not here upon the floor of this convention, perhaps. They are busy in their banks. I have discovered in the past two or three years that it is very easy for some of the larger institutions who may carry the accounts of surety companies who may have on their board of directors men who are also on the boards of Surety Companies, where the smaller banks have not, to have things their way. I stand here to-day, gentlemen, to ask the approval and the adoption of this report, because it is fair, right and just; and I ask you to not again bring this before the convention, but let the bankers of this company solve their problems as other commercial interests have. The millers, the manufacturers, the hardwaremen and the farmers can transact their insurance business, but the bankers, for some reason or other, have been stopped. I propose to take off the camouflage if it becomes necessary, but I think I voice the sentiment of the members of our great association when I say that they have the right, if they want to take this stock and write this insurance, to do so, and if any man here does not want to take stock he is not forced to. When I presented the report, gentlemen, I asked for the discharge of the committee so that it could not be said that the American Bankers' Association was behind this. Let the organizers, when the exigencies of our country have passed, gather and take care of their business. You are not asked, forced or compelled to take stock or insurance, but five thousand banks have already said that they would patronize such a company. I appeal to you, gentlemen, on behoff of the 12,000 small banks of this country, that you allow them to go about their business and care for it themselves. Thank you.

MR. INGWERSON (?) (Iowa): I want to say just one word, as a small town country banker, comparatively speaking. I have not any accounts of surety companies. I have not any directors on my list of directors who represent insurance companies. I want to say that I concur fully in the remarks that have been made here to-day by Mr. Newcomer and by the gentleman who preceded Mr. Moehlenpah. I also feel that the committee is entitled to credit for the work it has done, and perhaps we should have extended a vote of thanks, but I agree with the previous speakers that under the present circumstances we would not be warranted in giving our endorsement as an association to any private venture, I care not what it is. I do not deny Mr. Moehlenpah and the gentlemen associated with him the right to organize one insurance company, or as many as they desire. What I object to is the fact that they ask the American Bankers' Association to go on record as approving the organization of a company and the sale of the stock. It matters not what may be said; the fact that this great association goes back of the proposition will be the one thing above all other things that will be urged in the sale of the stock. I have had a good deal of experience in the few years during which it has been my privilege to be in active business, in working with Chambers of Commerce, commercial clubs and organizations of that kind, and my experience in that line has taught me that if there is any one thing that a Chamber of Commerce, a commercial club or a bankers' association wants to avoid, if it wants to maintain its standing before the people of the country, it is the indorsement of any stock selling proposition, I care not what it is.

MR. BAILEY: I just want to correct my good friend Goebel, who has been my side partner in so many things. We have an insurance company in Kansas, but it was not organized by the Kansas Banking Association. We have an insurance company in Kansas organized by the bankers as private individuals, but it does not write burglary insurance, and if it did it would be "busted" today. We have five hundred thousand dollars in that insurance company, and compared to that, your five hundred thousand of surplus for a company covering all the banks of this great association would be a joke before the American people. Talk about camouflage. I wonder what else it is but camouflage when they come before this convention and ask the association to endorse a private institution. This is no time for us to be endorsing wild-cat schemes. An organization within a state, where you know the personnel and individuality of the bankers of that state, can be run on very different lines from an organization which is scattered broadcast over the country, whereby you lose your safeguards. If you are going to do something, do something worth while. Starting an organization of this kind to be endorsed by the American Bankers' Association with $1,000,000 capital and surplus, compared to what we have in Kansas, would be a joke, and I hope that this convention will go on record as being opposed to this at this time.

MR. NEWCOMER: Mr. President, I am not going to make another speech. I want to offer an amendment to Mr. Moehlenpah's resolution, which I hope will clear the whole matter up, to the satisfaction of both sides. I move you, sir, as an amendment, that the report of the Insurance Referendum Committee be received and filed without recommendation, and that the committee be discharged with the sincere thanks of this organization for their splendid service.

(Motion seconded.)

MR. COERPER: Mr. President, I hope that the motion will not prevail. I am not a member of this committee, but I know something of the work that they have done, and I know something about association insurance. The idea has been put out here that a bankers' company must carry all the load, the same as in the case of the illustration put out before the State Bank Section by the representative of the rating bureau for the surety companies. The illustration given before the State Bank Section is the case of a company which did not subscribe to any rating bureau, was notoriously managed against all underwriting principles, and is the one conspicuous example of insurance failure. And yet that company made money on its surety and burglary business.

Now, the place where money is lost in the companies is an expense ratio of 50 per cent. They do not any of them run less than that on that kind of business. It costs that much or nearly that much to get the business. That is where the money is wasted. The experience of the Wisconsin company, which has now been operating four or five years, and the North Dakota company, is that on stock rates, and a little less than stock rates in North Dakota, these companies have paid back 25 per cent of the stock company rates in return to their policy holders. They have saved on top of that enough accumulation of assets to make a return, if they were liquidating now, of more than 25 per cent more, and those companies have had a small amount of business over which to distribute their overhead. Now, it is not a dangerous thing for an association to have its members organize an insurance company. The Mutual Hardware companies are uniformly successful; they have uniformly returned 50 per cent on the stock company premiums, and have for years; and they have done business all over the United States. The Millers' company, doing business all over this country for a great many years, returns savings to its policy holders of from 30 to 70 per cent on stock company premiums: that is a fire insurance. That is a much more difficult business than any of

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the business you are talking about—exposed to all the risks of conflagration. I give that as an illustration of what can be done by companies which have the backing of associations.

THE PRESIDENT: The question now is upon the amendment presented by Mr. Newcomer.

(The question was put, and on a rising vote the President declared the motion carried.)

THE PRESIDENT: The question is on the amendment as amended. Are you ready for the question?

(Question stated and carried.)

GREETINGS OF THE COUNCIL OF STATE BANKING ASSOCIATIONS

THE PRESIDENT: I will now call upon Mr. W. H. Booth to speak and extend the greetings of the United States Council of State Banking Associations.

MR. W. H. BOOTH: Mr. Chairman, and Members of the American Bankers' Association—I am very happy indeed to have one moment—and I shall take but one, or two—to bring you the greetings and the assurances of hearty co-operation on the part of the National Council of State Banking Associations. And in bringing to you that greeting, and in giving you those assurances of co-operation, I want to take but a moment to clarify a little situation, and to explain, if I may, the purposes of this newly formed organization, and how it hopes to be of assistance in our general work, for I take for granted that none of us at this time, members of the American Bankers' Association and loyal citizens of this country, would for one moment take any step or act, or do anything that would tend to militate against the efficiency of this organization, or tend for one moment to diffuse the allegiance which the bankers' fraternity of this nation owes to its country in this hour.

Our Council is but a small organization, and intentionally so. It is not an association, but merely a point of focal judgment of the organization of this country, made up of State chartered organizations within the State, and when we make this statement we do so with a full appreciation of the fact that we have before us in this nation some very important financial legislation today. Whether we will it or not, whether we desire it as bankers or not, we are bound to admit that the Federal Reserve System is about to change, and has changed its original function.

In the evolution which is now before us, and which has actually taken place as far as the foundations are concerned, the Federal Reserve Act has changed its functions from a commercial act to an act which shall be all-comprehensive of the financial operations in this nation. And when we appreciate that as we all do, we are bound to recognize, whether we will or no, that there will be a time, and we hope those times will be rare, when there will be very decided differences of opinion between the State chartered organizations and the national banking system.

Those differences of judgment we all admit in our own association, one with another, and it will be the part of wisdom to see that those differences of judgment may be properly known, to the end that the absolute and proper judgment in the premises may find legislative expression.

We appreciate thoroughly the importance of the national banking system, and we also know that we have an appreciation in the same way on the part of the national banking system for those of us who are operating State chartered institutions.

We take it for granted, and we feel, and the United States Council of State Banking Organizations particularly feels, that it must lend every aid it can toward co-operation in the perfection of this Federal Reserve System. But at the same time we feel that while it may not be vitally necessary—and that is debatable—that every bank should be a national bank, it is necessary that every bank in this nation should be a federalized bank and a part of the Federal System.

We are seeking only a point of expression for the expression of the State chartered organizations in the State. We are seeking only for your help, to co-operate with you, to see that the perfection of the system may find a wise resting place within the system, and the judgment of experience should be considered in the development of the proper plan.

So, in offering that for just a moment, and I now conclude, in bringing you the best wishes of the Association, we offer co-operation with your Association and all your committees, and we are thoroughly appreciative of the magnificent work which Mr. Hinsch has done in expanding the work of this organization—I say, at the same time we only hope to form a point where we can get quick action. The trouble with our work is that it takes too long, our system is too vast, our judgments are not promptly enough recorded. We want to be of assistance to you, to have you of assistance to us, in bringing before the legislative powers that be the banking judgment, and have performed for us that work which will bring wise judgment into legislation on these matters. That being done, we can go on with the assurance that the system is big enough in its character, and we can all heartily and sincerely and earnestly be a part of it.

I bring you that as a greeting and assurance that we are here to be of service when we can, and you may be sure anything we can do at any time to advance the interests of the A. B. A. we shall always be glad to do. We will go down the road together doing the best we can, working out a big system patriotically, unselfishly and loyally, to the end that we may serve a real national duty.

(At this point Secretary Daniels, of the United States Navy, entered the Auditorium, and his presence was greeted by all rising and prolonged applause.)

THE PRESIDENT: Ladies and Gentlemen, it is my very great honor and pleasure to present to you a man who needs no introduction to an American audience; a man who by his acts has placed the Navy of this great country upon a high plane of efficiency. A man who, with the courage of his conviction, has introduced reforms in the Navy for which he was criticised, but for which today we all do him due honor.

Secretary Daniels comes from the great State of North Carolina and is a true "Tar Heel."

I will now take great pleasure in presenting to you Secretary Daniels, Secretary of the United States Navy.

Speech of the Secretary of the Navy, Josephus Daniels

MR. CHAIRMAN, GENTLEMEN OF THE AMERICAN BANKERS' ASSOCIATION, LADIES AND GENTLEMEN: In your deliberations in this convention, in patriotic gatherings at home, you have given expression in generous terms of what the Army and the soldiers have done; and of what the Navy and the sailors have done, and what the manufacturers and the factories have done, and what the laborers and their industries have accomplished; and I have done myself the honor today to come to thank you for this appreciation of what the fighting men and the men at forge and factory have accomplished to put behind Pershing and Sims the forces that are leading on to victory on every battlefield of the earth.

I have come to speak for the Government of your country; for all its citizens; and I think I may be privileged to speak for all the Allies, in grateful appreciation for the unselfish patriotic efficiency and zealous service which the bankers of America have rendered since the 6th day of April, 1917.

If we appreciate the spirit and the motives which have actuated you, none the less do we appreciate the efficiency with which, as the leaders in the three Liberty Loan campaigns, you have led this country to victories that have made it possible to send armies and navies to Europe.

By your actions you have given the lie to the propaganda of our adversary that America was a nation that had but one god, and that the dollar. You have sounded throughout all the world the truth that it is sentiment and not money that dominates the American people. You have shown in these days that test men that you regard money just as men regard life in America—as something of value, as something to be given freely, and ungrudgingly for the ideals of your country whenever your country needs the last penny you possess.

It would have been impossible to have financed this great war because it calls for billions, where any other war called for millions, and we are spending today a billion dollars, whereas at one time in the history of our Republic that was all we spent in one whole year. And to finance this most costly of wars has called for a wisdom and an organization and an unselfish spirit. In other words, in America we had been accustomed when the Government needed large sums of money, that it should be financed sometimes by one great banker, who would associate himself with others. But in this great war there has been a complete and perfect mobilization of the banks of America, and you have forgotten your own business, and every bank has been a clearing house for patriotism.

I come to express what I know is the thought of the country, that but for the efficiency and for the zeal, and for the unselfish patriotism of the bankers of America, you could not have financed the Liberty Loans, and thank you for the great sacrifices in the past, and not to ask you to do more in the future, but to congratulate you. And the people that we have found in America, there is only one sentiment in banking and factory, and that is a consecration of all we have and all we are and all we hope to be to the winning of this war for freedom and independence.

Of the more than nine billion dollars that was allotted in Liberty Bonds more than six billion have passed over the counters of the banks in America. I recall in the first Liberty Loan speaking to a very conservative and patriotic banker about the effect the Liberty Loan would have on the banks. He was apprehensive lest the drawing of so many millions out of the banks would reduce their deposits and diminish their resources and lessen their ability to serve the communities in which they were established. But we have lived to see the day when the truth of Scripture is fulfilled in finance, "That that is scattered, increaseth." "There was a man," says John G. Sachs, "and people called him mad; the more he gave away the more he had." So in the banks of America, forgetting their own interest, forgetting their own advantage, forgetting everything except that American ideals were at stake, threw themselves into financing this war. It has been established that virtue is not its only reward, but that as they have served mankind, so they have received in return a confidence of the people and a gratitude and appreciation that has poured back into the banks, so that today, though six billion dollars have gone across your counters in Liberty Bonds, there are two billion dollars more resources in your banks today than there were when the Liberty Loans began. More than one billion dollars of resources in American banks than all the gold produced from all the mines of the world from the day that Christopher Columbus discovered America.

We are starting upon another loan, a loan of six billions. I do not know what that means. I spend six billion dollars on naval enlargement, but I confess to you the figures are too big for me. Perhaps these bankers understand what six billion dollars are. I can spend it, but I cannot visualize it. Congress last week, or rather, the House of Representatives, by unanimous vote, think of it—I did not suppose we would ever live to see the day when Congress would be unanimous about anything. Patriotic men differ so much about policies, and particularly about taxation, that if anyone had told us two years ago that the Congress of the United States would write a revenue act imposing a taxation of eight billion dollars and not a man in that House of Representatives would even question it or vote against it, we would have said it was impossible. Yet this eight billion dollars has been voted, and the American people are ready, willingly and gladly—that is a wonderful thing about the American people. In peace times the tax bill went hard with us, but now we swallow eight billion dollars more easily than three years ago we would pay a billion. Why? Because, unless we win this war every ideal and principle we love is gone and nobody has anything worth having. The spirit of Congress is the spirit of the American people. These people love peace. The business men of America, the bankers of America, did not wish war. They would have been glad to see it averted if it could have been averted with honor to America and with protection to American rights. Some of us believed before this awful war fell upon the world—some of us believed, though we knew that in Germany there was a military party bent upon war—we believed that the bankers of Germany, the men who control the finances of that great empire, whose interest was peace, and the men of brawn and muscle, whose interest was peace, would be stronger than militarism, and we vainly thought that they would be superior to the forces of autocracy, but we found that in a country where an irresponsible autocrat responsible to nobody, and a general

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staff and Junkers was in control, neither the power of labor nor the wisdom of capital has any consideration, and the Kaiser plunged this world into war because he thought he could despoil Belgium, because he could take the earnings of the French people, because he thought he could make Russia a vassal state, destroy England, and come over to America and make himself lord of the world. Greed and absolutism brought on this war. And for a time it seemed that liberty hung in the balance. I remember in March in that drive, when the Germans plunged headlong and victoriously on to Paris, how we held our breath, and in that day you recall Lloyd George made a remarkable speech in which he said it was a race between Hindenburg and Wilson, and the news today shows that Wilson has won.

They believed in Germany that America was worshipping the dollar and would sacrifice everything for it. More than anybody, you bankers have disproved that. They believed that we could not in a generation train soldiers who could meet the Prussian veterans with a chance of success, and get on the fields of France, and soon on the soil of Germany; American boys out of banks, out of stores, out of farms and factories, who never had military training, have, by intensive work, so fitted themselves and nerved themselves in this conflict for liberty that they are more than an equal for the finest Prussian veterans.

And when America, which has thrown down every precedent that stood in the way of victory, trampled under foot ideals cherished in all its history, for we as a country had stood for voluntary service, and the suggestion of a draft was contrary to all our traditions and all our teachings, and yet when this war came, at the request of the President of the United States, who stands today the acknowledged spokesman of the world, when this great man who speaks for us and for men who love freedom in every nation under the sun, went before Congress and presented the argument for the selective draft, it was passed, and it has proven that it is the most democratic way on earth of raising an army—more than three milion men now in arms, thirteen million registered and ready.

They said our soldiers could not learn how to fight. At Chateau-Thierry they drove them back. And in every battle since we arrived in force and contributed a large enough number of men to enable Foch to carry out the wonderful strategy with which he is winning the war, the Germans have learned that it does not take fifty years to make a soldier, if he is a free man. An autocracy has an army; a democracy is an army.

"Well," they said, "if you train these soldiers you will never get the ships to carry them across the Atlantic," and it was a stupendous understanding. And yet, with our own ships and British ships by the convoy of the navy, the best institution in the world, not any better men than the army, brothers in blood and sacrifice, we have transported 1,700,000 soldiers without the loss of a man, when convoyed by American ships. Only a few hundred lost, convoyed by British ships, which are not as prudent as ours, and if they had taken the same route would have had the better fortune. If anybody had told me in April, 1917, that we could take across the Atlantic Ocean, harried by submarines, 1,700,000 men without losing one, I would have thought it impossible, and I wish to say here today, with all reverence, I believe it is due, not alone to the skill of our navigators and sailors, and the spirit of our soldiers, but that the Ruler of the Universe has given His care. I believe that God Almighty is on the side of the nation that rises to His justice and mercy, and that in this struggle we may not hope for His blessing if we had any motive except the motive of humanity and liberty and freedom.

But they said when our soldiers go across, those of them they did not sink they would be easy prey for the Prussians. Well, they have been there some time and the Prussians are fleeing. Today we have the news that not only are the British and the French and the Americans on the western line making progress, but in Siberia the Czecho-Slovaks, aided by the Allies, are standing firm against Bolshevikism and all its evils. "Can anything good come out of Nazareth?" That was a question 2,000 years ago. Well, Allenby has taken Nazareth. And a Christian army occupies the sacred soil of Palestine. And in Bulgaria, where a month ago it seemed impossible that the Allies could make headway against those men, we get the news this afternoon that the Bulgarians are asking for time to consider, and the only time we can give them to consider is unconditional surrender.

A few days ago I visited a naval hospital in one of our seaports. Military exigency has become so careful about telling where you are that you have to say you were somewhere in France or at a seaport in America, so you see I am trying to be very careful not to give out military information. I heard that there were a score or more of young marines in that hospital, wounded, who had fought with a valor and a courage and a success not surpassed at Thermopylae, and I went in with the nurses and the doctors to see these young chaps. I think the handsomest boy I ever saw, except, of course, boys in my own home, was a young chap, red-headed and freckle-faced, in a rolling chair, one leg gone, and a friend of his came in to see him after his leg had been amputated and he had gone through excruciating agony, and this friend said to him, "Old chap, it is a pity! I am awfully sorry for you, that you lost your leg," and this young marine said, "I didn't lose my leg; I gave it."

And that is the spirit of the men in our army who have given limb and life that this old world might be free. All over Europe, in the hospitals of France and Great Britain, these young men are giving all they have, all they are and all they hope to be, for a cause dearer to them than life itself. When I think about them, standing in the cold of winter, day after day and night after night on the decks of the destroyers, where a man can neither eat nor sleep except on duty, and for a week never sleep comes to his eyes—when I think of these boys covered with mud and glory in trenches, I feel humble and thankful of the little things we can do at home to help those lads. A man who subscribes to Liberty Bonds in America, if he has a hundred million dolars and put it in, is not yet in the same class with the boy who is putting his life in jeopardy in France.

One of these days these boys are coming back, most of them, and those who do not come back will lie in honored graves in the sacred soil of France, and when they come, these boys from the Middle West. they will pass down this majestic street that fronts the lake and millions of people will cheer them as the heroes of liberty, but when that time comes I trust no one will be permitted to even look upon them who did not in this war contribute to the fullest of his ability.

It was regarded once a duty of a man to respond to the call of his Government when it needed financial aid. Today we regard it a privilege and an honor. I am glad to know that, though the bankers made possible the floating of these bonds, that the people of America responded so cheerfully and generously that most of the bonds are now held in private hands, only 2 per cent and a fraction in the banks, leaving them liquid and strong and able to carry on the work committed to their hands.

Gentlemen, in all the pomp and splendor of war, far behind as you sit from the roar of guns and the marching of armies, in your counting houses, away from bands, away from music, with no Victorian Crosses before your eyes or medals or chevrons, you are leading the mighty charge on the first trench in this onward movement in this great march we are making for the success of this issue, and when the day comes when the charge is ended in victory, I am sure that the country will say of the bankers, "They were the first to go over the top!" (Applause.)

(The Convention then tendered Secretary Daniels a unanimous rising vote of thanks.)

Report of the Special Committee of Five

The Committee of Five has mailed to every member of the American Bankers' Association and to all other banks and trust companies in the United States, a statement of their activities during the past year with recommendations. This statement and recommendations are attached hereto, marked Exhibit A, as a part of this report. The Committees conclusions are:

1. That further effort at this time to convince the Federal Reserve Board of the correctness of the Committees position would be unavailing.

2. Even though in the opinion of the Committee the law as it now stands gives every bank the right to make a reasonable charge within the limits fixed, the language of Sections 15 and 16 is confused and should be clarified. Yet the Committee believes that in view of the tremendous demands for patriotic service that are being made upon the bankers' time, it would not be wise to divert their energies to an effort to secure the passage of the amendment prepared by th Committee for the purpose of clarifying these two sections of the law. Further, such an amendment would not likely at this time receive the attention it deserves in Congress because of the important war legislation which must receive first consideration.

3. That in accordance with the opinion of the General Counsel of the American Bankers' Association, every member bank now has the right to make charges not exceeding ten cents per hundred or fraction thereof, etc., the question as to whether a suit should be brought under the present conditions to test the law, must, of course, be determined by each bank for itself.

4. The members of the Federal Reserve Board were evidently greatly impressed with the arguments submitted, that it was illogical for the Federal Reserve Banks themselves to make service charges against their members and not permit remitting banks to charge for service along similar lines, as they subsequently eliminated all service charges, which was a reversal of the position previously taken by the Board.

5. The Committee should be continued for the purpose of keeping in touch with such developments or changes as may take place in the collection system of the country and with authority to take such further action when and as the Committee deem it desirable.

Respectfully submitted,

THOS. B. MCADAMS, *Chairman,*
FRED COLLINS,
M. J. DOWLING,
GEORGE G. MOORE,
W. D. VINCENT.

(It was moved that the report be accepted and placed on file, and the motion prevailed.)

THE PRESIDENT: I desire to read a brief report submitted at the request of Mr. Puelicher, Chairman of the Committee on Federal Reserve Membership.

Report of the Committee on Federal Reserve Membership

MILWAUKEE, WISCONSIN, Sept. 21, 1916.

Mr. C. A. Hinsch, President, American Bankers' Association, care Congress Hotel, Chicago, Ill.:

MY DEAR MR. HINSCH: I was in Denver last week addressing the Convention of the American Institute of Banking on the Federal Reserve Act and its amendments, expecting, of course, this coming week to attend the Convention of the American Bankers' Association, if for no other reason than to make my report as chairman of the Federal Reserve membership campaign committee. While at Denver I received a wire asking me to be in Washington Monday morning, prepared to spend a number of days. I immediately wired advising of the difficulty of being away from the A. B. A. Convention, but a return wire stated that it was important that I be in Washington Monday.

I wish you would make my report for me. When the amendments were passed in July, 1917, Governor Harding stated that if $2,500,000,000 of bank assets were supporting the Federal Reserve System by July, 1918, there would be ample cause for congratulation. I was in Washington in July of this year, and found from the Bulletin of the Federal Reserve Board that instead of $2,500,000,000, $6,000,000,000 of State bank assets were supporting the System, and that more and more State banks were asking for admission.

Regretting most sincerely that it is not to be my good fortune to be with you during the Convention, but wishing you to know that in spirit I am with you, always with kindest regards,

Very truly yours,

J. H. PUELICHER, *Chairman.*

THE PRESIDENT: I ask of this convention that you approve the suggestion of Governor Harding in the letter I read to you several days since expressing appreciation of the services of the Committee. He suggested in that letter that this committee be continued. I should

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therefore like to hear a motion suggesting that the committee be continued in the good work it has done.

(It was so moved, and the motion prevailed.)

THE PRESIDENT: Mr. Arnold is here, representing the National Foreign Trade Council. We will have a word from him.

MR. ARNOLD'S REMARKS CONCERNING THE NATIONAL FOREIGN TRADE COUNCIL.

MR. ARNOLD: Mr. President, and Members of the American Bankers' Association: The National Foreign Trade Council has requested that I should appear here this afternoon to greet you. We know something of the power and influence which your Association wields in the life of our Nation, and we are fully appreciative of the fact that you have extended to our organization hearty co-operation. We are here this afternoon to express our appreciation, and extend to you the hand of co-operation. We know the work that you are doing, and we know you are acquainted with the work which our Council is trying to do. We are not only trying to help win the war, but we are looking ahead for world development, in which we hope that the American Bankers' Association will have a great part. After this war I think that American bankers will be known in international banking life; and in this the National Foreign Trade Council will give them its hearty support and co-operation.

I thank you.

THE PRESIDENT: It would be appropriate at this time for the Convention to give an expression of its appreciation of the splendid work done by Mr. Nelson Lampert, in looking after our entertainment as Vice-chairman of the Committee on Entertainment.

(It was so moved, and the motion unanimously prevailed.)

Next in order is the matter of committees and committee membership.

THE GENERAL SECRETARY: There is nothing to report.

THE PRESIDENT: Next in order is the matter of invitations for the next convention.

INVITATIONS FOR NEXT CONVENTION.

THE GENERAL SECRETARY: An invitation was received from the city of Columbus, Ohio, sent by the Chamber of Commerce of that city, and the Clearing House Association. Under the Constitution, those invitations are referred to the Executive Council.

THE PRESIDENT: Next is the matter of Unfinished Business.

THE GENERAL SECRETARY: There is none on the table, Mr. President.

THE PRESIDENT: Are there any communications from the Executive Council?

THE GENERAL SECRETARY: None.

THE PRESIDENT: We will next hear the report of the Committee on Resolutions of Thanks.

REPORT OF COMMITTEE ON RESOLUTIONS OF THANKS

It is the unanimous opinion of your Committee on Resolutions of Thanks, that the American Bankers' Association should express by a rising vote its appreciation of the successful efforts made by these who have contributed to make this, the Forty-fourth Annual Convention outstanding.

To the Associated Banks and the commercial organizations of Chicago, grateful acknowledgment is made. The cordial words of welcome expressed by Governor Frank O. Lowden and Mr. W. T. Fenton found reflection in concrete form.

Nothing has been neglected which could add to the pleasure of the visitors and the work of the delegates. We desire to express our grateful appreciation and sincere thanks to Hon. Josephus Daniels, Secretary of the Navy; W. P. G. Harding, Governor of the Federal Reserve Board; Hon. W. H. Vandervoort, Hon. Harry A. Wheeler, Hon. Ben Lindsey, and Hon. Otto H. Kahn, for having honored us with their presence and for the magnificent addresses delivered by them; acknowledge with grateful appreciation the splendid, courteous and liberal response of the British Government for the Exhibit at this Convention of economies practiced and sacrifices made by their gereat citizenry, to the end that decisive victory and peace shall come to the Allied arms at no distant date.

We desire to express particular appreciation for the manner in which the local press, the newspaper correspondents, the Associated Press, and the United Press have handled the news, and for the generous space the newspapers and bank publications have given to the deliberations and proceedings of the Convention, and we are grateful to Manager Burke and the Congress Hotel for courtesies extended and for official quarters tendered complimentary to the Association.

Since the American Bankers' Association has made an unprecedented record for loyalty and patriotism in its support of the financial plans of the Government for the prosecution of the war, and since this end could not have been accomplished but for the loyal support and co-operation of the member banks, we desire to extend our thanks to each and every one of them, for the readiness with which they have acceded to every request for co-operation from this organization.

Respectfully submitted,

J. H. STALL,
A. B. JONES,
M. J. DOWLING,
GEORGE W. HYDE,
FRED COLLINS, *Chairman.*

(It was moved that the report be accepted and filed. The action unanimously prevailed.)

THE PRESIDENT: All reports not presented, out in the hands of the General Secretary, will be published in the book of proceedings. A number of letters received, among them being letters from the French Ambassador, Earl Reading, and various other persons, as well as some telegrams, will also be published in that way.

I will ask now for the report of the Committee on Nominations.

MR. RUBEY: Mr. Kemper of Kansas City, Chairman of the Committee, had to leave, and I, as secretary, was asked to make the report.

(Reading report, as follows.)

REPORT OF NOMINATING COMMITTEE

CHICAGO, ILL., September 26, 1918.

GENTLEMEN: Your Nominating Committee begs to report the following nominees UNANIMOUSLY chosen by the committee to be submitted to the Convention of the American Bankers' Association as officers for the ensuing year 1918-1919:

FOR PRESIDENT: Mr. Robert Foster Maddox, President Atlanta National Bank, Atlanta, Ga.

FOR FIRST VICE-PRESIDENT: Mr. Richard S. Hawes, Vice-President Third National Bank, St. Louis, Mo.

FOR SECOND VICE-PRESIDENT: Mr. John S. Drum, President Savings Union Bank and Trust Company, San Francisco, Cal.

By order of the Nominating Committee.

WILLIAM T. KEMPER, *Chairman,*
HARRY M. RUBEY, *Secretary.*

THE PRESIDENT: You have heard the report of the Nominating Committee. What is your pleasure?

(It was moved that the report be adopted. The motion unanimously prevailed.)

A DELEGATE: Mr. President, I move that the Secretary of the Convention be instructed to cast the vote of the Convention for the gentlemen whose names have just been read.

(Motion seconded, and prevailed unanimously.)

THE GENERAL SECRETARY: The Secretary casts the vote of the Convention in accordance with the report of the Nominating Committee, for Mr. Robert F. Maddox of Atlanta, President; Mr. R. S. Hawes of St. Louis, First Vice-President; and Mr. John S. Drum of San Francisco, Second Vice-President.

THE PRESIDENT: Mr. Maddox, it becomes my very pleasant duty to confer upon you, sir, this emblem of authority as President of the American Bankers' Association to serve for the ensuing year. It has been my great pleasure to serve with Mr. Maddox during the past year, and I know him to be fully equal to the great task that has been thrown upon his shoulders. I am satisfied that at the end of his term of office you will say, "Well done, good and faithful servant." I congratulate you, sir.

PRESIDENT-ELECT MADDOX: Mr. Hinsch and Gentlemen of the Convention: I appreciate the honor which you have just conferred upon me more deeply than words can express. Having been somewhat intimately associated with the work of your Association during the past few years, I realize the dignity and importance of this office no less than I feel its responsibility. I can only say to you that during the next year as your President I shall endeavor to serve each member of this Association earnestly and conscientiously, and do all in my power to promote the best interests of this splendid fraternity that we represent. I hope that at the conclusion of my service I may still be so fortunate as to continue to retain the confidence and good-will which you have so generously indicated by your action to-day. During the present time, and the immediate to-morrow, as we pass through the uncharted seas of this great international conflict, I hope, no matter how dark the night may be nor how troubled the waters, that the patriotism of the American Bankers' Association will never be questioned; and when the dawn of victory comes, as come it will, the members of the American Bankers' Association will be found standing unitedly behind the great captain of our ship of state, and will still retain, in the estimation of our fellow-citizens, the high regard which we now enjoy. I trust that during the next year I will have the friendly co-operation of every member of every Section of this Association. I assure you in advance that I shall be glad to have any suggestions or advice from you at any time looking to the betterment of my services. Now, gentlemen, as the hour is late, I can only say I hope there will nevermore be cause for differences between the two great banking classes of our country, and that they, like "two meteors in a troubled heaven, of one substance bred, which did lately meet in shock, shall now in well beseeming ranks march all one way."

Gentlemen, Mr. Goebel has a few words to say at this time.

MR. GOEBEL: Mr. Hinsch, please step forward with me.

One year ago, my dear friend and associate, I had the distinguished honor of pinning upon you the pin that is the emblem of the authority wielded over this great Association by its President. I suggested to you at that time there would be more difficult problems presented to you, as President of this great Association, than ever have come to any President before, on account of the war conditions existing in our great country. I believe you will agree with me that I was something of a prophet. It gives me great pleasure to say to the members of this great Association on this occasion that you have met every demand that has been put upon you, in a true American way, in a great and fearless way; and the future historian of the Association will account you as one of the great Presidents of it. It has been remarkable that with all the things you have had to propose to the Executive Council, many of which were departures from old landmarks of the Association, you have been more successful in getting things approved than any President who has preceded you. Even when they turned down in a mild way the report of a referendum committee that you signed, they thanked you for doing it. Now, I think you may be well satisfied with your actions as President of this great Association.

I now pin this emblem of authority on your coat lapel. It is now an emblem of service well done.

EX-PRESIDENT HINSCH: Fellow members, I appreciate very much these kind words of praise from my associate on the Executive Council, Mr. Goebel. While we have not at all times agreed upon certain matters, we at least credited each other with having honest convictions. I was deeply gratified yesterday that the amendments to the Constitution which I proposed last spring were enacted by you into law. I believe that will mark a new era in the history of this Association. I believe it will tend largely to remove the factional differences, and that this great Association will move forward as a single unit only from now on, which means much, gentlemen, in this time of stress. While the past year has been a strenuous one, and at times the burden has seemed more than some of us could bear, I think I can consistently say that I will look back upon this year as one of the most pleasant memories of my life. I sincerely thank you one and all for the splendid support that you have given to me at all times.

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PRESIDENT-ELECT MADDOX: Mr. Hawes, please come forward. It now becomes my very great pleasure, Gentlemen of the Convention, to pin the badge of First Vice-President upon the gentleman whom you have selected to carry this honor during the coming year. I have been intimately associated with Mr. Hawes for several years, and in the past few years especially have been intimately connected with him in the great work of the organization, and I therefore sincerely congratulate you upon the wisdom you have displayed. I know that Mr. Hawes will continue to give the Association the same splendid service he has rendered it in the past, and similar service to that which he has rendered in his home State, Missouri, which makes him held to-day in such high esteem by the people of that section, for the splendid work he has done in every Red Cross drive, War Savings campaign, and Liberty Loan drive. His boy, like mine, is now with the flag in France. I know that we shall work in harmony in carrying on the activities of this Association so that we may be able to bring them back, and all their comrades back, when the banners have been furled and the cannon have ceased firing, to a bigger, broader and better nature.

VICE-PRESIDENT-ELECT HAWES: Mr. President and Members of the Convention—I am deeply gratified at the honor which you have conferred upon me. It will be my sacred duty to give all that I have to perform my duties so that I may live up to the traditions of the great office. I thank you very much.

SILVER SERVICE FOR RETIRING PRESIDENT HINSCH

PRESIDENT-ELECT MADDOX: Gentlemen, Mr. George Reynolds, whom we all love, has what will prove, I am sure, to be an entertaining feature to us and a pleasure to him. I now introduce Mr. Reynolds. (Applause.)

MR. GEORGE REYNOLDS: Mr. President, Ladies and Gentlemen—I will ask Mr. Hinsch to come forward. I am somewhat at a loss, Mr. Hinsch, to understand why I am selected to officiate at the obsequies which relegate you to private life in the American Bankers' Association. I think the explanation, though, may lie in the application of the slang phrase, "He got his." Nine years ago this month, in this very spot, I "got mine," in a similar way, and I think I have been selected for this duty because I know how it feels to be relegated from the limelight to quiet private life in the Association. Ben King has said: "A rosebud to the living is worth more than wreaths to the dead"; and we bankers believe in using the rosebuds retail rather than wreaths wholesale, in these times when conservation is the order of the day. Many years ago, when I was but a boy, I heard a minister say while preaching that he believed in more taffy in this world and less epi-taffy in the next. That is exactly what we believe in this Association.

Now, Mr. Hinsch, we have looked upon you during the strenuous day which we have passed through as the General Foch of the Association. We know you have met all the obligations placed upon you and discharged them faithfully and splendidly. We know of your service in the distribution of War Savings Stamps. We know how you have traveled all over this country from one end to the other attending bankers' conventions, and how, everywhere you have gone, your voice has been lifted in the common cause, for the stabilizing of business, for the encouragement of bankers and business men generally, in support of the Administration, and, above all, to do whatever was necessary to support the gallant boys in khaki and in blue, who are carrying our flag to glorious victory on the other side!

We have here a little memento which we want to present to you, and in this presentation I want you to bear in mind that there are represented here all the members of this great Association, 19,000 strong. We have a chest of silver here which we would like to have you take home with you, and persuade your wife to allow you to use on state occasions! The agent of the company which supplied it told me I should call particular attention to the guaranty that goes with it. He said that although there are many sets of this kind in use throughout the country, so far as they know there is no record of a man cutting his mouth while eating peas with a knife, or bending the tines of a fork while stirring sugar in his coffee!

I hope, my good friend, that when you use this on state occasions it will suggest to you some of the dear friends who have been closely associated with you during the years of your connection with the Association. We hope that you will accept this as a little token of our love, affection and esteem, and we assure you that it is tendered, on behalf of the Association, in the same manner in which the Croix de Guerre is conferred on the other side of the sea.

EX-PRESIDENT HINSCH: Mr. Reynolds and Gentlemen—I cannot say that I am surprised at this magnificent gift, because we all know that such a thing is customary at the conclusion of each of our annual conventions. But I can say truthfully, from the bottom of my heart, that I do appreciate it, and it will be my pleasure to treasure it in the days to come, when it will serve as a beautiful memory of the time when it was my good fortune to serve under your direction. I can only say, "I thank you."

PRESIDENT-ELECT MADDOX: We will now hear the report of the Committee on Resolutions.

RESOLUTIONS ADOPTED

(The Report of the Resolutions Committee was presented by Mr. Lucius Teter. Each of the following resolutions was read, and adopted by the unanimous vote of the Convention. With reference to the resolution concerning the allowance of a merchandise depreciation, the President was requested to wire the substance of said resolution to the Chairman of the Senate Finance Committee, and send a copy of the resolution also to the Chairman of that Committee, the Chairman of the Ways and Means Committee of the House, and the Secretary of the Treasury.

The resolutions are as follows:)

REPORT OF NATIONAL RESOLUTIONS COMMITTEE

September 28, 1918.

Whereas, The United States of America and her Allies are engaged in a great war, having for its object the permanent security of the world; and

Whereas, The American Bankers' Association, in Annual Convention assembled, realizing the righteousness of the cause, the tasks laid upon our Government officials, the burdens laid upon our army and our navy, the patriotic and able efforts of American business men, the loyal sacrifices freely made by all the men and women of the land, wishes to renew its assurances of unqualified co-operation to the end of securing a victorious and permanent peace. Furthermore, the Association commends the spirit of the American people which has evidenced its intent to support the policies of the Government in the prosecution of the war until such time as the Allies are able to force an unconditional surreneder and a dictated peace, and we pledge the American Bankers' Association to gladly assume all responsibilities and make all sacrifices necessary to this end.

Therefore, Be It Resolved, That the American Bankers' Association, representing as it does the great banking strength of the country, pledges anew its united support to the President of the United States, and those associated with him in the great task of the hour.

Be It Further Resolved, That we recommend to our members that they do all in their power to aid in placing the Fourth Liberty Loan, and that they continue to co-operate fully with the Secretary of the Treasury in connection with all Government financing.

Be It Further Resolved, That this Association recommends that all of its members earnestly urge their customers and depositors and those with whom they come in contact to eliminate waste and extravagance, that the needed supplies for our armed forces may be made more plentiful and that the cash results of such economies may furnish the basis for the purchase of Liberty Bonds and aid in maintaining the economic stability of the nation.

WHEREAS, There will begin on November 11 next a campaign for the raising of funds for seven agencies now engaged in aiding our fighting men on land and sea, said agencies being as follows:

National War Work Council of the Young Men's Christian Association.
War Work Council of the National Board of the Young Women's Association.
National Catholic War Council (Knights of Columbus).
Jewish Welfare Board.
War Campaign Community Service.
American Library Association.
Salvation Army.

AND, WHEREAS, This campaign has the approval of the Federal Government, and it being our desire to be of the utmost help to all agencies helpful in the winning of the war; therefore

Be It Resolved, That we recommend to our membership their most earnest support of this campaign.

AMENDMENT TO SECTION 202, H. R. 12863

ALLOWANCE OF MERCHANDISE DEPRECIATION

WHEREAS, The constant rise in the prices of commodities has resulted in a condition of increasing danger to the merchant and manufacturer which danger is bound to be of concern to the banks of the United States, it is our belief that the facts surrounding these conditions should be given serious consideration by those in charge of the taxing program of the Government.

Therefore, Be It Resolved, That we recommend the approval of the amendment to the present draft of the Revenue Law known as "H. R. 12863," offered by the National Dry Goods Association, and more recently approved by the Advisory Council of the Federal Reserve Board, which amendment is as follows:

Add to Section 202 of the proposed Bill the following paragraph:
"A reasonable allowance being made for the increased cost of merchandise so inventories over the average cost of like merchandise during the pre-war period."

The entire Section would then read as follows:

"Sec. 202. That whenever in the opinion of the Commissioner the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the Commissioner, with the approval of the Secretary, may approve or prescribe as most clearly reflecting the income of the taxpayer.

"A reasonable allowance being made for the increased cost of merchandise so inventories over the average cost of like merchandise during the pre-war period."

MERCHANT MARINE AND FOREIGN TRADE.

WHEREAS, The fortunes and demands of war have placed within our grasp an American Merchant Marine rivaling in tonnage the merchant fleet of Great Britain at the beginning of the war and these same conditions have increased our productive capacity in many lines of industry far beyond the peace demands of our own country, and

WHEREAS, Profitable use of this newly acquired instrumentality of transportation, and of these new channels of production, depends entirely upon our National recognition of the need for acquiring foreign markets for our productions, and of intelligently adapting our industries to meet the demands of such markets.

Resolved, That the American Bankers' Association, in convention assembled, pledges itself to support, by every means in its power, the development of export trade, to encourage manufacturers to enter upon this field of distribution, and to provide, as rapidly as possible, adequate facilities for financing export operations sufficient to meet every reasonable demand that may arise.

Respectfully submitted,

ROLLIN P. GRANT.
WILLIS H. BOOTH.
OSCAR WELLS.
HOWARD I. SHEPHERD.
LUCIUS TETER, *Chairman.*

WORK OF AGRICULTURAL COMMISSION

Whereas, The work of the Agricultural Commission of the American Bankers' Association has demonstrated that the banking fraternity throughout this country is a great constructive force in the needed increase of agricultural production.

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Therefore, be it Resolved, That the members of this Association be urged to even more actively assist wherever it is within their power any movement or effort which shall have for its purpose the legitimate advancement of the agricultural interests of the nation.

RELIEF URGED FOR PUBLIC UTILITIES

Whereas, The maintenance of the country's public utilities in the highest possible state of efficiency is essential not only to the war program of the United States, but also to the nation's business, industrial and public interests; and

Whereas, Such efficiency depends upon the preservation of the credit of the companies providing public utility service; and

Whereas, The increase of costs and the unusually difficult conditions of operation brought about by the war seriously threatened the ability of the public utilities to continue the furnishing of the necessary services they perform; and

Whereas, The protection of the credit of public utilities is very largely in the hands of regulatory commissions and other public authorities, rather than in the utilities themselves; now, therefore, be it

Resolved, That the American Bankers' Association recomend to National, State and local authorities that they recognize the unusual and onerous conditions with which public utilities are contending, and that in the interest of the Nation, of business and of the public they give prompt and sympathetic hearing to the petitions of such utilities for assistance and relief; be it further

Resolved, That the Secretary of the American Bankers' Association be instructed to send a copy of this resolution to the various commissions controlling public utilities within the states.

DESIRABILITY OF MAINTAINING GOLD PRODUCTION

Whereas, The gold production of the world is rapidly decreasing; and

Whereas, The only form of relief that will prove effective and can be applied promptly is action by the United States Government in such form and by such methods as may be deemed fit and proper under the circumstances; and

Whereas, Gold is the standard of value and the basis of all credit, and it is vitally important to the financial and commercial life of the nation and the world; now, therefore, be it

Resolved, That the American Bankers' Association in Convention assembled respectfully request and urge upon the Government of the United States the desirability of maintaining the production of gold to at least its pre-war volume, and ask that steps be taken immediately to that end; and be it further

Resolved, That the Secretary of this Association be, and he hereby is, instructed to send a copy of this resolution to the President of the United States, Secretary of the Treasury and Secretary of the Interior, advising them of its adoption; and be it also further

Resolved, That considering the great importance of this subject, this convention recommends to the Executive Council that the matter be referred to the Federal Legislative Committee and the Currency Commission for an exhaustive study and such action as may be deemed necessary.

RESOLUTION AGAINST TRADING FRAUDULENT SECURITIES FOR LIBERTY BONDS

Whereas, The Capital Issues Committee has assumed as a war duty of the Office, the work of stamping out the sale of fraudulent securities to the American people; and

Whereas, As a part of such work it is trying to prevent the further exchange of such fraudulent securities for Liberty bonds; and

Whereas, This campaign has the enthusiastic support and approval of the Secretary of the Treasury; also of the Chamber of Commerce of the United States and other important business organizations; now, therefore, be it

Resolved, That the American Bankers' Association pledges its support and co-operation to this vital effort to destroy this improper commerce in Liberty bonds and the sale of fraudulent securities, and calls upon its individual members to aid and co-operate with the Capital Issues Committee in every way to accomplish these ends.

PRESIDENT-ELECT MADDOX: Gentlemen, I want to thank you personally, and I am sure that the Chairman of the Committee does, for the very careful consideration that you have given these important resolutions. We appreciate your courtesy and consideration.

MR. TETER: I would like to add at this time, on my own behalf, that I appreciate very highly the aid of the members of my committee in bringing these matters together, in the form in which we have them.

EX-PRESIDENT HINSCH: Mr. President, I move the adoption of the committee's report as a whole.

(The motion unanimously prevailed.)

THE PRESIDENT: In the inaugural ceremonies you undoubtedly noticed that the Second Vice-President did not appear to receive his badge. I refer to Mr. John S. Drum of San Francisco, President of the Savings Union Bank and Trust Company. Unfortunately, he is not here, but we are very glad indeed to welcome him into the Association among the administrative officers, and I know he will prove a very valuable member of that committee. His badge will be sent to him in due course.

MR. HAMILTON: Mr. President, I move that the President be authorized to appoint a committee of fifteen, of which he shall be a member, to be known as the Commerce and Marine Committee, to study this important question and bring it before the Association.

(The motion was seconded and prevailed.)

THE PRESIDENT: Is there anything else to be brought before the Association before we adjourn?

(It was duly moved and seconded that the Convention do adjourn. The motion prevailed.)

THE PRESIDENT: I now declare the Forty-fourth Convention of the American Bankers' Association adjourned.

ADJOURNED SINE DIE.

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CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Twelfth Annual Meeting, Held in Chicago, Ill., Sept. 24, 1918

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The Clearing House as a Power in War and in Peace

By Wm. A. Law, President First National Bank, of Philadelphia

The modern Clearing House system is distinctly the product of constructive American genius. Created as a necessary part of the banking machinery of our larger cities, for the simple process of exchanging checks, it has slowly evolved by practical daily operation and its functions have been enlarged until it embraces many highly important cooperative activities, unthought of during the first decades of its existence.

The Supreme Court of Pennsylvania has thus defined the Clearing House:

"It is an ingenious device to simplify and facilitate the work of the banks in reaching an adjustment and payment of the daily balances due to and from each other at one time and in one place on each day. In practical operation it is a place where all the representatives of the banks in a given city meet, and, under the supervision of a competent committee or officer selected by the associated banks, settle their accounts with each other and make or receive payment of balances, and so 'clear' the transactions of the day for which the settlement is made."

Organized originally, therefore, for the sole purpose of settling the debits and credits of its members, the Clearing House at present also effects for its members the collection of items upon non-member banking institutions; assembles statements of condition in a uniform manner for weekly publication; determines fair rates of exchange chargeable by its members and fixes maximum rates of interest payable upon deposits; thus in each instance stabilizing rates and preventing ruinous competition; provides the machinery for the issue of loan certificates in time of financial stress; advances funds to the Government in the great crisis of war; maintains the gold standard of value by defining a medium of settlement; provides for the thorough investigation of the condition and affairs of its members by a permanent, trained corps of expert examiners who report general results to the Clearing House Committee, but maintains strict privacy as to details, imparting them only to the bank under scrutiny. All these varied functions do not fully indicate the value and importance of the activities of the Clearing House. The greatest service performed by the Clearing House organizations arises from the opportunity presented for conference at frequent intervals by the practical bankers of the community and the crystallization of an enlightened sentiment resulting in cooperative action for the common benefit.

Clearing Houses are voluntary associations—not compulsory, and seldom incorporated. Their compelling force is the might of right, the force of intelligent and disinterested public opinion, influencing the community because of the character and experience of the active body, the Clearing House Committee. In this forum are discussed only matters of practical banking importance; divergent views are expressed and weighed, differences are threshed out, a unanimous agreement is usually reached and thereafter the member banks act as a unit.

The first Clearing House Association in this country was organized in the office of the Merchants Bank of New York in 1853. Today there are 230 Clearing House Associations in the United States. The New York Clearing House has probably always been the most influential. It has assumed leadership in many grave emergencies and by the courage and sagacity of its management has frequently saved the day for the entire country. When the United States Government in 1861 was in dire financial straits, the Clearing Houses of New York, Philadelphia and Boston pledged the total resources of their members at a meeting called by the Secretary of the Treasury Chase, and relieved the difficulties of the National Government. In the panic of 1907, following the lead of New York, 51 Clearing Houses issued loan certificates amounting to $255,536,300, enabling member banks to extend additional credit to country banks, to mercantile and manufacturing customers, and making it possible to pay Clearing House debts without unduly curtaling credits or calling loans.

During 1907, the late Mr. James Stillman was Chairman of the New York Clearing House Committee. His wisdom and strength of character enabled him to render the country preeminent services in that crisis. As he has passed away since our last meeting it is not amiss to refer here to his breadth of vision, soundness of judgment, and personal power which enriched not only the banking profession but the whole nation as well. The institution to which he gave the best efforts of his life remains an enduring monument to his rare genius.

Permit me to refer to several distinctive features of

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the Philadelphia Clearing House Association. Organized in 1858, it has been most conservative in its methods, especially regarding the payment of balances, which have been invariably paid in gold, through the device of gold Clearing House Certificates, or through gold Treasury Certificates. Of course, this rule did not apply at such times as loan certificates were in circulation, but all loan certificates were finally redeemed in gold. For many years Philadelphia had two daily exchanges. The first exchange was very early, at 8:30 A. M., and included only checks received by the members on the previous day. The second exchange was termed the runners' exchange and included all notes and acceptances due on that date and all items in the morning mails made payable at the banks. The balances arising from the runners' exchange were settled by means of Clearing House Due Bills which were a form of cashier's check, payable only through the next day's exchange. In order to safeguard the banks in holding over night Clearing House due bills, each member bank deposited securities with the Clearing House Committee in proportion to its capital and surplus. The runners' exchange, however, was abolished in January, 1907, the hours for exchanges changed to 10 A. M., and now all of the above items may be included in the clearing if time permits. The Clearing House Due Bill still continues to be used as a substitute for certificate of checks. Gold settlements have always been the rule and the Philadelphia Clearing House has continually declined to authorize the issue of orders against credits.

As a result of the Walsh failure in Chicago, a system of Clearing House bank examinations was established there in 1906 which has since been generally adopted by other American Clearing Houses. This has developed into a system of self-protection the value of which is inestimable to the banks and to the community not only as an inventory and appraisal of their physical assets, but on account of the information thereby rendered the directors regarding their respective banks. Such examinations exert a weighty moral effect upon the management, who derive distinct profit from the cooperative advice of a trained Clearing House bank examiner, specializing upon local conditions and tendencies and necessarily familiar with local borrowers. It is generally understood that credit for originating this idea is due to Mr. W. T. Fenton, the veteran vice-president of the National Bank of Republic of Chicago.

The County Clearing House is Boston's notable contribution to the Clearing House system. Owing to the compact, clearly defined territory of New England, all tributary to Boston, and the practical skill displayed in its organization in 1899, this pioneer country Clearing House was instantly and continuously successful until finally taken over, body and breeches, by the Boston Federal Reserve Bank. Its practical features made it a model for several other important Country Clearing Houses in other places and for the existing collection system of the Federal Reserve Bank.

The influence and power of the various Clearing House Associations of the country reached their zenith in 1914 when they stood the initial shock of the great European war and met it by the issue of loan certificates.

On Monday, July 28th, 1914, Austria declared war on Servia. On Friday, July 31, following the closing of all the European Bourses, the London Stock Exchange closed. The resulting liquidation of securities upon the New York Stock Exchange by European, Canadian and American holders was unprecedented in volume, with wide breaks in price. The calling of loans by Canadian banks augmented the heavy demands for gold for export. About $50,000,000 of gold had been exported in June and about $45,000,000 in July. The Bank of England raised its discount rate from 3% to 4%, to 8%, and to 10% per cent between July 29th and August 1st. The New York Stock Exchange closed its doors on Friday, July 31st, for the first time since the 1873 panic. The Cotton Exchange closed on the same day. On Saturday, Germany declared war against Russia, and on Sunday attacked France, and on Monday invaded Belgium.

The New York Clearing House Committee, after conferences with the Secretary of the Treasury on Saturday and Sunday in Washington and New York, decided to issue loan certificates on Monday, August 3d, authorizing payment of balances also in any form of currency. The Boston, Chicago, and Philadelphia Clearing Houses immediately followed suit. The savings banks gave notice of intention to enforce the sixty day clause upon withdrawals in excess of $50 or $25.

In swift succession gold exports ceased, foreign exchange became demoralized and the exportation of grain, cotton and other staples stopped as orders were canceled. Marine insurance could not be effected and vessels in many instances returned to port, having been recalled by wireless instructions. Cotton and grain at once declined sharply, and widespread apprehension ensued.

The experiences of 1907 had familiarized all city bank officers and Clearing House Committees with Clearing House loan certificate operations. So the machinery was at once quietly and smoothly set in motion under control of veterans. This action provided on Monday, August 3rd, abundant means for settling all balances between local banks. At the urgent request of Clearing House officials and with the hearty approval of the Secretary of the Treasury, Congress promptly amended the Aldrich-Vreeland Act of 1908, which authorized emergency currency. Congress abolished the restriction of a $500,000,000 maximum and repealed the provision that no bank could issue emergency circulation unless it had already outstanding national bank notes amounting to 40% of its capital. The rate of tax or interest was also reduced to 3% per annum for the first three months, with ½ of 1% increase for each month thereafter until 6% was reached.

The officers and machinery of the various Clearing Houses were utilized by the National Currency Associations, and their committees passed upon and became custodians of the securities pledged to secure emergency currency. All these measures of relief so quickly adopted served to safeguard the money situation, enabled banks to expand credits, to make currency shipments to the interior, and to meet payroll demands as usual without calling loans or curtailing commercial credits. Thus by their promptness, energy and good judgment, the New York Clearing House Committee with the instant cooperation of many other Clearing Houses unquestionably averted a disastrous panic and prevented any serious interruption to domestic commerce. Twelve cities in the United States issued $211,778,000. Clearing House certificates and emergency currency was omitted amounting to $384,485,000.

Meantime the British Parliament had decreed several bank holidays, then a moratorium, and had later arranged with the Bank of England to purchase at low rates under Government guarantee all bills of exchange accepted before August 4th, without recourse upon the acceptor. This was a most important step in Great Britain's masterly policy toward resumption of foreign trade. As the British Navy cleaned up the seas of German ships, ocean traffic started, grain and cotton bills were created and became marketable and foreign commerce was gradually resumed.

In September the $100,000,000 Gold Pool was formed by New York bankers, almost every institution in the larger cities contributing its proportionate share as part of a plan to provide for the payment of various American obligations maturing abroad. Shipments of gold were made from time to time to Ottawa for account of the Bank of England. This gold was useful later on in settling balances due us.

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During October the tide turned and practically all Clearing House certificates were retired. In November the New York Clearing House announced in the press that its entire issue had been redeemed. The crisis had passed. Money became comfortable in October and was easy in November.

On November 16th the Cotton Exchange resumed business and the Federal Reserve System was inaugurated, the 12 banks opening their doors and gradually commencing operations. The reduction in reserve requirements added to the existing ease of money and the member banks shifted their reserves to the Federal Reserve Banks without disturbing the money market. The New York Stock Exchange opened December 12th.

After the crisis had passed and the Federal Reserve Banks were opened, the influence of the Clearing House System began to wane unquestionably, then and there. Its loan certificate functions have passed away forever. Its issue of gold certificates against deposits of gold have also gone forever, as the Federal Reserve Banks have absorbed all the unrelated gold reserves and merged them into a common reservoir. The Federal Reserve Bank now receives credits and pays debts at the Clearing House for the member banks by a simple ledger entry and has also assumed the functions of the country Clearing House, while its Gold settlement Fund, established early in 1915, is in some respects a National Clearing House for the 12 Federal Reserve Banks. The Federal Reserve System has become a most useful machine for banking cooperation, but in its present organization it has no group of men occupying a similar position to the Clearing House Committee, the members of which come together fresh from their practical experiences and contact with merchants and manufacturers, and feel as no one else can the pulsations of the commercial life of the city. They serve without political objective and without personal gain as a motive. They sit about the table as free and independent men, representatives of their banks, serving without compensation for the benefit of their community. Their opinions take value and prevail as they may or may not possess actual worth. Their action is based on their own views and not on those of any other superior body. The value of their judgment lies in their complete knowledge of existing conditions. The Clearing House Committee is a striking instance of local self government exercised through representatives, in a democracy. The foremost bankers of every important American city have been the leaders of its Clearing House activities.

When the United States entered upon war, the Clearing Houses of the country were the centers in which financial public opinion was quietly formed and crystallized. Their influence radiated into the community and moulded its attitude. In all the Liberty Loan campaigns and other war activities, the leaders of the various Clearing Houses have played no mean part. They have also had a tremendous silent influence in lining up the financial, commercial and industrial units in the larger communities and utilizing their resources. The final result has been that magnificent and universal spirit of financial cooperation which has inspired the American people, bound us all together as a solid nation and unified our efforts for financing the war. By this cooperation we have accomplished what many considered impossible—have mobilized the sinews of war to the extent of billions, in keeping with the spirit and resources of the world's most prosperous nation. Today this is the universal attitude and men come in from the remoter regions daily and astonish us with the story of their work, which is similar to ours, in the distribution of Liberty Bonds. This is the simple explanation of America's immense total subscriptions.

Today the Clearing Houses are influencing steadily the curtailing of non-essential loans and the shifting of funds into channels necessary to the prosecution of the war. This is being done so quietly and in such a common sense and practical manner that the extent of the transition is scarcely realized.

Through the influence of the Clearing Houses the banks generally have adopted a system of liberal loans to those engaged in all activities which would help win the war, even if such policy involved borrowing heavily from the several Federal Reserve Banks. This is back of our productive capacity, beyond parallel in history, and the paramount element in winning the war. This is a control in production and is so stupendous no one mind can compass it. Today the post of honor belongs to the banks showing the heaviest amount of rediscounts and bills payable incurred in their efforts to help their deserving customers finance their production.

During the war period the Clearing Houses have been centers from which has emanated a sentiment of supreme confidence. We are strong and we have the knowledge and confidence of our strength. We occupy a dominant international financial position. We hold the largest gold reserve in the world; according to Sir Edward Holden we have the best banking system on earth. We are creating immense favorable trade balances. Practically none of our securities are held abroad. We ourselves are holding many billions of the Government securities of the leading nations on earth. When peace comes the United States has an opportunity to become a preeminent commercial world power such as no one would have dreamed of five years ago. We shall rapidly develop our foreign commerce with a strong navy, a merchant marine and foreign banking machinery, provided favorable political influences are assured.

Possessing the friendship of the world, won by the sacrifices America has made on account of our faith in the right and on account of our ideals of Liberty and Justice, we can take a place in world affairs to which the character of our people and our unparallelled natural resources entitle us, a place second to none. As bank officers and citizens, let us all mass our efforts and influence for an intensive war and let each go the limit in doing our bit, end autocracy and militarism, to safeguard democracy and to punish properly the criminal brutes of Germany, regardless of rank. Those whom we have sent to France will do well their part, we need have no fear. God grant that we on this side may worthily support them.

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Exchange, Collection, or Service Charges from the Standpoint of a Reserve City Banker

By Clay H. Hollister, President of the Old National Bank, Grand Rapids, Mich.

Of all sad subjects under the sun to give one to study let me recommend this as the saddest, not because it is more complicated in detail than many other subjects; for instance, it might bother one a lot more to find out why a railroad should charge a certain rate for carrying hogs to Chicago and a certain other rate for carrying strawberries, but here is a case where the theory should provide the solution, the theory being that a bank providing a service for a customer should be compensated for that service—the answer being in this case not only that the bank should provide the service, but it should pay roundly for the privilege.

We have been asked to deal with one phase of the exchange or service charge question—namely, its effect on the Reserve Banks as distinct from Federal Reserve, Central Reserve or Country Banks, or in other words, analyze the effect on the intermediate agent who stands between the country bank and the larger outside commercial world. The conditions surrounding the country banker who seeks to build up his business by getting Tom, Dick and Harry to draw checks upon him so that his bank will be known favorably, is like to a bank which was commended to me recently because it had always cashed every check that my friend had received upon it. To get this reputation, which is earned at the customer's expense, and add to it all glory that is earned by its own effort and get people coming in the front door, that is the first step. The real hope underlying it all is that somehow these front door parties may prove worth while and will let some of their prosperity filter into the bank.

The Reserve Bank is just as eager for business—goes out after Country Bank accounts—makes first a proposition to the country bankers that gives the Reserve Banker a small profit, then modifies it to suit the taste, adding malt or sugar, but no vinegar, and finally lands the account on a basis satisfactory to the Country Banker.

A country banker with pride tells us that he has 387 commercial accounts totaling $57,700, and that 142 of these accounts average below a $10 balance. He says: "The small depositor in rural districts I deem the very fibre root which supports the trunk and branches of the financial tree, and when the city bank compels the small depositor to buy a bank draft, postal or express order to pay his bills they are striking at the very hand that feeds them." This same logic obtains in the mind of those Reserve Bankers who think that out of the multitude of new bank accounts they get and the volume of items they handle will come the glorious victory.

To such Reserve Bankers, and they are few, who have been able first to inveigle with soft words, then to charm while the operation of classifying, card indexing, averaging, and dissecting was going merrily on, and then to finally hold their victims under totally different terms than those originally dreamed of by the correspondent— to such we bow in admiration. We hope they have done the trick and that the Federal Reserve Bank won't get them. But here is the way this refinement in service appears to the country banker. One of them writes:

"Our city correspondent will tell us that they make all of our collections at par, without cost to us, but do they? Our last month's interest account from one correspondent shows "deductions to cover loss of time incurred in collecting outside items credited upon receipt" of $128,000 for 3 days. Does that look like collecting at par? While our customers, whom we take these checks of, get credit at once."

But most Reserve Bankers are not of this class, for either in lack of volume of business which can be controlled simply or in the quality of their accounts which do not produce loanable margins that are simply making one hand spend all its time snatching the burden from the other. Sometimes as a juggler they toss one charge in the air while each hand grasps another, but eventually they all get down on the carpet.

The classes of items handled which may be said to compose the bulk of transactions involved in our discussion are as follows:

1. Trade Acceptances.
2. Drafts drawn either with or without attached documents requiring presentation to drawers.
3. Checks of individuals upon banks or checks or drafts of banks upon each other.

Trade Acceptances in our judgment should bear a collection or exchange charge on the part of the remitting bank. This charge should be moderate in order to stimulate the use of Acceptances, and further because the Acceptance, when properly used, becomes one of the most easily handled of items.

Drafts drawn either with or without documents attached, involving either the sending of notices, presentation to drawee or both—in almost every case involve a distinct service, and therefore should yield a charge to the remitting bank. This charge should be based upon the extent of service required.

Checks of individuals upon banks when sent to pay obligations outside of the town of the drawee bank should yield a small charge to the remitting bank. The same rule should apply to checks or drafts of banks upon each other except where those checks or drafts are upon the larger centers of trade, such as the central Reserve Cities and Federal Reserve Banks.

Our argument is as follows:

Banks are organized for profit. They may vary in service rendered, but they are entitled to pay for such service as they do render.

The opening of a checking account by a bank with a customer is a service to that customer.

The bank furnishes a safe depository for his funds.

It furnishes him all stationery necessary to transact his banking business—including deposit slips, check books, monthly statements of account, pay-roll slips, money containers, etc.

It gives the customer a legal receipt for any money he pays by check.

It enables the customer sitting at his own desk to pay bills anywhere in the country as easily as though they were payable in his own town.

This is definite tangible service that every bank renders to every commercial depositor—many banks do very much more than this in numerous ways. The customer we say should pay for this service, and a charge may be allowed by him in either of the following ways:

(a) By keeping with his bank a balance sufficient to allow the bank to first receive from him and its other customers return enough upon its use to repay the cost of the services enumerated above—then in addition a small profit.

(b) If his balance is necessarily small he should pay a fixed monthly fee based on the average cost of similar accounts, or if he uses his account freely for paying outside bills, he should permit a charge upon every check so used. As an example of accounts that do not do this I have cited perhaps an extreme case in another paragraph of the country banker who prides himself that he has 142 commercial accounts that average a ten dollar balance. If we assume that 10 per cent. only of this balance is kept by the banker as a reserve, we can see that the banker received 54 cents a year, or one cent a week for each account providing he loans his money at 6 per cent. Out of that he must keep his customer's true account, protect it from fraud or misuse, furnish him stationery as noted above, pay postage, get a return on his own investment in bank and fixtures, clerk hire and overhead. A banker in Cass City, Michigan, says: "Just today I cashed a check for 75 cents, drawn on a bank in Montana. Think of it, sending a check from Montana to pay some lodge dues; the bankers do the rest." Of course banks that take accounts like this make their good customers pay the cost of handling the poor ones—they expect the few good ones to carry the volume of poor ones—they must charge excess interest to cover this expense or else they must be satisfied to take as a profit less than the going rate of interest would bring them, if other services were properly paid for, or if, by making friends with the small customer, you help to draw his friends to you, some of whom may be profitable, which at best is intangible. A country banker, but a friend of the Reserve Banker, pleads for fair treatment for the latter. He says: "One fault lies largely in the fact that many country banks do not maintain sufficient balances as they should, but try to take advantage of and work the city correspondent to the limit."

The commonest form of charge is called exchange. Exchange theoretically is the cost of remitting actual currency to satisfy an obligation at its place of payment. Banks, however, according to location, size and character of business, have distinctly varying needs for actual currency shipments, so that it seems much simpler to us to consider the word "exchange" as practically a "service charge." This is particularly true now because of the fact that banks have so encouraged the use of checks in all manner of settlements that the old practice of selling bank drafts on large centers to customers to enable them to pay foreign obligations has almost entirely disappeared. The competition of express companies and the post office through the convenient issuance of money orders has also had much to do with this—so the check fostered by banks which has come to stay and grow in use should bear its burden of expense in direct proportion to the service it renders its drawer.

Another banker in Escanaba writes:

"The whole question of exchange and collection charges seems to hinge on where bills are payable. The buyer says when he pays the money at the bank, that should release him; the seller says that the money should be paid to him at his place of business, and this continual quarrel between the buyer and the seller raises the whole question and the banks are now standing in the gap, being practically prohibited by law from charging even postage for the remitting of money or exchange in payment of customers' checks. It would take considerable persuasion to make me believe that if a customer of mine brings in $10,000 in cash and immediately draws his check payable to a firm in San Francisco that I must ship at my expense this $10,000 to the Federal Reserve Bank or whatever other bank through which it finally reached us to pay this check. This controversy has been going on for years, but the city banks and the wholesalers, being better organized and more powerful, have finally convinced the Government that money should be paid to them at their place of business without cost, for goods which they sell. The local bank is up against it, as we cannot make a service charge to our depositors after years of free service. It is also very difficult for us to refuse checking accounts, although we ought to do it where the balance is insufficient to warrant the expense. A country bank has to do a great many things that a city bank would never dream of doing, and I suppose this is one of the things we must in future do for nothing. It goes without saying we feel that the Government has unwarrantably taken advantage of the power which has been entrusted to the Federal Reserve Board to compel the country banks to perform a valuable service without compensation."

In preparing this paper, we sent out a questionnaire. No one is really intelligent in these days if he cannot have a bundle of questionnaires about. Here are the questions as asked and the answers by "Yes" or "No" as summarized. Many kind-hearted correspond-

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ents gave more extended answers and to them we owe much of the discussion in this paper. We sent out 200 blanks and received back about 130 replies. We thank these correspondents one and all. In writing to them we acknowledged our ignorance of the problem, but of course we hoped to deceive them into the belief that if they answered our questions we would find the solution. A few souls, bless them, were so deceived, the rest were at least obliging.

Question 1—Do you collect exchange from your home customers on foreign items deposited with you? Yes, 24; no, 10.

Question 2—Do you charge your outside correspondents for items on your own town that they send you, both checks and collections? Yes, 68; no, 61.

Question 3—Do you make a profit each year upon this business which compensates you in dollars and cents for the postage, clerk hire, stationery and proportion of overhead expense which this business should properly stand? Yes, 16; no, 112.

Question 4—Are you entirely satisfied with your present system of routing and collecting your cash items? Yes, 101; no, 24.

Question 5—If not, what is the matter? Varied answers.

Question 6—Do you think that your home customers should pay the exchange, collection, or service charge which he now may not pay, when he, by issuing his check at his own desk, is able to pay debts anywhere in the country? Yes, 82; no, 40.

These questionnaires were sent to Reserve Banks and to Country Banks, the distinction being only one of size and degree. Question 4, "Are you entirely satisfied with your present system of routing and collecting your cash items?" With 101 replying that their service from correspondents was satisfactory as compared to 24 who said they were not, it was manifest to me that the Reserve Banks were at least 80 per cent popular with their country correspondents and that they were therefore not profiting at the expense of the country banker. But 87 per cent of all answering, Reserve and Country Banks alike, showed they were doing this business at a loss.

Now for summing up: The banks in this country have developed the greatest number of individual and separate banking offices in the world. They are essentially democratic institutions as compared with those in countries having the branch bank system. They too have fostered and developed the use of checks by individuals far more than in any country of the world. This use of checks has an important bearing upon the use of money and of reserves. Even though this use may be of the greatest value in providing a self liquidating secondary currency, its convenience to the maker of the check is such that he should pay for its use. His home bank should see that he pays either by direct charge or by indirect profit on his account, but this should be carefully figured so that a profit is made on each account. When the home bank has done this, what shall we say of the Reserve Banks? Their business is greater in volume and involves bank accounts, in addition to ordinary commercial accounts, and they in their turn should receive pay for their service by the use of compensating balances. They may be able to scale some fees from a part of this sort of business that passes through their hands, but the most of their compensation must come from substantial balances kept by the banks whose items they handle.

To reduce the cost of handling checks and to place the burden where it properly belongs there might be established in Reserve centers, Country Clearing Houses. These should be near enough to their clients so that mails could reach them in not over eight hours. These Clearing Houses could be operated by joint membership of all banks in the district and used simply in a co-operating way for clearing purposes. The Federal Reserve Banks could place in charge of each Country Clearing House a representative to link up the operation of it with the Federal Reserve Bank. Each Country Clearing House might receive from member banks a balance not subject to interest which the Country Clearing House might in turn deposit with the neighboring Reserve City Banks. This balance would constitute a fund to protect the Clearing House from loss—in addition to this, member banks should make daily settlements of clearing house balances by drafts on some neighboring Reserve City bank. Rules covering details could easily be formulated. In this plan every Country Clearing House could receive and collect direct all checks in its designated zone. This plan would relieve Reserve Banks from handling much detail and would leave steadier balances in their hands from correspondents and from the Country Clearing House. In our judgment the saving in detailed handling, postage, and in time of collection would be very great. The Reserve Bank's balances would be as large as before the shift, for the Country Clearing House would distribute its funds not in transit in Reserve Banks.

It seems more scientific and efficient than present methods and might work out to greatly simplify the task of liquidating promptly the floating check currency. It would put it up to each bank, large or small, to make a service charge for service rendered to their customers. That is where the chief hitch in the plan lies, but is it not as well to face this squarely now? With the extension of the Federal Reserve Bank—its constant growth in membership, its ability to serve its members—and its insistence on getting par collection facilities—are we not facing the fact that sooner or later we must spread our expense where it belongs and not fool ourselves into thinking that we somehow will play even under the old practice.

We say—let the Federal Reserve Bank help us in handling detail—it is quite likely that at least a portion of the expense of the Country Clearing House might be absorbed by them so far as their own member bank dealings are concerned. Reserve Banks who would thus rid themselves of much detail would have sounder balances and could probably afford to treat correspondents with greater liberality in service and in payment of interest on balances.

The Federal Reserve Bank by its influence through these Country Clearing Houses upon the methods of country banks could assist them in recommending a service charge from customers. They could not act as the parent bank in the branch bank system does in establishing policies. This might also help the Federal Reserve Bank to find a place to use some of their large excess earnings for the benefit of member banks.

If a plan like this can be inaugurated and the relation of banks to their customers and of customers to the check problem can be fully discussed and explained so that the customer realized that he should bear his part of the burden—the whole matter will solve itself. As it is now each party to the transaction seeks to dodge his burden and shift it onto the other fellow. Perhaps the customer thinks he is dodging now when in reality the charge he should pay directly to his home bank is paid by him indirectly in the added cost of the goods he buys. If each customer pays his share as a service charge—that charge can be made very small. Every merchant, in selling wares, in no matter how small quantities, exacts a charge. Bankers have become very careless in collecting service charges and are themselves to blame for present conditions. They vie with each other in giving service for nothing.

We recommend this restatement of the old story to you as intelligent bankers. If only we could have President Wilson ask bank customers to volunteer to pay service charges to their banks what a wonderful piece of patriotic service it would be!

Condensed Statements

By James Matthews, Assistant Cashier of the National City Bank of New York.

The question of a satisfactory uniform statement has occupied the attention of bankers throughout the country for many years, and although various forms, several of which are excellent in detail construction, have been evolved and adopted for use, no particular form appears to have met with the universal approval and adoption of the banking community. Among such statements are those approvad by this Association and Federal Reserve Banks. The Federal Reserve Board recently submitted to the consideration of bankers, merchants, manufacturers and others interested in the subject, a tentative proposal for a uniform financial statement prepared by the American Institute of Accountants. That statement is splendidly arranged with respect to details and is well suited for all ordinary requirements. Those and other statements of a similar kind are being very generally used by borrowers for the purpose of obtaining funds direct from their banks, but the practice of furnishing such statements to bankers interested in the purchase of paper in the open market has not been followed by note brokers.

The Clearing Houses representing a large majority of the paper-buying banks of the United States, therefore, have felt the need of a form of statement that will provide essential information not given on the forms supplied by note brokers regarding the makers and endorsers of notes which they offer for sale, and some months ago the Executive Committee of the Clearing House Section appointed a special committee to prepare a form of statement which in their judgment would meet the needs of paper-buying banks. The committee has made an exhaustive investigation and study of many forms of statements in use among bankers, and have also had several conferences with officials of the American Institute of Accountants in order to secure their co-operation and support in the matter. As a result of these efforts the committee has worked out a form of statement containing essential details, condensed as much as is deemed practical, which it believes will fill these needs. It has been approved in its main principles by the American Institute of Accountants and is submitted herewith for your consideration. This form is very similar to that submitted to the Federal Reserve Board by the American Institute of Accountants, but in the judgment of the committee embodies other features which will be of great benfit to the paper-buying banks.

It is not the desire of the committee that the use of this form of statement shall supplant any of those adopted by the Federal Reserve Banks, Banking Associations and bankers generally, as such forms have been ecreated to fill the peculiar needs of their originators, but it is desired that its use shall apply to the special purpose for which it is designed. For individual reasons some of the information requested in this form is omitted in the forms generally in use among banks, as a banker will sometimes prefer to wait until an occasion arises which makes it necessary to demand the information desired, and because of the close relationship existing between him and the borrower, he is usually able to obtain it without much difficulty. But with regard to a concern borrowing through a note broker, he is not so fortunately situated. While note brokers are often willing to assist the buyer of paper in acquainting him with the details desired, they are practically unable to do so. The absence of co-operation among them and the keen competition existing between them are common barriers to the success of attaining this object. They seem to fear that if they press their clients very strongly for such detail information it might result in their losing the busienss to some other broker who might be willing to take it without requiring the information in question. Because of this condition, bankers frequently have sought recourse to the makers themselves for the information desired, but have met with replies to the effect that as their dealings in the sale of paper have been direct with the note brokers, they must refer them to those brokers for the information desired. Nn undue criticism of note brokers is intended in these remarks, as their position is well understaad.

The statement has been submitted by the committee to the leading

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note brokers of the country for their consideration and approval. Some of them are opposed to or seem lukewarm toward adopting it, although many of them are heartily in favor of its adoption and assure us of their willingness to recommend its use to their clients. The objections which some make to the adoption of the form are that they prefer to continue the use of their own statement forms, or to pursue their custom of requiring clients, as far as is deemed advisable, to have statements prepared by certified public accountants. If the information which they secure in either manner was to be given in full to banks it would undoubtedly be of considerable assistance, but the statements they furnish are often very brief. They are practically without details as to the character of the accounts and notes receivable, merchandise, securities, fixed assets, liabilities direct and contingent, depreciation reserves and earnings, as well as to the means of endorsers outside of their interest in the business. The statement approved by the committee embraces this and other information vital to bankers.

You will observe in the statement that the item of Notes Receivable is divided into two sections: "current" and "past due," with the cash value of same. Accounts Receivable are divided into three sections: "current," "past due less than six months," and "past due over six months." It is important to know the length of time in which accounts are outstanding in order to determine their value or approximate worth. Unstable credit risks and unsatisfactory payers will, if given sufficient time, devitalize any business institution, with the result eventually of probable loss to its creditors, and the experience of many bankers will bear testimony to this.

The Merchandise item is divided into three sections: "finished," "in process—unfinished," and "raw material." The Merchandise item in the statement of concerns doing a manufacturing business of any kind is not always represented in the manner it should be. Merchandise of such concerns means that which is manufactured complete and ready for use. Merchandise in its unfinished state is sometimes of little or no value unless considerable labor is expended in order to complete it for use. Raw materials have likewise a very uncertain value while lying in the hands of the manufacturer, and much depends upon the nature of it. Raw coton, wool, silk, leather and goods of like nature would in active times probably have a ready sale just as they stand in the factory, but there are innumerable kinds of other raw mataerials which are not so readily salable in their existing state, and in all probability it would be necessary to work them up into finished goods before they would have any particular value. This item, therefore, should be divided into the three parts described.

Under the item of "Collateral Pledged to Loans," the character of the collateral is itemized in the following manner: "notes receivable," "accounts receivable," "trade acceptances," "merchandise" and other obligations.

The item of Acceptances has been inserted separately from accounts receivable and notes receivable in both calumns. While they are practically the same in character, it is considered desirable to set them out under their particular captions.

A very important item is that "Due from Controlled or Allied Concerns," which has been segregated in amounts due for merchandise and amounts due for advances. Frequently the whole of this item is consolidated with the ordinary accounts receivable, and when it is not and is set up separately as an amount due from a branch or allied concern, it is treated as one item instead of being divided into its proper parts.

The Unsecured Liabilities are segregated according to their particular kind, while the "Secured Liabilities" show the character of the collateral pledged as security in the form of Notes Receivable, Accounts Receivable, Trade Acceptances, Merchandise and other obligations.

Stocks and Bonds should be itemized so as to show what they consist of and enable one to determine their value.

There is appended to the form a Profit and Loss statement. The value of the information which such a statement produces in addition to the financial statement is inestimable. It reflects more accurately than any other part of a balance sheet the inherent position of a business. A balance sheet audit is only partially completed with the verification of the assets and liabilities. A deficit or a surplus will be shown thereon, but it is absolutely impossible to form any intelligent conclusion as to the operation of the business unless an analysis in the form of a profit and loss statement accompanies the balance sheet. It is not sufficient to know that the balance sheet shows a substantial surplus, the preceding balance sheet may have shown a much larger one; neither is it enough to know that the profit and loss for a particular period is a certain sum. Those interested in the financial showing of a concern desire to know the details of the net result, and these details should be set before them in such a manner as to enable them to clearly understand the true condition.

It is highly essential that the statements of borrowers should be prepared by certified public accountants who are known to the banking community as being thoroughly qualified to do the work. Such a statement usually lends greater assurance as a basis for credit than one compiled by a concern's own auditor or bookkeeper, as it is known to have been prepared by a disinterested person who is free to exercise an independent scrutiny of all the details associated with the business. Untold losses in the past undoubtedly could have been averted if certain borrowers selling their paper in the open market had been compelled to furnish a statement thus prepared. Fortunately, however, the custom of having their affairs audited by certified public accountants is becoming more general among seekers of credit each year, and pressure should be brought on all borrowers who take recourse to the open market for funds to have their affairs audited by such accountants.

As evidence of the fact that a thorough audit has been made of the books and that it has not been confined to an audit of certain accounts, the certificate printed at the end of this statement, the form of which has been fully approved by the officials of the American Institute of Accountants, should bear the signatures of the public accountants who have performed the work. The need of this evidence will be appreciated by those who have had experience with statements alleged to be audited when it has subsequently developed that they were only partly audited. It must be said in this connection, however, that no reliable accountant would place his signature to a statement unless he explained in detail the extent to which he had gone in preparing it. This certificate when duly signed will afford assurance that the statement has been properly audited. It is needless to say, of course, that a partial audit is without any practical value and ought, therefore, to be disregarded as a basis for credit.

We ask your careful consideration of the statement form herewith submitted. It is the earnest desire of the committee that it will be approved and adopted by this section and that every member who purchases paper in the open market shall require the note brokers to have their clients execute this form of statement, furnishing a copy of same with the paper they offer for sale. If this rule is uniformly carried out it will greatly aid in removing a serious danger which at present exists by reason of the lack of sufficient information on which to base proper and intelligent judgment in the purchase of paper.

County Organization Plan—Clearing Houses in Smaller Centers

By F. B. Brady, Vice-President of the Peoples Trust Company, Chillicothe, Missouri

If to-day we were sitting at a great feast, and were to call in some Daniel to read the handwriting on the wall, he would translate the words "Organization" and "Co-operation," and explain that every business will be weighed in the balance and found wanting that does not heed these words, they are necessary in every form of activity from the home to the ultimate end of business and government. At the present time it is imperative that we work together to handle the problem of our communities, our State and our Nation. To-day it is every man to his full duty of citizenship, every association active and busy, and every community doing its full share to help win the war. This is our golden text.

We are compelled by choice, at this time, to talk over with our competitor questions which in the past have been academic and also questions of the hour. Co-operation is absolutely necessary. We are getting away from the one man and one bank idea. Bankers themselves, in their own business, have awakened to the fact that efficiency means the calling together of every officer and manager at the close of business or at the opening in the morning, there to discuss, outline and plan the daily work, giving to each and every one some duty to carry out and to plan a better handling of the daily business. These things are practical and show the trend of the times toward organization and co-operation, and as a natural outgrowth of these conditions there has arisen a sentiment and a necessity for each and every town and city having three or more banks to form Clearing House Associations, and for every county to have in it a County Bankers' Association both active and working to carry out in minutest detail the things that are commanded to be done in the community, the State, and by those at the head of our Nation's affairs.

In presenting to you the importance of Clearing House organizations and County Bankers' Associations, I wish to call attention to the great part our small country banks have to do with the administration of our country's affairs. Of approximately 30,000 banks in our whole country, about 20,000 have a capital of $50,000 or less, and a major per cent. of them are located in towns of 10,000 and less. This fact reduced to its lowest terms means that these banks because of their numbers, location and influence, must co-operate locally in the same manner that the city banks have done in order that they, themselves, and our several State and the American Bankers' Association can do effective work, and perform their functions.

If I were to preamble the work of these Clearing House and County Bankers' Associations, I would proceed as follows: that they be organized to promote the general welfare and usefulness of the banks of the community; to promote a closer personal and business acquaintance among their members; to secure co-operation of all members upon matters affecting their interests; to encourage and facilitate the free discussion of subjects of importance to the banking interests of the community; to foster the intelligent consideration of questions regarding the financial and commercial usages, customs and laws that affect the banking interests; to assist and co-operate in all phases of war work.

The simple fact that we may meet and really get acquainted with each other has a value not to be measured in material dollars. At these meetings selfishness will give way to unselfishness, and we will be surprised to find that the faults we have been charging against our neighbor's account were imaginary faults, and the unfair suspicion which we held against him was likewise untrue; and that he is really an honorable, conscientious, likable man; fair in competition and square in his dealings. I wish I could command words strong enough, and could weave them into garlands of rhetoric beautiful enough that I might be able to impress upon men the importance and pleasure of

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meeting and fraternizing with each other. It makes bigger men, broader men, better bankers, better business men. For,

"When you get to know a fellow, know his every mood and whim,
You begin to find the texture of the splendid side of him,
You begin to understand him, and you cease to scoff and sneer,
For with understanding always, prejudices disappear.
You begin to find his virtues, and his faults you cease to tell,
For you seldom hate a fellow when you know him very well."

This fraternal feeling, this business acquaintance, is the basis of all co-operation. Meetings of these associations, like gatherings at our Chambers of Commerce luncheons, or lodge work, become places where men lay aside personal feelings and work for community good. Upon this fraternity and business acquaintanceship as a foundation we can easily erect a permanent useful organization.

But aside from the fraternal, and purely from a material standpoint, we owe it to ourselves to attend and co-operate in meetings in our particular line or work. That man, be he lumberman, merchant, banker, professional man or farmer, who attends the associations of his particular line, will soon become a leader in his business or profession, and will be looked up to as such. He places himself and his business upon a tableland where competition is a pleasure. His conception of things is broadened, and he becomes a wide-awake, public-spirited citizen. On the contrary, that man who shuts himself up in his office or business and says he has no time for such things, and excuses himself by saying, "I am attending to my own affairs," is committing a crime against himself, his family, and society. He is guilty of absolute selfishness, one of the sins of the age.

The meetings of these Clearing Houses and County Bankers' Associations will serve the two-fold purpose of getting acquainted with one another and broadening us out to take an interest in the affairs of the community. Not all the questions discussed at these meetings are bank questions. Community problems, Community interest, and Community building are but the natural outgrowth of these associations. Matters of civic improvements of your town, and good roads and agriculture in the country are always in good form, and in many places owe their existence to one or both of these associations. Problems of your community are always problems of your bank. These meetings will become a forum for free and friendly discussion of all practical and current questions, and when we have reached this condition, we will control and regulate competition and reduce to a substantial credit of the profits account many things we have been doing gratis for our customers through fear of losing their business.

Clearing Houses in the cities have become such a part of the great business fabric that they are taken as a matter of fact; a necessity; a wheel in the great commercial machine. It will be hard for you who are present from any of the larger centers to conceive conditions as they really exist in the smaller towns and cities. It is the bankers in these smaller centers that call for our special attention at this time, and we kindly ask our city bankers to assist us in helping solve their problems. We all realize at this day and time that our interests from a banking standpoint are in a manner identical. There is no distinction between a city and a country banker. We are all governed by the same Federal and State laws and the same principles of banking. All working in a common cause under different conditions.

Clearing House Associations in towns of 15,000 or less and in places having three or more banks are a practical necessity, and if there be any here from cities having no clearing houses, or who have simply a nominal association for your convenience in the exchanging of checks, and who are withholding the forming and working out of an active association through fear that some timid soul should brand your association as a combine for selfish interests, I speak to you from actual experince, that there is no need for such fear or for such a feeling. There has not been brought to my observation, nor has there come up in my experience a single instance where there has been any hostility whatever manifested between the community and the banks because of the forming of a Clearing House Association. On the other hand, the public will see, as they have in our small city, that a Clearing House Association is a power for good, and that our deliberations and understandings are for the ultimate good of the community. That we are meeting to discuss frankly and to decide with deliberation questions of the hour. That our meetings are not private, but public in their nature. We can honestly state to you that there is never a community question that comes up, but what we are expected to lead and advise as to the merit of the proposition.

An active, working Clearing House Association will revolutionize your system of doing business. It will turn the unpleasant tasks into tasks of pleasure. It will turn worries into joys, and drudgery into pleasant duty. How? I will tell you. In many localities, for instance, there are no regular hours for opening and closing the banks. We know of one good sized town in one of our richest counties where the banks are open from seven o'clock in the morning until they want to close. Sometimes at nine o'clock at night. Imagine competition in this place. If a Clearing House Association could bring about an agreement on this point alone in this place it would have done much toward making tasks pleasant and work a pleasant duty.

Regular hours and the observance of holidays are due your officers and employees. We cannot run on high gear day and night. Relaxation is necessary. There is no sane reason why agreements can not be made and understandings had upon some of the accommodations that are being granted without compensation to some of their community because of fear in competition. We, who are here from the country towns and smaller cities, know that our ordinary business is much harder to handle than the same business would be in the cities where there is regulation. In our case nearly every customer feels that he should be preferred in the matter of accommodations and credit and leads us to believe that unless we comply with his demands, that the favors he is asking will be granted by our neighbors. To be acquainted with our neighbors through our association at this time, and know that exactly the same courtesy and no more will be granted by them is a great comfort toward turning worry into joy.

In every locality there is a base upon which can be figured out with a certain degree of accuracy, the cost of doing business allowing a small margin of profit for your time and trouble. It should not be considered a combine in any form for you to figure out these things and in some form of a gentleman's agreement with your neighbors, pay what can be afforded to your customers on time deposits, savings accounts, and to agree on the subject of advertising and donations, and the amount that should be charged on exchange, collections, bailments and escrow matters.

We have in our town, of about 10,000 people, a very harmonious Clearing House Association working on the following plan, which we do not claim to be perfect, but under which we have accomplished a great many things. Our Constitution and By-Laws provide that the officers shall be elected annually, and that the officers shall rotate among the banks, thereby no one can succeed himself. The officers compose the executive board and their meetings are held monthly. After the manner of our city Clearing Houses, we meet daily at a fixed hour to exchange our checks. For a month at a time each of our banks in its turn becomes the clearing bank and meetings are held in its rooms. This clearing bank acts as manager and receives or pays the debit or credit balances to or from the other banks. These balances are most wholly paid with exchange. Gold and currency being optional, and rarely used. We open regularly at nine o'clock A. M. and close at 3:30 P. M. We also observe all legal holidays.

From the organization of our Association, we have made exchange and collection charges. This rule is adhered to religiously, with the exception of the agencies that ship currency out of the community (Railroads, Express Companies, and Post Office). Every one is charged according to a fixed schedule for drafts. We pay a uniform rate of 3 per cent on time deposits, but have never found it advisable in our community to pay on daily balances, except on public funds. In the matter of public funds we have a system of distribution which does away with the unfair competition that has broken the serenity of many banking centers, and caused bank feuds that are bitter to this day. We avoid the unpleasant duty of going on bonds to secure certain forms of deposits. We have agreed not to act as clerk at any public sale, thereby doing away with the obligation and request, "that we passed upon the paper, now buy it," also we are relieved of the possibility of days of sickness because of having to stand exposed to all kinds and conditions of weather during the days of these farm sales. We agree that all requests for contributions amounting to $20 or more, shall come before our executive board, where an equitable amount is decided upon for all of us to donate. This does away with our embarrassment and the possibility of offending a good customer, who is always the one sent to you for various and sundry donations. All of these things and more are possible in your town. We have not reached the millennium by any means. Don't think that we do not have legitimate competition—we do. Don't think that we do not have hard and delicate problems to solve—we do. Don't think we are selfish about our neighboring banks without—we are not—but with understanding of each other we have always been able to reach a solution or a fair-minded compromise on all our problems.

During the past eighteen months as chairman of a special committee of our Missouri Bankers' Association on Agriculture and Good Roads development we have spent much time on the subject of County Bankers' Associations. We found from the outset that in order to reach our goal, we would need workers in every section of the state. That it would be absolutely impossible to get results without a means through which to work. The natural men or organization to which we should turn would be bankers or associations of bankers. For we realized that they knew local conditions better than anyone, and knew the needs of their community, and could suggest to our committee the things that would be helpful in their locality. A few counties had County Bankers' Associations. How to get the others organized became our problem. Our state association in the meantime had appointed a committee of three in each county in our state to be known as the County Agriculture Committee. We immediately sought their aid. In the meantime, they too had found the need for all the bankers in their county to be organized for their particular work. At this psychological moment, our committee sent out letters to every banker in the state telling him of the benefits of such an association. At the same time letters were sent to these several Agricultural committees suggesting a date for them to call a meeting of the bankers of their county, and enclosed therewith a suggestion copy of a Constitution and By-Laws for their guidance. If you get men together and show them a plan and a reason why they should organize, an organization will be formed. This was the primary purpose in enclosing the suggested copy of the Constitution and By-Laws, which were drawn up in regular form under articles and sections covering the purposes of such an association, the officers, their duties, the forming of the executive board, the place and time of meetings, election of officers, etc. We found this Constitution and By-Laws a very effective means and recommend it for consideration in states that are seeking to form these County Associations. We suggest that in those states that are active in this work through special committees or otherwise that you act aggressively, that you call the meetings, set the time of such meetings and have someone on hand with a suggested form of constitution and by-laws to help outline a plan of work for the present time and for future meetings if possible.

After these associations are formed, it is very necessary that they be kept active, busy, and interested. They must have enthusiasm; they must have purpose. In the natural course of things there will always come up for discussion and disposal questions that are nation wide such as Liberty Loan, Red Cross, Y. M. C. A. and Knights of Columbus drives; and other questions of a local nature bearing upon conditions in their immediate counties, such as roads, pure seeds, drainage, and local assistance; and also those questions of a personal nature bearing upon their own business and the questions of interest to your own banks.

Aside from these questions we have found it a splendid plan to furnish to each county association a printed list of topics from which their program committee may assign to certain ones as leaders some particular question for discussion. We had our state association print for us a card upon which was listed about fifty up-to-date, practical questions from which they might get suggestions for discussions at their meetings. In some similar manner these associations may be kept active and in a receptive mood to render real service in times when they are especialy needed, to help our American Bankers' Association and our State Associations, and the special committee that must necessarily work with and through them.

The meetings of County Bankers' Associations can be made very beneficial both from the standpoint of their own interest and that of

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their community. We have found a great many county wide problems easily solved through their efforts. We know that in many counties the County Agent would today be unknown, had not the bankers of the county through their association come forward to help, and in many instances to pay his initial salary. The results of the handiwork of this man are reflected in better farming, better live stock, better orchards, better home surroundings, and bigger bank deposits. In one of our Missouri Counties this season this county agent in the matter of seed corn alone, saved the county $300,000. Multiply this amount by the corn producing counties of our state and the amount saved for bank deposits, paying of mortgages, and improvement, is astonishing. The slogan presented in our *Banker Farmer,* "Anything that puts corn in the crib and silage in the tank, puts money in the bank," is absolutely true, and that County Bankers' Association that has used its efforts for the county agent has done a real service.

Other live questions may be discussed that will bring about a better understanding of city and country folk and initiate a complete system of roads and road building. The transportation problem at this time is a real one. Great losses have been sustained because products and merchandise could not be moved. We are not blaming the railroads for this; they have done their best, but were unable to handle the business consigned to the Atlantic ports. The Railroad War Board was established among other things to relieve this situation. Waterways and highways are the two remaining means of transportation. Our highway problem is an immense problem and must have special study. These highways are being used as never before by truck lines that are seeking to relieve the congestion of freight. In many parts of the country they are kept running regularly on schedule. This will ultimately mean hard surfaced and well kept 365-day roads in every community. Statistics show that we have now about 2,750,000 miles of roads, and of this number only about one-tenth, or 275,000 miles are hard surfaced roads, and further we have not built over 100,000 miles of hard surfaced roads in the past five years. This question will be dealt with and solved largely by community organizations of which our County Bankers' Association and our Clearing House Associations are the great working factors. These, with other problems of common interest, will build a bigger and a better cititzenship.

Our Nation has passed through three Liberty Loan campaigns. We are on the eve of another. We have promoted other campaigns in the interest of the Red Cross, the Y. M. C. A., the Knights of Columbus and the War Savings Stamps. Others are to follow. In carrying out this laudable and necessary work, the County Bankers' Associations have had a prominent part to play. They were the great equalizer of the burden and the simplifier of the work. Our Government appreciates the fact that wherever it has at its disposal a County Bankers' Association or a Clearing House Association it has a means to which it may turn and get results in any drive or work it may have in hand. From personal experience as district manager in Liberty Loan Campaigns we know that the work was reduced and better results obtained by reason of these associations.

The time is here when County Bankers co-operating with Clearing House Associations must solve many of our perplexing problems. In the cities it has been found that a clearing house examiner is a necessity, both from the matter of personal and community protection. If this examiner is conducive to the health of the banking business in the cities, why should he not be a good physician to have in the small centers and rural communities. The question is axiomatic and needs no evidence.

The employing of such a man may be out of the question at the present time in some localities, but until we are able to secure his services, it will be the more necessary that we meet and unburden our business souls and give each other credit information. Various schemes are inaugurated to serve each locality desiring to get this information. No banker desires, nor will he allow, his competitor to look over his files and registers; but he should be willing to talk over specific cases and to help in every way to control and regulate the scattered and limit borrower. Clearing House and County Associations suggest, foster and encourage this feeling among competitors which will enable them to discuss unreservedly these cases.

We are acquainted with one locality where each member of the Clearing House Association makes out a list of his borrowers, and at a special meeting each one of these lists are read in turn. As the member reads his list the other members check the name that is also on his own list. After the meeting and at some convenient time these duplicate borrowers are checked up and their credits gone over. This form is crude but it is a stepping stone leading to a Clearing House examiner. We had in our town a few days ago a case where a farmer who is entitled to a $500 credit in his own right had borrowed from each of the five banks about $400 or a total of $2,000. This farmer was fortunate this year and raised enough wheat on his bottom farm to pay off all he had borrowed. Had there been an overflow, we would have been compelled to carry this man indefinitely. The bank in which he made his deposit was quick to see his checks coming in through the clearing from the other four banks, and at the next meeting of our Clearing House Association this man, his affairs and his methods of doing business were thoroughly discussed and it was definitely decided that he should borrow where he deposits. This instance is mentioned because it is duplicated in a greater or less degree in every locality, and the only way to control it is by co-operation in some form that will lead up to the employment of an examiner which is the ultimate solution of the problem by which the scattered and limit borrower may be restricted and controlled.

Another question that will finally be solved by our County Bankers' and our Clearing House Association is the handling of our local country checks. We know of a few counties in some of our western states where these checks are being taken care of by the county clearing house plan. The matter of dumping our local checks upon our city correspondents is, in a manner, an imposition. These checks we send them by the thousands, ranging in amount from a few cents up, to be handled without expense to us, a matter we do not all appreciate. Hundreds of these smaller items especially (the larger ones could be sent to build up reserves) could be handled through some county clearing house plan maintained by our County Bankers' Association or our Clearing House Association in the towns. This plan would save much time and great loss by getting these checks and items to their paying bank at once to be charged against the drawer's account, who in the meantime draws his balance innocently or otherwise calculating that his checks are all in.

We go on record here and now as being in favor of County Bankers' Associations in every county and Clearing House Associations in every city and town having three or more banks. This you will always find true with reference to these two Associations. When you get a County Bankers' Association formed, it will be easy to form Clearing House Associations in the towns within the county. The converse of the proposition is likewise true. If we get Clearing House Associations in the cities and towns within the county it will be easy to form County Bankers' Associations. These Associations are a constant source of stimulant for increased production, which is the one road to permanent city building, and profitable banking. When harvest fields smile, towns are fat, and factories show an increase in their pay rolls. Corn, wheat, hay, beef, pork, minerals, oils are home builders, are builders of great cities, and depend upon the stimulant given by bankers' associations.

We also know that with these units strong, it will be a simple matter to build up strong state and National Associations. The principle that strong units make a strong system is absolutely true. He who helps make the unit strong is rendering a service to the great American Bankers' Association and his own great State Association. These County Bankers' Associations and Clearing House Associations are the nerve centers through which the brains of these head associations send out messages of action to the corners of the earth. Without them that part of the great organization is paralyzed and wastes away. Therefore, that bank or banker that helps in keeping these associations active and working is a welcome physician and should be heralded as a builder of a better business relationship. With these things done we feel that we are all a working part of the great Banking Machine of the nation, and that we are a working part of our own state and American Bankers' Association, that we are simplifying and protecting our work. That we are all a part of one big family whose purpose in life is that each and every member may live, prosper, and become an influence in his community. This, as we understand it, is and has been the whole purpose of organized effort, and if any one of us has not received benefit due him, it is because he has not done his duty in work and co-operation.

We turn toward the future and behold the dawn of a day of great possibilities for our Banking System and our American and several State Associations which are only in their infancy. We behold new fields of labor. New conditions to be met. Great changes to be made, and we are compelled to say with our Lowell:

"New times demand new measures and new men;
The world advances and in time outgrows
The laws that in our father's day were best;
And, doubtless, after us some purer scheme
Will be shaped out by wiser men than we,
Made wiser by the steady growth of truth.
The time is ripe, and rotten ripe, for change;
Then let it come; I have no dread of what
Is called for by the instinct of mankind,
Nor think I that God's world would fall apart
Because we tear a parchment more or less;
Truth is eternal, but her effluence,
With endless change, is fitted to the hour;
Her mirror is turned forward, to reflect
The promise of the future, not the past."

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Service, Exchange and Collection Charges

By C. W. Allendoerfer, Vice-President of the First Na tional Bank, Kansas City, Mo.

Almost all of us who have been charging our customers for anything except interest on money recognized as loaned, have been including some service charge. For the most part we have disguised it (I claim much credit for not having used the word "camouflage" in this connection) under the name of exchange charge, or collection charge, and somehow the public has gathered the idea that we weren't making the charge at all, but it was the fellow at the other end somewhere, and we were reluctantly obliged to collect it for him. Now that the Federal Reserve Board and the public are beginning to understand each other's language somewhat and the wonderful elasticity of that word "par" is realized, we, the commercial banks, are having to be more exact in our choice of English and must correctly name the little sums separated daily from our best informed customers. Perhaps a part of the charges must be omitted (and made up for some other way); of the remainder we must declare, eventually, what portion, if any, goes in our own earnings, and why.

Plunging into the middle of our subject, we strike "exchange," a word commonly used to cover all charges on checks and drafts. I need hardly say in this company that there was a time when credits were transferred from city to city largely by the shipment of a good deal of actual cash, and that heavy charges made by country banks for remitting to cover customers' checks were somewhat justifiable. (Besides which the country banks were small and needed the money and the endorsers were big banks that would never miss it.) You couldn't blame the country banks much when the banks in the larger reserve cities offered as an inducement to placing accounts with them, the bait that they would send a large volume of local checks on which a healthy charge was expected. To a considerable extent the individual depositors in the reserve cities were paying for this liberality to the country banks, and I suppose they were raising the price of goods to make themselves whole. Thus the wheel sped merrily around until the volume of checks from the country banks became so much heavier than the volume from the city merchants that the reserve city banks lost a lot of money in the exchange account, and some Yankee devised the Country Clearing House.

Whether due to their organization of these collection agencies or not, about this time the idea seemed to gain headway that it was out of date to charge for transportation on cash which was never shipped and to have checks on one's bank discounted when sent to merchants in the centers. A strong movement toward universal par remittance for checks was on before the Federal Reserve System was established. Perhaps the full benefit of this reformation had not reached all depositors, and there was much rejoicing over the announcement that the "toll gates to commerce" would be removed. You know the struggle the Federal Reserve Board has had to determine what the law meant they should do on this point, and the difficulty the public and even some Federal Reserve Bank officials have had understanding that time and distance cannot be eliminated entirely in the collection of checks, that "float" is a horrible reality, and that a respectable part of the so-called "exchange charges" was for interest on credit advanced against uncollected funds.

The Federal Reserve Banks introduced a mysterious stranger into banking lingo at this moment in the person of Mr. "Service Charge," who was cordially received by many and set to work most industriously. If 1½c. was a fair charge for what the Federal Reserve Banks did with a check, after they received it, 3c. would barely cover the entire handling cost, and it was better to make the minimum charge to the depositor 5c. per item, to be safe. The per item "service charge," plus a low rate of interest based on the Federal Reserve Bank "schedule of deferred availability" (another choice addition to the language), became popular. Then what does the Federal Reserve Board do but "eliminate" (cut out) (also "absorb") the "service charge"; the interest rates go up, and there our "exchange" charge is all out of kilter again. The fact remains, however, that the charge made a depositor on a cash item, out-of-town check, must cover—

(1) Charge made by bank at point on which drawn for remittting in immediately available exchange.

(2) Interest until funds do become available.

(3) Service or handling charge, including cost of postage, stationery, labor, etc.

It is my belief that if no cost is experienced on item No. 1 (charge by bank at point on which drawn) the endorser should benefit. It is true that the check which is par to one bank in the city may cost another. In handling items on some other point their positions may be reversed. The bank which can handle the larger volume of items at par to itself is in position to extend the better service to customers and can compete more advantageously for new business. However, in this respect, the country clearing house and the par list of the Federal Reserve Bank are great levelers and the banks are probably more nearly on an equal footing now than ever before. Items which no bank in the city can collect without cost for conversion into available exchange, should be common charge points, and so fixed by Clearing House Rule; but the discretionary territory should be as large as possible without doing real injury to the member banks. It is not my intention to say that all items on discretionary points should be handled at par for endorsers; certainly those accounts whose balances do not justify absorbing cost should be charged, and some accounts may have so heavy a load for interest on float that it is best to spread the charge over all or nearly all the whole volume deposited by them, instead of making the rate so high by charging only on cost items.

Interest, which is the second thing which our charge to the customer should cover, is also, to my notion, not to be applied evenly against all items deposited. Of course the float should be deducted from ledger balances when crediting interest on interest bearing accounts, or some recovery accomplished, but I cannot agree with the argument that because the bank places the amount of an outside check to the customer's credit and gives him the privilege of drawing against that credit, he should pay interest until the check is collected. If he uses the credit he should pay; if his balances always exceed his float he should not pay unless it be to increase his net balances to an agreed amount, as a basis for a loan or something of that kind. The better banks in Federal Reserve Bank or Branch Bank cities, are analyzing accounts and know whether or not a customer is checking against uncollected funds. The rate charged on float need not correspond with the loan rate, and should not fluctuate. In my judgment 6 per cent. is about right for the country as a whole.

Probably it was about the cost of handling, the third item to be included in our charge, that I was really expected to speak today, and it is the item I know the least about. At the same time, I recognize it as an issue receiving close study in nearly every large city. I do not know how much it costs to handle a transit item in our bank. I was never wholly satisfied with our own "per item" cost-analysis, or that of any other bank which I have been permitted to see, and certainly the rapid changes of the past year in expense for postage, labor, stationery, equipment, etc., have increased cost by a percentage I have not yet attempted to estimate. Assuming, however, that it is possible for a banker to fix for himself the proper *amount* for a service charge, let us discuss the advisability of applying it. This will differ somewhat with conditions in various cities, and while in Kansas City we feel now that it would be a mistake to apply service charges, the arguments which have weight with us do not apply in all other places, and conditions may change with us, and alter our attitude sooner than we expect. Our study of the question at home has led us to believe it hinges on one query—are we ready to fix and pay a market price for deposits and fix and charge a market price for service? It is not the custom in Kansas City to pay interest in individual checking accounts. The trust companies have quite a volume of commercial accounts, on which they pay interest, and which they charge rather more exchange than the national banks, which do not pay interest, but which collect more items at par. Altogether the competition between banks is clean and their relations with the public and each other are fair and honorable. The movement toward a general custom of paying interest on balances is slow, even the gradual, and it seems best not to hasten the movement by the enforcement of higher exchange charges. Experimental analysis indicates that the present situation is rather favorable to the banks. Most of the banks analyze all accounts which deposit any considerable number of country items, and where the balances warrant it, full benefit of par points is given and no service charge made; where necessary to do so to make an account profitable, charges are applied on all outside checks deposited, or only on those in certain territory, etc. It seems to us inadvisable to adopt a Clearing House rule for uniform exchange charges, except on Common Charge Points. Probably our plan is not suitable in St. Louis or Chicago, or some other cities, but we have been pleased to note the recent changes in the New York rules very greatly enlarging their discretionary territory.

The mention of changes in New York rules takes us naturally to the next title in our subject, Collection Charges. New York has also reduced the required charge for handling acceptances and like items. I am not familiar with the rules in other cities on this point, and it has had only informal discussion by the rules committee of our Clearing House, as we have as yet only a limited volume of that class of collections. Neither a "par item" charge nor a percentage charge seems to be quite right for this service. When the cost analysis department reports that each collection means an expense of 10c. or 25c., it does not follow that the charge to the customer should be that amount on each item. The greater responsibility assumed in handling the larger sums should be paid for. Yet, while $1 might be a fair charge on $1,000 collection, $10 seems too great a charge on a $10,000 collection. Except for special classes of items requiring particular attention and correspondence, a charge of 10c. per hundred dollars, with a minimum of, say, 25c. and a maximum of, say, $1, is suggested as a basis for discussion. Not less than the minimum charge should be made on items returned unpaid.

These charges are, of course, in addition to those made by the bank presenting the item to the drawee or payor. How much that presentation service is worth may better be left to those representing other than Federal Reserve Cities. In the Federal Reserve Cities the larger part of the street collections are received from correspondent banks carrying balances with the city banks on the strength of which those services are rendered free. On items received from sources other than customers, a minimum charge of 15c. or 25c. is justified, whether items are paid or not. For collecting and remitting on items which are paid, I believe it is not far wrong to charge 10c. per hundred for the first $1,000, 5c. per hundred for additional hundreds up to $5,000, and a less rate on further additional hundreds. On some items this rate will not be heavy enough, but it is given as an average rate and as a basis for debate.

Mr. Thralls asked that I say something about a service charge on accounts on which the balances are too small to earn the cost of handling. I cannot speak with any authority on that point, as we have had no experience in it in Kansas City, nor do I know of any Federal Reserve City in which the practice has been followed for a period sufficiently long to determine its wisdom as a fixed policy. Undoubtedly it will be followed by an immediate saving to the bank,

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but its effect upon the general feeling of the public toward the institution, and thus upon its growth and profits, can only be ascertained by a careful study of the situation for a number of years. It is apparent that banks handling a large number of active accounts, such as those of college students, have little or no hope of profitable business arising in the future out of these relations, and a service charge to cover actual expense is almost compulsory. The suburban banks in Kansas City apply such a charge to small household accounts, etc. But down town commercial banks should not accumulate a heavy proportion of small balances if the officers who open new accounts use discretion and care. Partners, managers, cashiers and others, influential in the control of large business accounts, often like to do their personal banking where the firm or company account is carried. Men of this class are likely to become valuable customers as individuals eventually, and meanwhile any expense in accommodating them may be charged against the earnings on the business balance. Accounts are offered every day which, only by a remote possibility, will ever become profitable. The careful officer convinces some of these people that a savings account is what they want, or perhaps that his bank is not equipped to care for their special class of business. The hundreds of thousands of people whose first experience in putting money in a bank has been in payment for a Liberty Bond, and who wish to continue putting money in the bank, need savings accounts, where you *put in*, not checking accounts, where you draw out.

It seems to me rather difficult to say just when the overhead becomes larger than the earnings on a balance. The bookkeeping on five checks or ten checks a month may cost more than the earning on a $50 balance or a $100 balance, by 25c. or 50c., but the amount of work and trouble to receiving tellers, paying tellers, even officers of the bank, is not so easily measured. I believe that, in the larger cities, the small accounts can be pretty well taken care of by directing them into the proper financial pews and by charging to advertising or to the profit on other definite accounts, the expense on the small balances which it is believed desirable to retain. I submit this opinion also subject to change after hearing from the gentlemen who have successfully tried out the service charge plan.

May I say in closing that, in our city, while we admit that overhead is not accurately figured, the principles of cost analysis are constantly applied to accounts, and we believe with better results than would follow the enforcement of more rigid service, exchange and collection charges under Clearing House Rules. Pardon me for referring so constantly to the viewpoint we take at home, rather than to the practices in other cities, with whose "extenuating circumstances" I am not familiar.

Committee and Officers' Reports—Clearing House Section

Annual Address of President of Clearing House Section

The Clearing House Section of the American Bankers' Association, like its member, the Clearing House Association proper, had a very humble beginning and a very modest purpose. The Section was organized in St. Louis in 1906. It came into being as a result of a series of annual conferences, the first of which was held pursuant to a resolution adopted at the annual convention of the Michigan Bankers' Association in Port Huron in July, 1899. The attendance at the first, and indeed at many subsequent conferences, was confined almost entirely to representatives of the Clearing House Associations of the Reserve Cities of the country. The meetings were devoted largely to the one great question which is still of paramount importance, that of evolving and adopting a uniform schedule of exchange charges.

In keeping with the spirit of the times, however, and the development and growth of business, the Section quickly broadened its scope until to-day we can confidently say it is one of the most valuable divisions of the American Bankers' Association, serving, as it does through its members, every section of the United States. Its membership includes every organization in this country that can be rightfully termed a Clearing House Association, and every member, whether large or small, is accorded representation in the meetings of the Section and on an equal basis.

Authority for the conduct of the Section's affairs is vested in its officers and its Executive Committee, and in this connection it might not be amiss to say that the Section has been fortunate in attracting to its various offices and committees some of our most capable and practical bankers. This was particularly true in previous years, and the result of the efforts of these gentlemen has been a great improvement in the customs and methods of the banks of the country.

In view of the unusual financial conditions that do now and will prevail on the conclusion of peace between the warring nations, and the great need there will be for co-operation and intelligent and unselfish effort on the parts of the banks of this country as well as those of our allies to the end that the work of reconstruction and rehabilitation may be prosecuted without interruption for the want of necessary financial aid, it might prove interesting for me to refer briefly to some of the activities and accomplishments of the Section in the years previous to the war as well as the efforts of the Section in aiding the Government since the beginning of and participation in the war. A thoughtful consideration of those activities and their results in the light of what may be accomplished later by continued and extended effort may prove instructive.

During the several years of its existence and prior to our entry into the war, the Section devoted its efforts in part to encouraging and urging the adoption by its members of the Clearing House Examiner System, to the working out of the plan for lettering and numbering of checks and drafts, and to promoting methods of standardizing and reporting "clearings." I mention and single out these three very important accomplishments because I believe them to be the most prominent achievements.

Perhaps one of the most important functions of a Clearing House Association is that of conducting, under the supervision of a Clearing House Committee, rigid periodical examinations of its members by its own examiners. In many cities where the Clearing House Examiner system is in operation, tremendous losses have undoubtedly been averted, and improvements have been brought about in many ways which could hardly have been accomplished through any other influence or any other system of supervision. It was because of the watchfulness and influence of this department of the Clearing House Association that Mr. John W. Wilson of San Francisco was warranted in making the statement that during the past ten years no depositor has lost a single dollar through the failure of any bank operating under the supervision of a Clearing House Examiner. I am safe in asserting, I am sure, that no Clearing House Association which has enjoyed the benefits of such supervision would now abandon it for any other.

It was through the efforts of the Clearing House Section that the Universal Numerical System, which has unquestionably saved hundreds of thousands of dollars in expense of operation to the banks of America, was evolved and developed. This plan is adaptable to organizations of every size. Its use facilitates the handling of checks, drafts and other items in the various departments of a bank. It is certainly a great labor and time saver, and practically every bank in the United States is now using it.

Some time ago the officers of the Section became thoroughly satisfied that the weekly "Clearings" figures did not and could not be made to accurately disclose the volume of business transactions for the reason, as it can readily be understood, they frequently included items that did not represent actual business transactions and they never included the vast amount represented by checks and drafts that do not pass through the clearing houses. We, therefore, sponsored the plan of reporting so-called "total transactions" and after long and persistent effort we are pleased to be able to report that the members of many of our clearing houses are now reporting to us weekly the total of debits against individual, savings and all other accounts. As 95 per cent or more of the business of the country is transacted and settled through the use of checks and drafts, it will be agreed, I am sure, that when this plan becomes nation-wide, as it is confidently hoped it will, it will prove to be a barometer of business that cannot possibly be improved on. The "total transactions" that are compiled by our members and reported to us weekly are published by us and are proving to be of a very great value to the Clearing House Associations and their members and the business interests of the communities they serve. The Federal Reserve Board has recently indicated an interest in the figures of "total transactions" by requesting the Clearing House Associations throughout the country to accumulate and report such figures to their respective Federal reserve banks where they will be totalled and transmitted weekly to the Federal Reserve Board at Washington whence they will be again totalled and the aggregate for all the Federal Reserve Districts given to the press for the information of the public. We respectfully urge that every Clearing House Association co-operate with its Federal Reserve Bank to the end that these figures may be promptly and accurately available.

The country Clearing House Department idea, which had its inception in Boston, was taken up through the influence of his Section by ten other leading Clearing House Associations, with the result that a saving in expense to banks aggregating thousands of dollars annually has been accomplished. Through the influence and the machinery of the country clearing house department, the banks in the cities where they are operating have been enabled to attract business which they would otherwise not have received. They have been enabled to rduce the cost of handling out the town checks to a reasonable basis, and to place at the disposal of their patrons efficient service for the handling of items on practically every city, town and village in the United States.

I might continue on at some length and mention many more accomplishments as results of the efforts of the Section and I might very properly say that it was largely through the influence and the efforts of the Clearing House Section, its officers and members that the present gold settlement fund of the Federal Reserve System was established. This is a function of the Federal Reserve System that has operated from its beginning to the entire satisfaction and benefit as well of every interest in the United States.

I might also mention some of the notable achievements of the Clearing House Association of the country in times of stress such as the panic year of 1907 and the stressful months following the outbreak of the present war in 1914 when by the well directed use of the equipment and machinery of the clearing houses of the country untold financial losses were averted.

I might mention, too, how through the formation of gold pools and the resort to other instrumentalities of the Clearing House Associations our exchange market has been protected, the value of the dollar sustained and the gold supply of the nation insured against undue withdrawals. Indeed, it might very properly be said that the experiences gained through Clearing House Association activities during the panics and other trying periods of the past proved very helpful when the bill

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authorizing the present Federal reserve system was pending in Congress.

I might further mention many other constructive and helpful things which the Clearing House Associations of the Country and the Clearing House Section have developed and encouraged, but suffice it to say now that there is no form of organization of banks that is less expensive to maintain and yet more effective and valuable than is that of the local clearing house. It serves as the medium through which the banks of a community may co-operate to the end that they strengthen and protect themselves and at the same time better their facilities in order that they may render greater and improved service to the public. The Clearing House Section affords the channel through which the several clearing houses may co-operate to their mutual advantage.

Co-operation, at least co-operation to the extent that now prevails, is very rightfully said to be one of the great by-products of the war. At the Briarcliffe meeting, a year ago last May, our Section pledged its undivided support and assistance to the Government. During the past year we have been called upon to fulfil that pledge. We have investigated, on behalf of the War Industries Board, the standing, the character and the productive ability of more than 1400 firms, individuals and corporations with which the Government expected to have dealings. We have put our machinery in full motion during the various Liberty Loan campaigns and our Secretary was called to Washington where with our consent and approval and under the direction of the President of the Association, he was in direct charge of the bank division of the War Savings movement for a period of five months. The division succeeded in prevailing upon more than 18,000 banks to accept formal appointment as agents for the sale of War Savings and Thrift Stamps, and more than 7,000 additional banks and trust companies were induced to actively participate in the campaign.

While the services rendered by the Section during previous years have been of great constructive value, they appear small as compared with the results of our efforts in rendering assistance to the Government during the past year. Our experience has opened opportunities for service of which we had not heretofore dreamed. The United States has evolved from a nation of million-dollar transactions to one of billion-dollar transactions. We have just begun to realize not only our responsibilities to the other great nations of the world, but our strength as well.

There is no other single class of people in America that has a more splendid opportuniiy for rendering constructive and patriotic service than its bankers of today. We as bankers have within our power the granting, directing and controlling of credit, which is one of the most vital factors to the present and future welfare of this country. By properly exercising this power, we can direct needed funds into channels of essential production. By failing to properly exercise this power we can bring calamity upon the country. By wisely directing our efforts, extending credit where it should go, and withholding it from non-essential industries where it can be done without causing embarrassment and unnecessary sacrifice, we can do much to conserve labor and material for the Government's use in the prosecution of the war.

The wise direction of financial affairs by America's leaders is to my mind vitally essential to the nation's welfare today. It would seem much more effective of good for 30,000 banks intelligently to undertake the conservation and direction of credit, than for an equal number of patriotic well meaning but irresponsible men and women to endeavor to direct 110,000,000 people in the economic duty of a nation during the period of war.

The situation confronting us at the moment is one that requires careful study and the most sober consideration. America today needs the deliberate and composite judgment of the best minds of every community, in order to meet the huge problems which the war has produced. The Clearing House Association is the medium through which the best judgment can be had on those problems which are financial in their character. It is America's financial strength that has made her from the outset such a valuable ally of England, France and Italy, and that makes her the keystone of the Allied arch from this time on. This war is at bottom an economic struggle. It was England's economic strength that enabled her from the outset to take a leading part in the war. It was Germany's economic strength that gave her the power to withstand the nations arrayed against her from August, 1914, on. It was Russia's economic weakness that proved her undoing. It is our economic strength that will bring mastery to our cause in the end. For with our tremendously strong and well organized resources backing up the boys and men who go to the firing line we shall impose such a bulwark of strength against Germany that there will be no withstanding it.

A few simple comparisons may serve to illustrate the point I want to bring home to you. Up to 1917 the expenses of the Government of the United States for military and naval purposes were in the neighborhood of $250,000,000 a year. In the current fiscal year the Government of the United States will spend nearly 100 times that amount for military and naval purposes, or 24 billion dollars. Every day we are spending for warfare as much as England, France, Russia, Germany and Austria-Hungary *combined* spent daily in the first year of this gigantic struggle. Can you conceive what it means for a single nation to be spending more than $60,000,000 a day for warfare? The Civil War cost the North and South together upward of $6,000,000 a day, and that war, up to 1914, was the greatest war ever waged in the history of mankind. Its cost had always been talked of as fabulous. Yet every day now the United States is spending ten times more than was spent daily to carry on the Civil War, although in this present conflict it is only one of twenty-six nations directly and actively engaged.

It ought to make us very happy that America should have developed so amazingly as to be able now to apply the force represented by the expenditure of more than sixty million dollars daily to the overthrow of a brute despotism. Germany never believed we could do it; we ourselves not long ago were rather dubious. We can say without boasting that no other nation of the world ever approached America's present pitch of war activity. Great Britain and Germany right now are spending, each one, about two-thirds of what we are spending for the prosecution of the war. Great Britain and Germany were respectively for four years the chief financial reliance of the two able to supply greater sums of money or material for war purposes than these two nations provided. But now we find ourselves—not long since a peace-loving people intent on our own affairs and religiously avoiding quarrels with other nations—we find ourselves spending money for war at a rate one hundred times greater than a little while ago, up to an amount not far short of the sum of the war expenses of Great Britain and Germany combined.

Does this not measure America's vital place, economically, in this war? If necessary, we will increase even upon our present large rate of war expenditures. Our purpose is to win the war, and win it quickly, and to that end we will apply *all* our wealth if that be necessary. The wealth of the United States is three times that of Germany. It is double that of Germany and Austria together. Combined with the wealth of Great Britain, France and Italy, it imposes an unsurmountable wall of strength against the assaults of the Prussianized central empires, and if its strength be properly applied as it will, it will surely serve to bring victory to our cause.

The proper application of America's strength to the war rests in the hands of any other single body of men. It is our duty to see that out of this strength issues a force that will end the war speedily and effectively. The banks of the United States have a real responsibility confronting them, for let me remind you that beside the war problems which now face us there are after-war problems, which must be carefully considered today in everything we do. In point of time, the war is of short duration in comparison with the period to come after, and we must keep our thoughts directed constantly to what will follow the settlement of the present crisis in the world's affairs. The machinery of peace has been thrown completely out of gear by the events of recent times. We are hopeful that we shall be called upon to throw it back into gear before very long. How we shall do this, none of us can now say. But we must see to it during the continuance of the war that we do not so completely destroy the machinery of peace that we cannot throw it back into gear without violent complications.

I do not mean that we must seek to so conduct our affairs that the world may be brought back directly to the conditions existing prior to 1914. Those conditions can never in my opinion return exactly as they were—nor would we have them so return. New conditions must be brought about; conditions that are better than those which preceded this world cataclysm. They must come under wise and capable direction, and the world will look earnestly for proper guidance when the day of its full regeneration is at hand.

Many problems will face the world then. There will be political and territorial problems. There will be problems of races and creeds, of alliances, of education, and of guarantees for the world's safety against ruthless war-making in the future. Beyond these there will be problems of capital, of labor, of property, of trade and industry, of international commerce, of reconstruction and rehabilitation. All problems will be of colossal magnitude which will confront the world when it seeks the way back to peace. Finance furnishes only one problem of the war's sequel. But I feel strongly that if that problem in all its ramifications is solved wisely and well, many of the others will be made less appalling.

How great will be the eventual problem confronting the bankers of the world is a matter which only can be imagined. The present war is so immense that one's mind staggers at the contemplation of it. Peace may be a long way off. Necessarily, any forecast of the economic position of the world, or of any single nation in relation to the rest of the world, must depend upon the duration of the war. Forces of prodigious magnitude are let loose. The length of the time that destruction of human life and accumulated wealth goes on, and the degree of exhaustion in the end, will largely determine world conditions when peace returns. Victory or defeat for one or another of the belligerents will play an important part. The state of the currency systems, inflated and completely transformed by the expedients imposed by the war, will have much to do in determining conditions.

When you consider that there are involved in the war at the present time more than a score of nations and 15 hundred million people, you gain a conception of its tremendous scope and of the reconstruction plans that must follow. Thinking men talk of the ability of flesh and blood to stand the prolonged strain of war, and the inroads that are being made upon manhood and upon wealth. They talk sometimes of war's compensations, material and spiritual. Whatever its compensations, it is a great destroyer of human life, and of the savings of human kind. The world cannot destroy life and capital, and have them too. The world because of this war has ahead of it many years of labor and hardship. From a financial viewpoint, the inflationary effects of what has already been done will continue after the fighting is ended; they will be seen until adjustment is made of all the expedients resorted to in the belligerent countries—the money issues, the secured loans, the temporary taxes.

However, I do not believe we should be cast down at the prospect. In these war-times we have learned many things to apply when we return to peace. Great reservoirs of credit heretofore unthought of for any purpose have been mobilized for purposes of destruction since the war began, and out of these reservoirs there have been secured sums of credit never before dreamed of. The total money cost of the war up to the present time has been more than $175,000,000,000. Practically eight-tenths of this cost has been met out of these credit reservoirs. With respect to the future there is large significance in this. As I see it, the ability of the bankers of the world to direct approximately 150 billions of credit to the purpose of war in a period of 50 months signifies that they can mobilize credit in very large sums for constructive purposes when the war is ended and the peace needs develop. Do not misunderstand me—I do not mean that it will be an easy matter to secure unlimited amounts of credit after the war, for, after all, the world's credit reservoirs are not inexhaustible, and the rate at which they have been called upon to supply war requirements since 1914 has drained them at an appalling rate. The indebtedness of the world today and the inflation of the currencies measure the drain that has gone on. Seven of the nations now engaged in the war have an indebtedness of more than 150 billion dollars, against 27 billion in 1914; they have circulating within their borders 40,000 millions of paper money against 4,000 millions at the outbreak of the war. If these figures are at all suggestive, they suggest forcibly that future credit operations will have to be governed by the extent to which the credit reservoirs of the world have been drained to maintain this, the costliest of all the world's wars.

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But credit will be had, and properly directed it will bring the world back to normal again. Unparalleled as national debts have grown to be, the very fact of their existence is one reason why one may look upon the future with hope, for it shows how far, in the face of great need, mankind can and will go. I personally have a deeply rooted conviction that the world's increasing wealth and productivity will make the financial burdens of this war lighter as time goes on, and in my confidence, I look hopefully toward the longer future of mankind. Nations, after all, are simply aggregations of human beings, and like human beings grow big in overcoming hardships. Great responsibilities develop great capacities. No man is ever so great as when the demand is greatest on his manhood and his courage. No nation is ever so great as when it faces a great need, and we have precedent to show how nations have grown and flourished, which after war might well have been said to face ruin. As surely as the great war brought surprises, peace will have its surprises to astonish the world. The effect of human ingenuity and military organization gives us inspiration for the future. For if tremendous effects which we are seeing today, can come out of the exercise of human ingenuity and military organization, so tremendous effect can come out of industrial organization. And here it might not be amiss to suggest the advantage that we shall find if, after the war, we have a right co-operation in what we do. For the past year a centralized command of the Allied armies has been most practical and effective. So, when there is a return to peace and we have need for the greatest measure of co-operation, it may be found not only practical but very desirable that we have in financial affairs a centralized command. What might take the form of an International Banking Board would be of immeasurable help to our financial recovery, while in other affairs other important international boards or committees might be formed, all charged with the responsibility of bringing about the best possible condition for all peoples concerned in the shortest possible time.

And now in conclusion let me urge the Clearing House Section to devote all its energies and its efforts along the lines of co-ordination and organization, ever looking to the great opportunity of putting America in the forefront among the nations of the world, that it may take a privileged place in guiding mankind back to the ways of prosperity and peace. Hold the vision before you of a world rising rapidly from the ruins of war when peace returns. Keep in that vision a high and noble place for America. The forces of reconstruction will be mighty forces. It will require strength, courage and a high purpose on our part to carry them through. It is the place of the bankers of this country to guide these forces, and direct the administration of our great credit structure to the end that the well-springs of normal industry and trade may quickly be restored when the war is over, and flow uninterruptedly through the years of peace and prosperity that are to come.

Report of the Chairman of the Executive Committee

CHICAGO, ILL., September 24th, 1918.

Since the meeting of the Section in Atlantic City, three meetings of your Executive Committee have been held, one for the election of officers, one at Hot Springs in May and the other in Chicago on yesterday. The members of your Committee have given careful attention to the various phases of Clearing House activities during the past year, but have been especially impressed with the necessity for the Section and the Bankers represented placing all their facilities at the disposal of the Government and aiding in every way in winning the war in which our Nation is engaged.

Our Secretary, Mr. Jerome Thralls, has given the same close attention to the work of the Section as characterized his efforts last year, and under his guidance the usefulness of our Section continues to increase. During the winter he responded on behalf of the National Bank and Clearing House Sections to the call from the Government for expert assistance in connection with the launching of the War Savings Campaign. The war accomplished by him in this connection was of inestimable value to the National War Savings Committee and resulted in enlisting thousands of banks throughout the country actively in the support of the campaign and spreading broadcast the lessons of thrift and economy which are so essential to the national welfare at this time. Investigations were also conducted by him for the War Industries Board for the purpose of listing and classifying the fourteen hundred firms, corporations and individuals seeking Government war contracts; and at the present time the Capital Issues Committee is being assisted in its efforts to protect the public from unscrupulous promoters who are endeavoring to load upon them annually a large amount of securities of doubtful value in exchange for cash and Liberty Bonds.

Your Committee feels that it is desirable that the Clearing Houses should be brought into closer touch with the Section and that new phases of Clearing House activities which are found to work successfully in the various sections of the country should, through the Section, be brought to the attention of the other Clearing Houses at regular intervals, so that they may have an opportunity to take advantage of such of these ideas as may be of value to them. With this thought in mind, a monthly bulletin will in future be distributed through the Clearing Houses to member banks and officials.

During the past year a committee, of which Mr. J. H. Fulton of the National City Bank, New York City, is Chairman, has perfected a condensed form of statement which it is recommended should be used by houses selling their paper in the open market. This form, in addition to furnishing the paper-buyer with a balance sheet of the company, will give reasonable information as to the character of the assets and liabilities, together with an itemized statement of the Profit and Loss account showing the progress made during the year. This form has been approved in substance by the officials of the American Institute of Accountants, and the committee, having been enlarged, is being continued for the purpose of securing the co-operation of note brokers and getting the paper-buying banks throughout the country, so far as possible, to insist that the information covered by the statement be furnished by brokers.

For several years the Clearing House Section has been endeavoring to have Clearing Houses report total bank transactions as contrasted with a mere statement of clearings. During the past year the Federal Reserve Board has recognized the work of the Clearing House Section in this connection and requested the Clearing Houses of the country to report total bank transactions weekly. It is to be hoped that every Clearing House will promptly respond to this request of the Federal Reserve Board and thus place at the disposal of the officials in Washington and the public the information in this form, so that a fair analysis of the business transactions of each locality may be made.

One of the important developments during the past year is the action taken by several Clearing Houses in an effort to have the maximum of interest paid on bank balances bear a reasonable relation to current discount rates rather than adhere to the old custom of paying the same rate regardless of the demands for money. Up to date the Clearing Houses of Boston, Chicago, New York, St. Louis, Minneapolis and St. Paul have adopted regulations for this purpose. The Clearing House of Richmond has taken action along the same line, subject to the Clearing Houses in Baltimore and other competing cities in the Fifth District adopting similar regulations.

This brings up the question as to whether or not, with the Federal Reserve rates varying in accordance with changing conditions, the maximum rates at which banks may discount paper should not fluctuate likewise, on a reasonable basis in relation to Federal Reserve rates, rather than that the maximum shall be fixed at a definite rate regardless of existing conditions, which rate now varies according to the laws of the several States of the Union rather than in accordance with the principle of supply and demand. It is suggested that the members of the Section consider carefully whether or not the situation should be brought to the attention of the proper committees in Congress in an effort to have it adjusted along sound banking lines.

During the year the New York Clearing House adopted a rule providing for the clearing of trade and bankers' acceptances on the same basis as checks.

Because of the increased clerical expense, many Clearing Houses have found it impractical to continue handling small checking accounts on an unprofitable basis and have adopted rules providing for charges on such accounts of from 50 cents to $1 a month when the balances maintained during that time average less than $50 or $100.

Several Clearing Houses now have a second clearing each day for the purpose of clearing go-backs or return items, resulting in simplifying the handling of these items and saving much time as compared with the old custom of having each bank return all such items by special messengers to the banks by which they were deposited in the Clearing Houses.

In some localities it has been found advantageous for the Clearing House to employ messengers for the joint use of the members, thus reducing materially the expense of presenting local drafts and other collection items. This eliminates the necessity for a separate runner from each institution visiting the same business house in order to present drafts on that house received by the several banks of the city and which can be equally as intelligently presented by one joint messenger.

Until the Federal Reserve Collection System is developed to the point which will enable Federal Reserve Banks to handle items on every bank in the country, the establishment of country Clearing Houses is essentially necessary. Those Clearing Houses now in operation find through their efforts exchange charges are materially reduced each year and many thousands of dollars of unnecessary clerical and other expenses saved the member institutions.

Under existing conditions, it would be of great assistance to the transit departments of banks if those checks which are collectible through the Federal Reserve System should bear some appropriate symbol which would enable them to rapidly separate them from those checks which must be collected through other sources; and it is also to be hoped that during the coming year a symbol giving instructions in regard to wiring the non-payment of items can be put into general use.

One phase of the Clearing House work which should unquestionably receive careful consideration of the members of the Section is that of establishing, through Clearing House Examiners, a regular Credit Department, through which reasonable information can be obtained, excessive lines curtailed and the banks protected in their extension of credit to those who are customers of more than one local institution. This plan has been developed to the highest state of efficiency by the Cleveland Clearing House and has worked so well there from every standpoint it is hard to understand why more Clearing Houses have not made similar provisions for their own protection. With the changed conditions which will follow the end of the war, such a department will be of unusual value, and our members, upon their return home, are urged to bring this matter to the attention of their respective Clearing Houses, securing such detailed information as may be necessary from the Secretary of our Section, Mr. Thralls.

In addition to the matters outlined above, the Section will during the coming year continue its efforts to

(a) Encourage the organization of Clearing House Associations and County organizations.

(b) The development of the Universal Numerical System and No-Protest Symbol Plan.

(c) The revision of its book of forms and the printing of the forms referred to therein, so that they may be made available for the use of the members of the Section, either singly or in book form.

(d) The extension of the Clearing House Examiner idea.

(e) Encouraging annual conferences of Clearing House managers and examiners.

(f) Developing a plan for the analysis of accounts of individuals, firms and corporations.

(g) Encouraging closer cooperation and wider activity on the part of all Clearing House Associations.

In order to reduce expenses, many Clearing Houses are now jointly publishing the statements of their members as called for; and, in this connection, it is suggested that a Publicity Committee be appointed by each Clearing House for the purpose, wherever possible, of limiting the forms of advertisement used by members to those which are profitable and providing for joint advertisements wherever feasible.

With the idea of having the representation of the Clearing Houses

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at the annual meetings of the Section broadened, an amendment has been prepared and will be presented today for your consideration providing for a change in our by-laws so that each Clearing House will be allowed three regular delegates, the representation of the larger Clearing Houses being increased in proper proportion to their total membership. This should result in materially increasing the attendance at our annual meetings, also giving the smaller Clearing Houses the benefit of the impressions and information received by three delegates instead of from the single representative they are entitled to under present rules.

It is hoped that every delegate attending the meetings of the Section will register properly so that a list of those entitled to vote upon the propositions brought before the Section for consideration may be available. The membership of your Section today is two hundred and thirty and includes every regularly organized Clearing House in the country.

Never has there been a time when the demands upon the ability and integrity of the officials of the banks in the Clearing House cities were more acute than at the present moment, and upon the broad-minded and patriotic manner in which you exert every effort toward solving the many new and vital problems which daily confront you and your customers the success of our nation in the present crisis will largely depend.

Be of good cheer! The death knell of imperialism has been sounded. Return to your homes with the fixed determination to answer the call of the Secretary of the Treasury and send a message of defiance to Germany and her allies by seeing that nothing is left undone which will contribute to the successful raising of the Fourth Liberty Loan—the greatest single financial undertaking which has ever claimed the support, the service and the sacrifices of a nation.

Respectfully submitted,

THOS. B. MCADAMS,
Chairman.

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NATIONAL BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Third Annual Meeting, Held at Chicago, September 25, 1918

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The National Banks in War Time—Their Problems and Work

By W. P. G. HARDING, Governor of the Federal Reserve Board.

In these stirring times our thoughts are constantly with our sons and brothers who are in the fighting lines in France, or who are keeping watch upon the high seas. We are thrilled by the accounts of their military prowess, our hearts are gladdened by their constant advance against a formidable enemy, and we are inspired by their courage and unswerving determination to overcome the enemy.

Within a short while there will be more than two million men in khaki on the other side to support the gallant troops of England, France, Belgium, Italy and Greece, and the Czecho-Slovaks, in their battles to free the world from the curse of German militarism and autocracy; and we know that their numbers will be steadily increased until the full fruition of our hopes and aspirations shall have been attained. But human activities in this great war are not confined to the military fronts; the battle lines are not alone in Siberia, in the Balkan Peninsula, in northern Italy, in Lorraine, Picardy and Flanders, but they extend throughout the civilized world. There is an American front, manned by millions of men and women who constitute the great home guard, and who must furnish the munitions and supplies and the transportation of facilities for those who are actually exposed to the shot and shell and poisonous vapors of the enemy. Without the work which is being done at home, and which must be carried on in constantly increasing measure, the efforts of our soldiers and sailors could not be long exerted.

Important sectors of our home front are held by the bankers of America, who are on the financial firing line, and it is of their work and of their problems which I wish to speak today. The national banks of the United States have in other times and in other wars proved their loyalty and efficiency. In fact, they were born in the midst of the convulsions of a country torn by civil war and their creation is due to the desperate needs of the nation in those dreadful days.

Through the establishment of the national banking system not only was a market afforded for United States bonds, but facilities were provided for the issuance of a national currency capable of circulating without discount in all sections of the country. So rapidly did the national banking system grow that in 1865, shortly after the close of the Civil War, there were 1517 national banks, having aggregate assets of $1,359,867,074, included in which were United States bonds to secure circulation of $272,634,200 and about $75,000,000 Government bonds held as investments.

In 1898, when we were at war with Spain, consciousness of our baking strength undoubtedly had much to do with the ease with which $200,000,000 of 3 per cent bonds were sold to the public at a substantial premium; but the national banks coordinated under the Federal Reserve system are now engaged in the most stupendous work they have ever undertaken, and in according to the national banks their meed of praise, I do not wish to slur nor underestimate the importance of the work which has been done by the State banks, savings banks and trust companies as well. There is no question, however, that through the operation of the Federal Reserve system the vast fiscal undertakings of the Government have been successfully carried out thus far without any undue disturbance to our financial structure and without a money panic or crisis of any kind.

For three years the burden of supporting the Federal Reserve system was borne almost entirely by the national banks,—all through those times when many of the banks could not perceive that any substantial benefit would be likely to enure from membership, and when stock in the Federal Reserve banks was looked upon as a dead investment. Even a year ago, five months after the United States had entered the war, there were only 86 non-national banks which were members of the Federal Reserve system. It is gratifying to note, however, that henceforth the responsibilities and privileges of membership will be shared by the State institutions, which are now coming over in constantly increasing numbers, and that today about 750 State banks and trust companies are members, with total resources of nearly six and three-quarters billions of dollars.

The problem of the American banker have always been more complex and difficult than those of banks in other countries and their work is more varied and exacting. This is due, in part, to our wide expanse of territory and to the amount of pioneering which has to be done incident to the building up and development of a new country. It is due also to the fact that the spirit of American institutions demands independence of action and that the tendency in this country has been toward a large number of independent banking units, most of them of small and moderate capital, rather than toward a compact group of highly capitalized banks conducting their operations throughout the country through the medium of branches. The need of some means of coordinating this large number of independent banks, of reserving a portion of their resources for the common defense of the financial front, the necessity for provid-

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ing a more elastic currency which could expand and contract in accordance with business requirements, and of establishing a broad discount market, are some of the causes which led to the establishment of the Federal Reserve system. It is not my intention, however, to attempt to discuss your routine work or your every-day problems, but I wish instead to touch upon some of those questions which confront you, and those militant duties which are imposed upon you ,in your work of holding the financial trenches in the great battle now raging for liberty and civilization.

The Liberty Loan organizations are about to begin the campaign for the fourth Liberty Loan. The success of this campaign depends upon the cooperation of the banks,—not upon a half-hearted or complacent acquiescence on their part in the plans adopted, but upon their active, incessant and aggressive cooperation, given in a genuine American spirit worthy of the cause for which the loan is to be raised. For weeks past most of you have been taking your allotments of Treasury Certificates of Indebtedness which are issued in anticipation of this loan, just as you have done in the case of the certificates which anticipated previous loans. In order to meet your allotments you have been obliged no doubt to reduce your regular discount lines and to decline to take paper which, in ordinary circumstances, would have been attractive to you. But you have made it possible for the Government to meet its financial requirements and you have also provided means, to the extent of certificates held, of taking care of the payments that you will be called upon to make for the Liberty Bonds which will be subscribed for by your customers. The opinion and advice of every good banker on financial matters is constantly being sought; your influence is great, and your value as an educational force is incalculable. Banks are the great distributing agencies through which the bonds pass into the hands of the public and it is desirable, wherever practicable, that the bonds should be placed with the customers of banks, and with those who are not depositors, rather than taken for investment by the banks themselves. But it is expected, of course, that banks will do their full part in placing the bonds in the hands of the public, by continuing their practice of lending freely against bonds as security, calling in turn upon the Federal Reserve banks for such assistance as may be needed.

The Liberty Loan is essentially a popular loan. No issue since the first has full exemption from income taxes. The second, third and fourth loans, therefore, pay a higher return in the hands of men of moderate means than they do when held by the millionaire. The discount rates at Federal Reserve Banks are so adjusted as to enable banks to lend at approximately the rate borne by the bonds, with a small margin of profit. Previous issues have been widely distributed, and each issue has shown a larger number of subscribers than the preceding one, the number in the case of the third Liberty Loan being more than 17,000,000. The Comptroller of the Currency is authority for the statement that of the total amount of bonds issued up to this time only 4 per cent were held on June 29th as investments by the national banks, or 2.29 per cent of their resources, while they were carrying at the same time loans secured by Liberty Bonds amounting to $475,000,000, or 2.56 per cent of their resources.

The Federal Reserve Board, from the time when it became evident that this country would be forced into the war, has spared no pains to fortify the position of the Federal Reserve banks, in order to enable them to meet all legitimate demands which may be made upon them and to render the greatest amount of assistance to the member banks in the performance of their war-time duties to the Government. Upon the recommendation of the Federal Reserve Board, Congress amended the Federal Reserve Act in several important particulars on June 21, 1917. The effect of these amendments has been to bring into the system a large number of State banks, besides enabling the Federal Reserve banks more effectively to control the country's gold, which had been widely diffused, having been used for purposes of circulation and held in vaults of member and non-member banks. As you know, all the lawful reserves of member banks are now kept on deposit with the Federal Reserve banks, and as Federal Reserve notes may be issued without limit against deposits of gold or gold certificates, the gold holdings of the Federal Reserve banks have been augmented to an amount exceeding $2,000,000,000, and the discounting power of the Reserve banks has thereby been greatly increased. Both the member and non-member banks have been urged repeatedly to transfer their gold as it accumulates to the Federal Reserve banks, and the appeal has not been in vain, for the response has been very general and gratifying. In the vaults of the Reserve banks gold is available either as a basis of new note issues or as a means of extending their loaning facilities, while in circulation or distributed among the 25,000 or more commercial banks it is of no more value than any other form of currency. There still remains in circulation and in bank vaults, however, about $900,000,000 in gold certificates and coin, most of which can be deposited and should be deposited, their place to be taken as far as necessary by Federal Reserve notes. In mobilizing the gold of the country into the vaults of the Federal Reserve banks, it is not the intention to increase the volume of loans beyond the amount actually required, but these are war times, and any inability on the part of Federal Reserve banks to respond to legitimate demands made upon them would be disastrous. It is clear that in proportion as the gold holdings of the Federal Reserve banks are increased, the ability of such banks to extend accommodation to other banks or to issue notes is enlarged. As reserve holdings are curtailed, the lending power of the banks is correspondingly reduced.

The National banks of the country can render good service at this time by informing the people in their respective communities of the absolute falsity of the statements which have been made occasionally, and which appear to be the result of a deliberate propaganda, that it is the intention of the Government to confiscate bank deposits. Such a statement is absurd on its face, but is well calculated to alarm the ignorant, and, although it has been denied and denounced in the strongest terms by the Secretary of the Treasury and other high authorities, it is evident, from the proportion of the money paid out every week in payrolls which does not return to the banks, that large amounts in the aggregate are being hoarded or carried upon their persons by workmen who are now receiving unusually high wages. Banks should give especial attention to the problem of bringing into sight any money hoarded in their communities, and should urge its investment in War Savings Stamps or Liberty Bonds, as well as the establishment of bank accounts. There is good reason to believe that the present is an opportune time, in industrial communities especially, for organizing systematic campaigns for bringing concealed money into the vaults of the banks, or for effecting its exchange for Government obligations.

One of the most important functions of any bank is the granting of credits. This is a power which should be exercised with prudence and discretion in any circumstances, but under present conditions there are many new and perplexing features to be considered. As the paramount business of this country at present is war, and as the Government is the largest purchaser of all essential commodities, it is clear that the banks of the country should do their part, not only in aiding the Government to obtain the funds and credits needed, but that they should so readjust their own lending operations as to contribute most effectively toward supplying the Gov-

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ernment with necessary articles and commodities. Therefore the question of credit conservation has been a vital one for months past. War expenditures are essentially different from any which are ordinarily made in times of peace. Instead of contributing toward a permanent addition to the national wealth, the large payments which the Government is making for the maintenance and equipment of our military and naval establishments involve waste and destruction,—inevitable concomitants of war. This process necessarily tends to inflation, which, together with concentrated demand and the need for quick deliveries, brings about rapid advances in the price of necessities. Infinities such as are dealt with in higher mathematics have no place in the arithmetic of war financing, even though the figures run into the billions, and as far as possible these resources should be conserved and set aside for the use of the Government, whose abnormal demands—inevitable and necessary in the present circumstances—must be counteracted by greater ecenomy on the part of our civilian population, whose efforts should be directed toward decreasing the normal waste incident to our business pursuits and to our everyday life.

Credit extended for non-essential purposes involves the use of labor, of transportation, of material, and of reserves which ought to be kept free for purposes of the Government. Unrestricted credit means unnecessary competition with the Government, and tends to impede and delay its operation, and needlessly advances prices.

At a time when the supreme business of the country is war, it is idle to talk of business as usual, for our accustomed business and personal habits cannot in many cases be continued without interfering with the Government's work and the consequent infliction of serious injury upon the nation. Uncle Sam, at this time, is a world banker—he is extending credits in large amounts to foreign countries associated with him in the war and his power to continue to play the part of "Uncle" in the financial sense depends upon the extent of his resources in men, goods and gold, and the avoidance of unnecessary credit. Needless recourse to the facilities of the Federal Reserve banks weakens proportionately his gold reserve, and this gold reserve is the financial backbone of civilization. Any waste of the raw materials and manufactured products of the country adds to our financial burdens by increasing the amount which we must import from other countries, and such waste at the same time reduces the volume of goods which sould be available for export purposes—the best means of paying for imported commodities.

The far-sighted banker does not content himself by considering merely present problems, but he turns his eyes to the future and endeavors to lift the veil in order that he may see the shadow of coming events and make his plans accordingly. Many thoughtful bankers feel, therefore, that the preservation of our economic strength is of the greatest importance in making provision for that period of readjustment which will follow inevitably the re-establishment of peace. By refraining from buying luxures and by restricting the use of necessities to the actual requirements of health and reasonable comfort, a reserve purchasing power can be created which will be of the greatest value in bridging over our industries during the period of reaction and reconstruction which will follow the war, when "swords will be beaten into plow shares" and Mars will give place to Mercury and Ceres.

An intelligent and prudent use of credit will be an important factor in strengthening the national resources during the period of the war, in aiding its successful prosecution, besides maintaining our economic strength for the time when our armies will return to the employments of peace. It is important, however, that a wise discretion should be exercised and that there should be a careful discrimination between essential, less essential, and non-essential credits.

It is difficult to suggest any fixed and definite rule to govern in distinguishing between these various classes of credits. A loan might be desired for what appears at first glance to be a non-essential purpose, and yet failure to obtain the credit might create a condition which might indirectly have a distinctly harmful effect upon the ability of productive enterprises in the community to obtain credit. It is important, therefore, that bank officers should inform themselves as to the ultimate use to which the proceeds of a proposed loan will be diverted. Present conditions fully justify the banks in taking such steps as may be necessary to restrain speculation, but at the same time, a general refusal to make loans on good security would seriously impair the liquidity of investments and would force liquidation which might disturb very seriously the whole financial situation. It is important to avoid sharp and radical readjustments of credit and wherever possible lines should be reduced without undue hardship to the borrower or without causing a shock which would render the granting of necessary credits more difficult.

The problem of non-essential credits is, however, not entirely one for the consideration of the banks. The question will be determined for them in many instances by the Capital Issues Committee and by other governmental bodies such as the War Industries Board, which has large powers in the determination of the character and quantity of production and of priorities in the delivery of materials and goods.

In normal times great enterprises and large developments are the result of credits previously arranged by bankers, but the military necessities of today have changed the order so that in many cases developments are predetermined, and bank credits are adjusted to conditions instead of creating them, thus becoming an effect instead of a cause. Your problems, gentlemen, are by no means confined to placing proper restrictions upon non-essential or less essential credits, but they include means of sustaining through adequate credits, the vast number of enterprises and industries whose operations are essential or contributory to the conduct of the war and to the health and necessary comfort of the public. In addition to direct advances to the government, you are being called upon to furnish funds for use of the mercantile community and for the payrolls of mining and manufacturing and transportation companies, and for the production and movement of crops and livestock. In these operations you will find your membership in the Federal Reserve system of the greatest value, for not only can you rediscount freely with your Federal Reserve banks the notes which represent your loans in most of these transactions, but you can effect through these banks such exchange transfers as you may desire and can call upon them to send you any currency that you may need. Shipments from Reserve Banks or branches can reach most of you within twenty-four hours, and in order to facilitate your transactions and to encourage a freer movement of domestic exchange serious consideration is now being given to having the Federal Reserve banks absorb all costs incident to transfers of currency for member banks, both from and to Federal Reserve banks. You have also recourse to the War Finance Corporation, which is authorized to make advances to banks, bankers, or trust companies, and to savings banks, upon terms and conditions set forth in Sections 7 and 8 of the War Finance Corporation Act.

Your attention is directed to the great importance of increasing our supplies of food stuffs, of cotton and wool, of coal, and of all manufactured articles of an essential character, and it is hoped that you will extend your credit lines with this object in view as far as may be

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consistent with the principles of sound banking and business prudence. While it is desirable that you should remain free to exercise your own discretion as regards the security of loans and the details of your business, it is necessary, nevertheless, that we should all work together in carrying out a general policy. The exigencies of the times require that banking policy must be determined in Washington to a greater extent than would normally be the case, but every confidence is felt that the splendid patriotism which has been manifested in the past by national bankers in the hour of the nation's peril, will continue to be exhibited today when our country is engaged in the greatest war of all history, and that through your cordial and effective cooperation complete victory will crown our military undertakings, to be followed by a lasting and American peace.

"Mobilizing the Mind of America"

By ARTHUR E. BESTOR, Director Speaking Division Committee on Public Information and President Chautauqua Institution, Chautauqua, N. Y.

To the American Bankers' Association:

GENTLEMEN:—All of us hope that the work in which we are engaged may contribute to the winning of the war. There is nothing, in my judgment, more important for those of us who are not privileged to serve in the military forces of the United States than the creation of that effective and intelligent public opinion which it is absoultely necessary to have back of the Government in the prosecution of the war. Wars have been won and lost by armies, by a small percentage of the population. But this is not a battle of armies, it is a contest of completely mobilized nations. Armies have oftentimes lived off the country through which they were passing but this is impossible today. These million men, whom we have today in France six months ahead of our original schedule, must be provisioned, munitioned, clothed, and maintained from America. And these supplies and the food for our Allies will go by that submarine-infested ferry across the north Atlantic only because an overwhelming majority of the American people support our war program.

For this war is not merely a conflict of armies; a contest of guns and aeroplanes and war vessels; a problem of food or transportation or money; a mobilization of men and materials. It is a gigantic struggle of morale. The war will be won, says Clemenceau, by the side which can fight the last fifteen minutes. The complete mobilization of the man and woman power of the country, as complete as that in Britain and France and Italy, an entire utilization of the moral and spiritual forces of the nation, is increasingly necessary. And in all this we are merely following that old dictum of Napoleon. "In war morale is everything. The morale and the force of opinion are to the material as three to one."

The experience of our Allies shows how important these moral factors are. Our gallant sister republic, France, was shaken by the machinations of Bolo Pasha and his pro-German propaganda. Defeatism and socialism in Italy opened the way for the disastrous reverses of that country last fall, now gloriously atoned for by the Italian armies along the Piave and in the Alpine mountains, armies rejuvenated by a new spirit. In the midst of the greatest battles of the greatest war of her history Great Britain is unable to put conscription into effect in the United Kingdom. We lack some of the advantages of our Allies across the sea. If a long distance cannon commanded Washington, if New England cities were subject to air raids every good night, if the streams of wounded came through some Charing Cross station in our metropolis every day, if those who lived on the eastern seaboard were within sound of the cannonading on the western front—this war would have a touch of reality which it must lack for most of us.

This war is different from all the wars which have gone before. It is a war of nations, not of armies; it involves all the material resources, all the mechanical and scientific mobilization of entire populations. In a democracy ike ours, steeped in a laissez faire individualism it necessitates a complete reorganization of our life and putting aside of some ideals and many controversies which have always seemed to us supremely important. Three thousand miles away from the fighting line we are not yet ready to accept government direction and supervision which the immediate menace of Prussianism forces on our Allies. Most of our problems must be worked out by volunteer action—food conservation, reorganization of industry, raising of vast sums of money for voluntary war activities, keeping our educational, religious, and philanthropic institutions in full force and efficiency.

We are passing through a period in which there is a tendency to reduce everything to a single basis, as if the war were to last forever, as if everything must be discontinued which does not bear directly and immediately upon the war. We see people leaving positions of great responsibility and usefulness to engage directly in war work, no matter how trivial. We are tempted to characterize those who do not agree with us or those who do not sacrifice as we do, as slackers and traitors. Do not misunderstand me! This is our war and it is the primary concern of every individual and every organization to relate themselves as helpfully as may be to the winning of the war. But I am pleading for an intelligent appreciation of how necessary is the work of the 100,000,000 Americans who are not honored by being called into the military service of the United States, many of whom can never engage in direct war activity, but who, because of the nature of this war, are as necessary to its success as soldiers or sailors or ship builders or munition workers.

All these problems and conditions lay upon the intelligencia of America—insofar as we have such a class—a heavy responsibility. I am one of those who believe that Germany made war upon America long before America acknowledged it and that when Congress made a resolution declaring a state of war, it was simply confirming a fact. A small group of people had seen this war coming a[illegible] it was upon that group of people that the President and Congress relied for the public opinion that would justify that declaration of war. The people who were urging preparedness, not merely because they believed that only in that way could America maintain independence, but because it was a war for civilization—that group of people was largely made up of educators and publicists and editors and lawyers and ministers and leaders of women's clubs and philanthropic agencies—people who have been accustomed to attempt to see whither the world was going. They were the ones who began to accept the contention of England and France that this was a battle for all the fundamentals of civilization and to believe that if America refused to do her part in it she would endanger her continued independence. Many people then began to believe, as every thoughtful person must now believe, that that German officer knew what he was about, at the time of the Spanish War, when he said: "Fifteen years from now Germany will be at war in Europe; after having brought England and France to their knees, Germany will bombard your seacoast towns, will take New York and hold Washington, and will collect from America the cost of this war." Is there anything in the principles of the German government today, is there anything in her conduct of the war since the violation of the neutrality of Belgium that would make any thoughtful person believe Germany would hesitate to do that if only power were given her to do it? Some of the Americans saw that sooner than the others; and that group of people who carried America into war, under the direction of the President, have a responsibility equal, if not greater, than any borne by any set of people since we won our independence from Great Britain. And if this war is to be won only through America putting her last atom of physical and moral strength into it—there rests upon our leadership a burden not exceeded in the world today. Unless the United States is kept steadfast to her task, unless America follows the leadership of the President in his democratic ideas as to how this war ought to end it will not end in the only safe way for the democracies of the world.

In all this, however, we must emphasize the fundamental elements in this struggle. America is in this war because the German government has outraged every one of the fundamental principles of international morality. As long as the ruling class of Germany is in control of the military resources of the Central Empires, Germany is a standing menace to our peace and safety. It is impossible to conceive of the world under the domination of the people ruling Germany today and under the domination of the ideas they would impose on the world. We are at war with Germany because Germany has accepted principles of individual conduct and national conduct which are absolutely inimical to our continued security. We were as patient as ever a people could possibly be. We went through a period when we thought it was a war for selfish interests, another period in which we thought Germany and Great Britain and France had equally good reasons for being in the war, until Germany forced us to see that this was a battle for the fundamentals of civilization and humanity. We came to believe it, not because we had changed our ideas, but because Germany had in every way made it impossible for us to believe anything else. Her ruthlessness of spirit, her theory that treaties were only scraps of paper, her unwillingness to abide by any of the principles of international law if they interfered in any way with her desires, finally forced the United States into the war. If democracy was to exist it could exist only because the democratic nations were willing to fight for it.

We owe it to ourselves, to our Allies, and to our enemies to make it perfectly clear that this is our war and has been from the beginning because it is waged for all the ideals America has believed in. Against all the fundamental assumptions of Germany's ruling class we resolutely set our face. Again her dream of a Holy Roman Empire in the modern guise of Pan-Germanism we set that French motto at Verdun, "They shall not pass." Against the belief of her military caste that "might makes right" we place the right of the individual to "life, liberty, and the pursuit of happiness." Against the theory of the divine right of kings, we assert that to secure the inalienable rights of freemen "governments are instituted among men, deriving their just powers from the consent of the governed." Against a German people accepting the ideal of "Deutschland uber alles" and an autocracy willing to wage war to the bitter end for their continued power we pledge that "this nation under God shall have a new birth of freedom and that government of the people, by the people, and for the people shall not perish from the earth."

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"Great Britain for Democracy"

By Lt. Col. G. G. Woodwark of the British Army

1. The Raising and Training of the British Armies for Service.
2. With the British Armies in France.
3. The British Naval and Military Contribution to the War.
4. Industrial Re-organization of Britain for the War.
5. The War-organization of Britain for Domestic Economy.
6. British Financial Organization for the War.

Mr. President, Ladies and Gentlemen: The great honor you have done me by inviting me here is one which I accept with affectionate gratitude—for my country. It is of Britain's part in the war that I have been asked to speak—and I feel very much at home in the familiar atmosphere of this brother-democracy, today so closely alied with our own Great "Commonwealth of Nations," as General Smuts, of the British War Cabinet, has so finely termed the British Empire. And in the democratic sense of these history-making days, I much prefer that name for the British territories, wide-spread across the world: a Commonwealth of Nations! For thus constituted it is, in truth—and as a citizen and soldier of it, I feel myself very much at home speaking here, as it were, in the house of a member of the family.

So, if I dwell upon the part taken in the war by my particular branch of the English-speaking family, you will bear with me: it is of Britain's part in the war that I have been asked to address you—of the raising and training of her armies; of their battling in the fields of France, in which I have been proud to take part; of Britain's naval and military contributions to the war, and that of her great Dominions and dependencies; of the thorough and far-reaching re-organization of the British Industrial machinery during the war; of her system of domestic economy reconstituted to meet the strain of war; and finally, though with diffidence and as a layman in the presence of professionals, of Britain's war-finance, from its more popular and public aspects.

I will begin, then, with the up-building of the British fighting machine—the first and most urgent of the tasks we had to face, and one to which all of you will listen with sympathetic understanding, yourselves having so recently carried through a similar job with such consummate efficiency, and of which you are now witnessing results that will go down in history to the glory of your nation, and, if I may say so, to the glory of our whole family of nations. For we ask you to let us share in the happiness of your triumphs, as we feel that you have shared in ours, and as we know, full well, that you suffered with us and succored us in the darker days, now safely passed.

1. THE RAISING AND TRAINING OF THE BRITISH ARMIES FOR SERVICE.

Up to 1914 England, like America, was a pacific nation, with no standing army, and—(also like America)—with a navy not more than adequate for the insurance of her over-seas interests. Hence the same problem faced Britain and America when each stepped into the arena; the problem of organizing a great army,—infantry, artillery, cavalry, air-forces, engineers, medical corps, army service corps—an army to be made fit to meet and beat the highly trained professional conscript armies of the enemy.

The first two years of Britain's army building was upon a voluntary basis,—and it should never be forgotten as a proof of national—or should I not say international?—loyalty and morale unequalled in history, that on this basis we recruited upwards of 5,000,000 volunteers, expanding our army from its pre-war strength of 300,000 "regulars" to that huge figure. That is not to say that it might not have been more scientifically efficient to apply conscription at the outset, as America has done, and as England ultimately found it necessary to do, in order to apportion more nicely her available man-power to the multifarious tasks of war—military, quasi-military, and civilian. In fact it was ultimately decided that, fine and generous as was the response of the volunteer spirit, it did not permit of a properly controlled adjustment of "the man to the job" such as can be more readily effected by the method of the selective draft.

The first steps taken in the raising of volunteer troops on the outbreak of war I can describe to you from my own experience—more or less typical of the general methods and results operative throughout the United Kingdom.

On August the 4th, 1914, the Territorial forces of Great Britain received mobilization orders, to report to their depots. Being a Norfolk man, and for over twenty years associated with the Volunteer or Territorial organization of the country, I at once proceeded to the East Dereham depot, and thence we were sent to Colchester, the concentration center for training purposes.

After a month or two there I was ordered to return to my country to recruit men from Norfolk, for the first line units. I realized that to get quick and sizable results a dramatic method was needed, and I consequently adopted some good American "hustle." Touring the country with a regimental band and about twenty automobiles, I drew up a carefully planned tour of towns and villages, was "press-agented" well in advance, and timed to speak at each place as per schedule. I took an examining doctor with me en route, and the volunteers were passed immediately after the meetings and hustled direct to the depot. There was no time for cooling of heels; and I found no signs of "cold feet." In this way I recruited 5,000 men in about five weeks.

These men were then passed either into the Territorials or into Kitchener's Army, according to their choice. In the former they could select their regiment; in the latter they went where the military authorities sent them.

I then took 1,000 of these men and formed and organized a battalion of second line supports, to feed the first line abroad. Later I organized another battalion of the second line, and was given command June 21, 1915. This battalion was turned into a draft-finding unit for supplying trained men for the fighting fronts.

Many were the difficulties and obstacles during these early months of training—lack of equipment, boots, rifles, uniforms. But with keenness and good will on all sides the job went through and in due course order came out of chaos and the wheels of the army-making machine ran more smoothly. With these first batches of volunteers came the cream of England's sons—rushing to her defense, and, after training, sent out rapidly to the front to replace the casualties of the expeditionary force; themselves in turn to find a bed in French or Belgian soil. There was no time to apply a selective process with a view to getting each man to the work he could do best; everyone who could carry a rifle and use it, soon found his place in the fighting line. This resulted in fearful wastage of material,—but it was unavoidable at that critical juncture. Such was my experience of volunteer recruiting during the early months of the war and until I myself went to the front.

The second phase of recruiting, by conscription, became essential through the demand of the war-industries for many of the highly-trained men—mechanics, designers, ship-builders, miners—who had rushed to the front with the first armies, but whose civilian services, as soon became apparent, were vital to the work of supplying the fighting forces with guns, munitions, transportations, and so forth.

As soon as it became evident that conscription was essential to victory and they understood the true reasons for its necessity, all classes of the nation met the conditions with hearty good-will.

Thus, in the very midst of the clash and din of war, with the enemy at her very doors, Britain, with the stalwart aid of her splendid sister-commonwealths of the Empire, builded a fighting machine which is now manned by no less than 8,500,000 souls—of which total Great Britain herself has contributed 6,250,000; the Dominions 1,000,000; India and the Dependencies 1,500,000. Today one out of every three males, of all ages, in the British Isles is fighting. As M. Clemenceau, the Premier of France, has so finely borne witness: "England did not want war. . . . But now behold her in the midst of conflict. Slowly, but with a stubborn determination that nothing avails to diminish, or to daunt, she has transformed herself into a military power."

Stupendous as has been our task, in Britain and in the Dominions, even more gigantic in some ways at least, was the problem America had to meet. For—as we are told by your military men—your machine was yet in process of re-construction—was not yet completed e'er it was called upon to cope with the raw material—the splendid stock of human material which was ready and waiting to be put through it. True that you profited by avoiding our mistakes—but is not the ability to learn in the school of experience the finest test of high intelligence and efficiency? All honor to those who served America night and day in the pressing, urgent task of supplying to us, your hard-pressed and war-weary Allies, and so absolutely in the nick of time, the finished product of your mighty war-machine—that magnificent product which is now employed in writing upon the pages of this country's history, so glorious a record of human attainment—and of sacrifice!

2. WITH THE BRITISH ARMIES IN FRANCE.

And now to sepak of our Armies in action. Surveying the war today from its beginning, I will deal with it in three periods—first, from its opening to the end of the first battle of the Marne; second, the defensive-offensive campaigns, with the battles of the Somme and of Verdun, up to the close of 1917; and finally, from the German offensive of last spring to the present date.

As is well known, on the part of the British Empire there was never a moment's hesitancy, once Germany had doffed her mask, as to our proud duty to stand loyally by our glorious friend and neighbor, your and our beloved Ally, France, and its intrepid little neighbor, with the heart of a lion, Belgium. Utterly unprepared as we were, Britain could not hesitate—and it is with a pride, for which I would still claim the proper humility of all servants of humanity, that I call upon the generous witness of both of those countries, as to the effectiveness of our prompt co-operation. Apart from the vital service of our navy in bottling up the German fleet, had we not hurled into the breach our gallant little army—our "contemptible little army,"—there could have been no victory of the Marne to stay the German hordes and to save Paris from their violating grip. Let no nation fear to acknowledge its past faults—not all the pages of our history are unsmirched. "Let the dead past bury its dead"; our Allies will not forget through all time the sacrifices of our first expeditionary force thrown across the invader's path, and they have testified to its essential effectiveness in the primary defeat of the enemy in those awful first weeks of war.

Of the next stage of the struggle—those gruelling years when the utmost that we could do was to stand fast and oppose our inferior numbers of hurriedly trained and equipped troops solidly against the enemy's highly organized efficiency; to fire our one ill-spared shell in reply to the twenty from his well-filled arsenals; to pit our few guns against his serried artillery—of those years, 1915 to 1917, I can speak to you somewhat from my personal experience at the front.

It was early in 1916 that I was relieved from my work of training troops at home and went to France in command of a Bantam bat-

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talion—men all under five feet two inches, which was the minimum height for infantry. My men of the Bantams were chiefly miners, whose occupation gave them fine chest development—working on their backs, picking at coal or rock,—but left them poor as to the legs: they lacked the "foundations" and marching was not their strong point. Our first sector was that of Beaumont-Hamel on the Somme front—the sector where the British first went "over the top" in the campaign which ultimately resulted in the withdrawal of the Germans to the Hindenburg line. You may recall that in this offensive on the first day alone the British casualties were 60,000.

Then in due course we were sent to the Arras front—a line protected by very well-constructed defenses and trenches: in fact the British held this sector against all attacks, from the time they established themselves in it after the first battle of the Marne, and in face of the German's most strenuous efforts to dislodge us from it during their spring offensive this year.

Here, then, we had a comparatively easy time—qualified by the usual daily exchange of compliments in varying qualities in the shape of shells, bombs, gas, and so forth. The monotony was even relieved by some choice examples of trench humor. The boche trenches were about fifty yards from ours, and were being held by Saxon troops. Shortly after we "went in" a sign, in English, was displayed one fine morning from the habitat of the neighbors opposite. It read thus:

WE ARE SAXONS FROM THE SOMME:
SO ARE YOU — LET'S GO EASY!

Eight days later our friend the enemy substituted the following notice for our edification:

THE BAVARIANS RELIEVE US TONIGHT: GIVE 'EM HELL!

Evidently someone in the boche lines knew quite a bit of good English!

Later I was sent home with septic poisoning, and on my return I took command of another battalion on the Somme front. But by this time we were advancing, hard on the heels of the retreating Hun, who, while retiring to more comfortable quarters back on the Hindenburg line, took his revenge by devastating every square foot of territory. In fact it was only from the information of the peasantry left behind amid the ruins that we could identify the plans of the one-time "villages." They would point pitifully to where the church stood; where the village pump had been; the chateaux; their own homes—not one stone left upon another.

It was during this advance that I met with an unpleasant experience. The boches were shelling us, and managed to hit the dug-out which several of us occupied, burying us alive. It is an unpleasant sensation—to be sealed up in a tomb with other living corpses, with only a bit of candle or so between the lot, and no means of telling whether the place is to become a veritable grave or no. Fortunately, after a period of some strain, a relief party came to our aid and dug us out; it resulted in a startling reaction to find oneself restored to life after twenty-four hours of probationary death.

In this advance I and my battalion reached Bapaume, where, as usual, we found that the Huns had destroyed systematically every building in the place—except, however, that they had left standing the Town Hall. But this little sign of regeneration proved merely a booby-trap. A week after our occupation the Hall blew up, killing two French deputies and some of our officers and men. A clock-mine had been deftly secreted and did its work effectively.

On this line my battalion remained—the Cambrai-St. Quentin sector of the Hindenburg line, some miles beyond Bapaume—until at the close of 1917 I was invalided home with shell-shock.

I will now pass to a short survey of the third phase of the war on the Western front—the campaign of the present year.

Small wonder that, at Russia's collapse and elimination from the war early in 1917, which released new German armies to outstrip our hard-earned increase in numbers and equipment, and snatched from us the long-promised hope of a great Allied Offensive—small wonder that on America's dramatic entrance into the arena, our eyes turned to her with eager hope, or that we watched with almost breathless expectancy for the speedy materialization of her support. The enemy pretended to belittle America's contribution and loudly asserted that the U-Boats would prevent the utilization of her power in the Allied cause. Again Germany miscalculated—as she has done throughout—the power of will in a great cause, to overcome obstacles. Launching her vastly reinforced armies, 3 or 4 to 1, against the British front last March, she bent it—but could not break it. Followed a like onslaught against the French front—with like results. Not yet had the Allied armies filled up their ranks to equal Germany's in numbers—but they were newly inspired by the American support, and when Foch smote, in the second battle of the Marne, with America by his side, Germany's pride was badly mauled. Then Haig, already recovered from the battering of the spring, smashed forward on his front and crossed the Hindenburg line at its strongest point; and now America, in her first independent campaign, has administered the heavy and humiliating defeat of St. Mihiel.

In fine, Germany has been out-generalled and out-soldiered. Her conscript system, which she initiated and thus imposed upon the rest of Europe, has, in spite of all its vaunted efficiency, proved a failure. She has broken every rule of warfare to which she had pledged herself; she has descended to every kind of barbarous outrage on sea and land. Except when she fights with greatly superior numbers she is always beaten. And why? Complete efficiency must enlist not only every ounce of material power; it must enlist every ounce of every kind of power. Germany has always left out of account the mightiest factor in an army's force: its spiritual power. That power is indomitable. It is this spiritual factor, imbuing every soldier and informing the whole line, which has set German "efficiency" at naught. Germany's kind of "efficiency" could succeed only if men were machines. It is the spirit of the Allied armies that will conquer—and has already discredited—the German military machine, built upon a basis of materialistic science which ignores—and by the showing of her own philosophers denies—the finest and most powerful of human qualities, while it openly flouts all sense of honor and decency. That, I hold, in the final analysis, is the rock upon which Germany's house will break—as her false and godless theory of life was the sand upon which she built it.

The Allies possess a higher faith than that—and we may humbly thank God for it! All honor to the splendid men of all ranks in all our armies on the Western front; all honor to Foch, coolly selecting the proper moments to strike at the spent power of Germany's hosts; all honor to Haig, coolly meeting the overwhelming odds of Germany's onslaughts and as coolly reporting the results of his counterstrokes of the last weeks; all honor to Pershing, coolly stepping into the arena with his fresh young armies, who are as coolly doing the work of veterans in our great crusade for civilization!

3. THE BRITISH NAVAL AND MILITARY CONTRIBUTION TO THE WAR.

From the foregoing brief survey of the Western front, I will pass to a bird's eye view of the other fronts, scattered over the face of the globe. To cut off from our enemies all external support, direct or indirect, it was necessary not merely to meet their attacks in the European fields, but to eliminate them as far as possible from all other parts of the world. Hence the campaigns employing naval and military forces, in which the British Dominions, South Africa, and India have joined us so splendidly against the German colonies and Turkey's territories in Asia. South African and British troops have gained complete control of the German colonies in that continent. Australia and New Zealand have seized their possessions in the Antipodes; our gallant ally, Japan, reduced Kiaochau in a few weeks; our British and Indian armies in Mesopotamia and Palestine are performing the triple task of defeating and reducing the Turkish forces, of freeing the races hitherto subject to 2,000,000 tons annually. In the Balkans, Serbia and Greece are striking at the 1,000 square miles of hitherto unproductive land which now yields food for ourselves and our Allies, representing a saving in shipping of no less than 2,000 tons annually. In the Balkans, Serbia and Greece are striking at the Bulgar forces; while Italy, who on her front is performing so magnificently her stupendous task—more wearing and trying to armies even than such warfare as we are experiencing on the Western front—stands by her Allies with a steadfast loyalty which is beyond all need of praise and gratitude. Lastly, we have the recent expeditions with which America is associated in support of the loyalist Russian populations against the machinations of German intriguers and agents.

In all these far-flung objects, it is our pride to have been able to take our part—sometimes assisting, sometimes assisted by, our Allies or our Dominions, to whose loyal efforts I must now bear witness.

For indeed the contribution of every part of the British Empire has been marvelous. Canada by herself has made an effort equal to that made by Great Britain in the Boer War, raising half a million men. Australia, in proportion to her widely distributed populaton, has equaled Canada's accomplishment. Of the Indian troops serving under the British flag, General Smuts declared: "I never wish to command more loyal, braver and better soldiers. The Indian forces who are now helping to break up the Turkish Empire in Mesopotamia are making a contribution to the war which should never be forgotten." New Zealand, with a small population of a little more than a million, has raised no less than 100,000 men. New Foundland's effort is proportionately generous. South Africa, "compensated after the Boer War by one of the wisest political settlements ever made in the history of the British Empire"—I quote the words of General Smuts, who led the Boers against us in 1899-1902, and is now one of the most valued and influential members of the British War Cabinet—South Africa has done yeoman's service to the common cause, by clearing the Germans from that continent and by her contribution to the armies at the other fronts, a service which redounds to her own honor as it bears glowing testimony to the solidarity of the British Commonwealth of Nations of which she so recently became a part.

Turning to the high seas, I need not speak at length of the service rendered to the world by the British Navy, whose predominance alone has made possible not only the continuance of the main campaign on the Western front, but all the vast subsidiary projects for the discomfiture and defeat of the Allies' enemies.

In August, 1914, the British Navy had a tonnage of 2,500,000 and a personnel of 145,000 officers and men. Today it has a tonnage of 8,000,000, including the auxiliary fleet, and in 1917 the personnel stood at 430,000. The joint action of the American and British Navies has made possible the safe conduct of the American armies to France, and has almost wiped out the threat of the pirate U-Boat. The Navy's main task is not spectacular—but the figures are dramatic: it has convoyed no less than 13,000,000 men, of whom only 2,700 were lost by enemy action; it has convoyed 2,000,000 horses and mules; 500,000 vehicles; 25,000,000 tons of explosives; 51,000,000 tons of oil and fuel; 130,000,000 tons of food and other materials for use of the Allies: all this in addition to its unceasing patrol of the North Sea—hoping and waiting for the impotent German fleet, which cost its nation $1,500,000,000, to come out and give us battle.

I must claim your attention also for a few facts and figures concerning our Air Service. In 1914 Great Britain possessed a total of 110 aeroplanes and a personnel of 900 officers and men. In 1917 the personnel had reached 42,000 and the machines had increased to many thousands.

In 1914 the amount of bombs dropped was practically nil; in June, 1917, the weight of bombs dropped by British aviators on German fortified towns was 65 tons; in May, 1918, it was 668 tons. In a single day on the Western front British aviators silenced no fewer than 127 German batteries, 28 gun-pits were destroyed, and 60 explosions were caused.

From July, 1917, to June, 1918, 4,102 enemy machines in all theaters of war were destroyed or brought down by British aviators with a loss of only 1,213 of our machines.

The following is a record of one month's accomplishments by British airmen: 139 enemy machines destroyed, 122 enemy machines driven down out of control, 7,886 bombs dropped on Western front. 209,600

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rounds fired from the air, 15,837 photographs taken, always, of course, under heavy shell fire.

A big British aeroplane of a new type, carrying nine passengers in addition to its crew, recently made a trip from the interior of France to the interior of England in just over one-half an hour. During the night of August 21st, 1918, British aviators bombed five German towns, dropping 194 tons of bombs.

The brutal raids of Zeppelins upon open and defenseless towns in England have been avenged—but only in accordance with the agreed rules of warfare; we have not taken our revenge upon the women and children of Germany, but upon their military centers and fortifications.

4. THE INDUSTRIAL RE-ORGANIZATION OF BRITAIN FOR WAR.

And now, after surveying the British naval and military forces in action, let us glance at the work of the British industrial army at home. For it is true that but for the work of the army of civilians our cause would have been lost.

Over 4,000,000 men and women are today working in British munition factories; they are producing in two weeks more shells than were produced in the whole of the first year of the war.

When war broke out Britain possessed but three National arsenals; today she has 150. Over 5,000 privately owned factories and works are now under Government control; in one area alone shell bodies or the components are now being made by a musical instrument manufacturer, an infants' food maker, a candlemaker, a flour miller, an advertising agent, several brewers, a jobmaster, a glazier and a syphon manufacturer.

In the last six months of 1917, Canada contributed no less than 15 per cent of the British output of munitions.

Upon British clothing and boot factories has fallen the great task of supplying a larger proportion of the equipment of the Belgian, French, Italian and Russian armies; indeed, without British uniforms and boots some of our Allies would have had no option but to relinquish the fight.

The entire fabric of Britain's industry has been revolutionized; all over the country immense new factories have been erected, devoted exclusively to the manufacture of munitions. New villages and even whole towns have sprung up almost in a night, yet the Ministry of Munitions has found time to organize a staff of experts, whose sole duties are to deal with the housing of the workers and to look after their welfare. Two thousand miles of track, 1,000 locomotives and many tens of thousands of railroad cars have been shipped abroad.

Canada has contributed quantities of railroad materials, including no less than 450 miles of rails, torn up from Canadian railways and shipped direct to France.

For the steadfast loyalty and heroic self-sacrifice of British labor to the Allied cause no praise would be adequate.

As for the women, they are splendid!

Up to the outbreak of war Great Britain had approximately 200,000 female workers, mostly employed in the textile industry. Today over 5,000,000 British women are doing 1,701 different kinds of work previously done by men, and, what is more, they have broken every record of pre-war production set up by the sterner sex. Over 1,000,000 are directly employed in munition producing plants, over 500,000 are employed in engineering and chemical works, 300,000 are working as farm laborers, 20,000 are in the uniform of the Women's Auxiliary Armp Corps, working in France or Britain as motor drivers, bakers, clerks, etc. Over 10,000 are in the Women's Royal Naval Service, doing similar duties for British Jack tars.

I am told that 5,000 British girls have been dispatched to the American Army in France; some are engaged in clerical duties, and some are making "pies" for your boys at the front.

As our Prime Minister, Mr. Lloyd-George, has said: "If it had not been for the splendid manner in which the women came forward to work in the hospitals and munition factories, in administrative offices of all kinds, and in war work behind the lines, often in daily danger of their lives, Great Britain, and, I believe, all the Allies would have been unable to withstand the enemy attacks of the last few months. For this service to our common cause humanity owes them unbounded gratitude."

5. THE WAR ORGANIZATION OF GREAT BRITAIN FOR DOMESTIC ECONOMY.

England has suffered deprivation, rather than actual privation; luxuries have been largely eliminated; necessities drastically reduced,—but not to the point of causing keen distress or hunger. Her system of food-control is partly voluntary, partly compulsory. And the Economy Exhibition will demonstrate to those who attend it the weekly ration for a man or woman doing manual labor includes the following:

Butcher meat, without bone or fat	8 ounces
Bacon	12 ounces
Butter	2 ounces
Sugar (individual use for all purposes)	7 ounces

Milk is not rationed—but the supply to dealers is restricted to not over the average amount daily, for sale, which they had three months previous to the ration-system going into effect.

Bread is not rationed—but bakers are allowed to use only 60 per cent of white flour, and their supplies are similarly restricted.

Maximum prices have been established for nearly all foodstuffs in common use, and the poor are thus protected from any attempt at exploitation.

Undoubtedly a moral and sociological advantage has resulted from the enforcement of "the stimple life" upon all classes of the community alike. From those conditions has arisen a mutual sympathy and understanding between rich and poor, high and low, which testifies to the democratic plan upon which our Anglo-Saxon commonwealths are based.

In spite of the exceptional difficulties created by the shortage of labor, Great Britain has increased her arable area by 2,142,000 acres since the outbreak of the war. This increased area is divided as follows:

	Acres.	Pct. Inc.
Wheat	752,000	39
Barley	158,000	11
Potatoes	217,000	50
Oats	735,000	35

Three thousand Government-owned tractors are at work on 611,000 acres of land. One million acres are worked by steam plows under the Government's direction. Cheese-making schools have been set up in 33 counties. Special efforts are being made to increase the supply of seafood; in this direction I would point out that the transference of a single trawler from the fishing industry to the mine-sweeping service means 350 tons of fish lost annually to the country, or an aggregate of over 1,000,000 tons lost per annum.

British agricultural scientists have rendered yeoman service. A Russian wheat which resists rust, but yields a miserably poor crop, has been married to a British wheat with a high yield which now repels the rust; the result is 42 bushels per acre, or, with pushing, 72 bushels. There is every prospect of their producing in the near future a potato immune from blight or wart.

In order to preserve all available fruit, 6,000,000 bottles are being distributed this year to housewives.

Britain's grain crop this year will be the biggest since 1868. The army of harvesters now employed include wounded soldiers, college boys and girls, boy scouts, Belgian and Serbian refugees. Three hundred thousand women work on the land.

So much for the work the of Government Department, but what of the work of the people themselves?

Over 1,400,000 new allotments have been put under cultivation, mostly by people who have already done a long day's work in a munition factory, at the office desk, or on other duties. It is chiefly owing to the patriotic efforts of these amateur gardeners that Britain increased her potato crop by 3,000,000 tons in 1917, thus releasing a vast amount of tonnage for the use of the Allies.

This increased production has enabled us to divert cereal imports to France and Italy to meet the shortage in those countries.

6. BRITISH FINANCIAL ORGANIZATION FOR THE WAR.

In touching upon the financial effects of the war I can speak only as a layman, and give you such facts and figures as may serve to illustrate the dimensions of the British contribution to the Allied cause, as viewed from the financial angle.

During the first four years of war the British Government has spent £7,930,000,000. To meet this sum, £2,921,000,000 have been collected in taxation and State sources; £5,909,000,000 have been borrowed.

Deducting from the expenditure and revenue £800,000,000 for normal income and outgo during the four years, on the pre-war basis, we get war revenue of £1,221,000,000, and war expenditures of all kinds, including loans to Allies and purchases by Government of goods that will be resold, £7,130,000,000.

The Chancellor of the Exchequer in his budget speech estimated the value of these recoverable assets (taking loans to Allies at half their face value) as £1,176,000,000 at the end of next March (1919). Taking them as, say, £1,800,000,000 now, this makes the four years' figures as follows:

Total war expenditures	£7,130,000,000
Less recoverable expenditure	1,800,000,000
Net war cost	£5,330,000,000
Provided by revenue	1,221,000,000
Provided by borrowing	£4,109,000,000

According to this calculation, the proportion of the net war cost that we have raised by revenue is 23.04 per cent. Here in the United States I understand you have been able to meet a higher percentage of your war cost by revenue—54 per cent of it, in fact, if loans to Allies be deducted. I believe that these figures do not, however, permit of very exact comparison.

The stress upon the British purse has, perforce, been heavier; and the circumstances under which our expenditure has been incurred have been less favorable to careful economy than in the case of America. There is the further substantial consideration of the different periods of time during which each country has been subjected to the burden of war expenditure.

Under the circumstances in which we were placed, it is perhaps fair to opine that during the stress of war, economy would not have been for us the chief of virtues. Yet the British Government and the British people may be justly proud of their methods of raising revenue, and of the proportion of the war expenses met and paid as the war goes on.

First of these methods, which has been steadily inculcated and increased among all classes of the community, might be called the popular War Loan habit as contracted in the periodical purchase of War Savings Certificates. Thereby the heart of the nation, with a regular weekly throb, pumps its financial blood through the whole nation's system. The agents of some 40,000 local organizations throughout Great Britain pass through the factories and the villages every week-end to gather those sixpences and half-crowns which quickly bring back to the contributors their War Savings Certificates and at the same time furnish the Government with the "sinews of war." From these little £1 certificates alone, the Treasury has received £79,000,000. The total raised by National War Bonds and Savings Certificates to July 27, 1918, was £1,028,000,000 (roughly, five billion dollars). The result is that whereas before the war there were not 350,000 individual holders of British Government securities, there are now no less than 17,000,000 holders. The "little people" now own stock, along with the rich, in this great venture of a co-operative democracy.

The second method of paying our way as we go (so far as human endurance permits) is by a heavy increase of income tax and supertax, and the imposition of an 80 per cent excess war-profits duty. Thus, an earned income of £200 ($960) which before the war paid a tax of £1.10.0 ($7.20), now pays £9 ($43.20); an unearned income of the same amount, paying $11.20 before the war, now pays $57.60.

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The tax-rate is raised as the incomes increase, and adds a second burden to the first. It is estimated that in the year 1918-1919

The income-tax and super-tax will yield.....	£290,450,000
And the excess-profits duty with munitions levy..	300,000,000
Total	£590,450,000
	(or $2,843,160,000)

In addition to these two sources of revenue, the Government finds another increased customs and excise.

As for posterity, if it inherits no capital, it may at least console itself with having inherited a debt which will be only a fraction of what it might have been; and one hopes it may also bear in mind that today the British citizen with an income of $2,400 per annum is paying in taxes (chiefly due to the war) no less than $1,000.

And as for me, gentlemen, I am well content to leave the solution of this weighty problem of dollars and cents, of pounds, shillings and pence, upon the broad financial shoulders of yourselves and of your banker-colleagues in England. I doubt not that of this, as of other problems that our countries will inherit from the war, America and Britain standing together, as they are now standing shoulder to shoulder in this great fight for our common heritage and for our common ideals, will jointly discover the proper solution.

And that reminds me. Was it not a financial problem also that gave our British forefathers the heritage of Magna Charta, upon whose principles both our countries base their constitutions of freedom, and of equality before the law?

And was it not a temporary aberration from those Anglo-Saxon principles on the part of a stubborn British Government opposing its will to the clear sympathies of the majority of the British people, which, a hundred and forty-two years ago, gave rise to a subsequent Declaration of Independence by Britishers who then became the founders of these United States?

And is it not possible, as Major George Haven Putnam so aptly turned the thought, as the representative of your Nation speaking at the epoch-making commemoration of Independence Day in London last July Fourth, that the war we are now waging, side by side, may bequeath us jointly a third and still richer heritage—a Declaration of Inter-Dependence as between the United States of America and the British Commonwealth of Nations?

Rich, indeed, would our heritage be should such an informal Declaration of Inter-Dependence between the English-speaking nations lead, in turn, to the realization of that greater Magna Charta of the Nations of the World, so grandly conceived and so eloquently defined by the President of your country. Then, indeed, would the blood of our youth not have been shed in vain!

State Taxation of National Banks

By GEORGE BRYAN, of Richmond, Va, General Counsel, Virginia Bankers' Association

Taxation is a dry subject and may be appropriately discussed by one who comes from a dry State, although the causes for the two kinds of dryness differ so materially. It is not easy to present in twenty-five minutes, the time allotted me, many phases of a subject like mine today, but nevertheless limitations are necessary, the combined wisdom and mercy of which are manifest. Therefore, an effort will be made to present here an outline of the present condition of national banks in respect of State taxation, with perhaps a suggestion or two as to how that condition may be improved.

We begin with a foundation principle which, like other foundation principles, is too often lost sight of, namely, that but for the express consent of Congress, the several States, counties and cities could not tax national banks at all. The national bank is a federal agency and if permission were once given the States to tax it at their will, it is entirely possible, though not just now probable, that one or more of them might seek to tax it to its destruction (*Talbot* v. *Silver Bow County*, 139 U. S. 438). It must be borne in mind, however, that the members of both branches of Congress represent in that body, among their other constituents, their respective State governments and that they could not have contemplated, when the national banking act was passed, and do not contemplate today the possibility that the large values represented by the capital and assets of the national banks of the country should escape State and local taxation. Therefore, federal permission to impose such a tax was given by a statute known as section 5219 of the Revised Statutes, but upon express conditions.

These were, first, that *the national bank as such should not be taxed at all.* One direct effect of this is seen today in the fact that national banks can not be subjected to an income tax upon corporations imposed by a State, as a result of which State banks and trust companies—certainly in Virginia—escape this tax, for legislatures are always and naturally careful to see that State institutions doing a banking business enjoy all the privileges and immunities granted national banks under State legislation.

It is pertinent that I allude at this point to what I deem to be the unwisdom of an amendment of the federal statute in question which would permit the imposition by a State of a tax upon the income of a national bank. I learn that such an amendment is contemplated and with favor by national bankers in the few States which seek to derive the major portion of their revenue from an income tax upon individuals and corporations, which, because of the federal law in point, can not reach national banks in this particular. It requires no prophet's vision to enable one to assert with confidence that if such an amendment of what we may call the enabling act of Congress becomes law, all the States will, as soon as their several legislatures convene, repeal the present express (as in Virginia) or implied exemption of banks, both national and State, as well as trust companies and will impose the full income rate upon all. This, of course, unless the amendment be carefully worded so as to confine the scope of the permission to these States which do not impose an ad valorem tax upon bank shares, but an income tax in lieu thereof. That way, however, lies danger. It is demonstrable that the banks of the country already bear their full measure of just taxation—in certain States far more than what is equal and uniform. Just why national banks should deliberately advocate the opening of another federal door to State and perhaps local taxation of their assets is, I confess, beyond me. We can almost hear the hearty and classic welcome which the State tax-huntsman would give the measure—

"No, 'tis not so deep as a well, nor so wide as church door,
But 'tis enough, 'twill serve."

Æsop never wrote a more instructive fable than that of the camel who came to the hut of the villager and prayed that the door might be opened only wide enough to enable to insert his cold nose. You know the rest.

The second condition was that although the national bank might not be thus taxed, the shares of its stock might be "included in the valuation of the personal property of the owner or holder of such shares in assessing taxes imposed by authority of the State within which the association (bank) is located." Upon this hinge swings the only door which permits the entrance into a national bank of a State and local assessor and collector of taxes.

The statute then provides:

"but the legislature of each State may determine and direct the manner and place of taxing all the shares of national banking associations located within the State, subject only to the two restrictions, that the taxation shall not be *at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State,* and that the shares owned by non-residents of any State shall be taxed in the city or town where the bank is located, and not elsewhere."

Let us notice in passing another point. If national banks as banks may not be taxed by the States, but only the shares of their stock, it follows, does it not, that States and localities can not impose a license tax upon them in the shape of a privilege or occupation tax? For this is none the less a tax which is inhibited by section 5219. Efforts are made from time to time, principally by municipalities, generally of the smaller class, to impose a license tax upon national and other banks, but when the attention of their proponents is called to the federal law, these efforts are more often than otherwise abandoned; if persisted in, they are pronounced by the courts to be nugatory.

We now approach the question, What is the fair meaning of the expression in section 5219—"other moneyed capital in the hands of individual citizens of such State?" It behooves us to go slowly here, for wise judges, I do not mean of different jurisdiction, but of the same great tribunal, the Supreme Court of the United States, have given formal but widely differing interpretations of these words. Limitations of time forbid an extended discussion of the proposition here, but to those sufficiently interested I shall be glad to give, upon the conclusion of this address, a reprint of an article which I prepared for the Yale Law Review for December, 1914, and which I humbly conceive to be demonstrative of the fact that the Supreme Court has in effect reversed its earlier views of the subject, which views, I nevertheless respectfully submit, embodied the intent of the framers of the statute. That the views of that court have varied to the point of conflict can hardly be denied by anyone who had made a study of the cases in point.

It must suffice to give here quotations from certain of the earlier and from certain of the later decisions.

In *Evansville National Bank* v. *Britton*, 105 U. S. 322, decided in 1882, the court said:

"The Act of Congress does not make the tax on personal property the measure of tax on bank shares in the State, but the tax as moneyed capital in the hands of the individual citizen. *Credits money loaned at interest and demands against persons or corporations are more purely representative of moneyed capital than personal property.* . . . The rights, credits, demands and money at interest mentioned in the Indiana statute, from which bona fide debts may be deducted, all mean moneyed capital invested that way."

And in *Boyer* v. *Boyer*, 113 U. S. 689, decided in 1885, the court held that its former decisions do not sustain the proposition that national bank shares may be subjected under the authority of a State to local taxation *where a very material part, relaitvely, of other moneyed capital in the hands of individual citizens within the same jurisdiction is exempted from such taxation.*

Surely these expressions are clear enough. In the case of *Mercantile National Bank* v. *New York*, 121 U. S. 138, decided in 1886, however, seems to mark the beginning of a change of view of the meaning of the expression, for the court said there:

"Moneyed capital does *not* mean all capital the value of which is measured in terms of money. In this sense all kinds of real and personal property would be embraced by it, for they all have an estimated value as the subjects of sale. Neither does it necessarily include all forms of investment in which the interest of the owner is expressed in money. Shares of stock in railroad companies, mining companies, manufacturing companies, and other corporations, are represented by certificates showing that the owner is entitled to an interest, expressed in money value, in the entire capital and property of the corporation, but the property of the corporation which constitutes its invested capital may consist mainly of real and personal property, which in the hands of individuals *no one would ever think*

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of calling moneyed capital, and its business may not consist of any kind of dealing in money or commercial representatives of money."

The court held that the expression includes money in the hands of an individual employed in a *similar* way, invested in loans or in securities for the payment of money, either as an investment of a permanent character, or temporarily with a view to sale or repayment and reinvestment. But here the court itself opened the door to a long series of cases invoking the application of this elucidation of the statute—a definition of the word "similar"—for the court held that the business of a trust company is not only not the same as but is not similar to that of a bank, although both receive money on deposit and invest it in loans, and deal, therefore, in money and securities. And, therefore, again, a New York statute which *expressly* exempted from taxation in the hands of individual citizens certain enumerated kinds of moneyed capital, aggregating more than one and a half billion dollars, while national and State banks were taxed upon their full actual value, less only their real estate which was itself specifically taxed as such, was held not in conflict with section 5219.

In a later case, *First National Bank* v. *Chapman,* 173 U. S. 205, the court interpreted the act to mean "*competitive* moneyed capital," and in a still later case, *Jenkins* v. *Neff,* 186 U. S. 230, it substituted for this "*limited* competition," and this it declared permissible. And so on.

Another illustration. In *People* v. *Weaver,* 100 U. S. 539, decided in 1879, the court had held that a statute of New York which permitted a debtor to deduct the amount of his debts from the valuation of all his personal property, including moneyed capital, except his bank shares, taxes those shares at a greater rate than other moneyed capital, and is, therefore, void as to the shares of national banks. But in *Amoskeag Savings Bank* v. *Purdy,* 231 U. S. 373, decided in 1913, the court, after twelve months' consideration, held that provisions in a New York tax law imposing a flat rate on shares of all banks, both State and national, without the right of exemption (deduction?) in case of the indebtedness of the owners, does *not* discriminate against national banks and is *not* invalid, under section 5219. The interested student of the subject must locate for himself the distinction which the court says exists between this and the *Weaver* case, namely, in the State statutes pertinent to the cases respectively.

It must by this time be evident that there has been a great drift in the law of the subject since the enactment of the statute in 1868, and further that the drift has not been in the direction of clearness. This is unfortunate, for it is elementary that tax burdens are not to be imposed by construction. The Supreme Court has well said that there are no constructive crimes. There should likewise be no imposition of a tax without a clear expression of competent legislative authority to support it. In the same sense, words in a statute suggestive of a limitation of a given tax should be construed in favor of the taxpayer, that is, so as to give vitality to the limitation. It is submitted with great respect that this rule has not been followed in his instance, but rather that what was meant by Congress to be a substantial barrier to State taxation of national banks has, to speak with moderation, lost in the process of construction at least fifty per cent of its strength and substance. The steady process of erosion by States and localities has worn away a large portion of the rock.

What then is to be done about it? It is hardly probable that the Supreme Court will return to the view of the question which it held in the *Weaver,* the *Evansville* and the *Boyer* cases, and Congress should therefore be asked to declare, by an amendment which will remove it from the region of doubt, the meaning of its proviso of fifty years ago. Such an amendment could be clearly expressed in more than one way. In the *Boyer* case Mr. Justice Harlan said:

"As the Act of Congress does not fix *a definite limit* as to the percentage of value beyond which the States may not tax national bank shares, cases will arise in which it will be difficult to determine whether the exemption of a particular part of moneyed capital in individual hands is so serious or material as to infringe the rule of substantial equality."

If, then, Congress will amend section 5219 and fix, say, sixty per cent as a definite limit beyond which States may not tax national bank shares, the end will be attained, the clouds through which we have been groping our way will disappear and only the memory of them as interesting specimens of legal casuistry will remain. If, to be more specific, the first of the "two restrictions" of section 5219 be amended and re-enacted so as to read:

"that the assessment of such shares shall not be at a greater rate than sixty per cent of their book value," there will be an end of construction, for there will be nothing to construe. All that will remain will be obedience to the supreme law of the land.

Others, however, favor the insertion in the statute, after the word "moneyed capital" of the words

"whether competing capital or not."

I think that if this amendment can be obtained, it will certainly clarify the meaning of the statute and result in substantial justice to shareholders in national banks who are, in my judgment, far from receiving today the measure of equality and uniformity in taxation which Congress, in enacting section 5219, undoubtedly intended to give them.

But there is another field for efforts at relief by amendment and that is the State legislature. In one sense, it is the most important, for the legislature prescribes the rate. Congress has nothing to do with it. It merely says, "Thus far and no further," and the State as a rule, goes to the limit of the permission.

In my judgment, the national banks of the country, when located in a State which imposes an excessive tax, that is, an unequal and un-uniform tax upon bank shares, can adopt no more intelligent and effective method of obtaining relief than by concerted action to inaugurate a campaign of education addressed to the people of the State and their representatives in the legislature which shall be carried unremittingly, patiently and thoroughly until the result has been obtained.

I am a firm believer in the sense of ultimate fairness in the average American and the average American legislator. I prefer to believe that each wishes abstractly to be just and is uncomfortable if injustice, due to his action or non-action, is constantly and respectfully brought to his attention—if, aside from any equal and uniform clause in a constitution which he has bound himself to uphold, he is confronted with a glaring inequality in the tax rate on two things which are essentially one and the same, though perhaps differing in form.

I believe, and actual experience confirms the statement, that the continued presentation of the subject in this manner will, after a while have its effect in a correction in part or whole of the inequality and in the affording of the desired relief.

What are best methods for such a campaign? If I may answer the question in one word, I would reply, The stockholder. An appeal by a bank or an association of banks, as such, to a legislative committee is apt to fall upon deaf or indifferent ears. It is otherwise with an appeal by a stockholder or by associated stockholders. With their advent enters the human element and the strictly corporate disappears. An increase in the temperature is at once perceptible, for the representative comes face to face with his constituent and begins to consider, perhaps for the first time, a bank as what it is—not an imposing structure without and within, filled with mahogany office furniture and counters piled with money and loose-leaf ledgers to keep count of it all, but as an aggregation of men, generally of standing and influence in the community, clothed with a vote at the general elections, who ask not for a scintilla of preference or exemption from the common burden, but only that their tax-subject be not assessed and taxed at a rate from twenty to one hundred per cent greater than another or others of substantially the same nature and value.

After a while—after these and cognate considerations have been first publicly disseminated and have then been communicated to the several members of the legislature from home sources by personal interviews clear and pithy demonstrations in pamphlet form, and arguments before committees, with an invitation to any who are opposed to appear and debate the issue—after a while the leaven of common sense and fair play begins to do its work and its results develop.

This is only an outline, a suggestion, but in the nature of a paper like the present, it is all that can be attempted. The merits or demerits of the suggestion will lie in the application. The members of the Association come hither from many jurisdictions and each must apply the remedy to the conditions existing in his field. In some States the rate of taxation upon bank shares is fair and uniform—in others it is harsh and unequal in the extreme—"oppressive," to use the expression of Mr. Justice Harlan in the Weaver case. Where the former condition obtains, I advise that well enough be left alone. I go further—even where a measure of inequality exists, it may be better to bear the ills we have than fly to others which are potential. But where tax conditions are indeed oppressive and unjust, I advise that united action of the kind above indicated be inaugurated as soon as may be and confided to the care of a committee representing different portions of the State, which shall be presided over by a chairmen selected only for his ability to handle a big undertaking, the indispensable ingredients of which ability are, first, and acquaintance, lay or professional, with the basal facts of this and related questions of taxation; second, an enthusiasm in the good work of attaining justice for bank shareholders, and, third, inexhaustible patience, resourcefulness and tact. Early in the campaign, he should take the serum against discouragement, for he will often meet that giant in the way—a giant, however, who, like others of his name, looms largest in the darkness and shrinks rapidly upon the coming of the light.

I have not drawn for you an imaginary picture, but a portrait from life. I feel honored by the invitation to address you today and I give you my best advice. It is the result of a close acquaintance for many years with an ideal chairman.

And now, with my apoligies for having perhaps unduly prolonged this address, I conclude my presentation of the subject with what is undoubtedly the best and strongest feature of the claim for improved tax conditions—a feature which, if there is anything at all in American traditions and American standards, must insure its ultimate success, namely, the justice of the cause; the justice which has been so long lost sight of; the justice which is predicted upon elementary requirements of the jurisprudence of taxation, uniformity and equality: the justice which denies altogether the reason and righteousness of a system which lays its hand upon those forms of property that are visible and within reach, yet arbitrarily assesses other subjects, receiving the same governmental protection, at fifty, forty and thirty per cent of their value, or, with blinking eye, permits them to escape altogether.

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*The Federal Reserve Act**

By Edmund D. Hulbert, President, Merchants Loan & Trust Company

After four years of trial the Federal Reserve Act stands as one of the most successful and beneficent pieces of legislation ever enacted by Congress. What it has done for the country in promoting war finance cannot be computed. What it has done to relieve the bankers of the country from the killing burdens and anxieties heretofore always incident to disturbed conditions, we all appreciate. It can safely be said that the banking business of the country has been carried on during the past four years, notwithstanding the unprecedented world disturbance, with less worry, foreboding and fear than the bankers of the United States have experienced in any other four years of their lives.

It has been demonstrated that financial panics can be nipped in the bud and normal conditions restored with rapidity under the operation of this system. There is no doubt that on at least one occasion since the system has been in operation we would have been forced to issue clearing house certificates under the old regime, and we all know that recovery from that kind of shock is slow. As it was, the banks converted over $200,000,000 of commercial paper into reserves in one day and met the emergency. No one, outside of the banks in the central reserve cities, knew that crisis had occurred. Most of this loan was repaid to the federal reserve banks inside of ten days, and as a shock obsorber the efficiency of the system was demonstrated perfectly.

We must not forget, however, that there is a limit to the powers of federal reserve banks to rediscount, and that the forces of expansion and inflation will in time reach any limit it unchecked. It is therefore of vital importance that the federal reserve banks be kept working well within their resources. It seems to me there is some ground for anxiety on this point. The Amendments to the Act since its passage have thrown the entire burden of carrying reserves on the federal reserve banks and at the same time the Act is being administered in such a way that rediscounting is made tempting for profit-making purposes.

The settled custom of making the federal reserve bank rate lower than current bank rates is contrary to that of the older countries where the limitations and proper functions of central reserve banks are better understood. In England, for example, the Bank of England rate is always kept at a point where there is little or no profit in rediscounting. Previous to the war rediscounting by the commercial banks of England was practically unknown. One of the greatest perils of our old system was the practice of permitting country banks to count credits with reserve city banks as part of their lawful reserve and, inasmuch as the reserve city banks could and did loan out at least 75 per cent of these deposits, it followed that a considerable part of what country banks counted as reserve had no existence in fact.

It seems to me there is now a possibility of running into an even more dangerous practice, as the only legal reserve a member bank can have is a credit on the books of the federal reserve banks. Statements of federal reserve banks have been published which showed loans in excess of their combined capital and deposits, the difference being made up with federal reserve notes; that is, the federal reserve banks, instead of having a reserve power of their own, were borrowing from the public to meet their obligations. Of course, none of us wants to propose any furrher changes in the law while the war is on, but I think we may be permitted to suggest that in the interest of safety, federal reserve rates be raised to a point where rediscounting will be unprofitable.

These low rates are perhaps part of the propaganda designed to induce state banks to join the federal reserve system, but so far as my observation goes member banks and trust companies are more concerned about other matters.

So far as trust companies are concerned, many of them seem to be troubled by the fear that the Government may attempt to standardize the trust business carried on by member banks, just as it has endeavored to standardize the commercial business carried on by national banks. They understand, of course, that withdrawal from the system is always open to them, but fear some loss of prestige from such action. My answer is that no trust company has, so far as I know, entered the system for the purpose of gaining prestige, and if a time ever comes when the Government attempts to interfere with the powers of trust companies as defined by the various states, anybody who desires to withdraw will have plenty of good company.

We know, of course, that the present administration has taken a very clearly defined position on this point. What the Government is concerned in is the mobilization of reserves and the control of our common stock of gold, and no interference will be attempted with the legitimate operations of banks and trust companies organized under state laws. I do not think we need anticipate any hostile action on the part of future administrations. Our experience with the National Bank Act has demonstrated the undesirability, if not impossibility, of running all the banks of the country on the same rigid lines. It is absurd to prohibit a National bank in Iowa from loaning money on a farm just because we do not want National banks in New York City to loan money on skyscrapers, but that is just what the old National Bank Act did. The result of that policy is that there are less than 8,000 National banks in the country and more than 20,000 state banks, although it was expected and intended when the National Bank Act was passed that National banks should supplant state banks altogether. It looks now a good deal more as though the tendency would be for state banks holding memberships in the federal reserve system to supplant National banks. Service to the community is, in the long run, what determines which shall survive and that a state bank holding membership in the federal reserve system is in a better position to serve the people of its own territory than a National bank would be is hardly open to discussion. There is now no power possessed by the National bank, except the unimportant one of issuing circulation, not possessed by the state bank and, in addition, the state bank exercises all the powers granted by its state charter framed to meet the special needs of that community. It also has the advantage of both state and federal supervision.

We, of course, sympathize with the desires of our National bank brethren to offset this tendency by exercising trust powers, but I am afraid if they succeed they will be disappointed in the results. The trust business is a highly specialized business, having little relation to commercial banking, and the comparatively short life of the National bank charter will be a bar to trust business of much importance. When the Merchants' Loan and Trust Company started its trust business, it had a fifty-year charter. This was soon found too short and was changed to a ninety-nine-year charter. This also was found to be too short and has since been changed to a nine hundred and ninety-nine-year charter, under which it is now operating.

A high Government official has tried to cheer up our friends a little lately by giving out a statement that twenty-two state banks and trust companies have failed this year and no National banks. I do not believe even that will turn the tide. If this statement was intended to discredit state banks and trust companies, an unfortunate time was chosen. State banks and trust companies control today a good deal more than one-half of the banking resources of the country, and manifestly the welfare and credit of these banks is vitally necessary to the prosecution of the war.

Lord Cuneliffe, Governor of the Bank of England, said the most impressive thing to him in America was the way in which the vast number of banks in the country were working together to support the Government in its time of trial. He said that up to a very recent period no such harmonious action had existed among the banks of England. I wonder what he thinks of the attempt by the Government official to discredit some twenty thousand banks who have shown such loyalty and patriotism. Fortunately, neither the credit nor the loyalty of these banks will be in any way diminished by this action.

If you will pardon the digression, I want to take advantage of this opportunity to get some unwritten history into our records.

The Federal Reserve Act was, of course, an outgrowth of innumerable plans for currency reform, but it is not generally known that it was Woodrow Wilson who laid out the ground plan for the Act and that there was never any fundamental departure from his original plan. Mr. Wilson was in Chicago shortly before his first inauguration, and at that time he outlined to a Chicago banker his plan for a reform of our banking system. The plan as then disclosed was fundamentally the same as the Federal Reserve Act, which subsequently became law. The machinery was much the same as that suggested by Professor Laughlin of the Chicago University, as a substitute for the Aldrich plan, but the principles involved were, of course, entirely different.

It developed at this interview that Mr. Wilson had been a student of finance and banking for years before he was thought of in connection with the presidency. The Chicago banker, however, expressed his disapproval of the plan emphatically on the ground that the compulsory purchase of the stock of the federal reserve banks by the National banks would be an unheard of exercise of arbitrary power by the Federal Government, and that without this the plan would fall to the ground, as it was too unattractive from a banking standpoint to lead banks to join the system voluntarily.

While the fundamentals of the plan were never departed from, the greatest possible credit is due to Congressman Carter Glass of Virginia for the commercial soundness and sanity of the completed Act. After the Act was passed, some financial experts said it was a miracle that such a technically sound and able law could have been enacted by Congress. There was no miracle about it, unless it be considered a miracle that a rather obscure Congressman of no great experience in financial matters developed an almost unerring instinct for the sound and constructive in finance and an unsurpassed courage to withstand the onslaughts of the demagogue and doctrinaire.

Few have any conception of the determined efforts that were made to get untried and dangerous schemes into the bill, and what it cost to defeat them. Mr. Glass carried this fight gallantly to a finish and collapsed with exhaustion only after the bill became law. The Act was passed in November, 1913, but as late as October of that year the democrats in Congress were either lukewarm or antagonistic to it. The united opposition of the banks of the country, as expressed at the Chicago conference in August and by this Association at its Boston convention in October, coupled with the fierce onslaughts of Elihu Root in the Senate, had their effect, and it was only the iron will of President Wilson that brought it to a vote. As it was, two democratic Senators, members of the currency and banking committee which had charge of the bill, finally refused to vote for it.

I therefore wish to record the statement that to Woodrow Wilson alone is due to credit of placing the Federal Reserve Act, and to Carter Glass more than to any other one man is due the credit of making it a sound, beneficent, workable law.

There is no apology to be made, however, for the action of the banks either at the Chicago conference or at our Boston convention. What was contended for was, first, that membership in the system should be optional; second, that as the banks furnished all the capital they were entitled to some voice in the management and should have the appointment of three out of seven of the Federal Reserve Board; third, that a small portion of the reserves of the country banks might be kept with banks in the reserve cities; fourth, that credit currency issued by banks should not be Government obligations.

There is nothing in all of this inconsistent with the patriotism and good faith always shown by the associated banks of this country.

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* This address was delivered before the joint meeting of the National Bank, Savings Bank, State Bank and Trust Company Sections.

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Report of Officers

Annual Address of President J. Elwood Cox

It is a source of gratification that we meet today under more pleasing circumstances and under brighter skies than a year ago. One year ago our people had not realized that this country was at war. Today the situation is quite different; we now have across the seas the most magnificent army, under General Pershing, America has ever produced and as fine an army as the world has ever seen. At home we find our country stirred to the depths and thrilled to the core, rising as one man in the majesty of its power to speedily accomplish the stupendous and supreme task now before us. In the very front of the great civil army at home, in the melting heat of this supreme crisis, we find the bankers facing this ordeal with a courage equal to that of our army in France.

It has been well said by those in authority, that on the financial foundation provided by the Banks of the United States has been built the striking force of the American Army which has turned the tide of battle in France.

Every banker in this audience will review with pride and pleasure his efforts and sacrifices throughout our three great Liberty Loan Campaigns, since these efforts and sacrifices have been transmuted into the now world-famous success of American boys, splendidly trained, perfectly equipped, who hurled back for days in succession, the finest shock troops of the enemy in the second battle of the Marne.

Efforts have been great—sacrifices have been great. The Nation has accomplished an unprecedented task in mobilizing about twelve billions of liquid resources during the first year of war. The indispensible part played by the National Banks of America will loom larger, as history gains in perspective, of the world-changing events in which we have moved, striven and succeeded.

Of the total of twelve billion subscriptions for the three Liberty Loan campaigns, over six billion were received by the Treasury Department through the National Banks. On June 29th last, the National Banks owned Liberty Bonds of the three issues aggregating $408,859,000, representing about 2 3/10 per cent of their resources. At the same date the National Banks had loaned to their patrons against Liberty Bonds as collateral four hundred and fifty-seven million dollars or 2 6/10 per cent of their resources; so, on June 29th the National Banks owned and held as collateral an aggregate of 5 per cent of their total resources. This shows that National Banks are pursuing the right policy in keeping their resources liquid and thus be the better prepared to patriotically serve our country as future issues of bonds are offered.

When the United States declared war against Germany, our banking situation had already changed, preparedness measures had already been taken. We had previously gone through many trying months. Months when bankers faced greater responsibilities than they had ever known. Opportunity for extension and incentive for profit were prevalent throughout the country but the bankers had withstood the temptation for profit in the interest of safety. They operated their business conservatively, exercised extreme care with due rgard for proper business demands and when the call came to assist our Government in its war activities the bankers were ready and responded in a manner of which we are proud.

The passage of the Federal Reserve Act and the launching of the present system of banking is one of the greatest forward steps ever taken in this country. The independent banking units had great strength and served a most valuable purpose. They were not, however, in a position to co-operate and exercise their full power in behalf of the entire nation. The Federal Reserve System makes such co-operation possible. It is a great privilege that you gentlemen have as powers in the ownership and operation of the units, that go to make up this magnificent system.

Great as our efforts have been, signal as has been our success, the next fiscal year presents problems which dwarf them both. The Secretary of the Treasury has announced that our war expenditures for next year will be approximately twenty-four billion dollars. This stupendous figure is approximately half the entire yearly income of the American people. It is equal to the entire value of all American manufactures for 1914. Not only are we confronted with the problem of raising this gigantic sum, but with spending it in ways which will produce a never-failing, never-pausing stream of weapons and supplies to our growing armies on the distant battle fronts.

The savings of the Nation have been placed at nine billion dollars yearly by competent authorities. Can those be increased to twenty-four billion with which to pay our taxes and buy Liberty Bonds? Can we reduce our private demands on the productive power of the Nation so that our industries can produce the great volumes of war supplies to be purchased, by ourselves and our Allies, with the gigantic fund we shall attempt to raise?

Success or failure rests largely in the hands of the members of the National Bank Section of the American Bankers' Association. I fancy there are few Liberty Loan Committees in the country on which National Banks are not represented. There are few communities of manufacturing importance in which National Banks do not exert a powerful influence. The extent to which the National Bankers of America grasp these problems, appreciate their gravity and the extent to which proper energy is applied to their solution, will largely determine the proper handling of the greatest crisis in the world's history.

Those who were most interested in the formation of the National Bank Section realized that America was growing to proportions which, for future development and safety required a unification of the banking system. They had in mind that the Section should be a machine through which the banks of this Nation aligned with the Federal Reserve System, might exercise their full moral power and strength on all problems that might arise of common interest to such banks.

The Section affords an agency through which better systems, methods, practices and policies relating to banking business may be evolved, encouraged and developed. Its influence for good is without limit. I regard the experience that I have had and the slight aid rendered in the formation and direction of the National Bank Section as one of the highest privileges of my entire banking experience.

The Section has accomplished much. The results to date are small as to what I forsee for the future. The Section was organized at Seattle three years ago. It now has in its membership 6,319 National Banks whose aggregate resources are nearly seventeen billion dollars and has associated with it other banking institutions aligned with the Federal Reserve System whose total resources aggregate over six billion dollars. It is the hope that the Section shall include every National Bank in its membership before the expiration of the year. The one great lesson of the war is that *co-operation* is the *least* expensive and the *most* valuable influence at the command of the bankers and business people of any nation.

We feel that during the past year the Section has exerted no small influence on legislative matters. Of the many bills which were introduced in Congress affecting National Banks, it has used its efforts to the end that necessary constructive legislation should be passed and all proposed laws that were not of a constructive and essential character should be defeated. The fact that during these trying times for the period of seven months no National Bank in the United States has failed, must give us all great satisfaction, not only the direct management of the Banks, but the supervision thereof and the operations of the Federal Reserve System. This great system has responded to the needs in a most admirable way. Who would trust himself to imagine what might have happened to our financial structure had we not been blessed with this magnificent system?

Although a great bulwark of strength the Federal Reserve System has yet a number of very important functions that are to be developed and should receive careful consideration at the hands of every National Banker.

At Briarcliff, New York, one year ago last May, the National Bank Section pledged its entire support and assistance to the Treasury Department, the Federal Reserve Board and to the various departments of the Government in carrying out the financial program and other war time activities. Results have shown fulfillment of the Briarcliff pledge. The machinery of the Section was utilized in a most valuable way in the three Liberty Loan Campaigns. Our excellent Secretary has spent five months in Washington, aiding in the preparation and launching of the War Savings program. This was in answer to the Government's call, issued through Mr. Frank A. Vanderlip, Chairman of the National War Savings Committee. Our Secretary also had charge of the Bank Division of the National War Savings Committee.

It was through this division that more than eighteen thousand Banks and Trust Companies were induced to formally accept appointment from the Secretary of the Treasury Department for the sale of War Savings and Thrift Stamps. Nearly eight thousand additional Banks and Trust Companies were induced to actively participate in the campaign.

The response from the Banks in this great movement, like in the Liberty Loan Campaign, was 100 per cent efficient. The goal set was twenty million new savers within the year. More than thirty-four million of our people have already become holders of War Savings and Thrift Stamps. The great lesson of saving and industry has been brought to many million of holders of small Government obligations, we hope permanently and effectively. As every saver sooner or later becomes a bank customer, aside from patriotic reasons, every banker should loyally encourage this campaign of thrift and industry, not only until the war closes, but continually.

Let us not forget that we owe much to the future and that our preparation for the present must have due regard for our future welfare. The program of strict economy and saving may not be the easy way, but it is the *sure way* in which we can finance this war and leave America in a strong financial condition at its close and enable us to take a most important part in the construction of the other countries that have been devastated by war as well as develop not only our domestic but our foreign business. We should be and I am confident we will be, well equipped to carry our trade to every nook and corner of the world after the war is over.

Let us look the situation squarely in the face. We are at war—our people are united—our soldiers are doing valiant service—we have pledged every ounce of energy and every dollar's worth of resources at our command to the cause of justice and freedom. We have to make good this pledge one hundred million of the best people in the world, two hundred and fifty billion dollars in resources and an annual income estimated at fifty bilion dollars.

There is another lesson we must accept cheerfully, the imposition of every dollar in taxation that business will stand, so long as it is justly and equitably applied.

The military authorities of our Government tell us we will have an army of five million men by July 1st, 1919. To maintain this army in proper fighting trim will require the immediate service, we are told, of four civilians for every soldier. This means that from the date of the declaration of war to July 1st, 1919, there will have been diverted from our regular pursuits to our war business about twenty-five million people. These people have largely been producing the things necessary to the health, efficiency and happiness of our civilian population. A large percentage of our production has heretofore gone for what might be termed luxuries. We can and will discard the larger part of the luxuries, but must produce in addition to our army needs a greatly increased volume of products for our Allies and the things that are essential to the health and efficiency of our entire population. In order to produce these things that are imperative it will be necessary to make efficient workers out of many millions of our people who have not heretofore been producers. Every man and woman in America, both rich and poor, who is physically able must be put to work. Idlers should be looked upon as a public nuisance and the privilege of laboring for the future welfare of the nation regarded as a genuine honor. To us largely belongs the responsibility of in-

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spiring the people in our respective communities with this view. Many of us have never measured in our minds the power that rests in the hands of the bankers of this country. If we but work, act and think unitedly there is little that is right or just that we cannot accomplish.

In addition to war needs we have our industrial needs to look out for, which amount to some six billion dollars. Immediately following the close of the war, according to the estimate of a leading Railroad President, the railroads will require some four billion dollars annually; our Allies will need from four to five billion dollars; our South American friends will need another billion, so that our post-war demands, it is estimated, will be in the neighborhood of ten to twelve billion dollars per annum.

The banks of our country should be cleared and kept clear not alone for the purpose of financing the war, but with the view of properly handling the situation after the war when we will be confronted with these great demands just noted.

All but about two billion of our industrial needs were, prior to the outbreak of the war, financed abroad. The tables are now turned. This market for our securities is now shut off and instead we are the source from which those who were formerly buyers will look for financial aid. Apparently at least 70 per cent of the Government obligations that have been floated to date have found permanent lodgment in the hands of individuals and other investors outside of banks. This percentage ought to be increased, especially as applied to National Banks that are handling a big part of the commercial business of this country. Their papers should be kept liquid all the time. As we anticipate these future needs, what can we do to meet them?

First, we can keep the banks throughout the country united as bond selling agencies, not only during the war, but following it we will find it increasingly necessary to depend upon the small savers in financing our affairs.

We are told by those in authority, who have full information, that last year the American people were gulled out of nearly five hundred million dollars by promoters who unloaded upon them bogus and worthless securities. It is part of our business to educate our people to the idea that they must not exchange their Lbierty Bonds for other securities of doubtful value with promise of high returns. Promulgate the idea that before making any investment or exchanging their holdings of Government Bonds the investor who is not experienced should consult with his banker. Let us proceed with our best judgment and all our energy to direct credit into channels that are productive of essentials to war, health and the efficiency of our people. Let us curtail, and if need be, decline the granting of credit to any corporation or individual that is not directly or indirectly producing essentials.

We have heard a great deal about inflation. Some inflation is necessary, but much of it is extremely dangerous and detrimental. Savings as a result of increased production and refraining from the use of non-essentials are the real enemies of and protection against inflation.

It is a source of pride to be able to state that the per capita average of actual money in this country is $52.44. We must, however, bear in mind that the real merit of a dollar is its purchasing power, and that power is diminished tremendously through the introduction of inflation.

As bankers we have the problem of making every dollar's worth of credit do its maximum of service.

This has been one of the most prosperous years experienced by the National Banks of the United States. The earnings for the first six months, according to report of the Comptroller, were 20 per cent. The Comptroller, however, failed to take in consideration the surplus account of the banks which in reality should be included on the same basis as the invested capital when estimating the earnings. By including the surplus as invested capital the earnings of the banks would likely not exceed 12 per cent. Considering the risk attending the transformation of peace-time industries into war-time industries, the expansion of business and the new enterprises that have required financing, the earnings are very modest.

In the face of increased risk, constantly rising prices, the fact that interest rates have been held practically to a level, is a worthy tribute to the patriotism of the bankers, many of whom have loaned their funds to bond purchasers at practically the same rates that the bonds yielded when they could have commanded on these funds a rate from 1 to 2 per cent higher.

One of the big developments of the year is the awakening of the business people and bankers to the merits of trade and bankers' acceptances. Through these instruments the credit system is being improved and the banking position of the entire country is being strengthened, collections are made more certain and a given amount of capital is made to do a greater amount of service than formerly.

There have been one or two instances during the year when the National Bank Section was not privileged to exercise its influence on legislative matters because of conflict of interest of other Sections of the American Bankers' Association. We believe that arrangements will be made by the Association, at this Convention, under which our Section will be permitted at all times, to exert its influence on any legislative matter of common interest to National Banks, even where it is in apparent conflict with the interests of another section of the American Bankers' Association.

We are all believers in the Federal Reserve Section. Every Bank and Trust Company in America that is eligible to membership should become a member of this system. You gentlemen can wield a great influence in getting those who are non-members to join, if you will take pains to explain to the State Bankers in your community the real benefits that accrue from membership. We are doing great service, but we cannot be prepared for the maximum of responsibility until the Federal Reserve System presents a solid front, including in its ranks every Bank and Trust Company in this nation that can, under the terms of the law, be admitted.

Finally, let me say that there has never been a time in all the history of this country when an American had cause to feel more proud of his country than today. It is almost worth the cost of the war to witness the fine spirit stirring and animating the people of all sections of this great country and drawing them together in closer unity and in more loyal devotion to the flag. Sectional prejudice has no longer a place in the American heart. Partisanship no longer finds lodgment in the soul of the Patriot. With one heart, with one soul, and with one purpose Americans are drawn together, animated by one common spirit. touching elbows in one common struggle, and determined to expend the last ounce of energy, blood and treasure, if need be, to bring victory.

An inspiring reflection to me is that, when the future historian shall record the heroic struggles of this bloodiest tragedy of all times, the banker will be accorded a high place on the roll of honor for his service and sacrifice.

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STATE BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Second Annual Meeting, Held in Chicago, Ill., September 24, 1918

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Banking Evolution

By CHARLES H. SABIN, President of the Guaranty Trus t Company of New York

New conditions require new systems. Change is the mark of progress. Our financial system, like any living organism, fulfills its function through growth. So, to-day, as bankers charged with responsibility in the furtherance and guidance of that growth, we should properly give consideration to the problems and opportunities it presents. From every angle this growth should be studied, and its possibilities for good and evil measured.

From the viewpoint of state banking, national banking and international banking, there are prospects and tendencies which demand analysis and understading. My thought in discussing the subject to which I have been invited to respond, is not so much to present conclusions, as, if possible, to stimulate thought and imagination. I assume that if these qualities are aroused in all of us, and our minds are alert to the signs of the times, decision and action will follow in due course.

Eighteen months ago the United States entered the world war. Unprepared as we were for war, it has been a stupendous task to adjust our industries to a war basis, but now, as always in our history when we have been confronted with a great crisis, we have risen to the occasion, with the result that today there is a fully-equipped army of more than 2,000,000 Americans in the field rendering effective service.

To accomplish such a result it has been necessary to conserve and co-ordinate our economic resources; to speed up production to a point that formerly seemed impossible; to solve transportation problems, and to engage in financial operations of greater magnitude than the world had ever known before.

THE LESSONS OF WAR.

War has taught us many lessons, but probably the most beneficial is the knowledge it has given us of the value of co-operation. Personal interests have been subserved to the one great purpose of winning the war, and this has been true particularly in the field of finance. Bankers have co-operated among themselves, with the Government, and with the public, with the result that the Government has been enabled to raise approximately $14,000,000,000 from taxation and the sale of Liberty Bonds, without serious disturbance of the money market.

To meet the demands of war and the demands of peace every possible step toward strengthening our financial system and increasing the efficiency of its operation should be taken. In considering any changes due care must be taken to assure ourselves that some loss may not offset the proposed gain. For instance, in the logical expansion of national banking, it is most essential that the rights and functions of State institutions be not harmfully disturbed. At least until that time in our financial progress has been reached when a thoroughly comprehensive and centralized banking system has been thought out and worked out, the rights of all classes of banks must be zealously guarded and no encroachments on those rights in behalf of any special interest permitted.

Mindful of this necessity an important conference of representatives of State banks was held at St. Louis on July 15 last. Out of this gathering an organization was effected representing at the start thirty States, with co-operation as its keynote, for the purpose of conserving and protecting those local privileges and interests which have been developed and become inherent in State financial institutions. It was the outcome of a realization of the necessity for the fullest extension of the service of both the National and State Bank Systems, and its intention is to co-operate with National banks and the Federal Reserve Board to promote safe and sound banking, to assist in financing the war, in developing our natural resources, and in extending our commerce.

STATE BANKING HISTORY.

Since the beginning of our history as a nation, State banking has been an important element in our financial system, and on many occasions it was the only banking system. It has had may vicissitudes, but it has weathered all storms and is today stronger than ever before. This is undoubtedly the result of the special services that have been rendered by State banks, because of their adaptability to local needs. In some localities they have performed the functions of savings banks; in others they have catered to the agricultural needs of the community; trust companies have acted in a fiduciary capacity and in financial centers have exercised the functions of investment banks. Such services could not have been rendered by National banks on account of legal restrictions, and even with enlarged powers under the Federal Reserve Act, they are unable to respond to the needs of many communities.

In 1860, prior to the enactment of the National Bank Act, there were 1,562 State and private banks in the United States. In those days one of the principal functions of State banks was, of course, the issuance of currency, but under the National Bank Act a 10 per cent. tax was imposed on State banks with the result that many of them took out National charters, and in 1868 there were only 247 banks outside the National System. About 1870, however, State and private banks

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commenced to increase in number, and in 1877 there were 3,270, which further increased to 10,184 in 1900.

State Banks Have Increased Rapidly.

In 1914, before the Federal Reserve Act went into operation, there were 19,240 State banks, trust companies, savings banks and private banks, with total resources of about $15,500,000,000; and 7,538 National banks with total resources of about $11,500,000,000. Latest statistics show that there are now 20,423 banking institutions under State control with total resources of over $22,000,000,000, and 7,688 National banks with total resources of over $18,000,000,000. Since the Federal Reserve Act was passed the total resources of National banks show a larger percentage of increase than that of State institutions, but in number the latter have increased more rapidly.

Since the days when Alexander Hamilton in the Federalist so ably presented his propagandan for centralized banking and Federal power down through the reaction against the Central Bank, led by Andrew Jackson, we have witnessed the conflict of these two ideas, and to-day we face a dual system of banking which carries with it elements of weakness as well as of strength. To eliminate as far as possible these weaknesses and increase the strength and real capacity for service of our financial institutions is our problem.

Increase of banking power during the war is undoubtedly an important part of the mobilization of our economic resources, and in a recent message to the banks of the country pointing out the imperative necessity for such action, President Wilson said:

"The banking problem involved is one that concerns all banks alike. Its solution does not depend upon the National banks alone, nor upon the State banks. The burden and the privilege must be shared by every banking institution in the country."

State bankers realize as fully as others the necessity for concerted action, and are serving their country by assisting business in their communities, by selling Liberty Bonds and War Savings Stamps, and by subscribing to Government Certificates of Indebtedness.

Concentration of Resources.

Concentration of our banking resources in the Federal Reserve System has been invaluable in enabling us to undertake the financial operations essential to the war, and still further to strengthen the System, a vigorous campaign has been conducted to induce State banks to join. In this connection, however, public statements have been made that seem to me to be unfortunate in that they are not only misleading, but tend rather to retard than bring about the concentration that is desired. For instance, the Comptroller of the Currency recently issued a statement that for the first seven months in 1918 there was not a single National bank failure in the United States, whereas in the same time twenty-two State banks and trust companies in fourteen different States have failed.

State bankers naturally resent an incomplete statement of that kind, as tending to discredit State institutions, and injure their standing. No accurate statistics of State bank failures are available, but reference to the files of the American Banker, which gives a weekly list of closed banks, shows since the beginning of the year 14 State banks and trust companies, with total resources of about $3,500,000, and five State banks and three private banks, whose resources are not given in the Bankers' Encyclopedia, failed. It is doubtful if the total resources of all defunct State banks and trust companies amount to more than $5,000,000, or more than .02 per cent. of the total resources of State institutions. In 44 States at least there have been no State bank failures, and in many of these States the strength of the State institutions is quite on a par with that of the National banks. It seems quite unfair and damaging to them to have such general reflections cast upon them by a Government official. The service which State banks are rendering the nation seems to me to warrant greater consideration. Just as an indication of this service, I may be permitted to point with pride to the fact that a State chartered institution has led the country in subscriptions to the last two Liberty Loans. These are certainly days in which it is fitting to encourage harmonious co-operation among *all* banks to meet the nation's needs.

Although we have evidence daily that the patriotism of State banks is just as ardent as that of National banks, lack of patriotism has at times been imputed to State banks that have not joined the Federal Reserve System. Some recent public utterances urging membership in the System have implied that there are about 20,000 State banks which, through prejudice or selfishness, refuse to ally themselves with it. As membership in the System depends on many considerations, it is obviously unfair to attribute it to lack of patriotism, without a full knowledge of all the facts in each case.

Out of the 20,423 State institutions in the United States, only about 8,000 are eligible for membership in the System according to the Federal Reserve Board, so we have over 12,000 banks that could not join even if they would. Some of these banks have indicated that they would join if it could be done without increasing their capital, as increased capital would be a basis only for increased taxation, without being of any use in their business; but under the Act there can be no departure from the requirement that member State banks must have the same minimum capital as National banks, in the same localities, are required to have.

State Banks in the System

All National banks are, of course, members of the Federal Reserve System, and of the 8,000 State institutions said to be eligible, 752, including some of the largest State banks and trust companies, have become members, with the result that the System now controls about 70 per cent. of the total banking resources of the country.

Of the other eligible State banks many cannot join because of restrictions in State laws, and in other cases membership would entail changes in business that would be impracticable. A bank may have sufficient capital to make it eligible, but even then membership might not be desirable for either the bank or the System. This is emphasized in an article contributed to the June, 1918, number of "Trust Companies" by H. Parker Willis, former Secretary of the Federal Reserve Board, in which he says:

"The real question is two-sided—whether the State banker can be serviceable to the Federal Reserve System and whether the System can be serviceable to him. It is the essence of a good bargain that both parties shall be pleased. Unless the State institutions find that there is real benefit in membership, they will not continue very long as members; and unless the Federal Reserve System finds that they are a genuine source of strength to-day, rather than a source of weakness, they will not be very welcome members. How can these two requirements be fulfilled? The answer to this question affords the solution of the problem involved in the future relations between the Federal Reserve System and the State institutions."

After pointing out that only banks doing a commercail business can benefit either the System or themselves, he adds: "All this means that it is more important that State institutions should become active, participating members in the System than it is that they should merely join it in a technical and proforma way."

Why State Banks Enter the System

State institutions that can enter the System to their mutual advantage are becoming members. As was an-

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nounced at the time the Guaranty Trust Company became a member, we were impelled not only by patriotic motives, but by the fact that practically every serious objection on our part to membership had been removed by the amendments to the Federal Reserve Act of June 20, 1917. The reasons that actuated us are not, however, necessarily applicable to all State institutions. Many of them enjoy privileges under State laws and perform necessary functions that have no relation to commercial banking, and as the Federal Reserve System is essentially a commercial system, there is not, and cannot be, a place in it for them. Their rights and privileges, however, should be respected.

The Federal Reserve Act is considered by many to be the last word in banking legislation, and the final solution of all our financial ills. Even an authority like Sir Edward H. Holden, of the London City and Midland Bank of London, England, said: "The United States has built up a banking system which surpasses in strength and excellence any other banking system in the world."

It has undoubtedly functioned, and is functioning, well in these abnormal times, and since its operations were commenced in 1914 bankers have enjoyed many privileges that were formerly denied to them, but there is still room for development, and I believe that our Federal Reserve System is but the beginning of an evolution in banking that will eventually give us a single, uniform and unified banking system. That may be a far distant ideal, but I believe it is worth cherishing.

Functions of Banking

The functions of banking are to act as an intermediary in bringing together capital, and employing it where it can be most useful in industrial development; and also to facilitate the current exchange of commodities. The latter function is exercised by commercial banks, but to give effect to the former, there is in existence a great variety of financial institutions.

If all the banks in the country were to organize under the National Bank Act, we would be faced with immediate financial chaos, for a great deal of business that is offered to National banks must be refused on account of the legal restrictions on their operations. National banks have wider powers under the Federal Reserve Act than before, but they cannot exercise the functions of investment banks such as dealing in stocks and bonds, or the functions of mortgage banks in the same manner as trust companies, savings banks and savings and loan associations.

Such powers were denied to National banks because it was considered unsafe to combine commercial banking with any other type, but the operations that are being performed by our large trust companies prove that a combination of commercial, investment and mortgage banking is not necessarily dangerous. Under the Federal Reserve Act, National banks have been authorized to exercise trust powers, and to act as insurance agents, neither of which are even incidental to banking, but they are prohibited from dealing in stocks and bonds,—financial operations of the first magnitude on which our whole industrial structure is based. Until we have a broad Federal Bank Act, authorizing banks under proper restrictions to engage in all kinds of financial operations, we cannot have complete concentration and mobilization of our banking resources.

In England, banks are organized under the General Companies Act, and the principal restriction on what a banker can do is his own good judgment as a banker. The restrictions imposed by our State and National banking laws have resulted in benefits to bankers and depositors alike, but restrictions should be on the manner of *exercising* banking functions, and not on the functions themselves. If we make that our policy, there is apparently no good reason for restricting the financial operations of our banks.

That tendency was evident in the Federal Reserve Act, but the widening of National bank powers was not so much a matter of policy as it was the result of expediency and compromise.

The Phelan Bill

Under Section 11-K of the Federal Reserve Act, the Federal Reserve Board has power to "grant by special permit to national banks applying therefor, when not in contravention of state or local laws, the right to act as trustee, executor or administrator, or registrar of stocks and bonds."

As the Act now stands, limitations and restrictions upon the exercise of trust powers are prescribed by regulations of the Federal Reserve Board. In the so-called Phelan Bill now before Congress certain restrictions and regulations are written into the Federal Reserve Act, which are intended, in general, to place upon National banks the restrictions imposed upon State institutions exercising fiduciary powers. In this respect the Phelan Bill is a distinct improvement over the present provisions of this section. The bill, however, contains the further provisions that the Federal Reserve Board may confer upon National banks the right to exercise fiduciary powers in States where trust companies are permitted to engage in commercial banking, even though the conferring of such powers be in contravention of State law. The argument is made in favor of this amendment that, since trust companies doing a commercial banking business are directly competing with National banks, National banks should be given an opportunity to obtain the same advantages in the exercise of fiduciary powers that are enjoyed by their competitors. On the other hand, the conferring of such fiduciary powers has always been a function of the State. Where a State expressly consents to or does not prohibit the conferring of such powers upon a National bank, it cannot seriously complain that its jurisdiction has been infringed; but it has been felt by many State institutions and State banking officials, that, although it was proper that such powers be conferred by the Federal Reserve Board with the consent of the State, it was a serious infringement upon the rights of the States to provide that such powers might be conferred even though in contravention of the State law. The time does not appear to have been reached when State autonomy in such matters can be sacrificed without loss.

The Federal Government has supervision of all international and interstate commerce, and it should also have control of national and international banking, but there would be no advantage under our present system to anyone in having purely local organizations like many of our State institutions organized under National laws. Their functions are exercised in a restricted territory, and they can be better and more easily supervised by the State authorities. Under Federal laws all our banks would have the same privileges and be subject to the same restrictions, and by this means the lack of uniformity in our banking laws would be eliminated. To a certain extent this might seem like a usurpation of State rights by the Federal Government, but it would only be an extension of the powers already possessed through the National Bank Act and the Federal Reserve Act; and the increased strength of our banking system that would result would be ample justification for it.

The Treasury System

In a system such as I have outlined, there would be no place for the Independent Treasury System, which, it is generally conceded, has outgrown its usefulness. The Federal Reserve Banks would be the fiscal agents of the Government, and we would not again be subject

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to the money market disturbances that were caused by the deposit and withdrawal of enormous sums without regard to the demands of trade. Of course, in recent years the bulk of Government funds has been kept on deposit in the banks, but the Secretary of the Treasury still has the power of influencing the money market by depositing or withdrawing public funds at his discretion. This power which is equivalent to regulating rates for money should not be vested in a Government official, but should, in my judgment, belong to the Federal Reserve Board.

This is, of course, not the time for drastic changes in our banking system, for until the war is won, all our efforts must be devoted to that end. Bankers who can strengthen the Federal Reserve System during the war will unhesitatingly do so, and those whose place is outside the System will not be lacking in devotion to the cause. When peace, such as we are contending for, is obtained, changes will be inevitable, for there will then be greater need than ever for co-operation among bankers, and complete mobilization of our banking resources, to enable us to retain the financial and commercial supremacy that we have now achieved.

Concentrating Credit

To meet the new conditions presented in world trade, the desirability of concentrating banking credit has appealed to the bankers of other countries, and offers its possible suggestion to us. For instance, in England, as a result of such amalgamations, the leading banks now show these huge deposits:

London City and Midland.....	$1,570,000,000
Lloyds	1,500,000,000
London County, Westminster & Parr's	1,250,000,000
Barclay's	1,100,000,000
Union of England and Smith's.....	900,000,000

English bankers and business men believe that, in order for them to compete effectively for the world's trade with other countries, this concentration of credit and the extension of branch-banking are necessary steps. Without banking leadership foreign trade cannot be commanded. The effective use of such powers by Germany has taught this lesson. The German banks trading abroad not only were useful financial institutions, but acted as information bureaus for their countries, and their work in this field was largely responsible for the remarkable development of German overseas' trade. German banks not only established subsidiary banks, but in many instances obtained controlling interests in native institutions, giving them a large measure of command of foreign banking transactions.

No matter what we may think of the Germans, it is generally conceded that their preparations for the commercial conquest of the world were quite complete, and not the least important of these preparations was the concentration of their banking and credit powers into a few large institutions. The two largest of these show deposits, according to the last available figures, approximately as follows:

Deutsche Bank.....	$2,250,000,000
Disconto Gesellschaft.....	1,100,000,000

Germany's evident mistake was in trying to hasten its conquest by force of arms which it was gradually achieving by the weapons of peace.

The question also of the desirability of extending our financial spheres of influence at home may well be raised in order to meet the growing necessity for financing large undertakings to an extent quite out of proportion to the resources of smaller institutions, and consequently unsafe for them. Such service would be possible through the "big" bank with affiliated interests or branches, which might not otherwise be rendered.

For the first time in the history of the United States, we have the opportunity of becoming a factor in international trade and finance. Our weaknesses are many. A banking system concentrated under one head, properly organized to meet the demands of different localities with larger institutions ready to meet the competition of the large concentration of credit in Europe and Germany may prove necessary.

One of the English writers in discussing this situation says:

"The money-lenders in the Temple, the Venetian and Genoese banks, the Lombards, the Goldsmiths, and the 'Jingling Geordies' each fulfilled the needs of their periods, but they would all be anachronisms at the present time. For the same reason the private banker—adequate as he was to his generation—could not possibly finance the trade of this country under present conditions. Indeed, even in his heyday his lack of strength brought ruin and misery to many homes. He was inadequate, and because of this, and this alone, he was superseded. Size is, after all, only a relative matter, and each succeeding generation is staggered by comparing things as they are with things as they were. At the moment the banking system is in the midst of a period of transition. For centuries it has evolved and adjusted itself to meet the needs of passing periods, and at the present time it is engaged in making such adjustments as are necessary to provide our traders with identical or better facilities than those supplied to their competitors by the mammoth institutions existing abroad.

"Rome was not built in a day, and the perfected banking machinery necessary to the great 'after-the-war' trade effort cannot be created at a few hours' notice. Imperfections will no doubt be discovered, but that they will be remedied is guaranteed by the fact that the large majority of distinguished bankers—whether general managers or directors—have identified themselves with the policy now being pursued."

Expanding Our Vision

In the natural evolution of banking in this country, it is quite certain that our vision must extend beyond the State,—beyond the nation,—out into the world at large. Branches of American banks are being opened in foreign countries from time to time; and not only American finance, but American merchant marine and commerce, will be greatly promoted thereby—and, with the coöperation of our authorities in Washington, the development of our interest in foreign trade and industry may at this psychological moment be most rapid.

We must adjust our minds not only to the expansion of our own banking interests abroad, but perhaps even to coöperation with foreign banks in some international banking plan which will meet the exigencies forced upon us by the war. With half of the world on a paper basis, it is certain that some international banking agreement must be worked out if we are to stabilize the world's tokens of exchange and expedite the trade of nations.

It seems important that private initiative and enterprise should be given the widest possible latitude in this field.

It seems equally important to me that Governmental activities be restricted to the support of such enterprise, rather than to supplanting it. For instance, the original proposition to organize a foreign exchange bank in connection with our Federal Reserve System seemed to be unnecessary, as our present banking system is providing for these needs with greater efficiency and less expense than would be possible through any Government agency.

No Governmental financial institution should be projected into the field of competition with privately owned banks. The Government's function here is that of providing a reservoir of credit for the assistance of the

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banks, and any innovation which would change that relation appears unwise and unjustified.

If it could be proved that a foreign trade bank could be organized as a Government agency free from such objections, which would act as a service institution in coöperation and not in competition with private banks, it might be worthy of consideration, providing special care is taken in working out its details in order to avoid conflicting interests which might retard the development of our foreign trade.

It is certain that we shall need united effort to meet the competition we shall face, and in lieu of a branch-banking system and banking amalgamations, American banks must work together on a basis of common interest and in the general interest.

With courage we must face the future, confident that with a better understanding of our local and National problems, and with a closer and more sympathetic coöperation between the governing authorities and financial institutions, continuing progress will be assured. These are not the times for jealousies, prejudices or selfishness, but with largeness of heart and bigness of vision we must unite in a common effort to help America achieve its manifest destiny.

State Banks and the Cotton Crop

By GEO. W. ROGERS, Vice-President of the Bank of Commerce, Little Rock, Arkansas.

The subject assigned to me—The State Bank and the Cotton Crop—is one of extreme importance, and, I hope, of interest. Permit me first to speak of the cotton crop; its production and importance to the country; the growing of the crop and its financing; the movement of the crop and its financing; and of the important part played by the State Banks in both.

Cotton in 1917 was the second most valuable crop raised in the United States, its value being second only to that of the corn crop.

The cotton crop for the season of 1917 was 11,300,254 bales, with an approximate value of lint cotton on the farm of $1,566,206,000. Add to that the value of the manufactured by-product of cotton-seed, and its by-product of $381,447,000, and we have one crop alone of approximate cash value to the country of nearly two billion dollars.

Cotton is a wonderful crop, the world's supply practically coming from eleven Southern states of this country. It furnishes not only clothing for the naked, but food for the hungry. Everyone knows of the importance of cotton as a cloth crop and its many uses in that line, but few know of its value as a food crop. For every bale of cotton produced weighing approximately 500 pounds, there is produced 145 pounds of lint. This lint is essential in the making of high explosives and smokeless powder, and without it it would be practically impossible to carry on this war. After the damage of war has taken place, this same kind of lint is made into absorbent cotton that binds up the wounds.

In addition to the above, for every bale of cotton there is produced 1,000 pounds of essential foodstuffs. Approximately 60 per cent of all the edible greases produced in this country come from cotton-seed oil. From this cotton-seed oil practically everything is made—from "genuine imported Italian olive oil" and "pure leaf lard," to the soap that lets the nation come clean.

Cotton is planted early in the spring, planted in rows, and when the plant comes to a stand, it is thinned out (technically known as chopping). As the plant develops it requires constant care and constant cultivation. In the development of the fruit, first comes the square (which is not "square' at al, but is three-sided) and from this square comes the blossom. Cotton might be called the most patriotic of crops because its bloom is representative of the national colors. As the bloom first opens it is white, later turning to red, lastly to blue, and then withers and falls.

After the blossom falls the boll develops. As it grows the boll fills with milk, which later develops into the seed and the fiber. As these bolls mature they burst open and the cotton is readily picked. The fiber is closely wound round each seed, and each boll, as it opens, must be picked to save the cotton. It does not all ripen at one time. I have seen from the same bush cotton picked from the first of September until the last of March. I have at time seen the same bush with blossoms, squares, small bolls and the open cotton.

As cotton does not ripen all at one time, it has never been possible to effect a practical machine for the picking of the cotton. It requires the human element to know when the boll should be picked. Probably more of the human element enters into the raising of cotton than into any other single crop.

Cotton is not raised, as a rule, on large plantations or large tracts of land by hired labor and machinery, the majority of cotton raised being by the "one family crop," where the man, his wife, his children and the mule make the crop. On the larger places land is rented, either for the cash rent or a share of the crop, these "share croppers" having practically everything furnished them by the landlord, the credit advanced of course coming out of the crop when it is sold.

On account of the large demand for labor at very high prices, and the draft, the able-bodied man from the cotton farm has gone to the war or manufacturing industries, and this year's crop, to a greater extent than any other, has been made by the old men, women and children.

Few people, in speaking of cotton, realize the enormous cost of production. The price for picking cotton is based on seed cotton rather than on lint cotton. It takes approximately 1650 pounds of seed cotton to make a 500-pound bale of lint cotton. At $2.00 a hundred for picking, it would mean $33.00 a bale to pick the crop. The ginning and wrapping, costing about $7.00 more, makes $40.00 a bale cost of taking the crop out of the field, equivalent to 8c. a pound.

Cotton is the only crop that is cash on every turn-over from start to finish, practically never sold on credit by any one to any one; every turn-over represents full payment in money or credit. The former raises his cotton, has it ginned, and takes it to the nearest market where it is sold. The cotton as it comes from the field is closely wrapped around the seed, which is about the size of a small bean. The gin consists of a large number of saws set very close together. As the seed presses between these saws the lint is cut from the seed, and by air pressure is either blown or sucked into the bins where it finally is pressed into the bales.

In the smaller places the country merchants are the first buyers, they in turn selling to the buyers in the larger concentration points. It is customary in the country to sell cotton in round lots, that is, as it comes from the plantation, but it is never exported or sold to the mills on that basis. It is sold on grade and staple. The grade is based on the condition of the cotton, as to whether it is white, stained or tinged, and the amount of trash in the cotton.

Staple is the length of the fiber. The basis of middling upland cotton means cotton white and reasonably free of foreign matter, and not less than seven-eighths of an inch in length.

Cotton is marketed different from any other other commodity. A legal bale may weigh as low as 300 pounds or as much as 700 pounds. In the handling of wheat, any 5000 bushels of No. 2 red wheat will cover the warehouse receipt for 5000 bushels, but with cotton, the marks and numbers on each bale must be given on the receipt, and a separate receipt is issued for each bale.

The ordinary way of handling is when the country merchant sells to the dealer in the concentration points, he draws a draft with a shipper's order bill of lading attached, giving the marks and numbers on each bale. As the cotton arrives it goes to the compress, and the compress issues its receipt—a separate receipt for each bale, giving the marks, compress serial number and other numbers. That particular receipt must be returned to secure that particular bale of cotton.

In financing, the State Banks and the National Banks have pursued very different policies. The State Banks, in dealing with cotton people, make their advances on open accounts. In case you might not know what "open account" means, will say the uninitiated call it "overdrafts." I have known well managed State Banks that had cotton loans on open accounts, or overdrafts, to the extent of fifteen times their capital. The bank, at the beginning of the season, takes a collateral pledge of cotton on hand and to arrive, from the broker, and when the broker desires loans, or drafts are presented to him, he issues his check, detaching from the drafts the bills of lading or compress receipts, and attaching them to the check, so when the check is presented to the bank the collateral is automatically presented at the same time.

When cotton is to be shipped the cotton man gives to the bank a turn-out order which specifies the number of each bale of cotton to be shipped. The bank selects these receipts and delivers them to the compress company, who, after the cotton has been compressed and loaded, signs an acknowledgment, which is presented with the already-prepared bil of lading to the railroad company. This bill of lading, when signed by the railroad company, is attached to the draft drawn by the shipper on the mill or other purchaser of cotton. The bank, after deducting its charge for handling the draft, applies the proceeds to the credit of the cotton man.

In the eleven cotton States there are 4612 State Banks, with total resources of $1,715,327,200. In the same States there are 1523 National Banks with total resources of $1,841,261,000. Of course the State Banks are in the smaller places, while the National Banks have been to a great extent in the larger centers. In times past it has been said that the State Banks made the crop and the National Banks moved it, to a very large extent.

The National Banks have in times past realized and recognized their duty in this as in other matters, and performed their full share of services. Recently Mr. Williams, the Comptroller of the Currency, has ruled that the former way of handling cotton by National Banks on demand acceptances was in violation of Section 5200 of the National Banking Act, and it would no longer be allowed.

This is a matter of extreme importance to the South. Such large values are involved in the handling of cotton that there is not banking resources in the country to move this crop provided the banks were required to observe the strict loan limit. The National Banks' limit of 10 per cent of capital and surplus would be of practically no value as the amounts involved are so enormous.

The State Banks, in handling cotton and other commodities, are not required to observe the loan limit so long as the loans are secured by cotton. If the ruling of the Comptroler stands, and the National Banks are obliged to observe the limit as prescribed in Section 5200, it will throw the enormous burden on the State Banks of the South.

The National Banks know the necessity of moving this crop and that it can be done with safety, and are not only willing but anxious to perform their full duty in this matter, and I hope some means will be found to enable them to serve in this capacity as they have in the past.

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Characteristics of Live Stock Paper

By Benjamin F. Berkeley, President of the Alpine State Bank of Alpine, Texas

Mr. President and Gentlemen: I am to speak to you to-day upon the subject, "Characteristics of Cattle Paper," or, if you please, the peculiar marks or distinctive qualities of a cattle loan. I perceive at the very outset that the subject is a broad, comprehensive one, fraught with many and varied determining factors.

For the moment, and in order that we may start aright, let us take a glimpse on the past. As we look back over the pages of history, we find that portion of these United States known as New England, whose eastern shores are washed by the great Atlantic, was the first to be settled by our Puritan fathers. That they faced privations, hardships and well-nigh insurmountable difficulties is a well-known fact; they faced a rigorous climate and were menaced by the merciless savages; they were practically without a system or method, their implements were crude, the lands were new, poor and rocky, the forest had to be cleared, the underbrush burned, the stumps and stones hauled away, and the hill-sides were actually so steep the pumpkins had to be braced to keep them from rolling off. Yet, those sturdy pioneers knew nothing save success. Undaunted by the apparent unfavorable conditions and manifold obstacles, they pressed on until the whole New England country was conquered. Then followed the conquest of the Middle Prairie States, but, mind you, present day difficulties are nothing compared to theirs. Time has wrought many changes and these changes have increased the stability and safety of agriculture an hundred fold, and the raising and feeding of cattle is but a constituent element of agriculture. The old cradle has been supplanted by the self-binder, the ox-team has given way to the steam plow and the old stage-coach has been succeeded by the railway locomotive. I say: All honor to these sturdy pioneers!

Now then, my friends, this brings us to the conquest of the "Imperial West," the coming giant in the commerce of this great Union. Marvelous indeed has been our progress during the last few years. Thousands upon thousands of acres of land heretofore considered worthless are now under cultivation, multiplied thousands of acres more are under fence furnishing range and sustenance for millions of cattle.

Step by step man's conquest of Nature's soil shall onward go,
Until every blade of grass, every plant, and every seed shall grow
Throughout this earth that God has dedicated to man.
And this, dear banker, is your mission—to help solve this plan.

We recall with pride our brief history of conquest and urge the closest inspection of our present material, intellectual and moral conditions, inviting comparison of the New West with the most favored localities on earth, regardless of the weight of years and the majesty of numbers. By right of experience and achievement, we look upon the future with confidence, and confidence goes a long way towards success. Time seems too short to accomplish all we wish to do, but rest assured we will do the best we can, well knowing that our posterity will look back upon ours as the "Golden Age" and envy us who first burst into this silent, splendid West.

If I have diverted a little in the opening of this address, we shall come now to a discussion of the primary principles of the subject in frankness and sincerity. Nearly all intelligent people understand now that successful agriculture is of first importance to this country. The splendid campaign of education carried on for the past twelve or fifteen years has accomplished that much. There appears now a danger of too much theoretical knowledge and too little common sense. The farmer must look less to the increase in the acre value of his production; must work to secure the largest return by the best cultivation, joined to the preservation and increase of the fertility of his soil; must keep an adequate amount of the best varieties of live stock. These are the basic principles of good and profitable agriculture. With an under supply and an increasing demand, the live stock market will be profitable for many years to come. Live stock increases and maintains soil fertility. An improvement in their quality, both for meat production and dairy purposes, would add multiplied millions of dollars to the wealth of the nation and to the resources of its agricultural population. These improvements the banker can promote by checking loans for speculative land purchases (an altogether too prevalent weakness in our system), and by continuing the policy of liberal advances to increase and improve live stock, in pursuance of which policy he has become to-day a leading factor in agricultural betterment. This is really constructive work in the right direction. In such co-operation between the stored capital of the country and its one inexhaustible resource, the land, lies the greatest possibilities of the future.

Only a little while ago the lending of any considerabe amount of money on a herd of Texas cattle would have jeopardized the reputation of the average Eastern banker in a manner calculated to brand him as an unfit judge of sound credit. But with the passing of the open range, and a new era of constantly improving grades, better system in breeding, strict sanitary and quarantine regulations, the rapidly increasing railroad facilities, better marketing and closer personal supervision of herds, due to their increased value, all have united to give vitality and stability to the great cattle industry, until now there is every evidence at hand to justify the statement that well selected cattle loans constitute one of the safest and most liquid investments in which the funds of a commercial bank can be employed. After a careful analysis of the fundamentals surrounding the desirability of this class of paper, I am convinced that smaller losses have resulted from six months' cattle paper than any other class of paper handled in the United States. Usually there are but three hazards: 1st. Insufficient rainfall of the grazing grounds. 2nd. The price the packers will pay for the cattle. 3rd. An unfavorable moral status of the borrower. The last referred to is a remote possibility and can usually be avoided by proper primary investigation. With a practical experience of ten years as my guide, and supporting evidence in abundance, I am persuaded that we should give the heartiest encouragement to the promotion of the cattle industry. In this day of conservation and high efficiency it is mere fallacy to allow a single blade of grass, a single pound of feed-stuff and roughness produced by the farmer or ranchman, to go to waste. In my own State, Texas, we are particularly fortunate in that it is highly adapted as a breeding ground, yet, after a careful investigation, it is apparent that a majority of counties have far too few live stock in them, with a consequent effect of a clear economic loss and the added peril of minimum diversification, which is the bane of the average farmer. In looking back over my twenty years' residence in Brewster County, Texas, it gives me a peculiar degree of satisfaction to note the large number of cattlemen who have, from an obscure beginning, come to affluence and wealth simply by concentration of their efforts and energies on the proper care and handling of a herd of cattle.

Having made a positive statement of the safety and liquidity of well-selected cattle paper, let us briefly discuss the matter of margin. While some enthusiasts have gone so far as to boldly state that if the borrower has the grass to graze the cattle that constitutes sufficient margin, yet, in the light of my experience, I cannot share in this belief and would urge the more conservative policy of a twenty-five to thirty per cent. margin upon the average advances. Of course, there are many instances where the responsibility of the borrower is such that no risk would accrue from a considerably smaller margin than here referred to, yet there are times during periods of long-continued drought when the mortality ratio becomes manifestly serious, and, too, the financial affairs of men frequently undergo sudden and rapid decline; therefore, the imperative necessity of meeting such possible exigencies with a reasonable margin. Again, such eventualities warn us of the possible hazard surrounding an extension of credit of considerable volume to lease-holders only, especially that class who habitually make a practice of short term leases based upon speculative intent. While such borrowers must be given reasonable consideration, unless their financial statements reflect other holdings of sufficient value to offer ample protection, it is a sound policy to exact a good round margin. Still another class is worthy of close scrutiny—the young chap who has just acquired a ranch or taken up his complement of State land and is suddenly imbued with the idea of getting rich in about three years off of the other fellow's capital, and that, too, without even a rudimentary knowledge of the cattle business. Ofttimes the very worst thing that could happen to the young fellow would be an excessive credit extension, for then he would construe the act of his banker as a recognition of his ability as a cowman, often leading to unsound and extravagant investments and a thorough lack of knowledge of the true value of a dollar. The best and safest plan to adopt in these cases is to extend limited credit, give wholesome advice, and let the young man demonstrate his ability to win his spurs.

The value of all kinds of cattle has so materially increased within the last eight or nine years that great volumes of capital are now required to meet the legitimate needs of the cowmen. As a result of this unprecedented money demand, Central West and Western banks have increased their cattle loans far beyond that of any previous period. Some of the banks in Kansas City, Oklahoma City, Chicago and other cities which make a specialty of cattle paper, now maintain representatives in Texas and other Western States; numerous cattle loan companies have sprung up, encouraged by the marginal profit resulting from the present activity of the cattle business and the attractive rates at which the paper can be sold in Eastern markets. A species of competition has developed which in some instances have brought about over-credit extension on short margins to borrowers with little knowledge of the business and very limited financial ability. even should the institution holding paper of this character escape a loss, there is the constant annoyance of adding the interest in and carrying the borrower over until he "grows out."

The unprecedented drought which has existed over a large area of the Western ranges for the past two years offers many practical lessons for our future guidance in the manner of handling cattle loans, and these same lessons are of immense value to cattle owners, as they serve to impress a few cardinal principles upon our minds which under extremely favorable local conditions are likely to be disregarded by cattle raisers—namely, keeping herds clear of aged animals, which are the first to succumb under hardships; placing on each section of land or pasture only that number of head of cattle which it will safely carry; the development of easily accessible watering-places well distributed over pastures to minimize the fatigue of poor, weak animals; the creation of one or more so-called hospital pastures where a surplus of green stuff and roughness are available to build up thin stock and cows heavy with calves; and a general increase of silage on all ranches. If these methods were universally adopted by stockmen, their losses would be infinitely smaller and the safety and desirability of their paper would be greatly enhanced.

The official figures indicate that cattle have increased in this country the past year a trifle over 3.8 per cent., but these figures will be perceptibly decreased by the market run of light cattle of all grades due to drought which is rapidly depopulating Southwestern pastures. When we consider the record-breaking orders of army beef, with the knowledge that such demands are to continue for a long while, it at once becomes apparent that the increase in cattle stock will be inadequate to meet the demand. At a recent conference of Allied Food Officials in London it was estimated that the United States would be called upon to furnish not less than 900,000,000 pounds of beef during the next year, which indicates the increasing necessity of a freer consumption of light weight cattle for domestic use. This will afford a

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measure of relief and an outlet for the exceptional flood of light weight cattle, which are being shipped from the drought-stricken areas of the Southwest. I note that official encouragement has been given to the consumption of cattle for domestic purposes which dress under 475 pounds, and retailers are urgently requested to provide such beef for sale over the block. In looking for a solution of this perplexing state it would appear the stock-farmer is obliged to come to our rescue, in view of the depleted condition of range herds, and it is essentially our duty as bankers to lend encouragement to this laudable undertaking.

It is, indeed, a splendid tribute to the great Federal Reserve System when, through the War Finance Board, loans are available for the relief of cattlemen in the drought-stricken territory of Texas, Arizona, southern Oklahoma and New Mexico. The authority includes the making of direct loans to all banks, whether they are members of the Reserve System or not, to loan companies ,corporations and individuals on stock cattle only—stock cattle have been constructed to include cows, calves, bulls, yearlings and two-year-olds—and the loans are to run one and two years at eight per cent. interest. When the application is approved, the money is paid by the Federal Reserve Bank as the agent of the War Finance Corporation. If the individual desires to handle the transaction through his bank he may do so, the bank in turn endorsing the collateral note to the loan agency. No attempt is made to compete with banks, but to lend assistance to the individual only when he cannot secure accommodation from other sources. When this great Government of ours, joining hands with the Federal Reserve System, is so quickened and responsive to the needs of an essential industry, surely the dawn of a brighter day is near at hand and no longer may we expect the indifferent and marble-like financiering of a former time, which is now a relic of the past.

Under the existing favorable selling price of cattle to-day, when an average mother-cow in good condition is worth $60.00 to $65.00 and will produce a calf which, at a year old, will bring $32.50 to $37.50, it is no wonder that with such heavy reinforcement from the natural increase stocker loans are more and more coming into favor, and even though a decided drop in prices should occur the increase will make a good margin in the loan. We find more and more that institutions are less inclined to discriminate in the particular class of cattle offered as security. There was a time when feeder loans on steers was decidedly the most popular class of paper sought by prospective investors, for the reason that they were shaping up for market and early killing, automatically retiring the obligation within a short period of time. However, the brisk demand for this kind of paper gradually had the effect of smaller margins and less attention to the outside responsibility of the borrower, resulting in complications and at times losses, which has had the effect of bringing such paper on a common level with other cattle loans. Of course, we are agreed that aged steers are not subject to the same risk of disease, intense cold, drought, etc., as stocker cattle.

It has come now to be an almost universal custom among well managed institutions to require the borrower to make a financial statement of his resources and liabilities. Prudence dictates that the lender should be thoroughly informed of the true status of the borrower's condition. While such statements are frequently of little value in sparsely settled communities, where the banker has a very thorough knowledge of the affairs of practically all his customers, even then a record statement would afford greater safeguards and be indispensable if the paper was offered for sale or rediscount. The statement forms now used by the Federal Reserve Banks are recommended.

I assert that under normal conditions capital invested in cattle will yield greater returns than most any other form of investment of which I have knowledge. Assuming that the individual has a fair knowledge of the business and that his land burdens are not too heavy, it is altogether possible for him to purchase a given number of mother-cows on borrowed money at eight per cent. interest, payable semi-annually, liquidate the debt in five years, and have a better, clearer bunch than he started with. While it is not within the province of rediscounting institutions to undertake financing of this character, local banks and loan companies with ample resources can be of undoubted value, if the borrower is deserving and can give you a well-secured note. Nothing will tend to build up a community more than granting reasonable credit extension to the small industrious know-how and well-to-do farmer or ranchman, for they are in reality the backbone of our country.

To summarize briefly a few of the cardinal elements entering into the desirability of cattle paper:

1st. Close scrutiny of the financial and moral responsibility of the maker of the note with due regard to his ability and success as a cowman. Ample facilities for the proper care and preservation of the stock.

2nd. A margin sufficient to protect against an unfavorable turn in range conditions and a sudden decline in the market.

3rd. Are the cattle offered for security of a grade that will justify the money advances and what is their physical condition at that particular time? Interest should center around the character and amount of grass available for grazing, the number of watering places in the pasture and their accessibility, protection from weather extremes and disease.

4th. Paper offered for sale or rediscount bearing endorsement of a bank or loan company should be considered primarily from the standpoint of the business acumen of the individuals interested in the management of the institution, their ability, integrity and experience in handling cattle paper.

5th. For a highly liquid short term investment, aged steers in feed-lots would naturally be preferred, as they are in process of preparation for beef consumption.

6th. Investors seeking six months' paper and longer will find stocker loans usually very satisfactory, reasonably liquid and generaly safe.

7th. Loans on range cattle and young stock in general have not received the favorable consideration accorded beef steers and stocker loans, but such loans within proper limitations are found to be very desirable, especially so if the cattle are not ranging in a pasture so large that serious difficulty is experienced in exercising close supervision and in gathering.

8th. It is a very sound policy to make your mortgage cover the entire number of cattle in a given brand, thus avoiding duplications against the same stock, which frequently results in much confusion, dissatisfaction and sometimes losses. Of course, there are exceptions to this rule, as in the case of a large cattle owner who is an exceedingly small borrower; to demand of him a mortgage on several thousand head of cattle in one brand for a small loan would be absurd on its face.

9th. See to it that your mortgage in a clear, definite manner describes the cattle, their location, the brands and the particular part of the body of the animal where it is located, in order that they can be easily identified. If the mortgagor has not already done so, require him to place his brand of record. See that your instrument includes an affidavit of ownership, certificate of no other incumbrance, proper filing, and retain a certified copy to be attached to the note.

Applying the rules laid down in a rational, common-sense-like way in the selection of a cattle loan, it is my candid judgment that no other class of paper possesses a higher degree of desirability and liquidity than carefully selected cattle paper. Recognizing as we do the commanding importance and essentiality of the great cattle industry, let us pledge ourselves to render whatever assistance seems just and proper for the accomplishment of its greater development.

The vision of the future, after the war, is bright. America's position in the world will be an enviable one. The United States will have ships, factories, ports and fields in greater numbers and with greater capacities than any other power on earth. England, France, Italy and other nations will have ships and factories, but they will need raw materials and food. For these things they will have to depend upon the Western Hemisphere. Live stock will be demanded from the West, grain from the Northwest, cotton from the South, wool from the Western ranches, corn from the Middle West, wheat, corn, oats and barley from all the States that can produce these feed-stuffs, and these necessities will sell under favorable prices, which means that the farmer and ranchman, the primary producers of all wealth, will enjoy an unusual area of prosperity.

As we chronicle the success of our armies on the battle-fields of France, more and more we come to be tinctured with that patriotism which shall see to it that the cause of righteousness and humanity must prevail and the peoples of the earth come into the enjoyment of a perfect and lasting peace, a patriotism based not alone on the power of shot and shell but also on the clear, American insight into the sharp laws of competition, on the fortitude, faith and wisdom of its bankers to grasp the key that will open opportunity's storehouse, to conserve its resources, to speed the day when the Stars and Stripes shall float on every sea and be a welcomed visitor in all the ports of earth, because it ever stands as the emblem of American ideas and ideals of fair plaly, the flag of Liberty and Freedom which shall render illustrious for all time to come the name "America."

Charges for Presenting Drafts and Furnishing Credit Information

By Walter E. Sprecher, Cashier of the State Bank of Independence, Independence, Wis.

Gentlemen of the Convention:

I assure you I feel very privileged in being permitted to appear on the program of the State Bank Section of the American Bankers' Association; and particularly to address you on a subject possibly new to the bankers of the United States, but not at all new to the bankers of Wisconsin. I am pleased to present this subject to this section, made up of State Bankers, as this section, representing 17,500 State Bankers, has about sixteen thousand banks with a capital of one hundred thousand or under; and to you sixteen thousand bankers this subject is particularly applicable. And I assure you if the American Bankers' Association will adopt a resolution similar to that we have in force in Wisconsin, you will increase your profits to a considerable extent, and if not that, you will at least be getting something for the services you render. However, on the other hand, I feel slightly embarrassed to appear in behalf of this particular subject. Why the youngest speaker at the Convention should be privileged to come before you today, when most detailed cost systems have been installed and overhead expenses have been figured to a nicety, and show where two leaks, which have alone meant thousands of dollars annually to bankers of Wisconsin, have been permitted to exist in the banking system of the United States from the inception of commercial banking, is something that I cannot comprehend or picture. Why banks have not in the past been placed in a position to receive a sure compensation for the presentation of sight drafts, whether paid or not, and the filling out of ratings, as they both represent a service to the creditor, and both take the stationery, the time and thought of paid bank employees, is unexplainable. Why these services of the bank should not be made profitable, or let me say be made to

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at least pay for itself, is something out of line with good bank management. We, as bankers, know today that in any successful corporation when a certain phase of the business does not make a profit, this particular phase is cut out and eliminated and the time and thought which was formerly required for that end of the business is used for the further development of that line of business which pays the corporation a profit. Or may it be that the bankers of the United States have the same thought and idea that the bankers of Wisconsin had prior to 1915.

The Wisconsin bankers, eliminating group seven, who had in a group meeting a year before agreed to a prior charge system, had never considered the cost in presenting a sight draft for collection, or filling out request for rating. They thought this matter was a small one and that it did not really take much time, that it did not cost the bank much of anything. However, when the speaker gave them the figures of his bank of collections for a period of about seven years, and the working of said system on prior charges in Group Seven, they were astounded, and said plan, now known as the Wisconsin Plan of Prior Charges on Collections and Requests for Ratings, was adopted unanimously at the 1915 Convention. And let me tell you bankers of the United States that this system is working so harmoniously and perfectly, that should a future State Convention nullify this plan, the banks throughout the State would sperately and individually still maintain and enforce the plan.

At the risk of tediousness I will ask you to follow me in the development of what finally became known as the Wisconsin Plan of Prior Charges on Collections and Requests for Ratings. Let me first read the plan. It's printed on these cards the ushers handed out and read as follows:

"Failure to receive presentation fee on unpaid items after service had been rendered by banks, caused

The Wisconsin Bankers' Association
(Of which this bank is a member)

at its 1915 Convention to adopt the following resolution relative to Collections and Requests for Rating—it being the general opinion of the Bankers present that 'the laborer is worthy of his hire,' and that banks should not be expected to perform these important duties without some remuneration.

"RESOLUTION

"'COLLECTIONS AND REQUESTS FOR RATINGS will have our prompt attention PROVIDED same are accompanied by the following fee IN ADVANCE:

'Collections .....15c. each
'Requests for Rating, minimum fee.....25c. each

'Unless such fee accompanies request for this service the time will be returned without presentation or attention. This rule does not apply to Drafts with Bills of Lading attached, or to Notes.' We return the attached and call your attention to our rule.

"Fees accompanying collections will be credited as part of regular exchange charge on collection made. In complying with request for rating, all statements will be made upon information which this bank believe to be reliable, but further than that it assumes no responsibility whatever.

"Please keep for future reference."

You will note the resolution has two parts, collections and ratings. I will discuss collections first. In using the term collections throughout my address. I shall mean only sight drafts sent for collection, as notes and Sight Drafts with B/L attached are generally paid and thereby fairly well compensated for.

I believe that this plan is so simple that it needs no explanation. Wisconsin Bankers expect a fee of 15c. for sight drafts and 25c. for ratings, to accompany every such draft or rating, and only when such fee does accompany the letter does it receive attention. When letter arrives without fee, we enclose one of these cards and return at once. If payment can be collected, we remit immediately, and charge 1/10 of 1% and the 15c. already paid applies as part payment—a minimum fee of 25c. on each collection is retained. If item cannot be collected, we clearly mark the reason on back and return to creditor.

Let me now ask the question—why do wholesalers, manufacturers, jobbers, etc., send sight drafts to banks for collection? There are various reasons; among them the principal ones are these:

1. Banks will collect a sight draft for practically nothing—attorneys charge 10% or more.

2. To stir up debtor. When a sight draft is sent out, it indicates that the debtor is slow or careless. It can generally be assumed that the creditor has sent the debtor several bills or dunning letters, and the party in question has paid no attention to same, so he sends it to the bank for collection, believing that the debtor will want to maintain his credit with the bank.

3. We have found that some creditors have used banks in Wisconsin as a collection agency. When a shipment of goods was made, a sight draft immediately followed, and many times the sight draft arrived before the goods were delivered to the debtor's place of business.

4. We have found that the sight draft is sent to a bank as a last recourse before giving it to an attorney for collection. We have found that the storekeeper has refused to settle in most cases, because of a dispute; goods were substituted or not as represented; were broken or short in number; or the traveling man had given special terms as to payment unbeknown to the creditor.

These are some of the most important reasons. In any and all events, the bank is supposed to depart from the regular functions of banking and enter in as an intermediary into something which upon its face is unpleasant and not inviting. It is an admitted fact than when these collections leave the office of the maker they are in 75 to 80% of the cases "lame ducks" if not "dead ducks," for if the debtor is prompt he receives no sight draft. Hence it is, therefore, but fair that the bank receive a fee for presenting, and if not collected the reason on back of draft should be worth a fee.

If the experience of the Wisconsin Bankers, prior to 1915, is a criterion to go by throughout the United States, you will find that 95% of the banks show a decided net loss at the end of the year relative to sight draft collections. I presume I am safe in saying that this is the only department in a bank that is not on a paying basis. At least it was so with our bank when I came to same at the end of my university career in the fall of 1906. Naturally this was an eye sore, or what I might term a parasite department. It did not set well, so we made plans to make this department pay. We started in a rather experimental way. We first purchased a little book with an index. Soon a second book, and then when a third was needed, I suggested a card system be installed, and on these cards we kept a record of every sight draft that was sent for collection and not paid. We entered the name of the drawer at the top of the page, the date of the sight draft, on whom drawn, and amount charged. Every collection not paid was entered therein. Every collection was returned with the reason for non-payment written on back of draft, and the request, "please remit 15c. for presentation and postage." If this was remitted we credited same. If no attention was given, which was generally the case, we waited until a collection was paid, and you will note later that we waited patiently most of the time, and when a collection was made we balanced the account. This was in a day when one of the employees of the State Bank of Independence had considerable time to spend, and, as you can imagine, that it required a lot of time, and unless someone had that time it was quite impossible to keep up this system and work out the actual overhead expense of presenting sight drafts. However, the result of the working of the system was not gratfying. The firms sending sight drafts heeded our request for 15c. less than you heed the constant cry of the newsboy in the street; and nine times out of ten presentations were personal. The result was that the cards showed unlimited numbers of firms where five or six draft presentations were made, and we never received one cent for our services. Many of our cards show where six presentations were made before one was paid; others ten to twelve, and still another sixteen; when one draft was eventually paid. We deducted sixteen times 15c., or $2.40, plus the cost of collecting that item. We sent that firm a statement of parties on whom drawn and the dates drawn, and they never said a word; and now, fellow bankers, why should they? We gave them personal service sixteen times and received not one penny for our work. Is it reasonable to believe that we owed this service to this firm or any other firm? I think that every one of you will agree with me that we should have had 15c. every time we made a presentation.

Now let me emphasize the fact right here, as this is the finding in three years' experience of the Wisconsin Bankers Association that none of the wholesalers, jobbers, or who they may be, expect to pay for these services. Nor will they pay for these services as our findings have shown, if you make your request when their sight draft is sent back to them, and you have given them the reason why the debtor refuses to pay the sight draft. That is why we make it a prior charge.

This was, briefly, the experience of the State Bank of Independence in attempting to make the collection department an asset instead of a liability. This went on until the annual meeting of Group Seven in 1913 when I offered the resolution as before read in the Wisconsin Plan, and asked that it be recommended, that the State Association consider and adopt, and put in force said resolution. After explaining this resolution, it was passed, I believe, without a dissenting vote.

This resolution is like many people when they come to the city, they get lost. Only this was lost in the committee on resolutions and it never had the chance to appear before the State Bankers in convention assembled. I had learned something, and at our annual group meeting in 1914 I offered the same resolution with an amendment attached, that if same failed to pass the State Association that this resolution would automatically be in effect within the group. This again passed the group, but failed to pass the State Committee on Resolutions, whereupon the group secretary informed all members that the above resolution was to be in force at once. I happened to be secretary at that time, and I was very sure that all members in the group were notified.

In 1915 I was asked by our State Secretary to present this matter to the State Convention, which I agreed to do. I became very much interested to know how extensively this resolution had been used in our group, and with what success, as some one had said, "the proof of the pudding is in the eating," so a circular letter was formulated and sent out to the banks in Group Seven. The returns were so gratifying that when I reported the findings the 1915 Convention adopted the resolution unanimously.

Wisconsin Banks have now lived under the plan for three years. We have seen sight drafts put on a paying basis. At least all have received something for the service we have rendered. We now feel when we go out to present a sight draft, like trying to collect it, if at all possible. Like a boy with something in his stomach, he feels like doing things. You can't expect him to work very energetically if he has nothing in his stomach, or hasn't much of a chance of getting anything there. I used to be a boy myself, and when it comes to eating, I feel I am quite a boy yet.

Now in preparing this address for this meeting, I was interested in knowing what the feeling was among the bankers of our State as to the success of the Wisconsin Plan. Had it accomplished its purpose? Was it paying bankers for their services as the resolution contended it would? Were they satisfied with the plan? Was it a success? I now again prepared a circular letter and sent out two hundred to the bankers of Wisconsin, believing that if these were sent to every corner of the State to banks in new or old communities, to banks in agricultural, manufacturing and commercial districts, that I would arrive at about as fair a conclusion as if I circularized the whole State. Inasmuch as this letter embodied a report on both collections and ratings, I will first take up but a short time to discuss the subject of ratings, and then I will submit what I believe to be the most exceptional findings of a successful plan.

The question to be considered now is, Should banks be required to make out requests for ratings, free of charge? In other words, should banks use the time of their salaried men to go into their files, and if no report there, go and investigate and use such time as necessary and make a report to the credit house, jobbers, wholesalers and those in the habit of seeking reports, without any compensation at all. Does this proposition look square to you bankers? Isn't it just all together one sided? Isn't it a case where the banker is giving continuously without receiving anything at all in return? The jobbers, wholesalers and manufacturers pay Bradstreet's and Dun's 50c. for each report they receive from them. Is it just right because it has

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become a custom with bankers to give a report free that we continue, or be expected to continue to do so in the future?

An officer of the Credit Men's Association in Wisconsin stated that, generally speaking, the reports of bankers are more reliable and up to date than the credit houses. They realize that Dun's and Bradstreet's reports have been made out in part and checked over by bankers, so why should not bankers receive, say at least 25c. for an average report when there is no chance for banks to receive reciprocal returns. The State Bank of Independence receives 25c. from all credit agencies to whom they make reports. Why should not the jobbers and wholesalers be expected to pay this 25c. where reciprocal returns cannot be indulged in? I see where there can be an exception to this rule. I can see why banks in Milwaukee, Chicago, and other commercial centers, where they must establish a customer's credit, or where they deal in commercial paper and where it is a fifty-fifty deal, on exchanging ratings, why they should not charge a fee to the jobber, manufacturer or wholesaler.

In Wisconsin many banks have a sort of unwritten agreement as between banks. Smaller banks not buying commercial paper give gratis reports to their corresponding banks; larger banks buying commercial paper offer all banks in the State ratings free of charge. The reason for this is, as before stated, that we get a service in return equal to that which we render. But why should the sixteen thousand small State banks in the State Bank Section who have no chance to get reciprocal returns from the jobbers, wholesalers and manufacturers, give their time and the service of salaried men, free of charge. This, to me, is an injustice, an imposition, and all you small bankers outside of the commercial centers will say the same thing.

Let us for a moment consider some of the forms of reports we are supposed to answer gratis. For instance, here is a report from the National Jewelers' Board of Trade. It contains forty questions. They want to know the name of the debtor, his age, whether married or single, kind of business, wholesale or retail, how long in business, what portion is borrowed, how secured, if incorporated, authorized capital, amount paid in, value of merchandise, chattel mortgage for, value real estate, what other means, in other business, ever failed, if so when and how settled, liability as surety or endorser, any judgments or suits pending, whose favor, amount of insurance, business ability, general reputation, habits, considered honest—and a bunch of other questions, and by the time they get done, if there is anything that they have not asked, I am positive St. Gabriel won't know more on Judgment Day.

Here is another report sent out by the National Lumbremen's Manufacturing Association. It would take a man a good half hour in the morning to answer in an inteligent way the information that they ask for. They have it under six different headings, and the questions are very similar to those of the Jewelers' rating.

Another from the Midwest Cement & Rating Co. has twenty-three questions, another oil company twenty-three questions.

These reports I am glad to say are exceptional. It would be worth at least one dolar of any man's time in the bank to answer these ratings properly; however, we have been doing it free of charge. The general form of request is something similar to the following:

"Please tell us in confidence what you know concerning the responsibility, ability, character, his manner of meeting obligations, and in your judgment, would he be good for $75 for thirty days. We understand he is engaged in the garage business and we have received our first order from him, etc."

Replies to these letters, I contend, where they can be answered briefly and to the point, giving the creditor the very latest information, should be worth 25c.

Gentlemen, I shall prove to you now by letters I have that the large jobbers and wholesalers that have a modern, up-to-date Credit Department in their own business, do not expect banks to furnish this service free, and I am submitting corporations that have their place of business outside of Wisconsin, and so have possibly not been awakened by the Wisconsin Plan. They fully realize the rating from a bank is a report of John Jones today. The report from the Credit Agency is not, many times, checked up oftener than once in three, six or twelve months. If a debtor is slipping, if numerous sight drafts are being sent in, where a few were drawn before, the banks are the first to observe the falling barometer. Here is the proof of my statement:

Sears Roebuck & Co. have printed at the bottom of their general reports they send out, in large bold green type, these words, "This inquiry is accompanied by a fee of 25c." What does this mean to you? One of the largest, most successful stores in the world.

Here's another, a large furniture and carpet company in Chicago, at the bottom of their form is printed in large red type, "This inquiry must be accompanied by a fee of 25c."

Here is a letter from a large wholesale hardware in Minneapolis in which they state, "We are today in receipt of an order from a Mr. Blank of your town. They are strangers to us, and we are unable to obtain through the regular channels such information relative to their responsibility and general reputation for meeting their engagements as will permit the extension of credit. We therefore will appreciate such information as you can give us. We are enclosing 25c.

Here is another letter from a large coal company in Chicago: "We enclose herewith stamps amounting to 25c. and desire to thank you for the information contained in your letter with reference to Mr. Blank. If it is worth anything it certainly is worth the amount you ask us to pay. We appreciate the information you have given us and same will be considered strictly confidential."

Another large manufacturer of chemicals in Minneapolis states: "We wish to embrace this opportunity to thank you for having forwarded us so promptly report on Mr. Blank. In accordance with your Bankers' Association ruling, we are enclosing herewith 25c. in loose stamps to cover your charge."

A large wholesale hardware and iron merchant in Duluth, Minn.; "We are enclosing stamped envelope for your convenience in replying, also 25c. in stamps for your report, and thanking you in advance for this courtesy, we remain, etc."

I have also a letter from one of the largest, and possibly the most successful, packing companies in Chicago. I will read at some length excerpts of this letter, as it seems to cover fairly well the question under consideration. I wrote them asking their opinion relative to the Wisconsin Plan. They replied:

"We have never raised an objection to the rule adopted by your Bankers' Association of charging 25c. for reports, as we have always believed that information worth having was worth paying for. We are glad to learn that your State Association are working on a plan which will enable Bankers as a rule to render reliable and complete information and we are sure that the jobbers and manufacturers will not object to paying reasonable fees for such information. Thanking you for the courtesy extended in going into this subject so fully, and with our best wishes, we remain, etc."

I could give you numerous other instances, all carrying the same message, but time does not permit. I believe that I have submitted enough evidence to show that jobbers and manufacturers and wholesalers desiring ratings are willing to pay for services rendered. But just now let me offer a word of caution to you bankers here assembled. When you are paid 25c. for a rating, be sure to give service, be fair, square, apply the Golden Rule. We have found in Wisconsin that in a few instances bankers did not give better service than when they received no compensation. This is an exception, I am glad to say. If you don't want to make the report return the 25c. and say so.

I now wish to refer to the results of the circular letters sent out to bankers in Wisconsin, and give you the results as carefully as I can glean them, relative to the Wisconsin Plan. I sent out 200 letters, and received 129 replies. I believe you secretaries of State Associations will say with me that this is an unusual number of replies, for there are bankers that will never reply to a circular letter nor a telegram from your legislative committee. Let me first read the seven questions this letter contained, after giving a brief prelude to show what I desired:

I.—Do you observe the Wisconsin Plan fully?

II.—With whom do you make exceptions, and why?

III.—Will you make a conservative estimate how much of a return you have received in the three-year period since 1915? 1915-16? 1916-17? 1917-18? Collections? Requests for ratings?

IV.—Has getting a small return for your services made you more careful in making collections, and answering requests for ratings?

V.—Do you fully believe in the principles of the resolution?

VI.—Has the use of the plan retarded the profuse sending of collections and requests for ratings?

VII.—Would you favor the adoption of this resolution by the American Bankers' Association?

I believe these questions cover the ground fully. The answers to these questions will determine in your mind if it has not already been done, if you would not like to observe this plan in your State, or have this Section, or the American Bankers' Association adopt a similar plan.

To the answer to the first question, "Do you observe the Wisconsin Plan fully?" 72 replied, "Yes, 100%"; 38 made exceptions principally to their correspondents or to banks having reciprocal returns. This resolution was drawn up to give us a fee when we had no chance to receive reciprocal returns; so we have about 110, out of 129 replies that were it not for reciprocal returns would have lived up to the resolution quite generally. Two banks used a similar system. Four banks did not observe the plan fully but believed in the principles of the resolution. Eleven did not use the plan at all, several due to local conditions, but eight out of these favored the adoption by the American Bankers' Association. These replies bespeak the great favor with which the plan is observed in Wisconsin. I believe there has never been a plan adopted by the Wisconsin banks or any other convention that has been so unanimously successful as the Wisconsin Plan of prior charges on collections and requests for ratings.

The second question—"With whom do you make exceptions, and why?" Those that did make any exceptions replied in the following ways: "We make exceptions to correspondents only; to banks only; to customers who refer to us concerning their standing; correspondents and friends from whom we obtain other business; reciprocal relations with a few corresponding banks; we give credit ratings on our own customers only; Bradstreet's, we secure free service and special ratings in return." I want to call your attention to the fact that of those banks that made exceptions at all, 90 to 95% were those that had reciprocal relations with someone. In all these replies you will observe there is not one that stated they made any exceptions with jobbers, manufacturers, or wholesalers.

Question Three—"Will you make a conservative estimate how much of a return you have received in the three-year period since 1915?" I want to say at the start, that it never was the intention of the bauks of Wisconsin that this resolution was to be a money maker, i.e., one on which to declare a dividend, but it was to obliviate any unpleasant and undesirable feeling that existed with bankers, that there was a class of business that was done at a clear loss, and which could at least be made to pay for itself. I did not get the replies in dollars and cents I had expected on this third question, as no bank kept a separate account of these returns; however, I have received enough estimates so that you can judge what banks have been giving gratis for years past all over the United States. I will not give the banks or villages, or cities, but the population. You can judge how it will suit your community.

	Return from collection.			Total	Ratings.			Total	Grand Total
Population.	1916.	1917.	1918.	3 yrs.	1916.	1917.	1918.	3 yrs.	3 yrs.
350.....	$50	$65	$75	$190	$10	$15	$25	$50	$240
500.....	30	30	30	90	20	20	20	60	150
1,000.....	135	135	90	360	150	100	100	350	710
3,800.....	..	..	..	..	75	75	75	225	225
7,000.....	135	135	135	405	100	100	100	300	705
15,000.....	50	75	100	225	20	30	30	80	305
18,000.....	About $450 all together; presume this was for 3 years.								
40,000.....	46	68	26	140	12	10.75	5	25.75	165.75
	75	50	75	200	..	..	50	50	250
					10 banks.....				$3.500.75

If ten banks collected $3,500 in three years, what do you imagine that

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near one thousand banks collected, or let me say eight hundred? All this sum represents service. What would the amount be to bankers in the United States? Think upon it. Custom has been an expensive child in this instance.

Question Four—"Has getting a small amount for your services made you more careful in making collections, and answering requests for ratings?" Ninety-one replied "yes," they were more careful; eleven replied "no, we always have given service."

Question Five—"Do you fully believe in the principles of the resolution?" One hundred and seventeen of the 129 replied "yes," two "no," one only "as far as collections are concerned." Three made no reply.

Question Six—"Has the use of the plan retarded the profuse sending of collections and requests for ratings?" Sighty-two replied "yes," eighteen "no," five "could not say."

Question Seven—"Would you favor the adoption of this resolution by the American Bankers' Association?" One hundred and eight replied "yes," two "no," two stated "prefer to have States adopt such a resolution," one favored adopting collections only, and one had no opinion.

As I began, so I close, with an appeal to you State Bankers. Why should you longer follow custom? Why should bankers continue to render service on sight drafts and ratings without receiving a compensation? I have proven, I believe, very conclusively that successful business houses do not expect you to render a service without a charge; that the Wisconsin Plan is a thorough success; that the past custom has been an imposition, an injustice. Those that will oppose the passage of the Wisconsin Plan by this section or the American Bankers' Association are those—"Beware, those in sheep's clothing"—those who have no decided reciprocal relations, those who are bank officers, but have large holdings in factories or other mercantile enterprises, those hide-bound, narrow-minded, stand patters who will insist that this subject is too small to be considered here. I admit it can be handled by the States, but if it was universally adopted by the American Bankers' Association, these cards bearing the resolution would soon be eliminated, as the revised custom would soon be to enclose a fee for this service, and soon custom would be a habit, a cable.

State Bankers, from whom will the cry go up—those who are hit, from the jobbers, wholesalers, manufacturers and credit associations, who left no stone unturned to have the exchange item wiped out of the Federal Reserve Act, and they have succeeded. I am not going to discuss that subjct, it is on the program of this Convention this week. But if this plan is passed, it will offset to some very noticeable degree the exchange item the Federal Reserve Act eliminates, at least for the present.

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SAVINGS BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Seventeenth Annual Meeting, Held in Chicago, Ill., Sept. 24, 1918

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The Effect of the War on Railroad Securities

By FRANCIS H. SISSON, Vice-President of the Guaranty Trust Company of New York.

We have passed logically in our consideration of the world war, from war causes to war effects and prospects. In the midst of the pressing problems in every line and interest which the war has so materially affected, we no longer ask *why?*—but *what?* So we, as bankers, as large holders of securities, and as trustees for others in their holdings, may pertinently make inquiry today as to the effect of the war upon railroad securities, and their possible future.

I conceive that it was not the intention of your Secretary in asking for a discussion of this subject, either to review the past, or to chronicle the present, which is written in the daily market records, but rather, if possible, to analyze and consider the trend of railroad security values in the light of the changed conditions which the war has precipitated.

THE PUBLIC INTEREST

The questions of the moment in the minds of all, are: Will railroad securities rise or fall under these changed conditions? Will Federal administration of the railroads improve or injure their status as economic factors? Will private or public ownership follow the present anomalous situation? Can the present merger ever be "unscrambled"? He would indeed be a prophet who could supply the answers; but one may at least have the temerity to speculate on these subjects and enjoy the diversion of discounting the future mentally, if not market-wise, without criticism.

The fact need hardly be emphasized that the probable future course of railroad securities is of most vital interest to bankers, to investors, and to the general public. Railroad securities make up a considerable part of the assets of banks, particularly savings banks, life insurance companies, and trust estates. The extent to which the public is interested in the position of railroad securities is indicated from the fact that more than 600,000 individuals own the capital stock of American railways, and perhaps 300,000 hold their bonds. More than 11,000,000 citizens of the United States deposit their savings in the savings banks of the country, the security for whose investments rests to a degree in railroad bonds, while more than 34,000,000 life insurance policy holders in this country depend in a measure upon railroad bond investments as security for their premiums and policies, and consequently are vitally interested in their earnings and prosperity.

Official reports to the Comptroller of Currency in 1917 showed that the National banks of the United States held about $500,000,000 of railroad bonds, and that State banks, savings banks and trust companies held approximately $1,500,000,000 of such securities.

The Comptroller, in a letter to the Interstate Commerce Commission on November 1, 1917, stated:

> These investments the banks purchased in the belief that they would maintain the prices at which they were purchased, or grow more valuable from year to year, with the growth and development of the country's business and of the corporations issuing them. A crisis, however, has arisen. There has been a serious collapse in the market values of railway securities and such a demoralization of credit that the sale of new securities to provide fresh capital or to meet maturing bonds has been shut off, and even temporary financing is now only being obtained at rates which are costly if not ruinous.
>
> The impairment of confidence and the consequent shrinkage in securities, the Comptroller continued, had become so pronounced that on October 15, 1917, I gave to the press a statement which said, in part:
>
> "In view of all conditions, the Comptroller of Currency has instructed National banks holding high grade bonds of unquestioned intrinsic value and merit, not to charge such investments down to present abnormal figures; but an intelligent and conservative discretion will be exercised as to the prices at which National banks can safely and reasonably be permitted to carry such high class securities, and as to what proportion of the depreciation should be charged off in any six months' period."

SAVINGS BANKS' HOLDINGS

The importance of this ruling appears when the fact is considered that in those States where the investments of the savings banks in railroad bonds are segregated in the reports made by State banking institutions, there were on June 20, 1917, $339,755,255 of such holdings, amounting to 53 per cent of total investments.

Applying the foregoing ratio to the total number of savings banks in the United States, the aggregate value of railroad bonds held by such institutions would appear to be $1,214,319,000, or a little more than 20 per cent of their combined resources.

And if the same ratio be applied to the total investments of the State banks, the amount of railroad bonds

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held by them would appear to be $472,000,000, which added to the $1,214,000,000 held by the savings banks, would give a grand total of $1,686,000,000 for both State and savings banks, as compared with the Comptroller of Currency's round figure of $1,500,000,000.

Loss of Public Confidence

For nearly forty years after the Civil War the surplus earnings of the people of this country which were put into public securities were largely invested in railroad bonds and stocks, and this enabled the railroad net to expand from 52,922 miles in 1870 to 192,940 miles in 1900, or nearly 400 per cent. But during the period between 1892 and 1897, when 213 roads, with a combined mileage of 56,402 miles, went into the hands of receivers, the investing public lost confidence in railway securities.

"The records show," to quote again from the letter of the Comptroller of Currency, "that the persistent and steady decline in railroad freight rates which had been going on through several decades culminated in 1898-9, but this shrinkage did not cease until the solvency of over one-half of the entire railroad mileage of the country which had been built up to that time had been destroyed."

From an average freight rate of 10.01 mills per ton per mile in 1888, there was a gradual and steady decline to 7.24 mills per ton per mile in the fiscal year of 1898-9. During the same period there was a reduction of 18 per cent in the average passenger-mile rate. And coincident with these reductions, companies operating thousands of miles of rails were forced into bankruptcy. Fortunately, in 1899, general business throughout the country began to prosper again, and with it was initiated the upward trend of railroad finances and a revival of confidence in railway securities. This condition prevailed and steadily improved until the financial panic of 1907, with a subsequent stretch of years of uncertainty.

A striking presentation of what the shrinkage in the value of the common stock of the twelve leading railroad systems from the high prices in 1906 to the low level at the close of 1917 has meant is afforded by the fact that that decrease amounted to $1,690,000,000, or 51.50 per cent. This sum is nearly as great as the entire capital and surplus of all the National banks of the United States.

Government Regulation

The restrictive policy pursued toward the railroads by Government agencies, both National and State, for the last ten years, which operated both to limit earnings and increase expenses, could serve only to injure railway credit, and impair the confidence of investors in that field. Multiple regulation, political imposition, and a constantly increasing tax burden brought the railroads to the point where it was no longer possible to finance their requirements with stock, and the constant enlargement of their debt and a consequent increase of fixed charges were forced upon them. With approximately $17,000,000,000 of securities outstanding, about $11,000,000,000 was represented in bonds and $6,000,000,000 in stock, a proportion of debt becoming increasingly too large to assure adequate protection to the investor.

In the fall of 1915, when there was a large mileage in receivers' hands, and retrenchment of railroad operations was at its height, there came an avalanche of new business. The huge munitions manufacturing industry which had sprung up required great quantities of supplies, of which the railways are large consumers. There also developed a heavy foreign demand for American railway equipment and supplies. In consequence prices soared, and it became impossible to get equipment without long delays. The shortage in ocean shipping, further added to the difficulty by producing acute terminal congestion.

On April 1, 1917, the car shortage was the largest ever known. Five days later Congress declared war. This meant in addition to the large business with which the roads were already overwhelmed, that they were confronted with a large amount of military business which, of course, was given preference, and this increased the difficulty of getting the maximum usefulness of transportation facilities, which had been curtailed and impaired without regard to the nation's economic welfare, by reduced rates, rising costs of material and labor, and by political domination.

Mr. McAdoo, as Director General of the Railroads, recently well described the situation which the nation faced, in the following statement:

> Last December the expenses of the railroads were increasing with great rapidity. They were hedged about in their efforts to obtain increased rates by the numerous and various restrictions imposed by the States and also by the limitations imposed by the Interstate Commerce Act. They were confronted by imperative demands for greatly increased wages, and were without machinery to insure an amicable settlement of these demands. They were finding it almost impossible to borrow money on any terms to make the improvements which were indispensable to enable them to perform their public service.

To meet this situation the railroads, by Act of Congress, and in accordance with the terms of the contract now approved by the Federal authorities, were taken over by the Government under the guarantee of a standard net income averaging that for the three years prior to Government operation.

Satisfying Investors

Describing this arrangement Mr. McAdoo says:

> Under Federal control the Railroads have the opportunity to contract with the Government for a guaranteed income on a just basis, which relieves them of the formidable anxieties which confronted them in December, and which would still be confronting them under private control. They are able to borrow money from the Government on reasonable terms for necessary improvements. These are fundamental things which impress the great body of railroad investors, and should make them satisfied with the status as it now exists.

While the form of contract finally offered the railroads is not entirely satisfactory to the owners of securities it appears, that it is the real intention of the Railroad Administration to assure a return to the individual companies which will enable them to pay their fixed charges, interest, taxes, sinking funds, etc., and also regular dividends where justified, and to invest their surplus earnings in their properties under conditions which will increase their earning capacity and value. Furthermore, it appears to be the intention of the Railroad Administration, so far as industrial and labor conditions will permit, to maintain the physical properties adequately, and in case of failure to do so, to pay the companies enough to offset the deferred maintenance. A great deal of latitude is left to the authorities in the interpretation and execution of the contract, but there is every reason to believe that this will be fairly made, and the security holders' interest will not suffer seriously thereby.

This contract has been generally approved by the Railway Executives and their counsel, and formal announcement to that effect has been made public through their Advisory Committee representing more than 90 per cent of the important lines of the country. It will doubtless be executed as it now stands by most of the lines. This approval was regarded as a warrant for an improvement in the railroad security market, and, as the likelihood of harmonious agreement increases between the owners and the Federal Administration, a greater improvement, subject to other conditions, should follow.

Security Prices

It is interesting to note, however, that on December 26, 1917, just prior to the Government assuming control of the railroads, ten of the highest grade railroad bonds were quoted at 81.40. On December 28, just after the Government took over the roads, these bonds stood at 81.94. On July 1, 1918, they were 81.17; on September 3, 81.11, and on September 6, 80.66.

Ten representative second grade railroad bonds were worth 75.79 on December 26, and two days later—fol-

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lowing the taking over of the rails by the Federal authorities—they had risen to 77.15. On July 1, 1918, they were worth 78.05, on September 3, 77.87, and on September 6, 77.60.

During the same period, namely, December 26, 1917, to September 6, 1918, inclusive, ten representative high grade industrial bonds had advanced from 89.42 to 91.86, and ten represntative public utility bonds had declined from 82.14 to 80.70.

On the other hand, the average price of twenty representative railroad stocks rose from 71.61 on December 26, 1917, to 86.93 on September 3, 1918, an increase of 21 per cent, and stood at 85.55 on September 6. How far Government control alone was responsible for this advance, it is impossible to determine. That other factors at least entered into the situation seems assured when it is noted that the average price of twenty representative industrial stocks likewise rose in value, from 68.33 to December 26, 1917, to 83.48 on September 3, an increase of 22 per cent.

The Future Problem

The future value of railroad securities will not be determined, even during the period of Government operation, and still less in the period of transition from Government back to private operation, by the compensation which the Government may pay the companies, or by the way in which it may maintain the properties. As the prospect of the return of the railways to their owners as the act contemplates, becomes more imminent, the ratio between earnings and expenses will become a more and more important factor in determining the value of the securities.

It seems reasonably certain that after the contract has finally been executed by the roads, railroad stocks will be placed in about the same class as railroad bonds, since, with their earnings definitely limited and guaranteed, speculative possibilities will be largely eliminated from them and their prices should not greatly fluctuate.

From the short term viewpoint, that of the period of Government regulation, the position of the security holder is fairly definite. He has assured for him a definite guaranteed return and need not be disturbed about the uncertainties that might arise during this period. He has thus been greatly served by Governmental intervention.

However, it is clear that Government operation will undoubtedly make it very difficult for some roads to have returned to them the same kind of a railroad that they had before the Government took over its operation. Through the re-routing of traffic and the common use of terminals the business that certain roads had developed will be affected, and they have insisted upon their right to recover damages for such losses, in order to protect the interests of their security holders.

Results of Government Operation

It is still too early to determine the full results of Government operation, but operating revenues for the six months ending June 30, show an increase of nearly $200,000,000 over the first six months of 1917. Operating expenses, however, were nearly $500,000,000 greater showing an operating deficit of nearly $300,000,000 for this period.

The net amount which the Government received from the railroads for these six months was approximately $151,000,000. In return the Government is liable to the railroads for about $475,000,000, or one half of the $950,000,000 estimated as the aggregate guaranteed return. Reduced to percentages, the operating ratio for the railroads of the country for this period was about 110 per cent, or in simpler terms—for every $100 received from operation, $110 were spent in operating expenses.

What the effect of such expensive operation would be on railroads and railroad security values, without Government support, can readily be imagined. It is fair to state that this period included the increased costs of wages and materials, without the commensurate return promised by higher freight and passenger rates, which will be enjoyed during the balance of the year.

The relatively slight economies which have so far been affected by unified operation have been negligible in the face of increased costs. In these respects the contentions of the Railway Executives before the Interstate Commerce Commission have been more than justified.

Some of the public statements in regard to economies effected under Federal administration give the impression of "straining at gnats and swallowing camels." After much talk about reducing the salaries of high-priced officials, a petty saving of $4,600,000 has been effected, which, in face of increased wages granted, is hardly an item. The pooling of passenger offices, the elimination of advertising, the reduction of passenger service, have effected relatively negligible savings, not to mention the petty, but no doubt politically important, stoppage of private cars.

The simple fact of record is that the greatest savings which the railways effected under private management were made by increasing the average trainload. The average trainload increased from 574 tons in 1915 to 610 tons in 1916, and to 649 tons in 1917. The increase in 1916 over 1915 was 36 tons, and the increase in 1917 over 1916 was 39 tons. No such increase in the tons per train-mile has been secured under Government operation. In the first six months of 1918 the average tons per train was 653, an increase over the corresponding period of 1917 of only 14 tons. In the month of June, 1918, the latest month for which we have official figures, the average number of tons per train was 698, which was exactly the same as it was in the month of June, 1917.

Income and Outgo

On the whole, it would appear that the advances in rates which have been made will be no more than sufficient to cover the increases in operating expenses, and that, therefore, after paying operating expenses the Government will not have much more net return than will be required to pay the standard return to the companies. It would appear, therefore, that, in the absence of further advances in rates, the margin between railway earnings and expenses during the period of Government control will not be sufficient to cause any considerable effect upon the value of railway securities. It must be assumed that a large part, if not all, of the advances in expenses which have occurred under Government control, and in the period immediately before Government control was adopted, will continue for a long period after the railways are returned to private management.

It obviously follows that if railroad securities are to be adequately protected we must look forward to a continuance of rates, freight and passenger, upon the present basis for an indefinite time after the railways are returned to private management.

The question of rates has been in the past the very heart of the railroad problem, and if the railways are to be returned to private management it will be the heart of the railroad problem in the future. It may be flatly stated that the decline in the value of railway securities in the past has been chiefly due to the refusal of the Interstate Commerce Commission and other regulating bodies to permit the railways to charge adequate rates, and, under private management of the roads, the value of railway securities cannot be maintained in the future unless the Commission will allow the companies to charge adequate rates.

For years before Government control was adopted the companies were pleading for higher rates, but their appeals in the main were futile. The action of the Government within a few months after it assumed the

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operation of the railways in advancing their passenger rates 50 per cent and their freight rates 25 per cent was a confession that the past policy of the State and National Governments in regulating rates was inexpedient and unjust, and it can hardly be assumed that the Government, after having thus conceded that its past policy was wrong, will return to the same policy after the railway companies have been restored to the management of their owners.

The Government's Guarantee

Investors have generally assumed, that the Government's guarantee of compensation will be fulfilled in good faith, and that the entrance of the Government into the transportation field fore-shadows the solution of its problem on some basis which will be equitable to them. This assurance certainly seems warranted as the Government has recognized and expressed both in respect to the legislation and also the contract formulated in pursuance of it, both the justice and the importance of according to owners of railroad securities the protection to which they are justly entitled.

President Wilson in taking control of the railroads issued a statement to the public in which he said: "Investors in railway securities may rest assured that their rights and interests will be as scrupulously looked after by the Government as they could be by the directors of the several railway systems."

Admitting that a fair contract has been worked out, and that the immediate future is assured we still face the problem of what is then to follow in the reconstructing of our railway system. The public and the railway security owners both have much to gain from a more satisfactory solution of the railway problem which will retain all of the advantages of co-ordination and also of individual ownership.

Three Possible Solutions

While it is now definitely planned to turn the railroads back to the individual companies at the end of Government operation which may continue for a term of 21 months after the war, it is quite probable that before that time conditions may arise for a complete modification of this program, and for that reason it is well to point out various possibilities in which that program might be modified.

There are three ways in which the railway system of the country can be handled at the end of Government operation. The first is the present plan of returning the roads to their individual companies; the second is that providing for complete Government ownership, and operation, while a third plan is possible, that of modifying the old system of individual companies into one of regional railways under private ownership which will insure all of the advantages that would come from a coordination of railway facilities and the advantages that would come from retaining private ownership and private enterprise in the management of the roads with Government cooperation and guaranty. The security holder is vitally interested in all of these possible solutions, and the future of railway securities is dependent upon the course taken.

Waste Under Competition

In seeking the most satisfactory solution, both to the public and the security holders, it should be borne in mind that the history of the development of the railways of this country shows clearly that the public, the Government and the railway owners have taken a wrong viewpoint relative to the transportation problem. It has been insisted that the railway business, like any other private business, must be developed along competitive lines. And it must be recognized that perhaps historically this principle has been of considerable value in securing an early development of railroad facilities, perhaps an earlier development than might have been possible under any other system. But it is evident that this has led in many instances to an uneconomic utilization of capital.

In the first place, this competitive policy has led to needless duplication of trunk lines, and in some instances these trunk lines were constructed merely as "throat" roads in competition with some already established railways. From a social viewpoint this led to a waste of capital. In the case of terminals the competitive system has led to further waste. In some instances the cost of entrance for a competing road has been larger than that of constructing modern unified terminal facilities for all the roads entering that particular city. A continuation of the competitive system would lead to a further duplication of terminal facilities, and prevent the public securing the advantages that might come from unification.

Economic Operation of Railways is Dependent on a Natural Monopoly

Transportation is not naturally a competitive business, and it has been a great mistake to consider it as such. The railway, in furnishing transportation, is simply creating place utility, or what is equivalent to the same thing, is modifying advantages that may come from particular locations.

The business of any railroad is largely dependent upon the industrial and economic life of its territory. The railway may lead the way for the development of its territory by extending new lines out into undeveloped areas, and by encouraging the location of industry along these lines through favorable rates and favorable railroad facilities. The general economic development of its territory ought to determine the standard of service that any particular railroad should give.

A regional railroad system based on natural traffic divisions would meet the tests of economic operation and of economic utilization of railway capital. In the development of such a system we should be able to retain all the advantages that come from individual ownership and operation, to retain the advantages that would come from coordination of railway facilities under Government ownership and operation, and at the same time avoid the evils that would undoubtedly develop from either Government ownership, or a continuation of the old competitive system. It would lay a sound basis for the development of a wholesome territorial competition in industry, supervised by regional commissions acting as regulating bodies under one central commission.

Ownership

It should be planned to have the ownership of these companies under Federal incorporation rest in the hands of individual holders who at the time of transfer would represent the owners of the existing railway system. In taking over existing securities of the railways, and in consolidating them with the regional system, a broad viewpoint of value based on fair, average market prices should be taken. In any plan of reconstructing our railways it must be assumed that the rights and equities of the present holder of railway securities will be recognized. In effecting the exchange of securities a Government commission should take cognizance of these claims and make proper adjustments for them. Some plan providing for guaranteed dividends and a profit-sharing arrangement with the Government above the guarantee, together with Government representation on directorates would cement public and private interests in this consolidated enterprise.

Insofar as the regional road would lead to an economic use of capital and thereby eliminate the wastes under the competitive system, the equity back of the various railroad securities should increase over a period of time.

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The development of a rate structure for each regional railroad on the basis that rates should be high enough to assure the proper standard of service, should improve the earning position of the road. Placing railroad credit upon its proper basis, that of the industrial and economic needs of its territory, provides the soundest basis for security values.

Factors Affecting Railway Credit

If it proves impossible to reduce labor costs on the return of peace, particularly when the time is reached, as it must be reached, for an efficient economic readjustment and the consequent reduction in operating revenues, the position of the railway security holder would not be satisfactory if the roads are returned to their competitive conditions. Their future would be dependent entirely upon the breadth and courage shown by the Interstate Commerce Commission and the State commissions in adjusting rates from time to time so as to show a fair return and adequate protection to the security holder. Because it is doubtful whether the Interstate Commerce Commission would take this broad viewpoint on returning the roads to competitive conditions, it seems necessary to advocate some coöperative plan and the enactment of such legislation as would create an entirely different attitude on the part of the Government and the public toward the regulation of our railways.

Outside Influences

Economic factors entirely outside the field of transportation, of course, will also affect railroad security values in the future and must be reckoned with. The higher cost of living, the depreciated purchasing power of the dollar, the level of interest rates, and the increasing burdens of taxation will all tend to emphasize the desirability and perhaps the necessity for higher yields. This situation would seem to indicate a greater demand for junior securities and second-rate bonds, and a consequently lesser demand for the higher grade issues. Higher values for the former, and lower values for the latter would then follow, because with the Government's guarantee to assure interest payments, the quality of the security behind the obligation will temporarily not seem so important as before.

It would be a mistake for investors to regard too seriously current earning statements of any railroad property, as under Government operation these may not reflect the real earning power of the property accurately. Past earning records and the Government's guarantee to the separate lines form the only sound basis of figuring present value.

Under the Government's contract dividends are left subject to some uncertainty in the right of the Director General to order the roads to expend money from their compensation, if they cannot get it from other sources, to pay for improvements or maintenance in excess of what they have spent. This power is declared in the contract to be an emergency power and there is a stipulation that it will be the policy of the Director General not to exercise it in such a way as to interrupt unnecessarily the payment of regular dividends, but it creates a doubt which will undoubtedly make it impossible to do any financing through stock issues and, therefore, will tend to increase the proportion of capitalization bearing fixed charges. While the more prosperous roads that had large surpluses over dividend requirements may not be affected, the dividends of those roads which were just able to pay a dividend without much of any surplus will naturally be made more uncertain. The Government's attitude toward the security holders as evidenced in its administration of their properties will affect the public attitude toward railroad security values. If there is an evident desire to protect these values and to safeguard the properties upon which they are based, so that public confidence is inspired, sustained and possibly appreciated values may be anticipated.

Railway financing has been practically at a standstill this year and pressing obligations have been met with advances by the Government, which from April 1 to September 1 amounted to $241,000,000, together with various short term note issues.

If the practice of financing by the issue of short term or demand notes is continued, instability of the railroad financial structure must result even though payment of the notes is not demanded during Federal control. The situation resulting from the accumulation of a vast floating, or short term, debt maturing at the end of Federal control, or shortly thereafter, would be dangerous. Even if long term mortgage bonds are ultimately accepted by the Director General for these expenditures, that would only serve to perpetuate and exaggerate the already excessive proportion of debt in the railroad financial structure.

A further feature in the situation is the fact that these expenditures represent capitalization by debt of heavy expenditures at war prices. The standard contract expressly forbids the carriers to make any claim for loss at the end of Federal control on account of these high prices. This would be relieved if the Director General would authorize very liberal depreciation charges to operating expenses during Federal control so as to amortize the excess cost or at least the greater part of it before the roads are turned back to their owners. The property of such charges is recognized by the Government in computing costs under munition and other contracts and in figuring war taxes.

The Shippers' Attitude

Still other important factors will enter into the future of the railroads. The shippers of the country must determine whether they will continue to be "penny wise and pound foolish." Their long continued fight against fair rates was largely instrumental in bringing the railroads to the situation they faced last winter. Will they continue to be blind to their real interests, and by refusing to pay a living wage to the carriers, compel their retention by the Government, and thus impair their own interests?

Will labor be satisfied with its fair share of the railroad dollar, or will labor, by organized power, make private ownership impossible, and compel the Government to keep open these arteries of commerce?

It seems very certain that there must be either a radical change in the public attitude toward the railroads, a change which will invite the confidence of investors and make possible the efficient and proper operation under private ownership and direction, or there must be continued Government interference.

It may be stated without reserve, that the private owners of these properties cannot take them back on the old terms. In spite of the fact that the public will in many respects be inconvenienced, there is every reason to believe that ultimately Federal administration of the roads will be successful. Its freedom from restrictions, its extraordinary powers, together with patriotic support, should insure popular success, but, be it not forgotten, at high cost and at the sacrifice of much that has been deemed essential in service and operation.

The Government's Attitude

The expressed tendency on the part of the Federal Railroad Administration to take unto itself unction for having *saved* the railroads would be more convincing if it did not seem to ignore fundamental facts in the situation. For the spectacle afforded the public is simply that of one Government agency priding itself upon its part in saving our transportation system from disaster which other Government agencies forced upon it! Moreover, it

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is priding itself upon its work in effecting economies through the elimination of competition, the pooling of operation, and the removal of State interference, together with the raising of rates, all of which steps had been strenuously advocated by the railroads themselves for years, and through political agencies denied. The assumption of any superior wisdom or merit by the Federal Administration for undertaking through the power given it the reforms which students of transportation have advocated for a decade is hardly warranted.

The regrettable, but inescapable fact is that it required the exigencies of war to make possible an economic rather than a political treatment of transportation. What the future attitude of the American people toward this problem will be, only the American people can say, but we may at least venture the hope that some progress in the public's education will have been made, with experience as a teacher, and that a more sympathetic understanding of the problem and its meaning in our business life may follow, as a basis for future constructive effort. The question of who shall solve the problem, and how, rests with the people. It is for them to say whether it shall be the business man, the statesman or the politician.

The Basis of Value

If Government ownership is inevitable, then the basis of value upon which this ownership is effected becomes of major importance. There are many ways in which this might be effected. Instead of absorbing the entire 17 billions of dollars of railroad securities the Government might be satisfied to leave the bonds outstanding in private hands, and merely absorb the stock. If the Government should be disposed to allow the owners of the railroads a compensation based on a fair capitalization of their estimated rental value of approximately $950,000,000 a year, security owners would receive a fair return for their holdings. It is certain, however, that before such an agreement could be made there would be much opposition and many theories of valuation would be advanced—for the most part entirely unfair to the owners.

If the Government buys the roads, the fact must be faced that decisions of the Interstate Commerce Commission indicate that its estimates would deprive the companies of many elements of value which they believe rightfully belong to them in any exchange. The contention has been made before the Commission that no allowance should be made for the important element of good-will, for appreciation in real estate values, or even for investments made out of earnings. The importance of this last mentioned item may be realized, when the fact is borne in mind that the Pennsylvania Railroad alone has put back into its properties more than $200,000,000 out of earnings, representing actual invested value.

It seems unthinkable that any such theories could ultimately prevail, and we have a right to assume that if the Government buys the railroads, it will be on a basis which will not cause confiscation of railway security values. Either through an agreement between the parties as to the purchase price, or as a result of condemnation proceedings, some mutually equitable basis should be possible. Nor need we take seriously the apprehension of some that the Government may allow the railways to deteriorate in order to buy them at a depreciated value.

In facing these contingencies the fact should ever be borne in mind that in no country has Government ownership of railroads been successful, with the single, possible, exception of Germany, where under military rule it has achieved some degree of efficiency; yet not even there has it produced any marked improvement in initiative or progress in methods such as have marked private ownership.

The railroads of the United States have served their public at the lowest cost, the lowest capitalization, and with the greatest efficiency of any railroads in the world. There has been nothing whatever in our experience with public ownership in this country to justify the assumption that it can be profitably assumed under normal conditions in the field of transportation.

It is sincerely to be hoped that there may come a larger degree of appreciation of the meaning of transportation in the life of our people, and of the high importance of its fair and constructive treatment. The ambitions of politicians seeking an issue, the selfishness of shippers fighting to save dimes and losing dollars, the prejudices of theorists—the mistakes of the past, and the animosities of the present should not be allowed to interfere with the solution of the problem in the public interest. The public state in this situation is greater even than that of the investor, and unless railroad investments are protected by the public, the public itself will be the greatest sufferer. The need of the hour is sympathetic understanding. Upon that basis alone can a sound future be built for our railways, and upon a sound transportation system alone can we build a sound and prosperous economic life.

The Operating Contract and the Future of Railroad Securities Thereunder

By Samuel Untermyer, Counsel for the National Association of Railway Security Owners

The question you have invited me to answer is one of exceeding perplexity, that is more easily put than answered. It involves so many unknown factors and depends so largely upon the manner in which the Railroad Administration will administer its sweeping autocratic powers under the Operating contract that any conclusion must necessarily rest largely upon conjecture. The logic of the situation and the plans that have already been put into execution would however indicate that these powers are intended to be exercised and I accordingly feel impelled to discuss the subject on that assumption.

Fortunately for the country we have at this time at the head of this great venture, in the person of the distinguished Director-General, not only a man of affairs who has with conspicuous brilliancy and success administered the most difficult, delicate and important public office in the Nation, next to that of his great Chief, but one who is a close student of the intricacies of finance, with exceptional subtlety, infinite tact, wide experience with his subject and statesmanlike vision. His courage, the swiftness and accuracy of his decisions and the rapidity with which his horizon has widened under the spur of staggering responsibilities are fairly bewildering.

Therein lies a wide margin of safety. On the other hand his advisers have construed the Federal Control Act as requiring the contract to delegate undreamed-of powers over the credit and future of the roads, almost as unre-

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stricted as if the Government had paid for and owned them and we must confront the further peril that the destiny of the roads is now more than ever plunged into the vortex of political strife and that their future will be largely determined by the political ambitions and exigencies that will become inseparable from the intrinsic merits of the problems involved.

This is not meant to imply that the present Railroad Administration will be swayed by any such considerations, except insofar as may be necessary to conform to the limitations that may be placed upon it by Congress. Thus far the indications are that the Director-General will ignore party considerations, if the selection of his aids and advisers is any guide to his policy, for he has both here and in the recent choice of leading Treasury assistants made his selections largely from men who happen to be conspicuous in the opposition party—or more accurately speaking, he has in a spirit of broad, wise statesmanship ignored party considerations.

But with every allowance for the fair start that has been made with this experiment in that respect it would be unsafe and unsound to predicate the final outcome upon the human or political life and power of any single individual. We are here today and are gone tomorrow. The problem must be analyzed in its wider aspects, from the standpoint of the powers that have been delegated by the Contract. We have no right to assume that they will not be exercised. The status of the security holders must be judged and what *may* be lawfully done under the contract and not by speculating on what *will* be done.

Viewed in that aspect I greatly regret that I have no very cheerful or encouraging answer to your question to bring you, in the light of the Operating Contracts that are being entered into with the Government, and for reasons that will be hereafter stated. There is, however, ample ground for consolation in the reflection that the future is shrouded in uncertainty and that the opinion of the individual is valuable only to the extent of the validity of the arguments by which it is supported.

Before presenting these arguments it may not be out of place to refer briefly to the history of the railroads as bearing upon their present unfortunate situation, due largely to the public attitude towards them as reflected in the hostile State and Federal legislation and regulation of the past two decades.

The debt we owe to the bold adventurers to whose enterprise and enlightened selfishness we are in large part indebted for the magic rapidity with which this vast country has been brought and tied together in one indissoluble bond, space annihilated and its resources and industries developed, has never been properly recognized by our people except in the mere monetary rewards that only a few, and those the least deserving, were able to reap, and which the span of life was too short to permit those few to enjoy. The reasons for this want of recognition and for the hostility that followed are well understood. The era of railroad construction was followed by a long trail of official and political debauchery that constitute a lasting disgrace in the history of our National development. Vast trunk-lines that were built with Government money, were further subsidized by gifts of millions upon millions of acres of our most fertile lands and most valuable forest and mineral resources, in addition to their rights-of-way. Incredible fortunes were harvested from issues of reams of bonds and stocks that were printed by the promoters at will and without restriction or supervision and sold to the public based largely on these gifts of land and loans of money from the Government; stations and town sites were located along the lines of those new highways carved out of the public domain without Governmental restriction, and the "insiders" were thus permitted to pre-empt for their personal profit great tracts of land and mineral resources that were the heritage of the people. All this was accompanied and followed by an orgy of political despotism and personal corruption that made of our Government the by-word of the world.

In order to further their schemes and to encompass the many others that followed in close succession, the public life of the Nation as well as of the States was debauched, the Courts were corrupted, the press was subsidized or silenced and our moral standards were brought to the lowest possible ebb. For generations the money influence of these men and their associates and successors placed and kept men in high public office who recorded their wills and furthered their unholy deeds. Of those who were not in one way or another in their pay, the fear of their destructive power and the hope of their powerful political support kept many in check.

Meantime there were no such things as rate regulations, limitations upon bond and stock issues or restrictions upon favoritism in the way of rebates and freight discriminations, by means of which they and their friends and allies were rewarded and their enemies were ruined. It was truly a reign of terror in the business, financial and political worlds of the country.

The awakening and reaction that were bound to come, at first came slowly and painfully—not because the people were not ready to turn upon their enemies when their eyes were opened but because the power of these interests had been gradually expanding and was sufficient to hold the political movement in abeyance for a long time and until the real offenders were safely under cover. They got "out from under" by selling their holdings upon the then greatest and most crooked gambling pit that the world has ever seen. "Wash" sales upon fictitious and manipulated security markets and other scandalous devices were created through which the paper proceeds from these ill-gotten gains were dumped upon an ever-credulous public at fabulous prices as compared with intrinsic values.

It is, however, but just to say in this connection that under pressure of the threat of Government regulation of the Stock Exchanges these evils have been largely eliminated. These gentlemen had the wisdom to take their own house-cleaning in hand before it was done for them so that their present situation, whilst still leaving much to be desired and more that could only be accomplished if they were, as they should be, subject to regulation, is vastly different from what it was in the olden days. It now, with occasional lapses, approaches more nearly the conception of the legitimate security market that is so integral and necessary a part of our financial system and should be subject to the same character of supervision and control.

The era of constructive railroad legislation began with the creation of the Interstate Commerce Commission. Their powers at the beginning were practically negligible but were expanded from time to time until they are now all-embracing but none too broad if wisely administered.

The States followed with remedial laws, not without violent opposition from the railroad men, who in many of the States, and particularly in the East, still firmly held the reins of political domination, so that the West, as usual, far outstripped the East in placing restrictive regulations upon their Statute books

The people were at last beginning to fully know their power. As flashes of lightning from a clear sky illumine the darkness, they were now able to see the foul spots and that their hands were free and they lost no further time in throwing off the yoke that had been so long wound around their necks that they had believed it to be one of the natural and incurable ills of existence. Then they arose in their new-found wrath and began to wreak their vengeance in response to this awakened public sentiment, and the pendulum started swinging violently the other way.

But, alas, it fell and has ever since continued to fall upon the victims and not upon the offenders. The latter had reaped their harvest and had it securely tucked

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away, protected by Statutes of Limitation, memories that were blank, books of account that were lost or destroyed and the many other devices against which predatory wealth has managed to keep prayerfully outside the grip of the law. When the storm broke the torrents of indignation fell upon the helpless, inert and scattered security holders, who have never known and probably can never be taught to protect themselves. They never really try and they never strike back. They do not even remember their wrongs long enough to seek to right them. In the face of repeated disclosures of corruption and gross mismanagement of these companies there is hardly an instance on record of the ousting of these recreant trustees although they rarely own any substantial part of the securities of the properties they are administering. With all these experiences before them the shareholders of the roads are today without a protective organization. Their supineness is a characteristic upon which experience has shown that the unconscionable promoter can safely rely. Above all others he realizes their impotence and has never failed to count upon that knowledge.

Resuming our historical review, the Interstate Commerce Commission and the State Commissions were now given authority to regulate rates, to put an end to rebates and to investigate the accounts of the carriers and examine witnesses under oath, thus enabling them to discover violations. After more than ten years of indefatigable effort and innumerable prosecutions they have (to their great credit be it said) fairly exterminated the evils of freight discriminations and rebates, but not until after many of the greatest fortunes of the country and its most colossal monopolies had been built up from that evil and had become so powerful and so firmly rooted in our soil that they could no longer be effectively reached. These reforms were closely followed by restrictions upon and supervision of security issues by the States, which also exercise co-ordinate jurisdiction with the Federal Government in the rate-making power as to the roads within their borders and to such an extent as to have created innumerable conflicts of jurisdiction that have unduly hampered the operation and prosperity of the roads.

Having long since reached the boundary of just regulation and reform (except as to security-issues by the Interstate Commerce Commission as to which authority should have been granted), the Commission apparently believes that the pendulum of public opinion has continued to swing against the roads, which in my judgment is not the fact.

It has accordingly, in response to what I regard as a mistaken conception of public sentiment, continued to pursue a consistent policy of keeping the roads on the verge of starvation and barely within the Constitutional limitations against the confiscation of property in the fixing of rates, until as the result of that policy they were, at the time the control and operation of the properties were taken over by the Government, in the financial condition graphically described by the Director-General in the following language:

"These conditions, together with the necessity railroads would have faced for raising wages and the difficulty of borrowing money, would probably have resulted in the failure of some of the most important railroad companies in the country to meet their obligations under private management."

If that be true as to prosperous roads (and it is unfortunately only too true—and more), what shall be said of the less prosperous roads that together constitute the great bulk of mileage of the country!

Whatever may have been the past sins of the companies they have long since been more than expiated by their victims, upon whom these sins have been visited, as the sins of the fathers are said to be visited upon their children and their children's children, except that here the punishment has not been visited upon the offenders or upon their children but upon the children and children's children of their victims—which is not according to the Scriptures. For many years the roads have been far more sinned against than sinning. Fortunately in one respect and unfortunately in others, they have been under such rigid Governmental regulation that their power to offend against the public has been destroyed.

No such emergency as is said by the Director-General to have confronted the roads when Government control intervened could have been brought about if the public and Congress and the Commission could have been made to realize that the ownership of these properties does not rest to any extent in the hands of their officers and directors. I venture to say that all of them do not together own anything like as much as one per cent. of the securities of the roads they are administering. The ownership of the remaining ninety-nine per cent. and upwards, is scattered among 50,000,000 people or about one-half the population of the country, distributed approximately as follows:

There are more than 33,000,000 industrial and agricultural workers in the United States to whom solely and directly belong the railroad securities that are held by the industrial life insurance companies that have outstanding policies held by that number of human beings (unduplicated) against death and casualty; there are additional life insurance policies held by well upwards of 3,000,000 people for larger sums, in what are known as the "old line" life insurance companies such as the Mutual, New York, Equitable, Home, Connecticut, Northwestern, etc. All of these are now mutual companies. No one other than the policy-holders has any interest in them. These companies hold billions of dollars of railroad securities for their policy holders, bought with the money belonging to the latter and out of which these death and accident claims must be paid. All insurance rates of premiums are based upon the stability and maintenance of the values of these securities. The very solvency and existence of the companies depend on maintaining these values. There are upwards of 10,000,000 depositors in the savings banks in the same situation, whose sole safety rests upon these securities. When to these figures are added the individual holders of railroad bonds and stocks throughout the country, the amounts held by the State and National Banks and Trust Companies, Fire, Casualty and other Institutions, by the Universities and Colleges, it will be seen that the statement of the number of persons interested in railroad securities is ultra-conservative and that the National credit and stability are inextricably involved in their fate, to an extent that was little realized until the taking over of the operation of the roads forced a study of the subject.

I now propose with your permission to discuss the contract from five points of view, but it must be clearly understood that nothing that I may say is intended to carry by words or implication any criticism upon the Railroad Administration for the present form of contract. The security holders have fought their fight for better protection against the rigors of the contract and have received long, patient and painstaking consideration, have won on many relatively minor points that are now embodied in the contract but have been unable to secure relief on two vital and fundamental features on which the greatest insistence was placed.

The failure to secure relief on these two points is said to be due mainly to differences between the Government advisers and the security holders in the construction of the Federal Control Act, in the judicial determination of which the Railroad Administration (doubtless for what the latter regarded as valid reasons)

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declined to cooperate with the security holders. The latter were on the other hand unwilling at this time to become responsible for a controversy that might even remotely disturb financial conditions and thus possibly affect the success of the impeding Government loan. The points that were at issue were, however, crucial, as will hereafter appear. It accordingly remains now only to discuss and speculate upon the probable effect of the document as an accomplished fact.

1. Does the contract conform to the President's Proclamation on which the roads were taken over? If not, to what extent is it a departure?

2. What assurance does the contract furnish of the continuance during Federal control of (a) interest payments and (2) of dividends?

3. What may be and what is likely to be the financial condition of the roads upon their return to private control, if they are returned?

4. Are they likely to be returned? Or is Federal ownership to be the probable outcome?

5. If we are to have Federal ownership what will be the probable basis of compensation payable to the roads for their properties and to what extent will the measure of compensation be injuriously affected by the provisions of the contract?

The following is from the Proclamation of December 26, 1917, pursuant to which the roads immediately passed under Federal control:

> The director shall, as soon as may be after having assumed such possession and control, enter upon negotiations with the several companies looking to agreements for just and reasonable compensation for the possession, use, and control of their respective properties on the basis of an annual guaranteed compensation *above accruing depreciation and the maintenance of their properties equivalent, as nearly as may be,* to the average of the net operating income thereof for the three-year period ending June 30, 1917, the results of such negotiations to be reported to me for such action as may be appropriate and lawful.
>
> But nothing herein contained, expressed, or implied, or hereafter done or suffered hereunder, shall be deemed in any way to impair the rights of the stockholders, bondholders, creditors, and other persons having interests in said systems of transportation or in the profits thereof to receive just and adequate compensation for the use and control and operation of their property hereby assumed.
>
> Regular dividends hitherto declared and maturing interest upon bonds, debentures, and other obligations may be paid in due course; and such regular dividends and interest may continue to be paid until and unless the said director shall from time to time otherwise by general or special orders determine; and, subject to the approval of the director, the various carriers may agree upon and arrange for the renewal and extension of maturing obligations."

The authority for that action is contained in the last paragraph of the Army Appropriation Bill of 1916 and reads as follows:

> The President in time of war is empowered, through the Secretary of War, to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize the same, to the exclusion as far as may be necessary, of all other traffic thereon, for the transfer or transportation of troops, war material, and equipment, or for such other purposes connected with the emergency as may be needful or desirable.

Owing to doubt as to the authority of the President to agree with the roads upon the compensation as an incident of the power to take over the properties, as to which there were varying opinions, Congress was asked to legislate on the subject. That legislation is embodied in the Federal Control Act, which is obscure in its main features and will require judicial interpretation as to the roads that do not enter into contracts with the Government. But where contracts are made all doubts are thereby conclusively resolved in favor of the Government's construction, since *the roads are required by the contract* to stipulate not to question either the Constitutionality of the law or the interpretation placed upon it by the Government.

Briefly stated, the Act, after ratifying the action of the President in taking over the properties, divides itself into two principal parts:

1. Such of the carriers as elect to do so may enter into agreements with the Director-General. By these agreements the compensation for "the use, possession, control and operation of their properties" is fixed at a sum not exceeding in each case the average annual net operating revenue of the three year period from July 1, 1914, to June 30, 1917, which is known as the test period. The agreement is to contain—

> adequate and appropriate provisions for the maintenance, repair, renewals and depreciation of the property, for the creation of any reserves or reserve funds found necessary in connection therewith, and for such accounting and adjustments of charges and payments, both during and at the end of Federal control as may be requisite *in order that the property of each carrier may be returned to it in substantially as good repair and in substantially as complete equipment as it was in at the beginning of Federal control.*

2. The carriers that do not elect to make the agreement may have their compensation for "the use, possession, control and operation of their properties" during Federal control fixed by a board of referees of three members who may be selected by the Interstate Commerce Commission from its own staff of members, subject to review in the Court of Claims, but the decision of this Board is presumptive evidence in the Court of Claims of the amount payable as just compensation and of the facts stated in its report. Pending such determination the road may be paid *not exceeding* 90 per cent. of their just compensation.

Section 6 of the Act, the construction of which has been one of the important points of contention, provides as follows:

> The President may also make *or order any carrier to make* any additions, betterments, or road extensions, and to provide terminals, motive power, cars and other equipment necessary or *desirable for war purposes* or in the public interest on or in connection with the property of any carrier. He may from said revolving fund advance to such carrier all or any part of the expense of such additions, betterments, or road extensions, and to provide terminals, motive power, cars, and other necessary equipment so ordered and constructed by such carrier or by the President, such advances to be charged against such carrier."

The fundamental questions upon which the security holders asked that the Government join with them in securing a friendly judicial construction of the law, which the Government declined to do, are as follows:

(a) By the terms of subdivision (a) of Section 3 of the Contract, known as the "Acceptance Clause," the carrier is required to accept the annual compensation which the security holders say was intended as an equivalent only for the proper use, possession, control and operation of the property during Federal control, not only

> "in full adjustment, settlement, satisfaction and discharge of any and all claims and rights at law or in equity which it now has or hereafter can have for the taking possession of its property and for the use, control and operation thereof during Federal control,"

to which there is no objection, but further (to which there has been the gravest objection)—

> "and for any loss and damage to its business or traffic by reason of the diversion thereof *or otherwise,* which has been *or may be caused* by said taking or by said possession, use, control and operation."

It will at once be seen that this provision expressly sanctions not only the diversion of traffic but the abandonment of operations, the abrogation of all traffic agreements and connections and the complete dismemberment of the property and destruction of its business and good will that may have cost decades of labor and millions of expenditure to upbuild. Under it the bare physical properties may be returned stripped of everything that made them valuable, with their future operation converted into a liability instead of a source of profit. In the execution of the program of unification upon which the Government is embarking, spurs and connections with other roads may have been built and other changes made, by which the business has been forever diverted to other roads that are not required to pay for it.

That is only a part of the story of what may and is likely to happen under this contract to many of the

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smaller roads that have been in successful competition with great trunk-lines that will now absorb their business.

If Federal ownership should be the outcome of Federal control the security holders may well fear that this provision will also prove disastrous to the roads when they are called upon to make their claims for compensation. It may then be contended by the Government that when the carrier agreed that its physical property might be returned to it with its operations abandoned, its traffic diverted and its value as a going concern destroyed, it can no longer claim compensation for those intangible values without which the roadbed and equipment have been a mere scrap value, and that in any of these events even its physical assets may be valued as abandoned property.

The Director-General, whilst admitting that this may be the effect of the provision, replies that he is advised that the compensation fixed by the Act was intended to include such a use of the property; to which the security holders rejoin by pointing to the express provision of the law that the agreement shall provide

"in order that the property of each carrier may be returned to it in substantially as good repair and in substantially as complete equipment as it was in at the beginning of Federal control."

which they construe to mean that the Government is not to return the mere shell with the kernel extracted but is to restore the property to normal conditions and that the twenty-one months' period after the war allowed for the return of the property was provided for that specific purpose.

The demand for protection against the effect of this provision in its bearing on the award of compensation in the event of Government ownership was denied on the same ground.

(b) As the result of the construction placed upon Section 6 of the Act above quoted, the contract requires that there be charged against the carrier the cost of all additions, extensions, motive power, equipment, etc., that the Director-General may see fit to put upon or add to the property for purely war purposes or in the process of unification or for other purposes from which the Government gets the entire revenues and benefits during Federal control and which the carrier may not want or be able to use if the property is returned to private ownership. Under the contract the only remedy of the carrier (if that can be said to be a remedy) is to establish its loss in the Court of Claims after all these expenditures have been made at its expense and the property has been turned back to it burdened with these charges, possibly then due, or represented by short-term obligations that it may be unable to meet.

When it seeks to prove these damages for burdens placed upon its property without its consent it is met by another provision of the contract to the effect that the prices paid for these war improvements, extensions and equipment in these abnormal times, and not their fair value to the carrier, is to be taken as the basis of determining the extent of the eventual charge against the carrier.

With this understanding of the relative rights and obligations of the parties under the contract before us we may proceed to the discussion of the questions above enumerated.

1. There is a reasonable assurance that the fixed charges will be met in most cases where the annual standard return, which is to be written into the contract in so many dollars and cents, is sufficient to pay them. The certificate of net operating revenue during the test period, which the law provides shall be given by the Interstate Commerce Commission, is to be the basis of the standard return. That in turn will be based upon the figures that have been from month to month filed by the carrier with the Interstate Commerce Commission and published by it, except that where there have been clerical errors in accounting or the figures have been arrived at by violating or ignoring the Interstate Commerce Commission Rules of Accounting, they will be corrected accordingly. They will not, however, be subject to change, as was at first insisted by the Government, by revision or readjustments of the accounts by the Commission either on the subject of depreciation or maintenance.

As the contract was originally framed and as was for a long time demanded, expenditures for additions and betterments might be deducted in priority to fixed charges, but this was changed so that all these charges are now still deductible out of the standard return when not made for the benefit of the United States, in priority to dividends but after fixed charges. As the result of a final hearing before the Director-General, after protracted and unsuccessful negotiations with his representatives, charges for excess maintenance that were likewise deductible in priority to fixed charges are now placed behind such charges but still in priority to dividends.

There were many other conditions that made the future payment of fixed charges an uncertain and undependable factor that were eliminated in the last two or three drafts of the contract, so that it may now be assumed with reasonable safety that where interest charges were fully earned during the test period they will continue to be paid during Federal control, provided the carrier is able to re-finance its maturing obligations.

2. The continuance of dividend payments rests upon an entirely different basis. There are a few roads whose margin of standard return over fixed charges is so generous and whose ability to finance the onerous Government requirements for additions and betterments is so unquestioned that their future dividends are reasonably assured so long as they consider it sound business policy to continue their payment; but as to the others, my own guess is that they will be forced to gradually reduce and finally to discontinue their payment and that this will apply to roads that have paid dividends continuously for many years.

3. There is not in my judgment the remotest prospect of increased dividends as to the solvent roads that have been paying dividends nor in any case in which the contract has been based on the standard return—no matter how largely the return may exceed the dividends heretofore paid, except possibly from revenues from sources outside the operating properties. In no case are increased dividends permissible, even from outside resources, without special dispensation from the railroad administration, which is not likely to be forthcoming, in view of the right reserved to the Government by the contract to use the entire standard return over fixed charges *for additions and betterments not chargeable against the United States* and the authority it acquires by the same document to commandeer the entire financial credit and resources of the carrier for its war and other purposes.

I refrain from expressing an opinion as to the wisdom or unwisdom of the roads, or of any of them, in electing to make the contract as against resting upon their Constitutional right to just compensation. That too would depend to some extent upon whether in the absence of an agreement, Section 6 can be construed as granting to the Government the right to charge the cost of additions and extensions for purely war purposes against the carrier, without its consent and against its protest, at current prices of labor and materials, and whether, if so construed, the Section violates the Constitutional prohibition even though the carrier is permitted thereafter to prove and recover its loss, measured, not by the fair value to it of such additions and expenditures, but by the cost thereof to the Government. We are here

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dealing with the problem on the assumption that the contract has been made and these questions become pertinent only in their bearing on the future of the carriers on that assumption.

It may be said without appearing to criticise the action of the Government in insisting upon the contract in this form that it is a wide departure from the terms impliedly held out by the Proclamation, which did so much to quiet the fears of investors and to steady the security market, when the President said

> Regular dividends hitherto declared and maturing interest upon bonds, debentures and other obligations may continue to be paid in due course.

To this the Railroad Administration answers (1) that if there be such a departure it has been due to the action of Congress for which the Director-General is not responsible, and (2) that it was not possible to settle the terms of the agreement in the Proclamation since the President admittedly had no power to do so, and that it would have been in any event impracticable.

4. The probable operating and financial conditions of the roads at the end of Federal control are of course the chief concerns of those interested in them, vastly more important to them than the amount of compensation payable during the uncertain tenure of Federal control. There is room for all manner of speculation on these subjects. That the roads that are continued in operation will be in at least as good physical condition as when taken over to the extent to which they are not dismembered, except as to the business that is diverted from them may, I think, be reasonably assumed. The danger is rather that many of them will be in better condition and with more equipment, better roadbed and heavier rails than they can afford and better than their normal requirements demand.

These improved conditions will be largely represented by charges against their properties that they may be unable to meet. Added to these burdens will be the expenditures that may be made for their account for additions, extensions, equipment, etc., for war and other purposes for which it may eventually be determined that they are not liable. But meantime the obligations have been fastened upon them, whilst it may take years of litigation for them to judicially establish the *negative* proposition that they are not liable for them, the burden of establishing which is placed upon them. If they fail to successfully carry that burden they must take and pay for these additions and extensions on the basis of their cost to the Government at inflated prices.

It would seem as though in most cases this would destroy their credit and render them unable to finance these onerous requirements. If the systems of transportation are unified and co-ordinated, parallel and competing lines discontinued or diverted into other channels, new connections and other changes made that will unquestionably result in greater efficiency and economy in the operation of all the systems taken as an entirety, some raods will benefit whilst others will be virtually destroyed. Even of those that are benefited the burdens may be too great to carry. I can see little hope for most of them except through Federal ownership on almost any terms that the Government may impose.

5. For me Government ownership has no terrors. I include in that statement not only the railroads, but the telegraphs, telephones and the natural resources, such as our deposits of coal, iron, copper and oil and our forests, that of right are the heritage of the entire people and should never have been allowed to go from them. This view is, I know, opposed to that held by most of you as it is contrary to that of the Security Holders Committee that I have been representing in negotiating the contract between the Government and the railroads and I would not refer to it here but for the fact that to my mind it is an essential feature of the discussion, as I am sure you will agree after hearing what I have to say. After all, whilst the lawyer sells his services to his client he does not sell his views on economic questions nor his freedom to be a loyal, sincere citizen according to his own lights.

I have, as is well known and was well known to my clients when they employed me, long been an advocate of Government ownership but have always hoped and expected that it would come through just and adequate compensation and not through quasi-confiscation. The good faith of our Government, the rules of fair dealing and the sanctity of property rights alike demand that it shall not be less. Whether these utilities and resources, or which of them, shall be operated or developed, as the case may be, by the Government or leased to private enterprise to be conducted under Government regulation is another question which need not be here discussed.

We may as well realize that as an aftermath of this war much of the inequality and injustice of the old social order will be gone, never to return, and begin now to adjust ourselves to the new conditions that are upon us.

Pray do not misunderstand me—I am opposed to Socialism—to my mind it is an impracticable, unworkable scheme of Government, a beautiful, idealistic, iridescent dream, the exploitation of which in opposition to existing theories has done much toward liberalizing our views of human rights. We should be grateful to the Socialists for what they have accomplished as an educational and restraining factor, but as a constructive policy their tenets will not bear analysis. Government ownership of the instrumentalities and resources that belong to the people and are not the result of human effort, such as the public domain, is not socialistic. Whether the Government has permitted and encouraged them to be used and developed by human effort it would be bad faith on its part to take them away either by open, or still worse, by covert and dishonest forms of confiscation.

But to return to our subject: How are the security holders of the railroads likely to fare under Government ownership in the light of this contract, if I am right in assuming that they will be in a helpless condition because of its sweeping powers and of what is necessarily intended to be done under it?

Here again the entire field of conjecture is open, but there are signposts along the road. Reference has already been made to the possible effect of the provisions of the contract on those properties, the operations of which are destroyed, abandoned or materially curtailed. Not only will the Government be able to return the properties bereft of their chief element of value and be furnished the basis for valuing them for the purpose of acquisition on that quasi-confiscatory basis but far more serious in its results may be the valuation placed upon the tangible assets in the light of these provisions.

It may well be doubted that the courts would hold that as to properties the operations of which have been abandoned, the rails, yards, shops, stations, roundhouses, elevators, warehouses, etc., would be valued at their scrap value, and yet this is not beyond the range of possibility having regard to the fact that the carriers that have signed the contract have thereby agreed to such abandonment and have given express permission for their return in that condition. It was largely in order to avoid that construction that a persistent effort was made to safeguard against such a contingency, the result of which is embodied in the document but in a somewhat equivocal form that is far from satisfactory.

6. Assuming that the peril from this source has been overcome and that the properties will be justly valued, the next question that occurs to the present and future investor is as to the basis and method of compensation that will in that event be adopted. Here we have something of a premonition as to the attitude of the I. C. C.

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if, as is probable, the valuation is placed under its jurisdiction, in what is being done in connection with the valuation of the properties that is now and has been for four years or more under way by the Commission under the Act of Congress providing for such a valuation.

The chief purpose of that Act was apparently to furnish an accurate basis for the regulation of rates in place of the haphazard method that has prevailed in the absence of accurate data. A vast organization with corps of engineer, field forces and accountants is employed in this service; many millions of Government money have already been expended and many more millions will be required, in addition to the expenditures already made and that must be made by the roads in the preparation of data, etc., toward accomplishing this stupendous task. Tentative valuations of several of the smaller roads have now been completed and others are well on the way to completion, but it will take years to finish the work.

Certain principles have been tentatively announced by the Commission which, if adhered to and upheld by the courts, will seriously impair property values as at present understood, but I do not believe that they will be sustained. The subject is exceedingly technical and complex and there is neither time nor inclination to complicate this discussion by attempting to explain the many important questions that are at issue. Suffice it to say that if the views of the Commission as to values and elements of values as there announced are adopted in the acquisition of the roads the recovery may be limited mainly to replacement cost, which does not begin to represent the present cost of acquisition.

7. Having ascertained the basis of compensation, in what way is the Government likely to offer to pay for the properties? To pay outright in cash would seem impracticable in view of our financial condition at the end of the war, nor would it be necessary or profitable to either party. The most logical and probable method would seem to be to guarantee interest and dividends on the outstanding securities to an amount that would yield a reasonable rate of return on the values of the properties, or for the Government to issue in exchange its own long term securities at rates of interest that would give them a par value having regard to their greater market and intrinsic value as Government obligations.

If, for instance, a high class four per cent railroad bond normally sells at 90, a long term Government bond or guarantee at 2½ per cent should under peace conditions have an equal value. If a stock paying 6 per cent and earning an average of twice that amount over a long series of years has commanded an average price of par, shareholders would doubtless be willing to accept a 4 per cent or even a 3 per cent Government obligation as an equivalent in market value. There should be no difficulty in carrying out such a plan as to the prosperous road. It would be fair to the security holders and highly profitable to the Government. If a road has been paying, say, 4 per cent on $50,000,000 bonds and earning and paying 6 per cent on an equal amount of stock, or $5,000,000 in all, and the Government would guarantee 2½ per cent on the bonds and 4 per cent on the stock, the annual charge to the Government would be $3,500,000, leaving it an annual profit of $1,500,000 or equal to a profit of 30 per cent, and the securities would have at least as great a market value as those of the company paying the higher rates. I am assuming that the value of the properties is fairly represented by the outstanding securities inasmuch as rates are supposed to be based upon a fair return on capital investment.

8. The difficulties will be encountered when it comes to fixing values on properties representing capital investment that are out of proportion to their net operating revenues. Will their compensation be regulated by the investment or by the returns? Probably by a combination of both elements. Whatever the result, they could also be compensated by Government guarantees equivalent to a return on whatever is found to be the selling or condemnation value.

In any event even if the Government pays generously for the properties its net revenues will be greatly augmented by reason of the greater value of the low interest bearing securities it may issue by way of payment or guarantee on acquiring the properties. If ten billion dollars par value of securities of privately owned roads now yielding an average return of $400,000,000 per year have a market value of, say, five billion dollars, would not six billions of these securities with a guarantee of 3½ per cent have an equal or greater aggregate value? Assuming a continuation of the same net operating revenues this would leave to the Government a net profit of $190,000,000 per year.

There is no occasion for driving an oppressive bargain with the security holders. Assuming that a fair price is paid, sufficient to maintain at least the present market values of the securities, the savings in interest and dividends by reason of the lower rate required to command the same market price would alone constitute a sinking fund sufficient to pay for the roads in from thirty to forty years without a dollar of actual cost or outlay to the Government, and this without taking into account the vast economies from operations made possible through unification of the systems, the elimination of parallel lines, the coordination of traffic and the thousand and one other directions in which savings can be effected, thus eventually decreasing the cost of transportation without depleting revenues.

Government ownership at a fair price will be far more advantageous for the Government and infinitely better and vastly more just to the security holders than Federal control under the onerous conditions of this contract. Strange to say, the time has come when instead of looking forward to it with dread and misgiving as the entering wedge of a Socialist state we should contemplate it as a relief from intolerable hardship.

Inasmuch as on such a plan the properties would cost the Government nothing, the difference between acquiring on a niggardly quasi-confiscatory basis and on a just compensatory basis would mean only that on the latter basis it would take a little longer—possibly five years longer—to pay for them out of their own surplus earnings.

Common stocks of the safest and most prosperous of the roads the continuance of whose dividends are the best secured and where standard returns show margins of from 40 per cent to 60 per cent over the dividends that are being paid are to-day selling on a basis of between 7 per cent and 8 per cent return. Can there be any doubt that with a 4 per cent Government guarantee they would command a higher price?

Reviewing the problem in all its various aspects there may be reasonably deduced from the situation the conclusions (1) that the well secured bonds of prosperous roads are not likely to suffer substantial shrinkage; (2) that the, at present, indifferently secured bonds will be subject to serious deterioration in value; (3) that the established dividend paying stocks will be somewhat injuriously affected, and (4) that the values of the non-dividend earning stocks will to a large extent be eliminated.

The prospects cannot be said to be alluring, but if we are prepared to meet the worst there is always the hope that we have been taking counsel of our fears and that after all they may not be realized. There is also the cold consolation, which I do not believe will be the result, that Government operation may prove so expensive and unpopular and so unsuccessful that the roads will

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be returned and that the Government, having by experience learned something of the injustice that has been done to the roads and the public by a policy of inadequate rates, will conclude that it is good business to treat them fairly and thus to attract investors and secure the best service. Let us therefore, whilst prepared for the worst, hope for the best outcome of this stupendous epochal experiment.

Is the Short Time Liquid Security an Essential of the Proper Operation of the Savings Bank?

By E. W. Kemmerer, Professor of Economics and Finance in Princeton University.

America is today confronted with serious business. She is the determining factor in a world struggle in which the issues are democracy versus autocracy; fair play versus *Schrecklichkeit;* and the Christian morality versus the philosophy that might makes right. The one great sacrifice that America must make in this contest, the sacrifice beside which all others are trifling, is the sacrifice of hundreds of thousands, perhaps millions, of her best manhood. If the unselfish efforts of these men at the front are to count, and count to the utmost, if the number of their lives that must be sacrificed in the great cause is to be reduced to the minimum, we folks at home must back them to the limit with material goods—with munitions the best in quality and victory-compelling in quantity, with nourishing food and plenty of it, with comfortable clothing, and with all the accessories which help the American fighting man to put up an American fight. And when the contest is won then will come the task of reconstruction, and during that period the need for material things will not slacken for the devastated places of the world must be rebuilt and society's economic machinery must be reconstructed for the works of peace. For these tasks of reconstruction we shall need an American manhood no less virile and no less morally robust than we need for the winning of the War.

Yes, you say, this is all very true, but what has it to do with the very prosaic question of the short-time liquid security for savings banks? Gentlemen, it has a great deal to do with that question.

On the battle front the call is to fight to the utmost. On the economic front the call is to produce fighting goods to the utmost. The one is as necessary as the other; but for the production of these fighting goods we have a limited supply of labor, a supply which is being continually reduced by the calling of our most efficient men into military serviec. We have a limited supply of machinery, of coal, oil and of transportation facilities. To the extent that we use these limited supplies for the production of non-essentials or less-essentials, to that same extent we divert them from the production of war essentials. We cannot have our cake and eat it too. We cannot have the comforts we had in the piping times of peace, and at the same time deliver the goods on the Western front.

This elementary economic truth we all recognize when stated in words; we nearly all fail to measure up to it in practice. This same truth is the basis of the nation-wide campaigns for economy and saving which are being carried on in every belligerent country of the world. The gospel of saving is today in the ascendancy. It is being preached as never before. It must be accepted wholeheartedly by the American people if the War is to be speedily terminated with an American peace. To save in times like these can hardly be called a virtue; it is an elementary patriotic duty. Extravagance and wastefulness are akin to treason.

You savings bank men are the missionaries in this gospel of saving. It is particularly your job. You have studied it more and know it better than any other class in the country. Your job offers you today a great opportunity for national service. To you the all-important question is how can you best meet this responsibility?

The answer is obvious. While as citizens you may and should make patriotic speeches, write patriotic articles, and in other ways support the campaigns for Liberty Bonds and War Savings Stamps, *as bankers your chief task is to make saving attractive.* Saving is made attractive by offering to the public inducements to save. What inducements do the public expect the savings bank to offer? The answer you all know. The three chief ones are:

(1) Safety of funds.
(2) Prompt availability of funds.
(3) Reasonable interest rates.

If these inducements to save are to be offered the depositor the banker himself must obviously also realize them in his investments.

It is with the second of these inducements, namely prompt availability of funds, that the question of greater liquidity of savings bank investments is most directly concerned, but it is also concerned with the other two. Let us therefore examine the proposal to permit savings banks to invest a certain percentage of their deposits (say 15 to 20%) under careful restrictions and regulations, in prime commercial paper and bank acceptances, and let us examine this proposal in its relation to each of these items—safety, yield and availability.

Safety

We have had so little experience with bank acceptances in this country, and so little recent experience with trade acceptances that it is impossible to speak from experience concerning the relative safety of these two kinds of instruments and the types of bonds and mortgages commonly held by savings banks. Bank acceptances and trade acceptances with bank indorsements would probably bulk large in the short-time trade paper which savings banks would hold. Under careful restrictions as to the types of paper that savings banks could purchase, restrictions so drawn as to limit it to *bona fide* self-liquidating paper of responsible concerns, and to limit the proportion of such paper a bank could have among it assests, and also the amount bearing any one name, an adequate degree of safety would seem to be possible. A commercial bank's acceptance in the vault of a savings bank would be at least as safe as a deposit by the savings bank in the same commercial bank; it would presumably be safer because it would carry an additional name.

There is one important respect in which gilt-edged bonds involve greater risk than does prime commercial paper, and that is in regard to the risk of loss from unexpected depreciation.

As a method of protecting oneself from undue losses the principle of scattering one's risks is a widely recognized one among savings bank men. The day is past when savings banks are willing to run the risk of tying up the bulk of their funds in one type of investment, be it local real estate mortgages, municipal or state bonds, or the bonds of a single railroad, or even a single railroad system. The old adage "Do not place all your

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eggs in one basket" savings bank men everywhere recognize to be good sense. Unfortunately, however, many fail to realize that *this same insurance principle of scattering risks applies to the maturities of their investments as well as to the types of property which the investments represent.* A time-wise distribution is as necessary to avoid undue risk as a subject-wise distribution. A bank's investments may be ever so safe from the standpoints of the regularity of their interest payments and of the certainty of the payments of principal at maturity, and yet these investments may drive the bank to the wall if the bulk of the maturities are distant at a time when the market rate of interest is advancing rapidly to substantially higher levels. A gilt-edged bond, for example, maturing in twenty years and yielding 4½% a year, with interest payable semi-annually, may be worth $100, when the market rate of interest is 4½%, but let market rate advance to 6% and the value of the bond is likely to fall to the neighborhood of $83, although there may not be the slightest question about the solvency of the debtor corporation. Practically the sole change may have been in the market rate of interest. A bank whose assets are largely tied up in long-time securities at a time when the interest rate is moving rapidly upward can extract little comfort from the knowledge that ultimately its securities will mature at par.

The ten highest grade railroad bonds used by the *Wall Street Journal* in its index of bond prices had an average yield in March, 1914, of 4.45%, and in August, 1918, of 5.22%. In that four and one-half year period the average price of these bonds declined from 93.0 to 79.3, or 14.7%. A study of 20 selected high-grade municipal bonds, each representing one of the largest cities in the country—a city whose bonds are legal investments for Massachusetts savings banks gives the following results. The average quarterly[1] price of these bonds for the 12 months immediately preceding the War, namely the 12 months ending July 31, 1914, was 98.17, and that for the 13 months ending August, 1918, was 94.89, showing a decline in four years of 3.4%. The savings banks of the country, I am told, hold a considerably larger amount of municipals than of railroads, and it has been fortunate for them that the municipals, thanks largely to their exemption from our high and mounting federal income taxes, have maintained their values so well.

For the savings banks the hardship of the decline in bond values has been aggravated by the facts that the maturities of the bonds they hold have in general not been well scattered, and that an excessive proportion of the maturities have been very distant ones. The 225 mutual savings banks which replied to the Savings Banks Section's recent Questionnaire reported total deposits of approximately two billion dollars, and bonds and other securities owned, maturing during the next ten years of approximately 209 million dollars. These earlier maturities were about equally divided between maturities of the first five years and maturities of the second five years. They were equivalent to 10.2% of the banks' total deposits. In June, 1917, the 622 mutual savings banks of the country which reported to the Comptroller of the Currency, held bonds and other securities to the amount of approximately $2.1 billions, being equivalent to about 48% of their total deposits. If the same proportions hold for all 622 mutual savings banks of the country, as were shown by the 225 mutual savings banks that replied to the Questionnaire, then all the mutual savings banks held bonds and other securities with maturities later than ten years from the date of the Questionnaire, amounting to $1,680,000,000, a sum equivalent to 38% of their total deposits. In other words, practically four-fifths of all the bonds held by mutual savings banks representing an amount equivalent to nearly two-fifths of their total deposits, have maturities more than ten years distant.

About one-half the total resources of mutual savings banks consist of real estate loans, and these real estate loans are equivalent in amount to nearly one-half the deposits. Mortgage loans with their shorter maturities, in being renewed during the last few years, have in many cases had their interest rates advanced to the higher War levels, and this fact has strengthened the position of the banks. Deposits, moreover, have increased materially since the War, partly at least as the result of the education in thrift the Liberty Loan and War Savings campaigns have been giving the public, and many of these newly deposited funds the banks have apparently been investing in more liquid assets. Finally the position of the banks has been fortified by the creation of the War Finance Corporation which stands back of the savings banks with funds adequate to tide them over any probable war time emergency.

The situation, however, although not threatening, should carry a lesson for the future to savings bank men throughout the country, and that lesson is: pay more attention to the distribution of your maturities, and in doing so hold a fair proportion of short-time self-liquidating paper. It is not enough to put your eggs in a large number of baskets; if the handle of all the baskets are made out of the same stuff—the long-time interest rate. Such handles may not break, but they stretch and when the baskets bump the ground many eggs are likely to be broken.

Yield

The second inducement which the savings banks should offer prospective depositors, and which it therefore must in turn obtain itself from its investments, is a reasonable interest rate—the largest rate possible, consistent with a high degree of safety, and with prompt availability of funds. A common objection to the proposal that savings banks invest a moderate percentage of their funds in short-time liquid paper is the claim that such paper yields too small a return, and that the supply of this paper is so limited that its yield would be even smaller were savings banks to enter the market extensively and compete for it with commercial banks. I am not certain but that there is an element of truth in this contention, but even so, I believe the other advantages of greater liquidity of assets would be worth the price. There are, however, a few reasons that lead me to believe that the loss in yield, if it occurs at all, will not be so great as is often supposed. Some of these reasons may be briefly mentioned:

(1) Banks carrying a fair amount of commercial paper and bank acceptances could in many cases reduce their cash balances and their deposits in commercial banks. In this connection a significant fact was brought out in Secretary Harrison's Report to the Committee on Acceptances. It is that while the New York mutual savings banks, which were carrying among their assets a negligible proportion of self-liquidating short-time paper, had January 1, 1918, cash on hand and in banks to the amount of 6.47% of their total assets, the Massachusetts banks, which for many years have been carrying substantial quantities of commercial paper in their vaults, and which had on that date personal security loans amounting to 13.85% of their assets, carried cash on hand and in banks only to the amount of 2.69% of their total assets. The New York banks therefore carried 2½ times the percentage of cash and deposited reserves that the Massachusetts banks did. With the broad market that is now being developed in this country for high grade commercial paper and bank acceptances, such paper in the vault of savings banks would be almost, if not

[1] The average price for 1913-1914 was computed on a quarterly basis by averaging the mean monthly prices for August and November, 1913, and February and May, 1914; and the average price for 1917-1918—a thirteen month period being taken so as to include the figures for last month—was computed by averaging the mean monthly prices for August and November, 1917, and February, May and August, 1918.

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quite, as liquid as interest-bearing bank deposits. Its rate of yield would be larger.

(2) Losses (as well as gains) due to the movements of bond prices of the kinds previously discussed would be eliminated to the extent that short-time liquid paper were substituted for bonds.

(3) There is some evidence that as a long-run proposition high-grade commercial paper will afford as large a yield as high-grade bonds. A few years ago Professor Wesley Mitchell made a careful study of the average rates of interest yielded by investments in high-grade bonds and by short-time loans.[1] The period covered by his study was the twenty years, 1890—1909. Yields were computed on the basis of average monthly prices. No allowances for commissions or administrative expenses were made. A comparision of the average yields of ten high-grade railway bonds, of 60 to 90 day two-name prime commercial paper, and of four to six months prime single name commercial paper, gave the following results: the average yield of the bonds was 4.23%; that of the 60 to 90 day commercial paper was 4.68%; and that of the four to six months commercial paper was 5.78%. The yield of the bonds, it will be seen, was the lowest of the three. For the same period the average yield of West Shore First 4's of 2361—a bond with a high investment standing throughout the entire period—was but 3.78%. Since the European War prime commercial paper has yielded somewhat smaller returns on the average than high-grade railroad bonds. The returns yielded by bank acceptances are of course usually lower than those yielded by commercial paper.

We may conclude in the light of the above evidence that it is not proven that as a long-run proposition the substitution of a moderate amount of short-time commercial paper for longer time bonds will reduce a savings bank's net income. There is in fact a fair prospect that in the long run it will increase that income.

Availability

The third inducement which a savings bank should offer the public by way of encouraging saving is the inducement of making the depositor's funds available to him on demand. If deposited funds are to be readily available to the depositor obviously a reasonable proportion of the bank's assets must be quick assets.

It is true that savings banks usually have the privilege of requiring sixty or ninety day notice of withdrawal; but it is likewise true that banks exercise this privilege only rarely and with much reluctance. The man who is building up a small savings account is usually doing so with the idea of preparing for the proverbial rainy day. To arouse in him the suspicion that perhaps the funds he has saved may not be available to him promptly when the rainy day comes weakens his confidence in the bank and also his will to save. To a very large proportion of savings bank depositors prompt availability of funds is a consideration of greater weight than a substantial difference in the interest rate. It is a privilege that makes a strong appeal in campaigns to encourage saving.

In the future the exercise by a savings bank of the withdrawal notice privilege will be much more difficult even than it has been in the past. Competitors of the savings banks do not require such a notice. The savings departments of national banks rarely require notice of withdrawal, and it is even questionable whether they have a legal right to do so. The Postal Savings depositories do not require notice, and War Savings Stamps are redeemable practically on demand. The bond houses which have been making such a strong appeal in many sections of the country to the small investor to induce him to buy "baby bonds" nearly always make a point of the ready marketability of these bonds. They frequently carry this so far as an advertising proposition as to make it a policy to buy bonds back from their smaller purchasers at the prices the purchasers paid, though the repurchase involves the bond house in a loss.

If the savings bank is to hold its own in the competition for small savings that the immediate future has in store, and if it is to do the most effective missionary work in the encouragement of the saving habit, it will have to relegate the use of the withdrawal notice privilege to the limbo of pre-War days.

To do this will require most savings banks—not all—to carry a larger percentage of quick assets than they have in the past. They must be in position to get cash in reasonable amounts promptly and with little or no sacrifice of values. In times of emergency real estate loans are proverbially difficult to collect, and wholesale foreclosures are out of the question. High-grade bonds are supposed to be readily convertible into cash at such times because of their wide marketability, but experience has shown that bonds are far from satisfactory as secondary bank reserves in times of severe stress. At such times the market prices of investment bonds decline rapidly and their sale involves losses that banks are reluctant to take. Professor Jacob H. Hollander, a few years ago, made a careful study of the experience of national banks with the use of bonds as secondary reserves.* His conclusion was that bonds "fail notably to serve as a form of secondary reserve to meet the demands of expanding business or panic, being non-liquid either in seasonal or in cyclical requirements, in accordance with what might be designated 'the lobster pot theory' of customary purchase at high-price levels and of reluctance to sell at low-price levels."

It is difficult for a savings bank, particularly a small one, to arrange its bond holdings so that adequate amounts are maturing regularly at short intervals, while the maturity of real estate loans is a far different thing from their collection.

The logical conclusion is that the requirement of prompt availability of funds to depositors demands that savings banks hold in the form of short-time bank acceptances and self-liquidating commercial paper a substantially larger proportion of their total assets than they have in the past. The dictates of safety we have found make the same demand in calling for a time-wise distribution of risks through a better distribution of maturities. The holding by savings banks of a reasonable amount of such short-time paper, it has been shown, probably would not involve any considerable financial sacrifice; at least the claim that it would do so has not been proven.

Answering then in the affirmative the question asked by the subject assigned to me: "Is the short-time liquid security an essential to the proper operation of the savings bank," we may next ask how is the savings bank to be put in position to meet this demand for greater liquidity of assets?

The short time remaining will only permit a few suggestions in the line of an answer to this question.

I doubt if the time is ripe to require by State legislation that savings banks hold any specified proportion of their assets in bank acceptances and short-time commercial paper. It will probably be sufficient at first to have repealed the restrictions that now exist in some States upon the holding by savings banks of such paper; to fix an upper limit beyond which a savings bank may not invest in this paper; to limit the amount that a bank may hold bearing any one name; and to limit the paper that may be held to a few prime types. At some future time it may be desirable to lower the initial restrictions. In the beginning, however, it will be wiser to adopt a very conservative policy.

If under such permissive legislation the savings banks will come forward and adopt the policy of keeping in

[1] Wesley C. Mitchell: The Rates of Interest and the Prices of Investment Securities, 1890-1909. Journ. Pol. Econ., XIX (1911), 269-308.

* Jacob H. Hollander, The Security Holdings of National Banks, American Economic Review, III (1913), pp. 793-814.

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their vaults a moderate percentage of bank acceptances and bills of exchange of the types that may legally be purchased in the open market by Federal Reserve Banks, a long step forward will have been taken in the solution of our most pressing savings bank problem. Paper of this kind will be easy to turn into cash at all times. Representing as it will the turnover of readily marketable goods, it will be running off continually through maturity payments. It will always be in demand in the market as a short-time investment both for banks and individuals. It will be purchasable in the open market by Federal Reserve Banks, and will be rediscountable by Federal Reserve Banks for member banks. A savings bank having high-grade paper of this type need have no fear of its ability to turn the paper into cash whenever it desires. Even though the savings bank had no direct connection with the Federal Reserve system it would virtually have open to it the rediscounting facilities of the system to the extent that it held such paper, for Federal Reserve Banks could buy the paper in the open market or could rediscount it through the mediation of member banks. That they would do so in case of need I have little doubt.

Whether or not savings banks which invest a reasonable percentage of their assets in self-liquidating commercial paper and bank acceptances should be given a formal connection with the Federal Reserve system is not a question of great import. They would in any case, as pointed out above, enjoy benefits from the system. It seems to me, however, that it would make for the solidity of our banking system, and be a source of satisfaction to the savings banks themselves and to their depositors, if savings banks which qualified up to a high standard in the character of their assets, and which held in their vaults short-time paper, of the types eligible for rediscount at Federal Reserve Banks, to an amount not less than, say, 12 or 15% of their deposits, should be given the privilege of being associate members in the Federal Reserve system. As associate members they might be given the privileges of rediscount and deposit enjoyed by regular member banks. They could well be released from the obligations of purchasing stock in the Federal Reserve Bank and of depositing their reserves there. As associate members they would not have the privilege of voting for directors. If the Federal Reserve Law could be amended to admit savings banks of this kind to associate membership in the system many of our States would probably respond by authorizing savings banks to qualify under the Federal Reserve Law for such associate membership.* In this way it might be possible to obtain a considerable degree of uniformity in State legislation looking toward greater liquidity of savings bank assets.

The attempt to give liquidity to savings bank assets by authorizing Federal Reserve Banks to purchase their bonds, to rediscount their mortgage notes, or to make advances on the savings banks' own notes secured by bond or mortgage collateral, would be an unfortunate policy. The proper functioning of a savings bank whose deposits are essentially demand deposits in fact, whatever they may be in name, calls for a moderate percentage of short-time self-liquidating paper among its assets. The proper functioning of a Federal Reserve Bank forbids the holding among its assets of investment securities of a private character. The Federal Reserve Bank is primarily a bank of rediscount and issue. It is the holder of the ultimate reserves of the commercial banks of the country. Its notes and deposits are all payable on demand. In times of emergency it is the final resort of the commercial banks of the country, those deposits, practically speaking, are chiefly, if not entirely, demand deposits. The tying-up by such a bank of its assets in capital investments like bonds and mortgages would be flying in the face of these fundamental functions of the Federal Reserve Bank.

Whether savings banks are taken into the Federal Reserve System or not, it seems to me clear that it is their privilege and their duty to give greater liquidity to their assets. The lessons of the War on this subject have been hard: they should not pass unheeded. A substantially larger proportion of liquid assets will make for greater safety and more prompt availability of savings bank deposits. It will increase the public's confidence in savings banks. It will encourage saving. In doing these things it will help win the War and help solve the coming problems of reconstruction.

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* Action of this kind has been taken by New Jersey and, I believe, by a number of other States in accepting reserve requirements of the Federal Reserve Law in lieu of those imposed by the State Law in the case of State banks joining the Federal Reserve System.

War Work of a Savings Bank

By Wm. E. Knox, Comptroller of the Bowery Savings Bank, New York.

During the past four years and more, especially during the last year and a half, the Savings Banks, in common with every other business in the country, have been obliged to adjust themselves to new conditions. For more than one hundred years, they had pursued the even tenor of their ways, acting as the trustees of the people, gathering the innumerable rivulets of the people's savings into their capacious reservoirs, and diverting them into the channels of the country's business. The process had become somewhat automatic, and there appeared to be little necessity for change.

In almost any of the Mutual Savings Banks, it was possible to forecast quite accurately the ebb and flow of funds, and, as a consequence, it was not difficult to plan for the wants of depositors on the one hand, and for the needs of the borrowers on the other hand.

Restricted as they were to a limited field of operations, and to a well defined field for investments, assured as they had been for many years of a steadily rising tide of deposits, the coming of the great war found them, in many ways, not adequately prepared to meet the new conditions.

Until the outbreak of the war, there had been little if any need for any but long time fixed investments, and the Savings Banks were among the largest purchasers of the Government, State, Municipal and Railroad bonds, with maturities in the distant future. They were also heavy lenders on bond, secured by mortgage, on real estate, the loans frequently running for five years. The amount of cash held by the Savings Banks was seldom more than 6 per cent of their liabilities. In normal times, this had always been found ample, as it was always possible to replenish the cash supply by sales of bonds in the open market.

But the entrance of the United States into the War changed conditions materially. In its need for funds in enormous quantity, the Government has put out three Bond issues, which appeal directly to the wage earner (to which issues there has been a large popular subscription) and a fourth is now under way. It has been a good thing for the wage earner, if only for the fact that it has brought to him a better realization of his responsibilities as a citizen, with a clearer perception of his duties. The Savings Banks have been glad to step aside and to leave the field alone for the Government. Not only that, the Savings Banks have not been content to "do their bit," but have sought to "do their best." They have entered heartily and with enthusiasm into the task of distributing among their depositors and the public in general each succeeding Liberty Bond issue. They have advised and argued and persuaded their depositors to invest in Liberty Bonds. They have helped their depositors to make larger investments

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by purchasing bonds for them and receiving their payment in weekly and monthly installments. They have quite generally undertaken the care and safe keeping of bonds for the public, the only condition being that the bond owner shall have a small account of a dollar or two with the Bank, this not for the sake of the account, but for convenience in keeping the records.

While thus assisting and encouraging their depositors to lend the Government, they have invested to the extent of their ability in Liberty Bonds on their own account. Every available dollar resulting from redemption of bonds, and from income, has been invested in Liberty Bonds, with a consequent diversion of the flow of funds from the usual investment channels. The result of this, especially in the East, has been a curtailment of building operations, and a complete stagnation in the real estate market for the Savings Banks are the main source of supply for real estate owners in need of capital.

The Savings Banks have been doing their full duty in the way of helping along the Government loans, but on the other hand they have been helpful to their borrowing clientele. They have kept loans open, and carried borrowers along, knowing that it was next to impossible to borrow on mortgage loans in the present market conditions. This has been a most important part of the War work of the Savings Bank.

In addition to the direct purchase of bonds, it has fallen to the lot of the Savings Bank to furnish considerable sums to meet the needs of depositors, who, for one reason or another, have been forced to resort to their Savings Banks for money with which to pay for bonds. When the First Liberty Loan was issued, many of the canvassers and salesmen did not sufficiently emphasize the necessity for leaving savings deposits undisturbed, but the various Liberty Loans committee now see the importance of laying particular stress upon the point and the strain in this particular will probably not be great during the present canvass.

The people are being taught that it is present savings that must finance the War, and not past accumulations, and the lesson is being taken to heart. The Savings Banks have done important work in this direction, not only by precept, but by example. They have not attempted to market securities to provide funds for Liberty Loan subscriptions, but have practiced what they have preached, buying their bonds out of current income, and leaving the main bulk of their investments undisturbed.

In proportion to their liquid assets, the Savings Banks have done their best, both directly and indirectly, in standing behind the Government in its task of winning the War.

It is to be hoped that among the lessons to be learned from the experiences through which we are passing will be the lesson that Savings Banks, not only in War times, but at all times, should keep a considerable portion of their investments liquid. Had that been the practice, we could have done even more than we have done. It is only since our entrance into the War that the laws of New York State (and some of the other states) have been changed, so as to permit Banks to invest in bankers' acceptances, one of the best forms of liquid investment.

Turning from the things that we have done and are doing, we should be thinking of the work that will surely lie before us, after the War is over, when militarism shall have been stamped out and when democracy shall be triumphant. It needs no prophet to foresee that there will be big problems to solve.

The high wages which prevail cannot continue. There will come a day when wages must be reduced, when prices will seek a more normal level, and when that day comes with it will come in all probability much unrest and discontent on the part of labor. If our people have been thrifty and have taken advantage of the period of high wages, there will be a new generation of small capitalists, most of them owners of Liberty Bonds. For in spite of the high cost of living, there is a considerable margin for saving. A recent investigation in Bridgeport, Connecticut, has shown that while earnings showed an average increase of 81 per cent, living prices had increased only 61 per cent. But it is too much to hope that the 20 per cent difference has all been saved. Unfortunately, much of it has been squandered.

While we look hopefully to the end of the War, it must give the thoughtful man pause when he tries to forecast how the necessary adjustment is to be accomplished.

When the Government ceases to be a competitor in the labor market, when munitions and military and naval supplies cease to be the leading manufacture, when the boys come back from "over there," their task accomplished, and ready to go back to their accustomed tasks again, when there are more men than jobs, what will be the outcome?

The law of supply and demand admits of no exception and wages must fall.

What then? It is too much to expect that professional labor agitators will let pass such a golden opportunity for stirring up trouble.

May we not cherish the hope that the small bond owner and the savings bank depositor (their name is legion), the men and women who have been sensible and saving, will have scant patience with the man who has been earning big wages and spending them, while our soldiers and sailors have been fighting and dying for us and for them at $30 a month.

The Savings Banks of the country, representing ten millions of depositors, the thrifty, sensible men and women of the country, are firmly backing up the Administration, and will not only continue to buy Liberty Bonds but will help the public to buy them, thereby giving practical support to our boys in the trenches.

Our Actual and Potential Funds for Carrying on the War

By DAVID FRIDAY, of the United States Treasury Department

We are faced with the task of raising $24,000,000,000 during the current year. One year ago we doubted whether it was possible to raise $15,000,000,000. Four years ago most of us were certain that it would be impossible to raise one-fourth of this amount in a single year. Statesmen today doubt our ability to raise $2,000.000,000 per month by taxation and loans. Some able financial writers agree with them and call attention to the fact that "$24,000,000,000 means $700 a breadwinner. It is $1,200 a family." It behooves us, therefore, to examine into the possibility of carrying out this proposed financial program.

This paper proposes to inquire into the funds available for meeting this obligation, and if these funds are found to be adequate, to inquire into the procedure most likely to make them adequate with the least inconvenience and injury to the industrial and financial community.

Fortunately the discussions of the last few years have clarified and made common intellectual property certain principles which we may assume as established in attacking this problem. Among these are such simple things as the fact that our institutional belief in the unchanging value of the dollar is fallacious; and the discovery that we have an immense reserve of productive resouces that ordinarily lie idle. More difficult of comprehension are the following:

1. That the things needed to carry on the war are goods and services, rather than money.
2. That the war cannot be carried on with goods to be produced by future generations. It must be financed out of the current production of the present generation, and out of accumulated property. Property is important principally as it increases the productive power of the nation; or as it is converted into usable goods by being worn out in the process of production.
3. That the most important source of funds for financing the war is the excess of our current production over our consumption. There is some existing wealth that can be directly converted to war uses, but the amount of this is small and quickly exhausted. The great volume of disposable goods is found in the produced wealth that is not needed for personal consumption.

The production of the Nation is ordinarily devoted to three purposes: (a) consumption; (b) capital maintenance; and (c) Capital Formation. To the extent that we devote funds to war finance we must curtail one of these three activities.

The method of attacking the problem here employed has been to investigate the excess of production over consumption in the pre-war period and in 1917; and with the aid of these figures to forecast the possibilities for 1918. On the basis of our findings we can decide the extent to which we must neglect capital maintenance and decrease consumption in order to make our excess product balance our program of war expenditures.

Our first problem was to decide the excess of our production over our consumption in 1913—the last year of the pre-war period.

The addition to the wealth of the nation through savings in the period previous to the European war was determined from the inventory of the wealth of the United States in 1912 as shown by the census volume on "Wealth, Debt and Taxation" (1913); and a similar inventory for 1904 in the same volume. By adjusting the 1913 inventory to eliminate increases due to price changes and to the increased value of land and making a reasonable allowance for the fact that this increase in savings or wealth accumulation proceeded more rapidly in the later years of this period, it was determined that the national savings in the years immediately preceding the war were $6,500,000,000. This estimate was made by methods which insure conservatism. The resulting total is below the estimate of $7,500,000,000 made by Hon. G. E. Roberts of the National City Bank, whose estimate is increased by the fact that he makes no allowance for the increase in price level between 1904 and 1912. It is also slightly under the estimate of Sir George Pais which appeared in the London Statist, May 23, 1914. He places the annual growth of wealth in the United States at $1,400,000,000.

This addition to our National wealth through our excess of production over consumption is approximately equal to the total sum accumulated annually during the pre-war period by England, Germany, France and Italy combined. England and Germany each saved about $2,000,000,000 out of a total national income of $10,500,000,000, while France saved $1,250,000,000 per annum. When we observe the sums which these nations have raised for war purposes during the last four years it seems clear that the talk of raising $24,000,000,000 during the next year is not an impossible one for this Nation. If our savings before the war were as large as the combined savings of these four nations then it is clear that our possibilities of excess production which can be devoted to war finance are at least as great as theirs have proven to be. These nations have accomplished their war financing only with extreme privation on the part of their citizens and it is a matter of concern to us to know whether similar privations must be endured here. If so then our whole method of industrial organization and of taxation must be radically revised. If not then we should be informed on the matter in order that our industrial program may not be shunted unnecessarily out of its course of normal development.

Our pre-war savings of $6,500,000,000 were made out of a national income of approximately $34,500,000,000. This figure is arrived at by taking as a point of departure the estimate of Professor W. I. King in

* Annals of the American Academy of Special and Political Science, November, 1913.

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his book entitled "Wealth and Income of the People of the United States." He places the total income in 1910 at $30,500,000,000. Making due allowance for the increase of national product and for price changes between 1910 and 1913 we arrive at an income of $34,500,000,000 for the latter year. Of this amount $6,500,000,000 was saved and $28,000,000,000 was therefore consumed. Since 1913 stupendous changes have taken place in our industrial and financial life. Production as measured in actual physical units has increased from 25 per cent to 33⅓ per cent; probably 30 per cent would be a fair average. Prices as shown by the Bureau of Labor Index Number of wholesale prices have increased 104 per cent; the increase shown by Bradstreet's Index Number is even greater. Profits of those industries under the corporate form of organization increased 100 per cent for 1916 over 1913 and 140 per cent in 1917 over 1913. The figures of corporate net income reported to the Commissioner of Internal revenue are as follows:

1913	$4,339,551,000	
1915	5,184,442,000	
1916	8,766,000,000	
1917	10,500,000,000	(estimated)

Individual incomes reported to the Commissioner of Internal Revenue by people receiving over $3,000 of annual income also show a large increase. The figures for the corresponding years are as follows:

1913	$3,900,000,000	
1915	4,600,000,000	
1916	6,300,000,000	
1917	7,500,000,000	(estimated)

After eliminating duplications due to dividend payments, the net income reported by individuals and corporations in 1917 will be at least $15,000,000,000, as against $7,200,000,000 in 1913.

These increases in corporate and individual net incomes are a fair index of the growth of our national income since the outbreak of the European War. The increase in production and in prices has more than doubled the money fund out of which the $24,000,000,000 needed to finance the war must be saved.

The net value that has been added to the output of the nation by farmers, their families and laborers; by manufacturing plants and workers; by those engaged in operating our transportation facilities and public utilities; by the extraction of minerals; by those engaged in merchandising, at wholesale and at retail and by the professions of all classes amounted for 1917 to more than $65,000,000,000. For the year 1918 it is estimated that our national output of goods and services will amount to $72,000,000,000 at least.

Striking as these figures of production, prices, profits and national income may seem the figures of national savings are more impressive. Investigation shows that our excess of production over consumption in 1915 had become $9,000,000,000, in 1916 $14,500,000,000, in 1917 $18,500,000,000. In 1918 it will reach a sum of more than $20,000,000,000, after providing for the maintenance of our national wealth through repairs and renewals. This still leaves us $4,000,000,000 short of the amount needed to finance the war. This must be secured by drawing upon that portion of our national output which in normal times is applied to the maintenance of our wealth through the repair and replacement of such goods as are worn out. At least $5,000,000,000 can be secured from this source. There is no nation that is so abundantly supplied with durable articles of wealth as is our own. Much of this wealth such as buildings, fences, machinery, automobiles, furniture and musical instruments, house furnishings, sidewalks and pavements can be allowed to depreciate for a period of two or three years without any serious inconvenience or injury to our productive efficiency. There are considerable stocks of consumable goods like clothes, house furnishings and manufacturing material and supplies which can be reduced considerably in the year. It is estimated that during the first three years of the war Gemany depeciated her wealth by $9,000,000,000, or at the rate of $3,000,000,000 per annum. While it is undesirable for this country to permit a deterioration equal to that which has occurred in Germany there is no doubt that we can draw upon our depreciation and maintenance fund and upon our accumulated stocks of consumption goods to the extent of $5,000,000,000 during the next year. On the basis of the census estimate of wealth for 1912 plus the rapid incease in that wealth during the last five years there is at least $125,000,000,000 of our total wealth in the United States which can be subjected to this depreciation process. At current prices of labor and material $5,000,000,000 of the amount which would normally be spent upon its maintenance and replacement can be diverted to the purposes of war finance. If we assume that the actual excess of production over consumption for the next year will be $22,000,000,000 and that $5,000,000,000 can be secured from deferred maintenance and depreciation we will have a total fund of $27,000,000,000, $3,000,000,000 of which will be available for the necessary extension of industrial plants needed for war work and $24,000,000,000 will be available for the Government in carrying on the war. If this sum is to be applied to war finance steps must be taken to prevent its being applied to ordinary uses. These steps are a further control of investments and a policy of taxation which shall curtail purchases for consumption and for replacing worn out goods

All capital extensions except those absolutely necessary to carry on war work must be abandoned and deferred until after the war. There is considerable control of capital issued now but this control is not adequate to divert the necessary funds to the treasury. One of the chief forms of savings today is the accumulation of corporate surplus through the retention of earnings in the business. The reinvestment of this surplus in the plant of the corporation should be subjected to the same control as is the issue of securities for the raising of new capital. There is also a large reinvestment of profits in other industries, epecially in agriculture. Some means of curtailing this probably through suasion must be devised. Taxation must be brought to the aid of Government to curtail the purchase of all unnecessary goods. This should cover not only injurious and luxurious articles of expenditure but expenditure for all forms of durable consumption, goods such as furniture, musical instruments, clothing, house furnishings and similar items.

Committee and Officers' Reports—Savings Bank Section

Address of Joseph R. Noel, President

GENTLEMEN OF THE CONVENTION: The passing of another year discloses that our institutions have been equal to the many perplexing problems they have been confronted with, and abundantly able to meet the tremendous demands made upon them incident to the war. Herculean efforts to increase production and to decrease consumption and waste, in order that the huge sums necessary for the flotation of government obligations might be available, have been required. Public opinion has had to be molded. Public sentiment in favor of adjusting ourselves to a war basis and carrying on the war to a victorious conclusion has had to be crystallized. In all these respects savings bankers, coming in contact with over twenty-four million customers, have performed a great patriotic service, and their energies and the machinery of their banks have been unsparingly devoted to the purposes of the Government.

A locomotive without steam is impotent. So is wealth without utility. Statistics of the amount of a nation's wealth give very little idea of the true situation unless we are informed how this wealth is utilized. The utility of wealth is measured by the volume and value of current production, and in the final analysis, the excess of production over consumption and waste, as evidenced by the surplus income of the nation. If the present value of current annual production ("national income") is from Fifty to Sixty-five Billion Dollars, actual existing values from which this income is derived must be somewhere between Two Hundred and Three Hundred and Fifty Billion Dollars, as variously estimated. Manifestly, the great function of all existing values is to produce income, and excepting for purposes of exchange or sale, it is immaterial, for present purposes, what the total of the existing values might be. As a consequence a nation's producing and savings ability determines its financial strength.

In financing a war, the ultra-conservative policy would be to limit the raising of funds necessary for that purpose to the approximate savings ability of the nation, with due regard to the essential needs of the people. But in order successfully to prosecute such a war as the present one, the savings of our people are inadequate and we must employ the instrumentality of credit. The amount of such credit measures the extent of inflation, which, unless restrained, becomes a very dangerous factor. The best way to minimize inflation is by the economy of the people. A program of sacrifice of non-essentials, and the transfer of the "goods and services" which ordinarily are used in the production of such things, to the production of things necessary to win the war, becomes obligatory. The Food and the Fuel Administrations, the War Industries Board, and other Governmental agencies may be depended upon to enforce economies sufficient to take care of all war needs, but even after their requirements are fully complied with, there still remains plenty of room for voluntary economy on the part of our people, and there must be increasing rigid economy in order properly to minimize inflation and successfully to prevent the price of labor, commodities and the cost of living from pursuing an ascending scale. Since the teaching of economy has been one of the greatest duties savings institutions have performed, a duty which until lately was only too willingly delegated almost exclusively to them, an opportunity to perform a still greater patriotic service is now presented to us, and we must redouble our efforts in preaching the gospel of savings and thrift.

The nation which first pays its obligations after the war will be regarded the strongest. If we wish to attain that end America must become a nation of savers, rather than as heretofore, a nation of spenders. This must be done not only in order to pay interest charges and to liquidate indebtedness, but what is equally important, to supply the tremendous demands for capital from both domestic and foreign sources. It is clear that to properly measure up to expectations, savings banks must popularize and increase the saving habit, failing in which we shall miss probably the greatest opportunity for national usefulness ever presented to us.

Someone has said, "A new day brings a new duty." The "new day" we have experienced since our Government has been compelled to float such huge loans, during which our customers have regarded time deposits which are subject to notice, for all practical purposes, as demand deposits, has brought us the "new duty" and necessity of securing greater liquidity of our assets. Government, state and municipal securities probably always will maintain a high place as savings bank investments; the banks of the country hold more than $1,700,000,000 of railroad bonds, and radical changes in the railroad situation have brought with them perplexing problems, the satis-

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factory solution of which no doubt the future holds in store for us; when normal conditions are restored public utilities should continue to enjoy favor, and the real-estate first mortgage probably will continue to constitute the ideal form of investment for a large percentage of savings, but all these forms of investment lack the degree of liquidity so essential to meet present-day conditions, and since undoubtedly we shall continue to encounter tremendous demands as long as the war lasts, and well into the period of reconstruction which will follow, we shall be compelled to readjust our methods and invest a certain percentage of our available funds in short-time securities of a self-liquidating character. For some time certain states in the union have recognized this situation and have enacted legislation permitting their savings banks, under proper restrictions, to invest in bankers' acceptances and commercial paper. It is gratifying to note that during the current year New York State took an advanced step in this direction. The discussion upon this subject at our session this afternoon, we are confident, will convince every one who attends of the logic of the situation and will suggest ways and means of attaining the desired end.

During the year most harmonious relations have existed in the Section's affairs and among the personnel of its officers and members of its Executive and other Committees.

A meeting of the Executive Committee was held at Atlantic City directly after the last convention, several were held at Hot Springs, Arkansas, last May, and two were held in Chicago immediately prior to this convention.

The Special Advisory Committee, consisting of three members of the Executive Committee located near the Association's headquarters, has held two meetings in New York. It has been your President's pleasure to attend these meetings and those of the Executive Committee previously referred to.

The work of the Section's Committees has been most productive, as will be shown by their reports. Membership has increased satisfactorily. Our expenses have been kept within our income.

During the past year the Section was afforded a valuable opportunity to serve the Government in connection with the War Savings Campaign. For five months Secretary Harrison aided in that campaign. He organized the schools and educational institutions of the country and assisted Mr. Jerome Tralls, the Secretary of the National Bank and the Clearing House Sections, in organizing the banks of the nation for War Savings. At the request of one of the Federal War Savings Directors he aided in the organization of nine states of the south for that campaign. During this time, however, with the aid of a competent office assistant, Secretary Harrison was able to keep in close touch with the Section's affairs so that no serious curtailment of our activities resulted. For the past eighteen months a number of questionnaires, each containing ten to twenty questions concerning the condition of our member institutions, have been mailed. Over eighty per cent of the banks communicated with responded. The Secretary has made a careful analysis of the answers in each case and has reported the result of this to those banks that answered the questionnaire. Especially that part referring to greater liquidity of savings bank assets has had a wholesome effect in crystallizing sentiment in favor of that movement.

We are deeply grieved over the loss by death during the past year of George E. Edwards and Newton F. Hawley, both of whom were ex-Presidents of the Section, in fact the last two to serve us in that capacity. Their administrations were most creditable to them, and profitable to the Section. Our dependence on them at all times for advice and counsel made their services highly valuable and their loss will be difficult to replace.

E. L. Robinson, of Baltimore, one of the pillars of our Section, during the year resigned as a member of our Executive Committee and our Committee on Savings Legislation, because of his election as Vice-President of the Citizen's Natioonal Bank of Baltimore and the necessity of applying himself to his new duties, to the exclusion of his former ones. While we regret his loss, we were fortunate in being able to secure ex-Governor Myron T. Herrick, President of the Society for Savings of Cleveland, to serve the unexpired term on our Executive Committee.

The British Economy Exhibit in the Elizabethan Room of the Congress Hotel will give a good idea of a feature of this convention which it was hoped might be accompanied by exhibits from other sources having a similar object, but which for causes beyond our control could not be given. Lord Balfour, the British Secretary for Foreign Affairs, is directly responsible for the donation of the exhibit. It was prepared by the British Bureau of Information at New York under the direction of the Hon. A. H. Goode, and Mr. Walter M. Grant. The primary intention of the exhibit is to show the actual living conditions of the people of Great Britain after four years of war; in other words, the economies necessary in order adequately to provide the labor and materials essential to win the war. We in this country have not as yet begun to feel the sacrifices experienced in the countries of our Allies, and which will probably yet come to us. The military spirit and the imperialistic aims of Germany must be forever crushed, and America and her Allies will not countenance any peace except a victorious and conclusive one. Even though this means that America must make the same sacrifies Great Britain and France have in order to give unto posterity universal peace, amity and good-will among the nations of the earth, a world-wide respect for smaller nations, international integrity and stability, and the happiness and freedom of the world's people, whatever the sacrifices may be, we will make them.

Certain changes in the interest of larger representation of state banks on the Administrative Committee of the Association, also better coördination of Association activities, will be proposed at this Convention. The Administrative Committee is the governing body of the Association in the interim between meetings of the Executive Council, and it is proposed that this Committee shall hereafter be composed of nine members, consisting of the President, the Past-President and the Vice-President of the Association, the President of each of the four Sections representing the various classes of banking institutions, namely, the Trust Company Section, the Savings Bank Section, the National Bank Section and the State Bank Section, and two members appointed by the Executive Council. If this proposed change is made, the effect undoubtedly will be greater harmony in and coordination of various association activities. Another proposed change contemplates giving to the Sections greater independent action in respect to Federal and State Legislation. Regardless of what action the Convention may take on this subject, it seems desirable for our Section in future to have a Committee on Federal Legislation and one on State Legislation in lieu of the one on Savings Legislation which now exists.

On account of the odium that attaches to the word "propaganda" resulting from the experience this country has had with the German variety bearing that name, it would seem that the name of our Committee on Propaganda might appropriately be changed to "Committee on Service to Members," the additional advantage of which being a more comprehensive designation than the former.

Another matter which might properly receive your attention is the organization of Savings Bank Sections of State Associations in the same manner as State Bank and Trust Company Sections are being former within certain of the State Associations. It may not be possible to have Savings Bank Sections of every state association, but there are many states in which conditions are favorable for such.

The need for the application of some systematic plan of amortization of real-estate mortgage loans is becoming increasingly apparent and many communities have taken proper steps in this direction. This seems to be a subject which our Section should study for the benefit of its members.

My sincere thanks are due to the officers and members of the committees of the Section and of the Association, and to members of our Section, a number of whom I have called upon during my term of office, for their many evidences of courtesy and cooperation which have permitted me to enjoy the high and responsible honor of being your President for the Association year now drawing to a close.

Report of Secretary Milton W. Harrison

CHICAGO, ILLINOIS, SEPTEMBER 24, 1918.

GENTLEMEN: The fourth annual report of your Secretary comes at a time when the Section enjoys the strongest organization in its history. We are in a better position now to constructively serve our members and to protect their interests than we ever have been before.

During th past year the Section Office has had ample opportunity to serve the Government in prosecution of the war, not only in respect of the Liberty Loan Campaigns, but the War Savings Campaign as well. Your Secretary has given more than three hundred speeches during the past year for the Government, in fifteen states of the Union. For five days in each week for five months your Secretary was located in Washington, organizing the Division on Education of the National War Savings Committee, and aiding in the organization of the campaign among the banks of the country. It has been an opportunity for our Section to have so cooperated. When we consider what we have done in the past ten years to inculcate the habit of thrift in the mind of the American public, it seemed particularly fitting that we should have taken a prominent part in the crystallization of all these efforts through the instrumentality of the National War Savings Committee. The importance of savings and thrift is at the basis of our economic and social life. Without them prosperity cannot be maintained, and commerce and trade would be stagnant.

The work that we have ahead of us in the study of investments of savings funds makes a close application and intensive effort on our part imperative. Our Section is the Section of the Association devoted to the study of savings and investments, and this part of banking activity is no mean part. The future of the savings institution in the development of the community is great, and the necessity for encouraging the scope of community usefulness of the savings bank should require our best effort. The old-fashioned methods which some banks have in operation make it necessary for us to be a constant source of education to the end that changes may be brought about in conformity with the times.

The increase in membership of the Section is very encouraging. There was a net gain since September 1, 1917, of 333 banks, making our total membership 4,155 banks,—1,581 of which are voting members, and 1,574 non-voting or associate members.

It is very gratifying to note that there is a balance left to our credit according to the appended financial statement amounting to $77.72. At the Atlantic City Convention the Section received an appropriation from the Executive Council amounting to $9,489.92. One hundred and seventy-eight dollars and eighty-eight cents has been received from the sale of Thrift Outfits, Book of Forms and copies of the Bibliography of Thrift. Disbursement for salaries was $5,377.50 the Book of Proceedings $900, for postage, stationery and printing $750.07, for Executive Committee meetings $653.55, rent $604.92, Thrift Outfits $503.75, Convention Expenses $482.22, Extra Office Help $126.13, Telephone and Telegrams $71.48, Books and Publications $22, Gold Badges $20, Express Charges $10.01, Traveling Expenses $9.60, Flowers for Mr. Edwards $10, Memorial account of death of Mr. Edwards $35, Flowers, account of death of Mr. Edwards $11.50, Press clippings $3.35. Total of $9,591.08, leaving a credit balance of $77.72.

Your Secretary appreciates the splendid cooperation received from every member of the Executive Committee and other Committees of the Association, as well as all the officers of the Section, including those located in every state.

Report of the Committee on Savings Legislation

CHICAGO, ILLINOIS, September 24, 1918.

GENTLEMEN: At our Convention in Atlantic City last September much careful thought was given to the subject of affording relief to our mutual savings banks, which found themselves facing unusual withdrawal demands while holding practically no securities available as a basis of credit in the Federal Reserve System. They are compelled either by law or by the character of their business to invest their funds in fixed interest bearing securities and mortgage loans; these investments usually run for a term of years and under normal financial conditions a ready market exists for most of them through which excessive drains may be met. During the present war these securities have shrunk enormously in value and are marketable only at ruinous price

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concessions. Obviously, a remedy must be found, or these bulwarks of thrift will come to grief.

Your Committee has given earnest study to the problem and is pleased to report that some light is breaking in by which this issue may be met. Indeed, when any grave condition is recognized and understood, the ingenuity of our people may be depended upon to offer adequate remedies.

Your Committee, as individuals and as a body, has had several conferences upon this subject with members of the Federal Reserve Board; this body is thoroughly alive to the savings bank situation and has given diligent thought to their problems. The Board offered for our consideration several suggestions to meet the temporary needs of the situation—its final deliberations eventuating in the formation of the War Finance Corporation. Information to the effect that the savings bank situation did more to create the War Finance Corporation than any other factor, was received from an official Government source. As a result, the Corporation afforded a temporary relief of mind to savings bank officials, as they now know that an instrumentality has been created by which their unsalable securities may be used as a basis of credit. But the root of our difficulty remains untouched. The fundamental need of savings institutions is a wider appreciation of the necessity for more liquid assets than they now possess. During the period of the present war, it seems that the savings banks will be taken care of, but they should at once begin to make preparations for a new era and adjust themselves to new financial conditions which will follow in the wake of this world-wide conflict.

Your Committee feels it a duty to recommend to all savings banks:

1. To make liberal investments in United States Bonds, which possess a high degree of liquidity.

2. To purchase a large percentage of serial securities which would yield a constantly inflowing stream of cash—serial municipals and equipment obligations of railroads will supply the need and are readily obtainable in any given maturity.

3. To avail themselves of the opportunities they now possess for the first time of taking on a line of Bankers' Acceptances; this report is not a suitable medium for the discussion of the merits of this instrument of credit, but we earnestly commend its study to all our savings banks, believing that by its use a new element of liquidity may be injected into their assets and that in it lies the root of the unification of our banking system.

Some of our legislatures have already made Bankers' Acceptances legal for savings banks—others will follow. It remains for the savings bank executive to acquaint himself with the new machinery offered for his use. For the period of the war the Treasury Certificate of Indebtedness undoubtedly offers a form of liquid investment which seems more attractive than Bankers' Acceptances. Nevertheless, with the coming of peace and normal trade conditions, Bankers' Acceptances will increase in number and form. It will be at such a time that the savings banks will invest to a considerable degree in such security. From information received at the Section office, fully 80 per cent of the mutual savings banks, that are operating under state laws restricting the method of investment, are in favor of the Bankers' Acceptance as a form of investment. During the past year New York has amended its investment laws to permit mutual savings banks to invest 20 per cent of their available fund in Bankers' Acceptances, and Massachusetts has written upon its statute books a similar amendment, permitting 10 per cent of deposits in Bankers' Acceptances.

Your Committee has believed it wise to concentrate its energies upon a propaganda for keeping the assets of savings banks liquid and for the earnest study of new methods of conducting their affairs; it is obvious that a changing order of events will not leave savings banks where they were when the war began, and adjustments to new conditions are imperative. Only those institutions will survive the havoc of this cataclysm which are fit to survive. Savings bank executives have a responsibility which can be met only by the use of high courage and by a willingness to break the crust of ultra-conservatism which now not only retards their usefulness, but threatens their continued existence.

In the early part of June it was found necessary to create some opposition to the "Guaranty of National Bank Deposits" bill which had been reported favorably by the Senate Committee of Banking and Currency and was then being considered by the Senate. Other Sections of the Association and the legislative machinery of the Association were put into action, and the following letter was addressed to President Wilson, dated June 10, and signed by Vice-President Lersner:

"Six hundred and twenty-two mutual savings banks in the United States have savings resources of four and one-half billions of dollars, with almost nine million depositors.

"With patriotic zeal these banks have been enthusiastically standing behind your administration in financing the war. Being investment institutions, their huge funds are largely invested in high-grade securities of railroads, municipalities, some public utilities and mortgage loans. Even in the light of conscientious duty to primarily protect these investments, they have used their ability to the utmost in the sales of and subscriptions to Liberty Bonds. It is natural that unusual withdrawals be a consequence. The unmarketability of their securities and the long-term nature of them, naturally, constrain some apprehension and nervous concern as to liquidation in event of great demand.

"The economic fabric of the country depends to great degree on the stability of the resources of these institutions. Any action on the part of the Congress detrimental to these interests would be a grave mistake.

"Senate Bill No. 4426, proposing guarantee of deposits of National Banks paying 4 per cent and under, is a measure of serious import in its probable effect upon the structure of the mutual savings institution.

"It is not a matter of competition that we fear as much as we do the effect on public confidence which is solid and sound respecting the mutual savings banks.

"Hence, a natural inference may follow, which is by no means the case, that savings deposits in National Banks, by virtue of their being guaranteed by a Government Guaranty Fund, are safer than the funds in Mutual Savings Banks. The latter funds, by the way, could not be protected by a State Guaranty Fund, because the Mutual Savings Banks have no capital stock, the ownership being in the hands of depositors. I do not think it wise at this time to jeopardize the savings banks, which would seriously diminish their power to effectually aid the Government in financing the war, particularly in a matter that at this time is not a war necessity.

"We, therefore, urgently call upon you to use your influence in opposing this bill, which undoubtedly would seriously interfere with the maintenance of public confidence in the mutual savings institution.

"Assuring you of our heartfelt support of your administration at all times, . . ."

A copy of this letter was sent to every Senator. The replies received were most encouraging, and a letter from Secretary Tumulty indicated that the matter would have the personal consideration of the President.

It is interesting to note that the President undoubtedly has a thorough understanding of savings bank problems. A prominent official informed a member of our Section, that on the two occasions of his visit to the White House to discuss the subject of the railroad situation, with the President, the thought uppermost in the mind of Mr. Wilson respecting railroad securities was the mutual savings banks. This is significant in that we may recall the visit made by William E. Knox to the White House in 1913, at the time of his presidency of the Savings Bank Section; it will be remembered that Mr. Knox explained the savings bank situation very thoroughly to the President, and it seems that the impression made upon the President's mind at that time has carried through—even during the present—a vital appreciation of the problems which we have to face.

At the May meeting of the Section Executive Committee, E. L. Robinson, who was appointed Chairman of your Committee at the Atlantic City Convention, resigned as a member of the Executive Committee as well as Chairman of your Committee. This was most regrettable, but Mr. Robinson had been elected the Active Vice-President of the Citizen's National Bank of Baltimore, which made it necessary for him to resign as the Active Vice-President of the Eutaw Savings Bank of Baltimore. President Noel then appointed your present Chairman.

The Committee of Coordination of Activities of the Association has recommended an amendment to the last paragraph of By-law Sixth of the Constitution of the Association, which would read:

Subjects of national and state legislation originating in any Section shall not be urged independently but presented through the Committee on State Legislation as to state legislation and through the Committee on Federal Legislation as to national legislation for dual approval of the Executive Council and General Convention, and action if approved in accordance with Article V, Section 16 (a) and 16 (b) of the Constitution. Provided, however, that where upon any subject of legislation two Sections are adversely interested, the matters of difference shall be submitted by such Sections to the Committee on State or Federal Legislation as the case may be, whose duty it shall be to earnestly endeavor to bring about an agreement, if possible, between such Sections, and in case of agreement such subject of legislation shall be presented for the approval and action of the Association as provided in the Constitution. In the event of non-approval and non-action by the Association or of failure of the Sections to agree, any Section interested shall have the right to take independent action on such subject of legislation in the name of such Section, but not in the name of, nor at the expense of, the Association.

This amendment, which in all probability will take effect at this Convention, will make it desirable that we introduce a change in the form of the Section's legislative machinery. Your Committee recommends, therefore, that we have both a Committee on State Legislation and a Committee on Federal Legislation, each to have five members apponted by the President. There is nothing in our By-laws to prevent this change being made, as the Section Committees are all subordinate to the Executive Committee of the Section, and may be formed at the determination of the Executive Committee.

There will undoubtedly be some serious legislative problems which will face the Savings Banks of the country, and to have an efficient Section legislative machine is highly desirable.

Respectfully submitted,

FREDERIC B. WASHBURN,
Chairman.

Report of the Committee on Acceptances

CHICAGO, ILLINOIS, September 24, 1918.

GENTLEMEN: At the Hot Springs meeting of the Executive Committee your Committee on Acceptances was organized. The purpose was set forth in the following plan:

Request every Mutual Savings Bank in the United States and all stock savings banks in such states as restrict investment of savings funds, to designate one man in each institution with whom we can communicate and come into direct contact if possible.

That a Committee of eight savings banks, preferably in the vicinity of New York, be appointed by this Committee to be called the Committee on Acceptances, who shall have the responsibility for the conduct of this campaign, the detail work of which shall be conducted through the office of the Section, and who shall work in cooperation with the Committee on Trade Acceptances of the American Bankers' Association in so far as the activities of such Committee shall be involved.

Have General Counsel Paton draft a model bill which will cover our object, that would satisfy investment in Bankers' Acceptances and prime Trade Acceptances endorsed by a bank, banking association or trust company, which is virtually the same as a Bankers' Acceptance. We may assume that the Trade and Bankers' Acceptances will be in

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sufficient abundance after the present war as will adequately take care of all needs of savings banks. The investment in bankers' acceptances and prime trade acceptances with the endorsement of a bank, would not require any credit information file. A number of Legislatures will meet next year, and the time will be ripe for us to aid in the introduction of bills covering the object of our campaign. This, of course, would be done by the A. B. A. Committee on State Legislation in cooperation with the Committee on Savings Legislation of the Savings Bank Section.

Our campaign among the banking and financial periodicals should also be definite. We have sufficient information on hand at the present time to warrant the statement that sufficient publicity material can be from time to time published as will create a definite sentiment in favor of our object.

A booklet should be prepared by the Secretary under the direction of the Committee on Acceptances, describing the new investments as well as some method and system in connection with the handling of them.

Our office is well equipped to handle such campaign, as preparations have already been made and the basic work has already been completed. We have a card system containing statements from over 480 banks as to how they stand with respect to the campaign and with considerable information upon them relating to each bank. Propaganda material is also prepared for advice to banks that ask for further information.

The cost of this campaign will not be material. All form letters or circulars may be run off on the multigraph, which is available to all Sections in the Association office. The campaign will require intensive effort on the part of the Committee and the Secretary,—a personal effort through correspondence and call.

We may depend upon the cooperation of the Massachusetts Savings Banks Officers' Club, the Savings Banks Association of Connecticut, the New York Savings Bank Association and the New Jersey Savings Banks Association.

Much correspondence has been had since the organization of the Committee, and a large amount of data and informaion have been collected. Most every savings banker in the country, as indicated by our recent questionnaire, is in favor of the campaign proposed as the main activity of your Committee as planned. Up to the present time the work of your Committee has been to prepare for an open discussion of the subject of Liquidity at this meeting.

The subject to be discussed, "Is the Short-Term Liquid Security an Essential to the Proper Operation of a Savings Bank?" will unfold a number of interesting questions and solve some of the problems of the Committee as to the most effective method of procedure in securing the uniform action of savings banks in maintaining greater liquidity in their assets through the purchase of Acceptances.

It is recommended that the information we have collected and to which we have already referred be sent out to our members in pamphlet form, together with the address of Prof. Kemmerer and the discussion which follows, as well as a digest of the proceedings of this meeting, and that the sum of Two Hundred and Fifty ($250) Dollars be appropriated for this report out of the funds given to the Section by the Executive Council of the American Bankers' Association.

Respectfully submitted,

S. FRED STRONG,

Chairman.

Report of the Committee on Propaganda

CHICAGO, ILLINOIS, September 24, 1918.

GENTLEMEN: Our efforts during the past year have been almost entirely in aid of the Government in its campaign of thrift through the sale of War Savings Stamps. It is amazing to read the reports of this campaign in increasing small savings. For example, the per capita savings of North Carolina has doubled in the last year, as the result of the drive carried on in that state. There is no doubt that out of this war there will come great benefits to the people in increased economy and in having the habit of saving definitely inculcated. It will make our nation a leader among nations in the production of capital funds through increased savings.

The interest taken by Japan in campaigning for saving is significant. Japan realizes the value of the habit of saving for its future economic welfare. In 1912 an Imperial decree was issued that all Japanese must save. It is reasonable to prophesy that in ten years Japan will be able to have sufficient capital to finance her own industries as well as many industries of China, Manchuria and Siberia.

That nation after the war which has the greatest amount of surplus available capital as a basis for the extension of credit to foreign industries will be the strongest nation from the standpoint of trade and commerce. Trade follows credit and credit can only be properly extended when there is an available supply of capital. This naturally suggests to the savings institutions of America, which maintain the machinery for accumulating the small savings of the people, which in the total are very great, that thrift should be developed now as never before. Every savings banker is duty-bound to examine closely the potential savings ability of his community, and to do everything in his power to promote its extreme activity. There will be many vital questions for us to consider, even in the immediate future. The competition which exists between savings institutions and the Postal Savings system and the War Savings campaign, is naturally very great. Nevertheless, there are plenty of savings for all. The habit of saving has been so tremendously stimulated since the beginning of the war that every available machinery for accumulating such savings must be used to the utmost. This has been rather definitely indicated by the experience of Great Britain.

At the time Great Britain was selling adequate war bonds and war savings certificates, the savings in Trustee and Postal Savings Banks experienced a remarkable increase. On October 1, 1917, the aggregate deposits of such banks were $1,250,000,000. For October, November and December, 1917, the average net increase,—that is deposits over withdrawals,—was $60,000,000 each month. The net increase for January, 1918, was $84,000,000; February, $68,000,000; March, $104,000,000, and April, $70,000,000; a total of more than $500,000,000 increase. America has not as yet shown a great increase in savings deposits, although no difficulty is found in furnishing all the capital needed for financing ourselves and our Allies. A remarkable thing to consider in the increase of British savings bank deposits is that the banks pay only 2½ per cent interest on such deposits, while war loans and war savings certificates pay 5 per cent. Hence, with the present predominating rate of 4 per cent for American savings deposits, and after the various splendid campaigns of economy take definite effect, there should be a tremendous rise in deposited savings in the United States. However, it is interesting to note the experience of savings institutions up to date.

From an examination and analysis made of questionnaires recently received at the office of the Section, the tendency clearly was that where war savings stamps sales are urgently promoted, such sales were in an inverse ratio to the flow of savings deposits into the banks. Of course, our condition cannot be compared with that of England. We have an entirely different situation and set of primary causes to consider. Much depends upon the activity of savings bankers in urging greater savings. Naturally, if they do, a certain proportion of the savings will find refuge in their own coffers. Savings can be urged through insisting upon rigid economy, and that is the only way it is going to be done.

One salient fact gleaned from the English reports of increase in savings deposits is that the people desire a certain proportion of their savings funds in a readily available condition. To place their savings in a bank, which may be drawn against on demand, is to them better than placing all of their funds in war savings certificates or war bonds. Then again, if a draft is made on their account, the onus is not as great as if a war savings certificate were cashed. For that privilege they are willing to sacrifice fully 50 per cent interest.

Your Committee has discussed this subject of war savings and deposited savings at length because of its importance to our future actions. The tendency of our country has been toward greater inflation, and the only way to curtail such trend is by greater economy—the practice of thrift. If such a thing is done, it is mainfestly obvious that the ills which always accompany the reconstruction period of war will not be so dangerous. The international situation after the war will have its many problems, and undoubtedly will secure us to a condition of economic siege for some time to come. Under the stress of war with its many justifications, the inculcation by the banks in the mind of the public of habits of thrift and economy is a relatively easy matter. The savings institutions come in touch with over twenty million depositors. What a vast army this is for intensive development along the lines that will be of such great benefit to our country's future, as well as the happiness and prosperity of the individual. That is the war work of the savings banker. He is charged with that responsibility which he must implacably follow. He is especially able to urge economy for the purposes of war finance.

Therefore, your Committee would earnestly recommend the adoption of a resolution by this Section addressed to the Secretary of the Treasury, suggesting a purely educational campaign to promote money economy and the utilization of war savings with such thought primarily in mind. The War Savings campaign of this year, so ably conducted by Frank A. Vanderlip as Chairman of the National War Savings Committee, has done much to add funds to the financing of the war, but we believe if more emphasis is laid upon the educational value of money economy and the sale of the stamps were of secondary consideration, that the program of War Savings next year will be of greater lasting benefit to the Nation.

Out of one thousand copies of the Book of Forms for Savings Banks and Savings Departments in Commercial Banks and Trust Companies, fifty-seven copies remain unsold.

During the year three questionnaires have been sent out to members, and the answers received evidence splendid interest in the affairs of our Section. The results of these questionnaires have been sent to the answering banks.

The Section, during the year, has received a great number of inquiries for information, all of which have been promptly and carefully answered.

Through the organization of War Savings societies in schools, the school savings idea has been made universal. After the war there is no doubt but that most every school in America will have machinery for collecting the pennies, nickels and dimes of school pupils.

We have furnished a number of Social Settlements with thrift outfits, paid for by the banks, members of the Association. We have, however, thirty-six outfits still on hand which we will endeavor to dispose of this coming Fall. They are adaptable to the operation of a school War Savings Society.

A suggestion has been made from several sources that the Section get out a service for members of material for savings advertisements to be sent to members by a special bulletin,—one every three months or four times a year, or monthly if desired. Your Committee recommends the adoption of such suggestion, if it can be arranged for without too heavy an expense. We must be very careful in this respect, as it is only proper that there be no active competition with the Government for the savings of the people, although all savings deposited with savings institutions may eventually become invested in Government issues.

Your Committee would recommend the suspension of Christmas Savings Clubs during the period of the war, as such is somewhat incompatible with the spirit of economy which should be a predominating element in our economic life while the country is at war.

Your Committee also urges the savings banks of the country to exercise their best influence to increase subscriptions to Liberty Bonds on partial payment plan for each succeeding issue that the Government requires, to the end that savings banks may place their facilities in every way behind the Government in the prosecution of the war.

On August 27 Secretary McAdoo made the following statement:

"My attention has been called to an insidious propaganda that is being carried on, probably by secret agents of Germany, to sow the seeds of distrust in the minds of savings bank depositors by false rumors that the United States Government is contemplating the confiscation of the savings of the people. The absurdity of these statements is manifest. In order, however, to allay the fears of the few who might be alarmed by such reports, I repeat that these rumors are wholly baseless."

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It has been deemed expedient several times during the war for the Administration to issue such a statement. We should do everything possible in our respective communities to follow the thought of Secretary McAdoo "to allay the fears of the few who might be alarmed" at the reports of confiscation of savings deposits. It is only through tireless efforts of each one of us that we may satisfactorily bear the great responsibilities which rest upon our shoulders as our part of the war's prosecution.

Your Committee suggests a change in the name of this Committee to "Committee on Service to Members," as it would more properly indicate its purposes.

Your Committee highly appreciates the earnest efforts of all members of the Section in the cooperation which has been received during the year; it has been of high value in the successful administration of the work of the Section entrusted to our care.

Respectfully submitted,

S. FRED STRONG,
Secretary.

Report of the Membership Committee

CHICAGO, ILLINOIS, September 24, 1918.

COMMITTEE

W. S. Webb — James Dinkins
John Burianek — J. H. Edwards
J. R. Haven

GENTLEMEN: At our Atlantic City meeting we approved the slogan for membership campaigning to cover the last fiscal year of "Two hundred and fifty new members by the Chicago Convention." We have exceeded our object by more than one hundred, the number being 363 new members since September 1, 1917.

The loss by failure, liquidation and merger is 30, making the net gain of membership 333 banks. Our membership is divided into two classes, voting members and non-voting members. The non-voting members are associate members of the Section, in which class 46 Chapters of the American Institute of Banking and 49 State Secretaries are included. The number of voting members is 2,581, while the non-voting membership is 1,574, making the grand total of 4,155 members.

We have 414 mutual savings banks as voting members, which is 67 per cent of the total number of the mutual savings banks in the United States. We have added 36 new mutual savings banks to our membership during the last year, and since 1912 there has been an increase of 89. We have 1,028 stock savings banks out of a total of about 1,250. There has been an increase in the last year of 75 banks as new members of the Association and Section. This is an increase of 341 since 1912. Our membership at the present time, since 1910, is an increase of 134 per cent. We have 930 state banks as members, 221 trust and savings banks, and 18 private banks, all voting in the Section.

There are 898 national banks, associate members, and 581 trust companies, associate members.

We have been conducting a rather continuous drive for members since the Atlantic City meeting, largely through the efforts of the Section office. The gain in mutual savings banks during the last year has been the greatest of any year for ten years. It has meant continued appeal in order to produce such a result. On August 12 a special campaign letter was addressed to the non-member mutual and stock savings banks. The letters to the mutual savings banks were sent by Vice-President Lersner, resulting in 8 new mutual savings bank members. The letters to the non-member stock savings banks were sent by President Noel, which resulted in an increase of 22 to date. The appeal was very effective, as evidenced by the results. At a recent meeting of the Texas Bankers' Association, John R. Haven, a member of the Committee, was instrumental in securing 32 new members for the A. B. A. We are also delighted to state that the Emmigrant Industrial Savings Bank of New York, the largest savings bank in the world, has recently become a member.

A detailed report of Section membership is herewith appended.

During the last few months the card system for banks that are members of the Section has been revised. There is a card for each active member, which, in addition to giving the name of the bank, city and state, gives the name of the president and managing officer of the bank, and amount of capital and of surplus, and there is space on the card for additional information desired from time to time. These cards are white. The cards of associate members—national banks and trust companies—are buff, are filed in a separate drawer, and contain the name of the bank and the city and state. This system enables us to keep very close record of our membership activities.

I would recommend that our slogan for 1918-1919 again be "Two hundred and fifty new members by the time of the next Convention."

Respectfully submitted,

W. S. WEBB,
Chairman.

Total membership, Sept. 1, 1917	3,822	
Total membership, Sept. 1, 1918	4,185	
Gain since Sept. 1, 1917	363	
Lost by failure, liquidation and merger	30	
Net gain since Sept. 1, 1917	333	

National Banks	898	
Trust Companies, etc	581	1,479
Also enrolled as associate members:		
State Secretaries	49	
Chapters, A. I. B	46	
		95
Total Associate Members		1,574
Gross Membership, without chapters, etc		4,090
Delinquent		30
Net Membership without Chapters, etc		4,060
Associate members (banks)		1,479
Voting Members		2,581
Non-voting members (including chapters and state secretaries)		1,574
GRAND TOTAL		4,155

Report of Special Thrift Committee for Work Among the Colored People

CHICAGO, ILLINOIS, September 24, 1918.

No action on the part of the Savings Bank Section and no plan as yet promulgated by it have been the forerunner of greater good and of more practical results than that which had for its purpose the promotion of thrift among the more than ten million colored people of this country. Your Committee has for the time being devoted its time and energy at its own expense to the task of cooperating with the Government at Washington and its agencies in promoting the sale of the first, second, third and fourth Liberty Loans and in interesting the young, old and the lowly in the purchase of War Savings Stamps.

The work done by the colored people of the country has been summed up in the statement that colored females of the United States alone have raised a fund of five million dollars ($5,000,000) during this brief period and the men, whose purchases have not been as yet tabulated and announced, will amount to sums aggregating more than one billion ($1,000,000,000) dollars. I have had the honor to enter upon a speaking campaign in the interest of this movement, and in addressing the workmen at the American Locomotive Works of this city, although specifically invited to speak to colored employees, greatly to my surprise, found that two-thirds of the audience were composed of members of the other race.

The effect was electrical and the sale of Liberty Bonds was a noticeable feature of the occasion, the effect being the same upon the one race as upon the other, and the brand of patriotism which flowed in that great manufactory knew no race or color, but recognized the fact that the call of Secretary McAdoo and the appeal of President Wilson demanded immediate financial action on their part. Colored people all over the country have understood that the banks are aiding the Government and they have found out that it is easy to adapt the Christmas Savings Club methods to the purchase of Thrift Stamps.

It may be well, too, to advise you of the friendly relationship existing now prominently in evidence between the white and colored people of the country, regardless of race lines. This war has done more to emphasize the axiomatic fact that "one touch of nature makes the whole world kin" and that "misery loves company" than anything else. The black mother who has lost a son on the other side can sympathize with the white mother, who is in a similar predicament relative to her own darling boy. I believe that this war will result in banishing forever many unjustifiable prejudices and feelings and in enabling us all to realize that our interests are so interwoven that the welfare of one is the concern of all. I only hope that you may be able to arrive ot some conclusion by which a distinctive feature will be engrafted upon this Department, that circulars may be furnished to aid in promoting the movement and that for a pittance some emblem may be available to the end that the actual amount raised by this Department may be duly accredited to the Savings Bank Section and put in the archives of this great organization.

The work of the banks in this great war will only be recognized and appreciated when the struggle is ended and the financial resources of the country are being computed and the value of the expenditures announced. To my mind, you will then be accorded the credit to which you and your associates are entitled in being far-seeing enough to recognize and encourage one of the most patriotic races of people on the face of the globe. Following in your footsteps, the Secretary of War saw fit to recognize the necessity of doing what you have done in the naming of Emmett J. Scott, Esq., Special Assistant to the War Department and in turn directing him to call to the city of Washington fifty leading colored journalists and financiers to meet in the new Interior Building.

Mr. Scott is a member of our Committee and I had the honor to spend three days with the Commission discussing the best means to aid in winning the war and in dissipating any feeling of unrest that might exist among the colored people of the country.

The good effect of the meeting was recognized by the distinguished occupant of the White House himself. In conclusion might say that I have spoken in New Jersey, Virginia and North Carolina in behalf of this great work and hope ere another twelve months have passed to be able to make a detailed report relative to the great financial effort of the colored people of the country and the resultant benefit to the nation of which we form a part.

JOHN MITCHELL, JR.,
Chairman, Special Thrift Committee for Work Among Colored People.

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TRUST COMPANY SECTION

AMERICAN BANKERS' ASSOCIATION

Twenty-Third Annual Meeting, Held at Chicago, Ill., September 24, 1918

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Trust Service and the War

By Francis H. Sisson, Vice-President of the Guaranty Trust Company of New York

When the fiscal history of this greatest of all wars is written one of its most illuminating and important chapters will chronicle the invaluable services rendered by the trust companies of the United States. That record will afford most convincing proof of the peculiar adaptability of the trust companies, as well as the unique and indispensable place they occupy in American finance and economics. It will reveal in more striking relief than ever before the great functions of these institutions, their sound principles, efficient management and far-reaching services. That account, too, will be one of a high sense of patriotic duty, of unselfish and unstinted and unceasing activity for our country, our Allies and world democracy.

Financiers and financial institutions are performing as essential war work as are fighters, factories and shipyards. Their part in the splendidly successful Liberty Loans, sufficiently attests the validity of that claim. But there are many other fields of endeavor, less dramatic but none the less vital, in which the bankers of this country are doing their allotted share, and more, to win the war. And in the vanguard all along the fiscal firing line are the trust companies, conforming enthusiastically to the spirit and the duty of the hour, putting every available facility and resource at the disposal of the United States Government.

The Men in the Service

The service flags—many of them sprinkled with stars of gold—which proudly float from practically every trust company in the land bear ample evidence of the fact that not only the dollars but also thousands of the men and women of these companies are enlisted under their country's flag. The spirit which has actuated the officers and employes in the government's service was manifested by their eagerness to volunteer, by the large number of enrollments in officers' training camps and by their desire to be among the first to fight. One trust company alone has given 450, or nearly one-fourth of the total number of its employes, to the various branches of the country's services. Scores of other trust companies have done equally as well, and many more will do so.

It is also a source of pride to trust companies that the Federal Government is availing itself so extensively of the personal services of their officers and employes in the essential tasks of war finance, in large administrative capacities, in the solution of taxation problems, in the conservation of credits, in the control of foreign exchange, in the custody of alien enemy property, in investigations, and in many other fields equally important.

There is time to mention only a few of the hundreds of names which are inscribed upon this honor roll, but they will suffice to indicate the scope and value of such services.

Ralph Stone, President of the Detroit Trust Company, was Director of the Bureau of Trusts of the Alien Property Custodian's Office; Frederick J. Horne, Vice-President of the New York Trust Company, succeeded Mr. Stone when the latter resigned the directorship; J. Lionberger Davis, Vice-President of the St. Louis Union Trust Company, also is prominently connected with the Alien Property Custodian's office; John S. Drum, President of the Savings Union Bank & Trust Company of San Francisco, is a member of the Capital Issues Committee; Lewis B. Franklin, who resigned as Vice-President of the Guaranty Trust Company of New York, is at the head of the very important War Loan Division of the Treasury Department; Frederick I. Kent, who was a Vice-President of the Bankers' Trust Company of New York, is head of the Division of Foreign Exchange of the Federal Reserve Board, which supervises foreign exchange activities and regulates gold exports; Bethune W. Jones, Secretary of the Bankers' Trust Company, is Executive Secretary of the War Credits Board; Festus J. Wade, President of the Mercantile Trust Company of St. Louis, is assisting Director General McAdoo in connection with the financing and purchasing division of the Railroad Administration; F. H. Goff, President of the Cleveland Trust Company, and Henry C. Flower, President of the Fidelity Trust Company of Kansas City, are members of the Advisory Council of the Capital Issues Committee, and H. J. Cook, Treasurer of the Equitable Trust Company of New York, assisted in the adjustment and administration of the Government's huge financial affairs in London and Paris.

Many others are serving as State directors of War Savings campaigns, as members of Liberty Loan committees and as members of State sub-committees appointed by the Capital Issues Committee.

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The Liberty Loans

We are about to engage in the most prodigious financial feat in the history of the world—the raising of $6,000,000,000 within three weeks by means of the Fourth Liberty Loan. There is no need to dwell upon the titanic nature of this task, nor to more than recall to mind the three previous Loans. The significance of these historical events is such that only posterity, with the perspective of years, may correctly appraise. But by the immediate manifestation of our tremendous strength which they provide, almost as much as by the material aid they afford, these Loans are of incalculable value to world democracy.

And the trust companies have not only put all their facilities at the disposal of the Government in the Liberty Loan drives, but have also done their part in the task of financing, of transferring credits and carrying individual as well as corporate loans in connection with the Liberty Loan payments. This has been a truly patriotic and democratic service, offering equal opportunities to those of large and small means. It has reached from coast to coast, from Canada to Mexico, from the congested districts of the great cities to the broad expanses of the fields and plains.

In all of these campaigns practically the entire organizations of the trust companies have worked wholeheartedly for the Loans' success. Their officers have served on the various Liberty Loan committees; as many members of their staff as have been needed for the actual selling of the bonds have been put at the disposal of the Government wherever and whenever they could be of the most use.

It is significant, too, that a trust company led the honor roll of financial institutions throughout the country in both the second and third Loans; that its subscription of $111,000,000 to the second Loan was the largest entered in any of the campaigns to date, and that for the third Loan it obtained the largest number of individual subscriptions—with a total of 63,000. But it is of far greater importance and satisfaction that every trust company has responded to the full measure of its resources and power in all of the campaigns.

One trust company instructed its representatives in fifteen commercial and financial centres of the United States to offer their services to the local Liberty Loan committees in each of these cities, for the entire campaigns. They were told to consider themselves as members of such committees, working for them alone, and to relinquish all duties to the trust company during the drives. Other trust companies did likewise, and the value of such service was reflected in the many letters of commendation and gratitude from the chairmen of the committees with which these representatives cooperated.

A trust company devised the weekly payment plan to accommodate small subscribers who were unable to take bonds on the Government's instalment plan, and this has proved a potent factor in distributing the Loans so widely and successfully. During the first Loan the same trust company conceived and put into execution the partial payment plan, which was designed to aid employers to purchase bonds for their employes. Letters were sent by the trust company to 31,000 banks, describing the plan in detail and offering it to these banks for use in their respective localities. This method of payment was widely adopted.

Hundreds of thousands—probably millions—of Liberty Loan letters have been sent by all the trust companies to their clients. And the companies have supplemented this form of specific appeal with a general one through newspaper advertising, individually and in conjunction with other financial institutions. Thousands of booklets, treating of financial and economic subjects, have been extensively distributed in connection with the Loans to familiarize the public with war financing and the vast resources of the country.

These are only a few of the features of the great service which the trust companies have rendered in the Liberty Loan drives, but they demonstrate conclusively that the trust companies have performed a 100 per cent.-plus service in the campaigns, which have been almost as important as victories on the field of battle.

War Savings Campaigns and the Red Cross

A similar spirit of coöperation has actuated the trust companies in the War Savings Stamp campaign. Thousands of trust company officials have accepted appointments as agents, have been named directors of their respective War Savings divisions, have organized War Savings clubs and have, in brief, promoted the sale of the stamps in every conceivable way.

The trust companies, as such, have likewise given generously to the American Red Cross, while their officers and employes, as individuals, have devoted their time and energy and money to that wonderful organization of mercy. We may well feel proud of the fact that a trust company man, Major Grayson M.-P. Murphy, senior Vice-President of the Guaranty Trust Company of New York, was head of the American Red Cross in Europe at one of the most critical periods of its operation, and after discharging his great responsibility with admirable success, resigned to enter active military service as a member of General Pershing's staff in France.

War-Time Service Abroad

The public generally does not realize, perhaps, that three of the largest trust companies in this country, the Equitable, the Farmers' Loan, and the Guaranty, are vitally helping the Government to maintain our Army in France, and that through their branch offices abroad is conducted a large part of the credit exchange and banking and financial operations essential to American military and naval activities in Europe. These trust companies are providing the agencies for the quick transmission and conversion of United States drafts and credits into French and English currencies. The Empire Trust Company, through its London branch, and other trust companies, through their foreign connections, also are rendering good service.

Three of them have been designated United States depositaries, and as such form the only direct connection in supplying the banking and exchange facilities needed by our Government "over there." The London and Paris branches of these trust companies serve as paying and receiving agents for United States paymasters and other American disbursing officers.

In addition to its principal branch offices in London and Paris, the Farmers' Loan and Trust Company has established special agencies at Bordeaux and two other places within the sectors occupied by American troops. The Guaranty Trust Company opened a new office at Tours this month, for the exclusive use of the men in the service. And in order to provide additional facilities for the financing of American forces abroad and to offer greater convenience to the men in all branches of the United States Government's overseas service, the Guaranty has opened another office in London. It is located near the American Embassy and other of our Government's offices in that vicinity. The Paris office of the Guaranty takes care of the Army quartermaster disbursements; the Equitable Trust Company's Paris office attends to the disbursements of the aviation and ordnance corps, while the Farmers' Loan and Trust Company looks after the remainder of such transactions, including the Navy.

This service has enabled the Government and our men in France to obtain uniform and advantageous rates of exchange by virtue of an arrangement effected by the trust companies with the Bank of France.

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These war-time services are conducted on American lines, and it is the constant endeavor of every member of the trust companies' staffs to render direct and expeditious service, and to be as useful as possible to every citizen of the United States in civil or military life who may call upon them. These services include the collecting and transfer of funds, payments against letters of credit, the acceptance of deposits of money, the custody of securities, and all kinds of foreign banking and bond transactions.

The Revolving Credit

One of the most convenient forms of service offered by one of the large trust companies, that of the revolving credit, is available to every American in France—soldier, sailor or civilian—who has a checking account with a bank in the United States. It enables the person going to Europe to cash personal checks drawn on his home bank, up to an agreed limit, at the Paris office of the trust company, and at numerous correspondent offices throughout France. One may take his check book with him to France and conduct his financial affairs "over there" on a check book basis, just as he does at home. He may draw a check in dollars and receive the equivalent in francs, at the most favorable current rate of exchange.

Under this arrangement, if a soldier or sailor desires, he can allot his Government pay or other income to his home bank or trust company and draw against it by check. This eliminates possible risk of loss incident to carrying sums of money on his person.

Service Checks

Another invaluable service which the trust companies have put at the disposal of the men who have gone abroad in answer to the nation's summons is that of the "service check," which is a new kind of travelers' check peculiarly adapted to the use of those in our Army in France. They have been evolved and perfected by three of the largest trust companies in the country.

These service checks are sold to the men of the American Expeditionary Force at the official rate of exchange agreed upon by the Governments of France and the United States, and no commission charge is made by the issuing banks. The checks come in denominations of 50, 100, and 200 francs. These checks can be purchased, singly or in books, at any of the concentration camps, where the three trust companies maintain representatives, who are at the service of the men day and night, and may be cashed at the London and French branches of the issuing trust companies, at the London office of the International Banking Corporation, and at the offices of the Bank of France and other financial institutions in England, France and Italy.

This plan has many advantages. It makes large withdrawals of currency from the United States unnecessary, and it protects our men from those who might charge high rates of exchange in converting currency or cashing checks abroad. The stamp tax imposed by France is paid by the trust companies, so that the checks may be cashed at their full face value.

This service has been placed at the disposal of the banks and trust companies throughout the country, whether or not they are customers of the three companies which devised it. Letters have been sent to thousands of financial institutions in all parts of the country, describing this new service. Each letter pointed out a definite way in which the banker receiving the communication could promote the service in his section. Booklets, explaining the service, also have been widely distributed to the banks. The three trust companies have paid all expenses and have advertised the service extensively throughout the country. The response has been exceedingly gratifying, and many financial institutions have sent in orders for the booklets, ranging in quantities from 50 to 3,000. Thus, one of the most valuable banking services has been quickly and effectively tendered by the trust companies to every soldier and sailor ordered to France.

Trust Facilities Freely Given

To those actively engaged in the war service of the country, and who are, therefore, obliged to give up direct supervision of their personal business interests, some of the trust companies are extending the use of their trust facilities without charge for the period of the war.

These services consist of safe-keeping accounts and voluntary trusts. Under the first, the trust companies assume responsibility for the physical safety and the routine care of securities, although the securities remain at all times under the owners' direct control. In the case of a voluntary trust, the owners of securities give the trust companies discretion in the management of those securities. The owners may reserve the right to resume control of their affairs at such times as they may be able again to give them their personal attention. Through a voluntary trust, one in war service can arrange immediately for the support and protection of those dependent upon him.

Custodians of Enemy Property

The trust companies are also playing an important part in the administration of the duties of the Alien Property Custodian. All money reported as belonging to enemy aliens must be deposited forthwith in the United States Treasury, but whenever other property is held by responsible banks and trust companies it is the policy of the Custodian to leave the custody thereof with such institutions.

The value of this service has been expressed by Mr. Davis, Managaing Director of Alien Property, in the following words:

"If it were not for such coöperation the office of the Custodian would have to maintain an enormous organization of accountants and a storage space of great area. The splendid spirit of coöperation and service shown by the banks and trust companies have been a great assistance and encouragement to the men who are in the Custodian's office. These are times when the nation calls for sacrifice and the response has been splendid from every source, both corporate and individual."

Conserving the Country's Credit

It is highly significant that on April 10, 1917, four days after the United States declared war on Germany, the Executive Committee of the Trust Company Section of the American Bankers' Association, representing trust companies in all sections of the country, assembled in special session to consider the general conditions facing the country at that time, and with full recognition of its patriotic duty and privilege, unanimously adopted a resolution urging all trust companies to serve the country in every way in their power—especially in helping to mobilize the financial resources of the United States. The resolution set forth the committee's urgent recommendation that the trust companies immediately take steps to secure amendments, where necessary, to the State laws in order to permit the trust companies to carry their gold reserves on deposit with the Federal Reserve Banks in their several districts, and that as soon as such action could legally be taken for the trust companies to offer to deposit these reserves with the Federal Reserve Banks.

Prompt action followed speedily upon the circulation of that resolution among all trust companies. Laws were amended in some States, and millions of dollars of gold poured into the Federal Reserve coffers to strengthen

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the financial and credit structure of the country in its hour of greatest need.

And then, when the barriers which had previously been considered insurmountable were swept aside by the amendments to the Federal Reserve Act adopted on June 21, 1917, the trust companies quickly began to add their vast power and resources to the Federal Reserve System.

By July 1, 1918, there were 216 trust companies members of the System, representing more than 40 per cent. of the total number of State institutions which were members on that date, and with combined resources in excess of $4,760,000,000, or more than 78 per cent. of the aggregate resources of all State institutions in the System. By August 1 of this year, there were 232 trust company members of the Federal Reserve System, with more than $4,814,000,000 resources.

It has been aptly stated that the importance and bearing of the relationship between trust companies and the Federal Reserve System upon the future of American finance will be vital and far-reaching.

Pre-War Service

I regret that there is not time enough to review the important activities of the trust companies as financing agents for the Allied Governments previous to our entrance into the war, but which was in many respects a vital war service. I deem it fitting, however, to mention a few of these activities, such, for instance, as assisting very materially in the floating of large international loans, including the Anglo-French; United Kingdom of Great Britain and Ireland; French Industrial Credit; British Treasury 90-day Bills; Dominion of Canada 5's; Italian Government 6's; Russian External Dollar Bonds; Metropolitan Water Board Bills of London; City of Paris, and other French Municipals, and American Foreign Securities Company notes by which it was arranged to lend $100,000,000 to the French Republic.

One trust company participated in all these loans and in the financing of approximately one hundred French industrial credits, which were among the earliest credits of a foreign government arranged for in the United States.

The Trust companies also carried large credit deposits for industrial concerns trading with the Allies, and financed the moving of vast quantities of grain and cotton for export to Allied Governments and firms. The trust companies likewise assisted several large concerns engaged in the manufacture of arms and munitions for our own Government and the Allies, in connection with the necessary issuance of the securities of these corporations.

The Greatest of All Service

But the trust companies have done infinitely more for the country than that represented by any or all the services which I have cursorily reviewed here. They have generated an unseen but powerfully effective and extremely vital force for the achieving of victory by the United States and its Allies in this War. And that force is exerting itself on the firing line wherever American troops are going into action. It is a psychological and moral force of incalculable value; for it is relieving countless thousands of our soldiers and sailors of anxiety regarding the welfare of their dependents, as well as of concern about the proper care of business resources suddenly left behind at the imperative call of duty. This is the highest possible kind of trust service.

And, through easing the minds of those dependent on our soldiers, this service is being reflected in the tone of the letters which go over the sea to cheer our men in the trenches. Just how important this factor is from a military point of view was recently emphasized by General Pershing in a special message to the American people, urging them to write encouraging letters to their boys in France.

A soldier's fighting efficiency necessarily is dependent on his mental state, quite as much as on his physical condition. He is a far better soldier when he feels assured that the home fires are going to keep on burning whether or not God decrees that he shall return from the great adventure. And his morale is subtly transmitted to those about him, and thus to the whole army.

Through the exercise of their trust functions, the trust companies are affording that comfortable assurance to thousands of our men on the far-flung battle-line of freedom. Many trust companies have accepted a large number of trusts gratuitously, waiving all fees. In other cases, where the trusts warranted, the companies have accepted them at reduced fees. And every dollar of return which is possible from the investments and property of these trusts will be forthcoming for the beneficiaries.

The economic phase of this service, as regards the conservation of personal and real property, which might otherwise be dissipated through mismanagement by relatives or other designated persons, is beyond calculation, both for the individuals directly concerned and for the country as a whole.

If, as has been declared, morale is winning the war, then the trust companies of the United States have just reason to feel that they are contributing directly and potently to the great cause. They may rightly feel, also, that they have fully appreciated their responsibilities, and that they are wholeheartedly performing their patriotic duty to the full extent of their opportunities, ability and resources. They may well be proud of the fact that they have come to be known not only as trust companies but also as *trusted* companies. And they may look forward to the future—whatever that future may bring forth—confident that they will be able to render still greater service to the Government and to the people of the United States; confident, too, that they will demonstrate that the trust which has been reposed in them will be merited and that, true to their ideals, they will help speed the dawn of a brighter day.

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Uncle Sam as Custodian of Enemy Property

By RALPH STONE, President of the Detroit Trust Company, Detroit, Mich.

The Alien Property Custodian is a United States Government official whose function it is to take into his possession all property in the United States and its insular possessions belonging to the enemy. It should be made plain, at the start, what constitutes an "enemy" for this purpose. Without attempting a definition with legal precision, it may be said that an enemy is a person, without regard to citizenship, who resides in an enemy country or in territory occupied by the military or naval forces of the enemy. This is a general statement, and it will be seen that residence rather than nationality is the test. Before this was clearly understood, it was quite generally supposed that subjects of Germany, for instance, living in the United States, were enemies, and when the Alien Property Custodian was appointed and publicly called for reports of enemy property to be subsequently taken into his possession, there were slight "runs" on banks in a number of cities throughout the country, caused by withdrawals of deposits made by German and Austrian subjects living here.

The term "enemy," under the law, includes also persons resident outside the United States who are doing business within enemy territory. Central and South American persons and business houses transacting business, directly or by indirect means, through neutral countries, with Germany and Austria, come within this description, such as those on the Enemy Trading List, the "Black List," so-called, published by the War Trade Board. Subjects of enemy nations imprisoned or interned are also enemies; also the government of Germany and Austria, their officials and agents; and other persons or classes of persons designated as enemy by Presidential proclamation. The term "persons" includes "corporations."

The making of residence rather than nationality the test of enemy character was, naturally, for a definite purpose. There were American citizens resident in Germany when we entered the war. Some were pure Americans sojourning there, others former German subjects who became naturalized Americans, but at heart loyal to Germany. There are properties in this country belonging to Belgians, Roumanians, Serbians, Frenchmen, Russians, Poles, and subjects of other countries partly occupied by the enemy, resident in those countries. The Trading with the Enemy Act is devised to prevent the enemy, as thus defined, from bringing about the transfer of such property—by duress, through taxation, fine, threat of imprisonment, or otherwise—through neutral countries to its owners resident in enemy territory, where it could be seized by the enemy. It is designed to prevent the giving of aid and comfort to the enemy in this or in any other manner. If Uncle Sam has such property in his possession, it cannot be so transferred by disloyal agents or anxious and frightened relatives. Such property, where it belongs to subjects of allied nations and loyal Americans, will thereby be safeguarded, and will, of course, be handled and administered with the greatest care and consideration until such time as it can be safely returned to its owners. Some of it may not even be demanded or taken into the possession of the Alien Property Custodian. It is his duty to exercise his judgment in such cases or classes of cases.

Property in the United States or its insular possessions of all classes of enemies, under the law, must be reported to the Alien Property Custodian, and failure to do so subjects the holder of it to imprisonment for not more than 10 years or a fine of not more than $10,000, or both.

The office of Alien Property Custodian is created under the Trading with the Enemy Act enacted by Congress and approved October 6, 1917, and amended March 28, 1918. President Wilson appointed to this office the Honorable A. Mitchell Palmer, of Stroudsburg, Pa., formerly a Congressman from that State. He is a lawyer by profession, owner of newspapers, interested in public utilities and other lines of business, and, what is of special interest to this gathering, is a trust company official, being director of the Scranton Trust Company, of Scranton, Pa. Because of his legal business and financial training and experience, as well as his wide knowledge of Governmental affairs acquired during his public career, he is well qualified to discharge the difficult duties of this office, and I am happy to be able to testify from my association with him, also by temperament and mental attainments.

Mr. Palmer, probably largely because of his knowledge, as a trust company official, of trust company organization and functions, saw at once the analogy between the office of Alien Property Custodian and a modern American Trust Company. With the assistance of trust company officials whom he invited to join his staff and lawyers who promptly responded to his call, he put together his organization along trust company lines. The Trading with the Enemy Act, in fact, vests the Custodian with all of the powers of a common law trustee in respect of all property which comes into his possession. The analogy to a trust company is made stronger by the description of the Act of the relation of the Custodian to the property and his powers with reference thereto, namely, "to hold, administer and account for the same." His office is not part of any Government department, but is subject only to the President. In fact, most of the essential powers necessary to a full administration of the Act are vested in the President, and he is made responsible therefor, but his confidence in Mr. Palmer is such that he has delegated substantially all of them to him (as he is lawfully entitled to do) by eight Executive Orders dated October 12 and October 29, December 7, 1917, and February 5 and 26, April 2 and July 15 and 16, 1918.

Following this trust company analogy further, the properties belonging to the enemies are designated "trusts" and carried through the office organization and upon its books and records as such. In short, trust company nomenclature and methods have been quite generally adopted in the Custodian's office.

Manifestly it would have been impracticable to require the transmittal of all enemy property and the evidence of it, such as stocks, bonds, mortgages, commodities, personal property generally, et cetera, to Washington, to be administered by the organization there. The framers of the Act foresaw this, and, accordingly, included in it a provision authorizing the President to designate banks and trust companies as depositaries of enemy property, and the President delegated the power of designation to the Alien Property Custodian. Mr. Palmer took immediate advantage of that power, and to September 5 had appointed 494 banks and trust companies in the United States and its insular possessions as such depositaries, the number increasing daily. I

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am greatly pleased to be able to state, from personal knowledge, that the banks and trust companies of the country promptly accepted the responsibility thus placed upon them, as a patriotic service, without in even a single case inquiring what compensation, if any, would be paid for such service. Of course, it is inconceivable that they would be asked to serve in this capacity without compensation. I can assure you that such a notion was not entertained for an instant by Mr. Palmer or by anyone in his organization. It must be admitted, however, that the amount or basis of it is difficult to fix, as all of you gentlemen know in administering the affairs of your own companies, and I believe the Washington office is still struggling with it, and is seeking your aid in solving the problem, although a scale of charges has been fixed which is subject to change as necessity may require.

In appointing depositaries, it has been the Custodian's policy to disturb as little as possible the relations of loyal American agents to the enemy property. For instance, where the property is already in the hands of banks or trust companies, he has left it there by appointing them depositaries. Where it is in the hands of loyal individuals as agents or in any other capacity, he has appointed as depositaries the banks or trust companies with which such agents have transacted business, or such as the agent might request. In cases where the property is in the hands of agents whose loyalty is in question, the Custodian has used his judgment in appointing the depositaries, using, however, banks or trust companies in the locations of the properties. In the case of so-called "floating" properties, such as have no bank or trust company affiliations, the Custodian assigns them to banks and trust companies where the properties are located. In placing "trusts" or properties with depositaries, it is the effort of the Custodian to distribute them as equally as possible in amount among the banks and trust companies in each locality. This very important administrative duty of designating depositaries has been confided by the Custodian to his Managaing Director, Mr. J. L. Davis.

A very large part of the work and responsibility of administering these trusts is placed upon the depositaries, by the form of "designation," to which they must look for their powers and limitations. It is not practicable, however, to attempt, in a limited address, to describe or explain them, and I think you all, by this time, are very familiar with them in the course of administering enemy estates thereunder.

Likewise, it would be impossible for me, in the limits of this address, to describe to you, even briefly, the manner in which the office of the Alien Property Custodian has been organized; how the manifold functions have been distributed and assigned to breaus, divisions and deaprtments; in what ways and for what purposes the office is connected with and has co-operative relations with other Washington departments and war organizations, such as the War Trade Board as to the definite variety of business acts, the Federal Trade Commission as to patents and trade marks, the Treasury Department as to American branches of foreign insurance companies, the many intelligence services, Treasury Department secret service, war trade, Navy and Department of Justice intelligences, et cetera; how branches were established in the Philippines, Hawaiian Islands, Panama Canal Zone, Alaska, Porto Rico, Virgin Islands, and connected with the Washington office; and what a task it has been to prepare the almost numberless forms of every description, and books of account such as a trust company uses, and many others besides, and to do it while reports of enemy properties were pouring into the office, not in twos and threes daily, such as we trust company men are accustomed to in the normal operation of our businesses, but by the hundreds daily, until in the first six weeks they numbered upward of 12,000 trusts, and now approximate 25,000 trusts. Nor is there time for me to tell you of the literally thousands of every conceivable kind of legal and business problems which confronted the organization demanding settlement and with practically nothing in the way of precedent to guide it; nor of the manifold ingenious and devious schemes which had to be investigated by which enemy property ownership were hidden by roundabout and numerous transfers from American corporation to American corporation, through trusteeships and in every other way legal ingenuity could conceive and devise. To date, through the skillful work of Mr. F. P. Garvan, Director of the Bureau of Investigation and his staff, these disguises have been torn from enemy controlling ownership in 26 large and profitable American corporations, including mining, manufacturing of steel, chemicals, rubber products, magnetos, pianos, textiles, woolen goods, brass goods, lumber, et cetera. There are many others undergoing investigation. I regret exceedingly being obliged to say that many of these were engineered by American attorneys just prior to our entrance into the war, when the "handwriting upon the wall" was too plain to be misread by any loyal American.

It is the intention of the Government to prosecute lawyers of this type, and the evidence, showing their complicity in schemes to aid the Germans in covering up their ownership, is being placed in the hands of the Department of Justice. Mr. Garvan's experience as Assistant District Attorney of New York in ferreting out criminals and bring them to the bar of justice, and the methods by which that was so successfuly accomplished by him, have proved to be just the kind of experience and methods needed for this work, for American lawyers and German accomplices masquerading as American business men are criminals of an aggravated type. There is no crime more worthy of severe punishment than the giving of aid and comfort to the enemy under the thin cloak of legal devices.

Each one of these complicated cases called for tedious unraveling of tangled schemes of concealment, and each one is a long story in itself. They required dogged persistence and relentless pursuit, and they have invariably ended in the final breaking down and confessions of the principal plotters—sometimes of the German agent who has violated and debauched his American naturalization or his American birthright, and sometimes of his American legal accomplice. The sureness with which their guilt is fixed and the certainty that punishment will be meted out to them is clear proof that "Gott mit Uns" has lost its alleged magic here, as on the battle fronts over there.

I wish there were time to lay bare to you the full facts in these cases, but I can only allude briefly to a few of them.

The Orenstein-Arthur-Koppel Co., of Koppel, near Pittsburgh, manufactures light railway material. It has installed its product in many large American munition plants. Result: Transmission of much valuable data of military value and blue prints of plants to Germany. Correspondence was kept up with the home office by sending letters in triplicate to three men, one in Holland, one in Sweden and one in Switzerland, who in turn forwarded them to the home office in Berlin. Its three German managers are now interned. A few days ago the entire property was sold by the Custodian to loyal Americans, and it is now 100 per cent. American.

The Bosch Magneto Company, of Springfield, Mass., makes magnetos used on all American automobiles needed for war purposes. Its president reported only 95 shares owned by residents of Germany. After being ground through the Custodian's investigation machine, it developed that it is 100 per cent. enemy owned. Now

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it has a full board of American directors, is operating for the benefit of the American Army and will soon be sold to American purchasers.

Schutte & Koerting, of Philadelphia, reported itself American owned. It makes valves and many other things, condensers and other machinery for the American Navy. After turning on the light, it was discovered that the company was really owned by Ernest Koerting, the Carnegie of Germany, its largest iron master, who had illegally transferred it to his daughter, Helen Fischer, wife of Adelbert K. Fischer, of Philadelphia, its manager, who have her note therefor, payable after 20 years. The Custodian took over the entire capital stock, and now the machinery for the Navy is being made under American supervision, and Fischer is reflecting upon his folly at Fort Oglethorpe, Ga.

The American Transatlantic Company and the Foreign Transport and Mercantile Corporation furnish an interesting tale of how Richard P. Wagner, an American citizen, for three years deceived various Government departments, the British and French prize courts, and Senators and Congressmen, as to the real ownership of his companies. It is a veritable maze in incorporations and transfers of funds from German sources and back again, as pretenses for the establishment of American ownership to acquire American registry for his vessels. The Hudson Bay Company offered $7,500,000 for the vessels, the original investment having been for $2,600,000. It was through Count von Bernstorff that the funds were furnished required for legal American incorporation. There were eleven ships. One of them was seized by the French, four by the British, and the remaining seven commandeered by the United States Shipping Board. An American board of directors appointed by the Custodian is now in charge of the company.

The product of the Becker Steel Company of America, of Charlestown, West Virginia, is, of course, essential in war. It reported no enemy ownership of its stock. Mr. Palmer's Bureau of Investigation suspected otherwise. Result: The finding of German ownership and the German corporation owner reports in its home statement of business for the current year, on August 28, 1915: "The Charlestown plant is in full operation. . . . The profits have been most satisfactory." Now it is operated by Mr. Palmer's directors.

The New England Waste Company said it was an American owned corporation; but Mr. Garvan demonstrated that it was entirely controlled by Wolff & Sons of Stuttgart, Germany. Its associated and subsidiary concerns, five in all, had stored in the United States, ready for shipment to Germany upon declaration of peace, large quantities of cotton. Now these five concerns take their orders from Washington, all of the cotton has been sold by the Custodian, and the proceeds are working for the boys who are denting the German front.

The foregoing are only a few of the instances of attempted evasion of the Trading with the Enemy Act. There are many others equally as flagrant which have been disclosed, and retribution awaits others which are already marked for exposure, as rapidly as Mr. Garvan's machinery can be put in operation against them.

Communication between Germany and America prior to the war revealed instances of the peculiar psychology of the German mind. The German believed that anything he did could not be detected. This is instanced by a great many messages passing between Germany and America. The German frequently used what is called a "cover name"; that is, he addressed the communication to some person here in league with him, which person subsequently turned the message over to the person intended to receive it. Frequently the inoffensive office boy or the stenographer was selected, the Grman not realizing that the same address would be sufficient to disclose the real addressee in each case. Changes in the Christian name were very common. In other words, if the man's name was Smith, the first message would be addressed to John Smith, the second to Thomas Smith, the third to Joseph Smith, and so on. One peculiar message which showed on its face that a cover name was used was as follows: "We accept contract with John Smith. Who is John Smith?"

Sometimes a congratulatory message or an announcement of a death was used to cover a commercial transaction. This was detected once in a rather amusing way. The message read: "Mother is seriously ill." This message was changed by the censor to read: "Mother is dying," and was delivered in its altered form to the addressee. The addressee immediately sent a message back as follows: "Is mother dying, or is she seriously ill?"

I have endeavored to give you a comprehensive idea of the manner in which the office of the Alien Property Custodian was organized, by printing the organization chart, and putting copies in your possession for your examination. If time permits, I will be glad to answer questions concerning it at the close of this address.

It was far from a simple task to put together this organization, which on September 3rd had 570 employees, of which 244 were in the Bureau of Trusts, with 500 branch offices, (as the banks and trust companies serving as depositories in every part of the country and insular possessions might be called) and also with 137 loyal American business and financial men appointed by the Custodian as directors representing him as holder of the enemy interest in American corporations, and all of this accomplished while trusts were pouring into the office in a veritable flood.

I have said that the number of enemy trusts now approximate 25,000. The exact number on September 10th was 24,957. The properties is 16,448 of these have been demanded and placed in the possession of depositaries, and their value aggregates $471,403,994.02. The remaining 8,509 trusts yet to be demanded will swell this total very considerably, and to these should be added the properties which, either through ignorance of the law or by willful design, have not yet been reported and which are being disclosed almost daily as a result of the work of the Bureau of Investigation. There are several thousand trusts, however, included in those just referred to as not upon the books and not included in the foregoing total, demands for the properties of which have not been made for various reasons, such as property of Belgians, French, Roumanians and Serbians, and also of the allies of the Central Powers, Bulgaria and Turkey, withheld for reasons of state policy, and property of residents of neutral countries, those on the "Black List" because it is desired to establish, beyond question, with the aid of the War Trade Board and otherwise, that they are doing business in enemy territory, and this is sometimes difficult to accomplish.

The various kinds of property, cash, stocks, bonds, et cetera, making up the foregoing total on September 10th are as follows:

Cash deposited with Secretary of the Treasury:		
Invested in Government securities	$47,551,027.82	
Uninvested	4,748,086.40	
		$ 52,299,114.22
Stocks		163,331,211.76
Bonds—other than investments made Sec'y Treasury		57,408,355.08
Mortgages		10,507,710.57
Notes receivable		5,962,525.60
Accounts receivable		56,672,335.63
Real estate		7,217,373.79
General business		83,811,677.37
Enemy vessels		34,193,690.00
Total		$471,403,994.02

Under the Trading with the Enemy Act, all cash must be paid forthwith into the U. S. Treasury. It is then invested in Liberty Bonds and other U. S. Government securities. It is used to purchase arms, ammunition, military equipment, clothing, subsistence, et cetera, for the American Armies, thus using enemy funds to finance our military operations against him—fighting the Kaiser with his own money. It amouted on the date above mentioned to $52,299,114.22.

At this point, I will answer the question which is invariably asked: "What is to become of all this enemy property after the war?" Of course, that which belongs to loyal Americans and to subjects of our ally nations will be returned to them. Enemy property will be disposed of in accordance with the terms of the Peace Treaty. It would be idle to speculate just what that disposition will be, but let us nevertheless speculate a little. In the first place, let it be noted that the Kaiser and his "junkers" and particularly the "junkers" (reference to whom I will make in another connection later) have been extremely anxious about the treatment which is being accorded German owned property in this country and in its insular possessions. Early this year, Mr. Palmer received a cablegram from the Imperial German Government inquiring what we were doing to that property, and there were several questions in that cablegram, covering German partnerships, German-American partnerships, large, or controlling, or entire German ownership of stocks of American corporations, small and scattering holdings of individual Germans of stocks and bonds of American corporations, etc., Mr. Palmer answered that cablegram and sent his reply along the usual devious channels—through the State Department to the American Minister at Berne, Switzerland, to the Swiss Government, to the Swiss Minister at Berlin, and finally to the Imperial German Government—and his answer, of course, in accordance with the traditions of American diplomacy, told the Kaiser and his "junkers" exactly what we were doing to their property. If we had as much respect for and belief in the truthfulness of German diplomatic representations, as we have in our own, we might believe that American property in Germany is being likewise treated, but I do not need to say to an audience like this that we are not entirely sure what is happening to our property over there. Of one thing we are sure, however, and that is that there will be no determination as to the fate of German property here until we know beyond all question of doubt exactly how our property in Germany has been treated. It is comforting at least to know that there is a great deal more "junker" property here than American property in Germany. One estimate—and it must necessarily be an estimate—is that the "Eagle" has its talons on at least twenty times as much as the "Prussian Beast" has of ours.

To continue the speculation: In the final settlement around the peace table, we may take enemy property here as a part of our indemnity and refer the owners to their own governments for recompense. Or, we may return their property to them, less a proper charge for taking care of it, upon condition that American property in enemy countries is restored to its American owners or its full value paid to them. Or the claims of our own people and those of our allies may be consolidated and offset against what we hold here and what our allies hold belonging to Germany and Austria. There is, by the way, very little Austrian property here as compared with German. In other words, this enemy property will be used to the best advantage at the Peace table, and it is impossible now to predict in what manner.

While it is interesting to speculate upon what disposition will or should be made of enemy property after the war, it is vastly more important at this time to consider in what ways the office of Alien Property Custodian may be and is being administered as an active and a potent instrument in the prosecution of the war. The original purpose of the Trading with the Enemy Act, as intended by Congress, was to prevent the use of enemy property in this country, in such ways as to give aid and comfort to the enemy, and the effective way to bring this about was to take it into the custody of a United States Government official, whose duty it would be to hold it in trust and protect it until it should be disposed of after the War. The President's

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interpretation of the meaning of the Act in its original form, as expressed in an official statement to the public by Mr. Palmer, was to that effect, and the statement added: "There is, of course, no thought of the confiscation or dissipation of the property thus held in trust."

Mr. Palmer and his staff, however, had not been engaged very long in the work of taking over enemy property before the nature and extent of German ownership and control of American business revealed itself to them, through the thousands of reports of holdings of stouk of American corporations and interests in American partnerships which poured into the office. Not only that, but the manner in which these businesses were handled throughout our period of neutrality as well as after our entrance into the war, the activity of their German managers in furthering the interests of their Fatherland through intriguing, spying and the spread of propaganda in this country, convinced Mr. Palmer that the Trading with the Enemy Act was inadequate in its original form to serve as a protection to American business and commerce or for use as a war measure. It enabled him to take over the enemy stock, put it in his name and place loyal American citizens upon the boards of directors of these corporations, but there his power stopped. In his Detroit Red Cross address he said: "As a result, I have had this peculiar and I may say disquieting experience, I have sat in Washington and watched these great enemy corporations under my management earn enormous profits growing out of the very war conditions for which their owners and their owners' friends in Germany are directly responsible, and I face the possibility of piling up these inordinate profits for distribution after the war to the very persons to whom, under the circumstances, it would be unmoral and unconscionable for them to go."

The Trading with the Enemy Act, which was framed with the idea only of holding enemy property in trust—surely a very tender and humane treatment to accord to the property of an enemy, the basic principle of whose theory of warfare is absolute destruction and ruthlessness—contained a power of sale but only "if and when necessary to prevent waste and protect such property." Accordingly Mr. Palmer presented to Congress an amendment to the Act, which Congress promptly passed on March 28, 1918, giving full power of sale of enemy property (without the limitations "when necessary to prevent waste," etc., and providing that it "shall be paid only to American citizens at public sale to the highest bidder, after public advertisement of time and place of sale, which shall be where the property or a major portion thereof is situated, unless the President, stating his reasons therefor in the public interest, shall otherwise determine." This amendment further provides that "Any person purchasing property from the Allied Property Custodian for an undisclosed principal, or for re-sale to a person not a citizen of the United States, shall be guilty of a misdemeanor, and, upon conviction, shall be subject to a fine of not more than $10,000, or imprisonment for not more than ten years, or both, and the property shall be forfeited to the United States."

Armed with this complete power of sale, the Allien Property Custodian is preparing, with the utmost care and thoroughness, plans to break the hold which the crafty and unscrupulous Hun has gained upon American trade and industry. The organization which has been put together to effect this shows upon the chart, and I will not stop to describe it. There are approximately 250 American corporations and partnerships controlled or dominated or practically so by German capital, the value of its holdings aggregating upwards of $250,000,000. In these days of war finance, when our sense of financial proportion is numbed by amounts with three extra ciphers dangling on the tail end, the extent of this German interest in American industry may not impress us as very large, or important, or especially dangerous. It is astonishing, however, how many lines of industry, manufacturing, mercantile and trading it represents. The list of them is impressive. It is too long to state in detail. Suffice it to say that it includes almost every important kind of business, particularly those which yield immense profits, including, among others, copper, lead, and zinc mines and smelters, and tungsten and coal mines; vast quantities of cotton, tobacco, rubber, oil, copper and other metals and commodities in warehouses; also manufacturers of steel, dyes, chemicals, woolen and worsted goods, cement, lumber, silks, pharmaceutical preparations, jewelry, pianos, laces, furs, caskets, fertilizer, coke ovens, numerous machinery products, etc., and, as a matter of interest to us, one trust company, the Trans-Atlantic Trust Company of New York.

Among the very lucrative lines of enemy investment here are the branches of foreign insurance companies, a total of 22. There are 18 of these—three life, three marine, two casualty, six fire re-insurance and four fire, all in process of liquidation, by the Insurance Division of the Alien Property Custodian, under licenses issued by the Secretary of the Treasury. There are also four branches of enemy fire re-insurance companies being liquidated by the Custodian, without such license, and five American insurance corporations, the stock of which is enemy owned, with American directors appointed by the Custodian now in control and which will be sold to loyal Americans or liquidated. More than 1,000 workmen's compensation cases, where the beneficiaries are in enemy countries, are in process of settlement and, fully 2,800 cases have already been settled under life insurance policies payable to enemy beneficiaries.

It is worthy of note, however, that their heaviest investments are in industries and raw materials which are basic in their nature, which are necessary to the operation of business generally, and which are especially essential in the prosecution of war, both directly and indirectly. They are a part of the German Industrial Army and it is the purpose of the Alien Property Custodian to attack it and destroy it. This "drive" is now under way and its object is to be attained by the sale of these enemy stock holdings and commodities to loyal American citizens, the proceeds being placed in the United States Treasury, used to finance the Allied military operations now under way in Europe, and in the form of money or credits ultimately disposed of according to the Peace treaty. The properties and businesses themselves shall never go back to their "junker" owners, but shall remain in control of Americans.

There can, of course, be no valid exception taken to this method of warfare. In times of peace, it is the part of wisdom to welcome the entrance of foreign capital in domestic industry if it comes on a peaceful errand, if it is purely economic in character. That is legitimate. But if it is also political in its origin and purpose, if it is the instrument of an aggressive foreign policy, we are justified in expelling it and seizing the fruits of its illegitimate work. The latter is beyond question the character of German encroachments upon American trade and industry.

There is an undoubted partnership between the German Government and German business and finance. They are allied more closely than in any other country. Bismarck said: "The Flag follows Trade," and therein lies the threat of German aggression. Monarchical or State Socialism is accepted by Germans everywhere as the highest national development possible. In no other important country does the State concern itself with commercial and industrial enterprises to an equal extent. It owns or controls all transportation interests and holds itself in readiness to extend its aid and protection to any interest or enterprise that will contribute to the extension of German influence anywhere. This view is shared by all the influential classes, consequently there is no interference based on individual rights. Such rights disappear when they conflict with the interests of the State. The German, as a nation, is more than any other nation active and aggressive in the industrial and commercial world. The individual is free only when he subordinates his personal advantages to those of the State. This creates a different business atmosphere from that we breathe in the United States. Here commerce and industry depend upon individual initiative almost exclusively.

The German Government participates in enterprises of all kinds when they are of sufficient magnitude to involve the reputation of the German name. It is free to promote or suppress any business that it considers important for the public welfare. This condition has existed since the Franco-Prussian war of 1871. Since that time, Germapy's commercial and industrial activities have increased enormously. The State-owned properties, about the 1914, had a valuation of approximately seven billions, affording an annual profit of three hundred millions. These properties consist of farms, forests, mines, railways, et cetera. The item of railways alone covers more than one-half the total amount. The State also owns bank stocks and shares in manufacturing concerns.

This peculiar development has proceeded so far and grown to such enormous proportions that it is accurate to describe the German Government as an active participant in the trade and commerce of the world. Even the cities of Germany indulge, to a great extent, in municipal ownership which is not limited, as with us, to public utilities, but extends to all business activities, even to breweries and restaurants.

When we reflect upon these significant facts, we must conclude that a nation, as such, that is in business for itself, that can command unlimited service in almost any direction, commercially, industrially or financially, must be reckoned with in the business of the world. State monopoly has eliminated competition to an unusual extent, and the German commercial traveler, therefore, represents throughout the world, not an individual or even a corporation, but a rich and powerful nation, and, as current events have shown, an unscrupulous one, which, when its purpose is served, freely repudiates political agreements in the form of treaties, and is accordingly just as likely to prove as untrustworthy with respect to its business and commercial obligations.

That it is not the political so much as the economic conquest of the world which is contemplated by Germany cannot be doubted. She has already shown that by her mastery of Turkey. When she began its conquest through commercial and financial operations, Turkey was known as the "Sick Man of Europe." Germany needed Turkey's assistance and wisely proceeded to make the "sick man" well that he might render assistance when the time came. This was done by truly oriental methods, flattery and money, or to quote a phrase that was made to fit the transaction: "There is no God but backshiel, and the Deutsche Bank is his prophet." The Turkish task has been completed. Germany has absolute control of Turkey and we know how that control has been utilized during this war. There is no doubt but that Germany will attempt to repeat her successes in any and every country where the door is open to her, and she is well equipped to do it by virtue of the close connection between, and participation by, the Government in businesses and commerce. And there are many indications, irrespective of the outcome of the war, unless it results in the utter destruction of the present form of German Government and the annihilation of autocracy and the power of the junkers, that just such methods of aggressive politico-economic conquest of other nations will be followed by Germany after the war. They are already preparing for it.

Understanding all of this, there can be no question as to the justification for the policy determined upon by the Alien Property Custodian, and his plans for attack upon the German politico-economic influence in this country and its insular possessions.

We do not have to rest upon our own diagnosis or interpretation of the German politico-economic system and the extension of its influence in other countries. It is clearly stated by German authorities. It will be recalled that in October, 1914, just before the first battle of the Marne had checked the German advance, and while the Germans believed themselves sure of an early victory, Maximilian Harden, the famous German author and journalist wrote as follows: "A noble Germanism must here conquer new provinces. . . . Antwerp not opposed to, but in conjunction with Hamburg and Bremen; Liege alongside of the munition works of Hesse and Berlin; Cockerill allied with Krupp; Belgian iron, coal and tissues under one management. . . . From Calais to Antwerp, Flanders, Limburg and Brabant, right beyond the line of the Meuse fortresses; all Prussian."

Again in 1896, the Kaiser addressing some of his subjects said: "Thousands of your fellow countrymen are living in all parts of the world; German wares, German knowledge, German business energy traverse the ocean. The earnest duty then develops upon you to form a strong link with this Greater Empire, binding it to the Empire at home."

If we need further proof of the close connection between the German Government and German business in Germany and in this country as well, we can observe the manner in which this is fostered by the German banks. The Deutsche Bank, for instance, in 1911 was directly represented in the boards of 114 different companies ,including such important enterprises as Siemens and Halske and the Norddeutscher Lloyd. They aim at domination and control of industry, and when

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they make loans in other countries, where the natives contribute the largest portion of capital, the German always control the management. The investigations of the Alien Property Custodian found this to be true in the case of German interests in Hawaiian sugar plantations, American corporations. The participations of the Deutsche Bank in the Bagdad Railway enterprise, the German publicist Rohrbach wrote "had an undoubted political object." And finally as if to put at rest any doubt as to the direct control of the German Government over German business, and particularly its extension into foreign lands, Oberfinanzrat Waldemar Muller, a director of the Dresdner Bank, in 1907, testified before the American National Monetary Commission, of which Senator Aldrich was chairman, as follows: "The Foreign Office has frequently stimulated the German banks to enter into competition for Italian, Austro-Hungarian, Turkish, Roumanian, Serbian, Chinese, Japanese, and South American loans. Even when the banks are approached from other quarters, the first move made is to ask the consent of the Foregn Office for carrying on such negotiations. If consent is given, then Ministers, Ambassadors and Consuls frequently support the representative of the German banks by word and deed." I have already noted the German Government ownership of bank stocks.

This country, as the records of the Alien Property Custodian, show, has not escaped the encroachments of these German Government and German bank controlled companies. They are the ones in which American directors have replaced German directors and which are being converted into 100 per cent. American concerns through public sale of the enemy interests therein. They have been usually operated for the benefit of the German-mother companies, and behind them stands always the German state—the Kaiser, the Prussian military autocracy and the Junker—helping it by special railway rates, or a tariff of some kind, or aiding it to sell below cost of production to outrival a native competitor of its foreign branch.

Most of these facts were unknown or unnoticed prior to the beginning of the war. The belief in German efficiency was universal, but the peculiar variety of socialism practiced in Germany was comparatively unknown here. And we have come to know, as well as to detest and abhor, the vast system of espionage, intrigue, and spreading of vicious propaganda which is a part of, and intimately connected with this Government controlled chain of commercial and industrial enterprises in this country and throughout the world. Can there be any question of doubt that it must be uprooted, thoroughly cleaned out and destroyed in our own country?

President Wilson said in his Baltimore address at the opening of the Third Liberty Loan campaign there on April 6, 1918, one year after our entrance into the war:

"Their purpose is undoubtedly to make all the Slavic peoples, all the free and ambitious nations of the Baltic peninsula, all the lands that Turkey has dominated and misruled, subject to their will and ambition and build upon that dominion an empire of force upon which they fancy that they can then erect an empire of gain and commercial supremacy—an empire as hostile to the Americas as to the Europe which it will overawe—an empire which will ultimately master Persia, India, and the peoples of the Far East. In such a program our ideals, the ideals of justice and humanity and liberty, the principle of the free self-determination of nations upon which all the modern world insists, can play no part. They are rejected for the ideals of power, for the principle that the strong must rule the weak, that trade must follow the flag, whether those to whom it is taken welcome it or not, that the peoples of the world are to be made subject to the patronage and overlordship of those who have the power to enforce it."

It would be well, gentlemen, to refer here to a very important part which you and the bankers of the country can take in the annihilation of the German industrial or politico-economic influence in this country. As usual in the banking business, it is a prosaic one. The service which I have in mind does not involve any of the perils of the air or the sea, nor need it be rendered among the bursting shrapnel on the land. It partakes of none of the attractions of the Great Adventure into which the flower of American youth is rushing with unparalleled enthusiasm. It would be an empty ceremony for the Alien Property Custodian to offer these enemy interests for sale to loyal Americans if the latter should be unable to pay for them. Not all of the prospective purchasers, probably in these times, but a small proportion of them, are blessed with sufficient cash resources to buy these properties without accommodation by the banks and trust companies. You can lend your tremendous power to this "drive" against the common enemy, therefore, by looking with favor upon loans to those who wish to bid at these sales. It is unnecessary, of course, for me to say that such loans must conform to all the rules of good banking in the matter of character and standing of the borrower, strength of the collateral, etc. It is plainly a war purpose, and doubly so because it results not only on the destruction of an evil enemy influence in our very midst, but it contributes very materially to the purchase of Liberty Bonds.

In this connection you will be interested in learning that Mr. Palmer did not wait for the sale of these enemy properties, but shortly after the stocks representing entire enemy ownership or control came into his possession, and American directors representing him were appointed, he requested those directors to see that the utmost amount of Liberty bonds be immediately purchased by the corporations out of their cash resources, that the largest possible contributions be made by them to the American Red Cross, and also that dividends on the enemy interest be anticipated as early as possible in order that they might go into the United States Treasury for the same purpose.

For fear there may be a lingering doubt in some minds as to the direct alliance of German business with the Kaiser and the Prussian military autocracy, I would like to relate an incident which has peculiar significance in this connection, and which is not only indubitable evidence of that alliance but is also direct and strong proof of the complicity of German business in the dabolical planning and plotting which culminated in the instigation of this unholy war.

The primitive and bestial philosophy of Prussian warfare—to ruthlessly destroy, not only lines but all forms of property necessary to the maintenance of life, to terrorize their victims by every conceivable kind of rapine and unspeakable torture of women and children—was created and developed in all its fiendish forms, not, as they allege, with the intention of providing a defense against the enemies of Germany, but for the deliberate purpose of creating a deadly and irresistible machine, an engine of frightfulness, with which to overrun and conquer other nations, to extend the Prussian territorial and political dominion, and to seize, absorb, and control the commerce of the world. And the bankers and captains of industry of Germany are *particeps criminis* in the creation of that horrible engine of destruction and in the dreadful results of its work, lured undoubtedly by the tempting prizes of commercial dominion held before them by the Kaiser and his Prussian butchers.

I would remind you that the "Junkers," so-called, include the princes, dukes, grand dukes, counts, barons, that is the nobility; also those who have been favored by the elaborate Prussian system of orders, decorations with their titles and ribbons; the landed proprietors; the enormous army of Prussian officials, the bureaucracy, judges, railway officials, officers of army and navy; and the financial and industrial leaders. All of these are in alliance with the Kaiser, the supreme autocrat, and are subservient to him, as nearly all of them owe their offices and emoluments to him. In this choice company, therefore, are those who dominate German commerce and finance, and they are directly and vitally interested in the existing order of things and in the success of German arms.

The incident to which I refer is related by Mr. Henry Morgenthau, formerly American Ambassador to Turkey, to whom Baron Wangenheim, German Ambassador to Constantinople, confided many things which he probably now wishes he could recall. You will remember that the assassination of Francis Ferdinand, Archduke of Austria, heir apparent to the Austrian throne, by the son of an Austro-Serbian hotel keeper at Sarajevo, Austria, was used by Austria as a pretext to attack Serbia, alleging that it was the result of a plot hatched in Serbia, and that it was charged that this was quickly seized upon by Germany as its excuse for precipitating the war and involving other nations in it. Mr. Morgenthau says:

"I have already mentioned that the German Ambassador left for Berlin soon after the assassination of the Grand Duke, and he now revealed the cause of his sudden disappearance. The Kaiser, he told me, had summoned him to Berlin for an imperial conference. This meeting took place at Potsdam on July 5th. The Kaiser presided: nearly all the ambassadors attended; Wangenheim came to tell of Turkey and enlighten his associates on the situation in Constantinople. Moltke, then Chief of Staff, was there, representing the army, and Admiral von Tirpitz spoke for the navy. The great bankers, railroad directors, and the captains of German industry, all of whom were as necessary to German war preparations as the army itself, also attended.

"Wangenheim now told me that the Kaiser solemnly put the question to each man in turn. Was he ready for war? All replied 'Yes'—except the financiers. They said that they must have two weeks to sell their foreign securities and to make loans. At that time few people had looked upon the Sarajevo tragedy as something that was likely to cause war. This conference took all precautions that no such suspicion should be aroused. It decided to give the bankers time to readjust their finances for the coming war, and then the several members went quietly back to their work or started on vacations. The Kaiser went to Norway on his yacht, Von Bethmann-Hollweg left for a rest, and Wangenheim returned to Constantinople.

"In telling me about this conference, Wangenheim, of course, admitted that Germany had precipitated the war. I think that he was rather proud of the whole performance; proud that Germany had gone about the matter in so methodical and far-seeing a way; especially proud that he himself had been invited to participate in so momentous a gathering. The several blue, red and yellow books which flooded Europe the few months following the outbreak, and the hundreds of documents which were issued by German propaganda attempting to establish Germany's innocence, never made any impression on me. For my conclusions as to the responsibility are not based on suspicions or belief or the study of circumstantial data. I do not have to reason or argue about the matter. I know. The conspiracy that has caused this greatest of human tragedies was hatched by the Kaiser and his imperial crew at this Potsdam conference of July 5, 1914. One of the chief participants, flushed with his triumph at the apparent success of the plot, told me the details with his own mouth. Whenever I hear people arguing about the responsibility for this war or read the clumsy and lying excuses put forth by Germany, I simply recall the burly figure of Wangenheim as he appeared that August afternoon, puffing away at a huge black cigar and giving me his account of this historic meeting. Why waste any time discussing the matter after that?

"This Imperial Conference took place July 5th, the Serbian ultimatum was sent on July 22d. That is just about the two weeks' interval which the financiers had demanded to complete their plans. All the great stock exchanges of the world show that the German bankers profitably used this interval. Their records disclose that stocks were being sold in large quantities and that prices declined rapidly. At that time the markets were somewhat puzzled at this movement; Wangenheim's explanation clears up any doubts that may still remain. Germany was changing her securities into cash, for war purposes."

Thus, by German testimony of undoubted authenticity, but unwittingly given, the direct connection of German business and finance (its leaders classed with the Junkers), with the autocratic Kaiser and his Prussian militarists, is established beyond question. The unspeakable crimes committed in the name of warfare, the destruction of property and of lives, the saddling of tremendous burdens of debt upon all the nations involved, and all the awful and terrible disasters and calamities which the peoples of these nations are suffering, are upon the heads of all those who attended that Potsdam conference, whether Kaiser, Prussian butcher, banker or captain or industry. And while Pershing and the flower of American youth are bending every energy to aid in the defeat and annihilation of the armies of Germany, there is an opportunity for us at home, as pointed out by Mr. Palmer, "to utterly destroy the army which Germany skillfully and craftily planted midst the busy wheels of American industry, and to break, never to be again repaired, the industrial chain which Germany has stretched across the American continent and our insular possessions," and I am sure, gentlemen, you will be in hearty accord with his earnest declaration, in which he said:

"I would divorce utterly and forever all German capital from American industry."

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Conservation of Man Power

By EUGENE LYMAN FISK, M. D., Medical Director, Life Extension Institute

It has been said that food will win the war, that thrift will win the war, and Roosevelt has brightly said that men will win the war. In a broad sense Roosevelt is right. It is man-power that will win the war. The nation that hits the hardest and the straightest with the largest number of able-bodied men will win the war. But this struggle is more than a series of battles. It is man-power in the broadest sense of the word that in the long run will conquer.

What is man-power? It is the total product of man's strength and intelligence and spirit. It is food, munitions, ships, machinery, health, morale and—what Germany has totally left out—morality. In the German vision of the superman (the evolutionary product of mere physical might) the survival value of moral might, of decency and square dealing among nations and of chivalry and mercy to women and children does not appear.

But morality and high ideals alone are not enough. They must be backed by material resources. That mere numbers of men do not constitute man-power was shown by Russia's amazing collapse, largely caused by lack of industrial resources. When a Russian general was asked on what conditions the Russian army would keep the field, he said, "Food and shoes."

It may be said that the German onslaught was physically successful during the early years of the war, but morally a failure. Pari passu with the German success in arms there has been an increasing determination on the part of the allied nations to fight the war to a finish. The Allies were morally successful during the long and terrible period that was required to rally their physical equipment for victory.

It will thus be seen that the struggle we are engaged in is not a war in any ordinary sense of the term, but a great biological struggle for survival in which the organism most highly qualified to survive will prevail. The German in a scientific analysis of this problem has wholly ignored the survival value of moral might. It is for these reasons that the war must not end with a compromise if the type of civilization we believe in is to prevail. The war will end in a compromise unless we put the whole weight of the nation and of the allied nations into the fight. The whole weight of our man-power, using the term in the broad sense I have interpreted, must be utilized. This means that we must study our latent and potential resources in health and in real vitality just as we have studied our latent and potential resources in agricultural products, in mechanical products, in munitions and in fuel. As we study this mighty upheaval we are moved to ask what is the price of victory and what are its rewards?

No matter what statisticians and financiers, economists, philosophers and pacifists may tell us of the terrible injury from war I am confident that apart from attaining the freedom of the human race there will be by-products that will return many times over the actual cost of the war. The war may be regarded as in the nature of a powerful social cathartic, carrying off a deadly poison from the body-politic even though it temporarily weakens the body and drains it of some of its best blood. If I may be permitted to use some rough medical language, the world is going through a terrible attack of intestinal colic in order to rid itself of the Kaiser and his crew (this with apologies to the colon bacillus and all putrefactive organisms).

This is the only brave and optimistic view to take, but it imposes upon us the obligation to proceed with all possible vigor and dispatch to utilize these by-products to the highest degree before the human race again slips back into its self-sufficient and normally indifferent attitude to moral and physical reform.

Perhaps one of the greatest of these by-products is the abrupt revelation of our unpreparedness to maintain and carry forward our civilization, of the tremendous waste not only of natural resources but of man-power, of our criminal neglect to train our man-power for peace as well as war. It is true that the world and humanity are never at peace. Life is continuous warfare with environment and the losses in that warfare are none the less heavy because they are submerged in a death-rate that is accepted as necessary just because it is there. We have had a severe jolt to our self-sufficiency, yet we are not even yet fully awakened from it.

In normal times nobody, not even government, dare stop a man on the streets and say, "Are you loafing or working? If working, is your work worth anything to your country? Are you physically fit to fight?"

These questions are now being asked of every man between 18 and 45 and they have to answer up quickly. They ought to be asked of every man and woman of any age throughout the whole nation, and if they cannot be answered to the full satisfaction of the patriotic demands of the country, there is a final question: "What are you going to do about it?"

There has not been sufficient attention given to the last question as covering all the contingencies. It is true that the man who is loafing must work or fight. The man whose work is not essential, whether high or low, is being required to shift his job. But the men who are physically unfit, whether of draft age, in deferred classes because of dependents or of occupation, or beyond the draft ages, what of them and of the women and the children who have never been examined as to their physical fitness?

It is among these classes, gentlemen, that we find the great lesson and the great opportunity of the war.

In the first draft 38 per cent of men between 21 and 31 were rejected as unfit for the training camps. This does not represent the full degree of physical impairment as many were accepted whose deficiencies were never revealed by the hasty examinations and many were deliberately accepted who were actually suffering from gonorrhea, syphilis and other affections which could readily be treated at the camps.

In the later draft, some further relaxation was made and only 30 per cent were rejected, and many more were sent to the camps with remediable defects.

An analysis that I made of the results in seven representative boards showed that 60 per cent of these defects were preventable and remediable by proper physical training, personal hygiene and corrective surgery or dentistry. These findings are paralleled by those of the Institute during the past five years in its examinations of industrial and commercial employees.

Shortly before the war when General Leonard Wood asked me for an estimate of the number between ages of 18 and 45 that would be declined, I answered, as based on our experience, at least 50 per cent., and the examinations in the first draft are entirely consistent with that estimate. More than 50 per cent. of those examined by the Institute have been found in need of some form of medical or surgical treatment.

The following is an analysis of typical industrial and commercial groups:

	Industrial.		*Commercial.*	
	Men. Average Age 34.	Women. Average Age 25.	Men. Average Age 26.	Women. Average Age 26.
	%	%	%	%
SLIGHTLY IMPAIRED.				
Slight physical impairment or defect requiring observation or hygienic guidance	10.00	23.07	9.83	12.22
MODERATELY IMPAIRED.				
Moderate physical impairment or defect requiring some form of hygienic guidance	40.96	53.84	51.59	57.77
Moderate physical impairment or defect, medical supervision or advised in addition to hygienic guidance	35.24	19.24	27.89	21.11
Advanced physical impairment or defect requiring systematic medical supervision or treatment....	8.57	3.85	9.24	8.88
SERIOUSLY IMPAIRED.				
Serious physical impairment or defect urgently demanding immediate attention	5.23	...	1.45	...

Just how are these conditions reflected in the death-rate and how do they affect national vitality? According to a bulletin of the Illinois Life Insurance Company it is stated that the soldier's chances of surviving an entire year's war service are better than those of a young man of 20 surviving to 32 in time of peace; better than the chance the civilian of 25 has of reaching 36, or that the civilian of 30 will reach 41, or that the civilian of 35 will reach 45, or that the civilian of 40 will reach 49, or that one of 45 will reach 52, or that one of 50 will reach 56, or that one of 55 will reach 60, or that one of 60 will reach 63.

The Institute is often asked, "When does a man begin to grow old?" The answer is as shown on the chart, at age 12. It is then that he begins to lose his vital resistance and his death rate begins to rise until at 40 in the cities the rate among males is twice what it was at 20. Think of it! Fifty per cent of the vital resistance gone at this early age. Now without going to science, which is after all but organized common-sense, let us appeal to the sober common-sense of the intelligent business man and ask him if the rapid rise in the death-rate among full grown men is really necessary, really the expression of a law. Some actuaries, hypnotized by their own tables, have felt that this is so. Such men believe that if men at 40 do not die at the regular rate they ought to be made to die and thus justify the tables. But, gentlemen, there is no law of mortality. It is entirely within the bounds of scientific possibility to increase the vitality of 40 to that of 20.

Death rates are not due to time but to what happens in the course of time, and these are the things that happen:

Infections, poisons, mental strain, physical strain, mental inactivity, physical inactiviity, too much food, too little food, badly balanced diet, accidents, injury.

We cannot successfully and completely meet all these influences, but we can meet them to a much larger degree than at present. The first great step is to search the bodies and the lives of our people for the first sign of these influences. Instead of waiting fifty or a hundred years for another great war before we have a physical tryout of the nation, make the periodic examinations of the human body available to the whole people every year or at least at frequent intervals.

It was men convinced of these truths who founded the Life Extension Institute about five years ago. Mr. Harold A. Ley of Springfield, Massachusetts, and Professor Irving Fisher of Yale were the prime movers in organizing the Institute. Ex-President Taft, an eye-witness of the way the death rate had been smashed in the canal zone and in the Philippines, was elected Chairman of the Board of Directors and a Hygiene Reference Board of 100 leading scientists and educationists was formed under the chairmanship of Professor Fisher. This Board includes the Surgeon Generals of the Army and Navy and United States Public Health Service and many State Health officers and authorities in special scientific fields.

Mr. Mershon, as you all know, has been systematically collecting information as to the ways and means employed by trust companies to improve the morale and efficiency of employees. The most striking figures to me are those showing a vast amount of work yet to be

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done. For example, only 4 per cent provide luncheon facilities for their employees and only 2 per cent provide physical examinations.

In order to apply the 16 rules of hygiene which the Institute has formulated with the aid of the Hygiene Reference Board intelligently and with precision, it has organized a systematic form of service for individuals, for groups of employees and for institutions such as insurance companies which are interested in prolonging the lives of their members and policyholders.

The service provides for periodic physical examinations, study of family history, personal history and activities and report and suggestions for the individual. No medical treatment is given, but needed medical or surgical attention is explained and urged. Education in right living is given by monthly magazine, "How to Live," and by special leaflets dealing with such conditions as eye strain, underweight, overweight, constipation, exercise, headache, diet, etc. Special instruction in diet and exercise is also given to members. In fact, we endeavor to teach people HOW TO LIVE, basing this instruction on their ascertained condition.

The Institute has about 5,000 physicians located in the principal cities and towns. At the head office in New York it has a large pathological laboratory and an executive staff of about 100 people, including 20 physicians. Behind the scientific work stands the Hygiene Reference Board.

In dealing with groups the Institute sends its trained head office examiners to do the work, equipped with the complete standardized, scientific apparatus. This work is standardized throughout and carefully supervised, the final interpretation and important laboratory work being done at the head office. We provide a very exhaustive and searching service for the chief executives in whom the concern often has an investment which cannot be computed in money value, a lesser but very complete and valuable service for the heads of departments and important operatives, and a third service for the rank and file which is along the standard lines, but requiring much less time and detail, although accomplishing the purpose of a thorough individual survey, report and counsel.

It is a pleasure to state that our group department really owes its inception to this body. It was started only at a request from one of your leading members to provide medical supervision for their employees. Mr. Sabin sent for me one day and asked what the Institute could do for them in our health instruction and examining service. We at once organized such a service for industrial and commercial groups, and it has been in operation for five years. It is hardly necessary to state that such a company does not employ any business methods for this length of time unless it finds it not only valuable but the best method. The cause of life conservation owes much to Mr. Sabin and his company for their progressive cooperation in this field.

About 100,000 examinations have already been made and many thousands of overseas workers in the Red Cross, Y. M. C. A., Knights of Columbus and Salvation Army have been examined. Several important insurance companies have also taken the service for their policyholders, and there are thousands of individually subscribing members.

Realizing the immense importance of the draft examinations and the tremendous educational value of these findings, the Institute has from the outset of the war urged measures for the reclamation of the rejected registrants. The Institute has prepared a leaflet of instruction for such men informing them of the significance of their disabilities and appealing to their patriotism for cooperation in correcting their disabilities and qualifying for any work that they can perform whether civil or military. This circular is printed as a document of the United States Public Health Service and placed in the Draft Boards with the approval of the Provost Marshal General and will be distributed by the examiners to those rejected. It will also be used as an instrument in a nation-wide appeal for improving vitality among the people at large of all ages and conditions.

I am distributing copies of this circular and ask your cooperation in pushing forward this work. Please note that it does not in any way advocate the work of the Institute. Why not distribute copies of the circular to your employees suggesting that it is the map of the people's weaknesses? Urge them to do what they can to change and correct their own weaknesses and prevent future development of impairment. You can give this circular yourself or with the compliments of the Institute and we will send you a supply.

At the present time opportunity for patriotic service imposes the obligation to utilize it for the common good. We *are* our brothers' keepers. Men are dying for us just now. We must do what we can. Is there really anything we can do here in money, self denial, work, service, that will balance what our boys are doing over there? How feeble and inadequate it all seems compared to the vigil and the service in No-Man's Land. Yet all service has its place and the great service we can now perform is to summon and assemble behind the fighting line the full strength of the nation's resources in man-power and all that man-power means in industrial activity and production, in civilian morale as well as in actual fighting strength.

As President Wilson states, "It is not an army that we must shape and train for war; it is a nation."

The Work of the Capital Issues Committee

By JOHN S. DRUM, President Savings Union Bank & Trust Company, San Francisco, Cal., and Member of Capital Issues Committee

Mr. President and Members of the Trust Company Section, Ladies and Gentlemen: In your report just read, President Blair, you have outlined very fully what the functions of government are in war times. The work of the Capital Issues Committee is merely carrying out one of those functions. The purpose at this time of government is to make the business of war the first business, not only of the Government as such, but of every man, woman and child in this great nation of over one hundred million people. There is no other way in which our soldiers at the front can prosecute the war for our protection, and eventually for the freedom of the future, unless every one of us at home contributes, each according to his or her share, which share is in a measure self-sacrifice, some of the help that is necessary to make the work of our boys at the front effective. Government, therefore, in these times of war, is to take practically every activity that constitutes in normal times the activity of the community, or the individual, or the corporation, and analyze those activities and grasp wihin itself all of those activities and make them its own, so that by the exercise for war purposes of all the civic powers of its people, it can prosecute the war so effectively that it can take the resources of the country and the industries of the country, and then bend those industries and resources to its will for the purpose of carrying on to a triumphant conclusion the business of the war. It therefore must take those things for the carrying on of the war, and see to it that the business of war is the first thing in the thoughts and minds of its people. To do that it must build up and develop different agencies and activities that can bring that message home to the people.

The American people as such are the most receptive and willing people on the top of this earth, in co-operation with their Government. But we must consider, as President Blair said in his report, that the American people have been enjoying the greatest measure of prosperity, and have in their ownership probably the greatest resources of any nation on earth. The American people have been proud in their prosperity, and they have been to a certain extent self-centered in their prosperity. Now that war has come, there is only one way in which the American people can be divorced from the individual thoughts of their own welfare, and made to think and act in national terms; and that is for the Government to build up such agencies as can lead the people and educate the people, and make the people aware of what the prosecution of war means. War, and the business of war, calling as it does, as you all know, upon practically one-third of the productive power of this country, calling upon it here and now—not next month or next year, but here and now; and calling upon it, not merely by taking to itself sums of money, whether those sums are billions or millions, but seeking to take to itself those things which money buys, those things in the shape of goods produced by labor, which exists now in limited quantities only, and which can be produced only by the passage of time, and those things which do either exist in limited quantities or do not exist at all, must be produced here and now if the fighting millions are to be equipped and transported and maintained at the front in France—all this, I say, is the business of war. That is why your Government, through one agency after the other, is asking for the first call upon all of those things that constitute the material wealth and resources of this great country, and for the first call upon its industries, its commerce, its transportation and its finance; and that is why we have been asked, at the appointment of the President, to sit in Washington and determine in these times of war what is and what is not compatible with the national interests. It is a hard task, it is a task that is difficult for men who must engage in it during the war, whose entire experience has been just the reverse; whose business has been that of seeking to create, construct and develop things, but who must, during this period of war, restrict, divert and change from one channel into the other, the uses of all the material, resources and labor of this country. It not only is difficult, so far as the facts themselves are concerned, so far as the experience of the men is concerned, but it is also extremely difficult to determine in a discretionary way, here and now, upon the spur of the moment, that which does constitute compatibility and that which does not.

When we think that we must as a people go on with our production, and go on with the uses of the production for the purpose of stimulating our commerce and our industry, even though a great amount of our labor and material is diverted for war purposes; when we think that those things must continue, and then when we think that a group of men in Washington, aided by other groups all over the country who are giving their advice and counsel, are seeking to say that this corporation cannot use for new purposes this labor or this mataerial, but that this other corporation may—when it comes to the question as to whether a business is essential or non-essential, the problem is a great one. We do not seek to say whether one business is essential or not, or that another business is non-essential. On the contrary, we seek to say only that we must not interfere with the going concern of this country, but that we must consider only the use of capital for new purposes, whether those purposes be the extension of existing plants and industries, or whether the creation of new plants and industries; and that is the measure of the responsibility which we have been exercising in Washington.

We determine the question of compatibility entirely on this basis: Does it or does it not aid in the prosecution of the war? We do not determine whether the business applying is essential or non-essential for war purposes. We only consider whether the new capital is to be employed for a purpose that serves directly in the prosecution of the war. That is, so far as the use of private capital is concerned by the individual or by the corporation. So far as a municipality is concerned, we must consider that the municipality and the State, having proper regard for the welfare of the citizens comprising that par-

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ticular municipality or State must not have its health interfered with during war time, and must also be able to pursue those things that are of paramount importance, so far as the welfare of the particular community is concerned. We therefore upon those factors seek to determine just what is or is not compatible. Since May last, when we were inducted into office, we have passed upon practically a billion and a half of securities. We have acted upon nearly 4,000 applications. They come from all over this country, and are of every kind and character imaginable. One grand financial kaleidoscope seems to pass before our eyes in the day's work. One moment we are considering the needs of some municipality in the extreme Northwest, and the next minute we are considering whether a utility corporation in New York State should or should not be permitted to extend its plant. The next minute we are considering some problem of irrigation and reclamation in some state in the Southwest, and so the day's work goes on, hour after hour, considering these different applications; and although the amount may be small, the amount of information that we receive before we pass upon those applications is large because we have the assistance and support of the financiers and men engaged in corporate affairs and industries throughout the whole country, who, in a whole-hearted and patriotic way, are sitting day after day in each one of the twelve Federal Reserve Districts over this country, furnishing us with the local aspects, and giving us a local picture, so that we can determine from the picture which they give of local conditions whether we are or are not exercising proper judgment in either approving or disapproving a particular application.

Those men sit, and they go into all the financial aspects of particular locations. They consider the personnel of the corporation, if it is a new corporation. They consider whether that corporation embarking in time of war is apt to achieve financial success, or whether it is not; whether the men engaged in it are of the proper character; whether the subject-matter of the new corporation is one which serves a war purpose. And then, over and beyond that, they also consider the plan and method whereby the moneys are to be obtained by that particular corporation to finance its work. When we get those reports from the local committees, we then have practically every kind and character of atmosphere and viewpoint surrounding that application that is possible to receive, in regard to the particular needs of the applying corporation or municipality, as the case may be. But we go further than that. We must not only have the local effect, but we must have the national picture. We must know whether or not, nationally, the particular subject-matter of this capital expenditure is going to aid in prosecuting this war in one little single degree; and we have sitting there in Washington, thinking in national terms and acting in national terms, group after group and committee after committee, of men particularly qualified in the particular subject-matter of their work, who know definitely and thoroughly, not only the science of a particular enterprise, but also the art or the practice whereby that enterprise is conducted; and those committees give us the benefit of the national statistics that have been gathered, and they can tell us very definitely and positively whether this particular thing does or does not serve a war purpose. Very frequently the national picture differs from the local picture. While all the local conditions are right, so far as the finances are concerned, so far as the economic needs are concerned, for the subject-matter of the new corporation,—it is frequently a question; and the war body sitting in Washington determines that fact. We therefore have pursued that procedure, so that we do not feel, when we eventually exercise our own judgment in the matter, that we are taking a chance in determining these great, big questions upon which the future welfare and the present welfare of this nation depends, unless we are fortified and safeguarded and hedged in with an amount of knowledge that practically gives us, you might say, the lead from which to form a correct judgment and conclusion in the matter of a particular application. That is the procedure we follow. So far as the applications themselves are concerned, we have now had so many hundreds of applications, typifying certain conditions all over this country, that we have gotten to the point more or less of being able to determine the principles upon which those applications should be decided.

In regard to municipalities, the main applications are concerning schools, hospitals, roads and new public buildings. So far as new public buildings are concerned, needing steel, other raw materials and labor, there is practically nothing of a municipal character that cannot wait during the period of the war; and as application after application comes in, the War Industries Board advises us, until now they have stated that the needs for war purposes this year are about 5,000,000 tons short, and that nothing of a building character requiring steel and all the other raw materials should go forward unless it is a matter concerned absolutely with the health of the particular community. As far as schools are concerned, England has built only half a dozen schools, I think, since the war began. We try in every way possible to see whether the needs of the particular school community cannot be served by putting up a temporary structure. We have gone into the question of the advisability of temporary structures with the Architect of New York State, who has furnished us with specifications, whereby for a small and nominal sum a temporary building can be erected either for a school, or a tuberculosis hospital, etc., and practically two-thirds of the cost of the building saved. In regard to roads, unless the road is absolutely necessary for military purposes, or unless it is in such condition that it will be practically impassable for the purpose of business otherwise, we are forced to disapprove the road applications. We find, in regard to applications coming from municipalities, that we have the co-operation and support of the municipalities more than almost any other originators of applications; first, because the amounts that municipalities require go up into such huge sums, and also because the example of a political division of a State being willing to forego, if it is willing to forego, that particular thing, serves that much better the Government's need for educating its people, and also because municipal securities are tax exempt from Federal taxes, and are therefore directly competitive with the Government, where the proposition is passed.

So far as private corporations are concerned, we adopt two theories: One, the financial aspect; and the other, the economic aspect. So far as the financial aspect is concerned, even though it serves a war purpose, the subject-matter of the new corporation, or the extension of the existing corporation, unless that corporation is financed practically by its own people, or practically by people who are acquainted with it, who know definitely what investment they are making,—we feel that it is not compatible with national interests in war time, when the Government is appealing to the people to buy War Stamps and Liberty Bonds, that new enterprises should be financed by solicitors going out on commissions of 15, 20 and 25 per cent., and diverting the income of the successful wage earner and the successful farmer into enterprises where, on the prospectus, the subject-matter of the corporation is a proper war purpose, but at the same time the moneys are not economically used for that purpose. Consequently, we feel that in war times, if new enterprises are to be conducted, those new enterprises should be financed either by the group of original promoters or by the promoter's friends and acquaintances who know the character, and the business ability, and the likelihood of financial success of the original promoters, and who are willing upon their own judgment, upon their own knowledge, to invest their own money, and to do it with an understanding knowledge, and do it in the home territory or the location where the particular enterprise is to be conducted. This idea in war time of having a corporation start in business in Michigan and sell stock to the farmers and wage earners of Iowa, Illinois, and other neighboring States, where the stockholders can not be familiar with the proposition, means that the stockholders have been attracted simply by the statements of the solicitors, or by the airy announcements of a prospectus, and they part with their money, and when the next Liberty Loan drive comes on, or the next War Savings campaign comes on, they are not prepared to do what the Government asks them to do, which is to invest their money in Government securities out of thrift wealth, out of that which is an accumulation of surplus earnings,—which should be done, rather than simply have our securities floated on credit, which will lead to eventual inflation.

Now, I am not going to take up much more of your time, so far as our procedure is concerned, or so far as our policies are concerned, but I do want to talk to you for a few minutes along the line of co-operation which the banks of the country have already so heartily given us. I want that co-operation kept up, and I want it extended and amplified. You who are the custodians of credit in your particular communities, and also the financial, industrial and commercial advisers of those engaged in various enterprises, have given us liberally of your time and your efforts, and you have carried forward for us this matter of education, so that this work has become effective. It is through your co-operation that it has become effective. But we want further co-operation.

So far as the issuance of new securities is concerned, in the form of notes, bonds and stock, our work is pretty well known. But so far as the intermediate borrowing is concerned, or so far as the intermediate use of money is concerned by a municipality, corporation or individual, it is not so well known. The entire purpose underlying the work of this Committee is to save production for the war of the materials and labor of this country. Therefore it is not only a matter of saving the capital invested in a particular issue, but if an individual or corporation or municipality goes ahead with some construction program, because it can finance it in an intermediate way, either by borrowing the money from the banks or by using its own money, it is then not serving the purposes of the Government, knowing before it enters into the program whether the new purpose is or is not essential. The only way in which that message can be made effective is to have the service and co-operation of the thousands and thousands of bankers over this country, nearly all of whom are familiar, from one source or another, with the fact that some new enterprise is about to be entered into. They know it generally before the contract is entered into; they know it before any obligation is assumed. We want to ask your further co-operation, and the use of your further time, so that you will make known to every one who is about to embark in a new enterprise, the request to that person, corporation or municipality, to send in to the Capital Issues Committee its application, to determine whether that particular use that they are about to make of the materials and the labor of the country does or does not serve a war purpose. Otherwise, they are coming flatly into competition with the war program of the Government. They are practically standing up and saying, "Despite the war, despite the fact that the war must be prosecuted, despite the fact of the importance of raw materials, and the fabrication of those raw materials into the finished product, I feel that I must go forward with my enterprise; I must take what I can get of the limited supply of labor and the limited supply of material, and I must go forward with my enterprise, despite the needs of my Government for war purposes." That is what is being done, unless before that individual judgment is exercised that individual judgment is enlightened as to the situation. In this time of war the American people are asked to forego that judgment and forego the exercise of their free privileges, and give freely and generously to the Government, foregoing their own judgment for the benefit of the Government, letting the Government decide for the time being, during the period of the war, as to the question, Does this or does this not serve for the immediate prosecution of the war? Therefore, that is the first request I make of you gentlemen.

Then there is another request I make. That is in regard to the waste of capital. This country has been very prodigal in production since the war in Europe began, so prodigal that sums of money hitherto unheard of have been made and distributed by the millions and hundreds of millions of dollars, among our wage earners and our farmers. They have, out of those millions and hundreds of millions, been able to put something aside as a surplus. That fact is known to those who have preyed upon the successful wage earner and farmer of the country, and who have endeavored, by their false, if not fraudulent, solicitations and representations to part those men and women from their money; and they have gotten that money, and seen to it that that money is invested in worthless stocks. Those sums run into the hundreds of millions. This menace is greater since the Liberty Loan campaigns. Never before have the American people been investors in securities to such an extent. Do we realize that over seventeen million Americans are possessed of Liberty Bonds? A greater number than that have War Savings Stamps. Then think of those vultures of

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finance, going out and attempting to get those people, who have so far done their patriotic duty, to exchange those bonds and those stamps, with the plea that having done their patriotic duty by making the original investment, they are now serving a higher patriotic purpose by trading those bonds and stamps for the purpose of making an investment in this enterprise, or that enterprise, the subject-matter of which may be the further prosecution of the war. They make a plea for the production of oil, and they speak of the needed production of more oil; or it may be the coal industry, or concerning tractors or trucks. It makes no difference what it is. Those false representations are made by solicitors, whose claims are false and whose statements are false, and they under that false guise divert from the American people the very investment which their Government has asked them to make and keep as an investment over the period of the war. That has gone on in the last four months until it is estimated, through some of the States of the Middle West—and I have been furnished these statistics by the Loan Department of the United States Treasury—that more than four hundred million dollars' worth of Government bonds have been exchanged for securities of that character.

For that reason Secretary McAdoo has asked the Capital Issues Committee to go forward in the work of stopping that economic crime. We are preparing now to see to it that over the length and breadth of this land, at least during the period of the war,—not as the "Blue Sky" commissions of the respective States have been doing for the protection of investors,—not only for their protection, but for the protection of the Government, we are going out and make the message of the Government plain, that during this time of war the Government cannot allow its people to have their money, their investment, diverted in any such way. Whether we succeed or not, we are going to make the effort, and we are going to seek to make that the one big constructive piece of work of this Committee. We have been put in Washington for restrictive purposes, but if, during these days when restriction is necessary, we can do for the American people one piece of constructive work, so that this economic waste and extravagance will no more go on, nor be possible when peace comes, then we will feel that we, and all of those who have assisted and associated themselves with us in this work, have done, to the extent that we are capable, one portion of the patriotic work necessary for the prosecution of the war.

I therefore am asking you to-day if you will not by appropriate resolutions see to it that the American Bankers' Association shall put its seal of approval upon this work, and see to it that throughout the country we have not only the support and co-operation, but the active working interest of all the bankers, as though you were all ex-officio members of one great big vigilance committee, the purpose of which is to hunt out and prevent this economic loss, extravagance and fraud from going further.

That is the real big message that I want to bring to you to-day from Washington. I want to ask you for your co-operation. I want to say that, so far as our work is concerned, we are seeking to do it along democratic lines, and not lines of autocracy and force. We are seeking to do it by getting the enlightened public influence of this country back of it, and to get that enlightened public influence, we want the patriotic co-operation and support of those who are the leaders throughout the country. For that reason, in conclusion, I want to say that I appeal to you here to-day, as the leaders in your communities all over this country, that you will give the benefit of the positions you occupy in your respective communities, the benefit of those things you stand for, the benefit of the knowledge you have acquired, to the service of the Government during this time of war, so that when the war is over we will find that out of the fire has come a better and more purified people.

THE PRESIDENT: I knew when we asked John Drum to come here and talk to us that we would hear something worth while, and I think we all agree that we are not disappointed. Now, a motion is in order for the appointment of a committee to draft such resolution.

Committee and Officers' Reports—Trust Company Section

Annual Address of the President, Frank W. Blair

Quietly, as is becoming of those upon whom responsibility rests, and **efficiently and intelligently, the trust companies of the United States** are adapting themselves from day to day to changes wrought by the needs of a country at war. War is a voracious thing, and its appetite is not easily satisfied. It asks for men, and more men, and still more men; it requires munitions, and more munitions, and still more munitions; it demands money, and more money, and still more money. War is terrible and brutal, but war successfully waged for liberty's sake yields a profit so great that no sacrifice of blood, toil or money is too much to pay. Freedom, opportunity, confidence—these are the most precious possessions of mankind—these are the profit victory offers. In this realization the trust company official finds strength when the days seem dark and the outlook dreary.

We have learned—and the lesson is being impressed upon us more and more each passing day—that the supreme effort demanded by a great war requires for its realization the maximum effort of each of the component parts of the nation, indivdual and corporate. No man is truly and wisely patriotic who is not serving where and how he can serve best—be it on the firing line or at his desk. So, too, each corporation—each bank and trust company—should be so placed that it can give its utmost. If, for instance, membership in the Federal Reserve System—a commercial banking system, be it remembered—designed, created and administered as such, enables a bank or trust company to do this, then it should join that system forthwith, without regard for other considerations. If, on the other hand, the limitations as to business and investment imposed upon non-commercial institutions are such that they can add nothing to the strength or efficiency of the system, by joining it, but, rather the contrary, then it is their duty to soberly consider the course they shall pursue, without regard for the waving of banners and beating of drums. Each must serve. All must serve together. Co-operation there should be. Co-operation there must be—state bank with national bank, non-commercial bank with commercial bank, non-member bank with member bank. "Going it alone" does well enough in time of peace, but won't do now.

How far a particular bank can go, in this direction or that; how much it can do in one way or another; what its duty is toward this thing or that, the ability, experience and conscience of its management must determine, and a decision reached after proper consideration of all these factors, none has the right to criticize. But some do that very thing. Take the case of financial institutions which do no general banking. There are hundreds of them—located in a score of states. Some of them are trust companies prohibited from doing commercial banking; some are mutual savings banks having no capital stock; others are state banks, compelled, by the provisions of state law, to invest their assets, or the greater part, in securities not recognized as commercial investments. They could not help the government or themselves by becoming member banks. Under present conditions they are serving their communities, aiding business, promoting savings and thrift, buying and helping to sell Liberty bonds—all without directly aligning themselves with the Federal Reserve System.

The disposition on the part of some public officials and others to question the patriotism or loyalty of such institutions because of their non-membership is something for which I can see no reason unless it results from either lack of understanding, recklessnes of expression or disregard of facts.

And speaking of co-operation: The obligation resting upon public officials to do their part is not always recognized. In demonstration, I quote the following from a circular issued by the Comptroller of the Treasury under date of August 12 last:

"For the past seven months of 1918 there has been no failure of any National Bank in any one of our forty-eight states. Never before in the history of National Banks since 1870, with the single exception of the year 1881, has there been such immunity from failures. During these same seven months of 1918 twenty-two State Banks and Trust Companies in fourteen different States, have failed—an average of a failure every ten days."

This obvious attempt on the part of a public official—a high official—one who is ex-officio a member of the Federal Reserve Board—to put doubt in the minds of the public regarding the stability of financial institutions operating under State charters, should be most strongly condemned. It is to be deplored that such a foolish thing should be done by one occupying a high place, at a time when the utmost of effort is necessary on the part of all banking institutions, in order that our Government may be best served; and after twenty thousand State Banks and Trust Companies have so nobly and so effectively been doing their bit to help in winning the war. To my way of thinking, it is a mighty poor example of co-operation.

The last has been an active year in affairs of the Trust Company Section. As its details are completely covered by the Executive Committee's report, I shall refer to two or three items only. There has been read to you a copy of the letter signed by me and sent to the Federal Reserve Board under date of October 31st, last. Though no acknowledgment of that letter was ever received, it seems apparent that the justice of our contention made therein, and the fairness of our suggestions, were both recognized. The so-called Phelan Bill, which is generally supposed to represent the views of the Federal Resrve Board as to the proper method of amending Section 11-K of the Federal Reserve Act, contains neoarly all, if not quite all, that for which we contended.

And this, it seems to me, is a good time to say with respect to the Phelan Bill, that I cannot see in its second paragraph, which has been so vigorously attacked by many trust company men, sufficient of menace to state chartered financial institutions, to offset the good which would result from the enactment into the law of its other provisions. The paragraph in question is objected to by some of our friends on the ground that it would give to National Banks a power they do not possess at the present time. To me it seems as if this may be not be so. It is contended by many lawwers—and among them some of the best in the country—that the national banks already possess every power which the sponsors for the Phelan Bill seek to give thmeh. These lawyers hold that the United States Supreme Court's decision in the famous Michigan case, which was prosecuted under the auspices of this section, gives the Federal Reserve Board authority to grant trust powers to national banks in any State where state banks or trust companies come into competition with them, state laws to the contrary, notwithstanding. If this is so, the effect of the passage of the Bill would not be to increase the powers of national banks, but to clear up doubt as to their limitations.

At the present time, there is not the least doubt about the authority of the Federal Reserve Board to authorize national banks in most of the states to operate trust departments, without regard to the pro-

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visions of state law governing the granting of trust powers to state institutions. The Phelan Bill contains two paragraphs which seem worthy of quotation here:

"Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law."

"In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly; Provided, that no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers."

During the last few years several state legislatures have passed laws making it an offense for any corporation to practice law, or to furnish legal advice, or services, or to furnish attorneys or counsel to render legal services of any kind. I think most of them contain exceptions, of which that incorporated in the New York law is typical. It reads as follows:

"This section shall not apply to any corporation or voluntary association lawfully engaged in the business authorized by the provisions of any existing statute, nor a corporation or voluntary association lawfully engaged in the examination and insuring of titles to real property."

It has been, and is the belief of many experienced trust company officials, that in the handling of trusts, many times administrative and legal questions are so intermingled that from a practical viewpoint, as well as from an economic one, it is desirable that all ordinary office legal matters and Probate Court appearances should be attended to by an attorney directly in the employ of the trust company. In the years that have passed it has been demonstrated that those who have an intimate knowledge of the facts and intricacies of the trusts can perform required legal services of the ordinary kind in such matters, with better understanding, more expedition and less expense than an outside counsel. It is their belief that trust company men who come into contact daily with the peculiarities of laws governing the disposition of property after death are, if otherwise capable, much better qualified to guide the drawer of a will through the maze of legal technicalities which surround the laws of inheritance, than those not having the same experience.

There has been no doubt in the minds of trust company men that by the exception quoted above it was intended that work of this kind should be done as it had been done before the passage of the laws, and acting upon that assumption most companies have conducted their business with no change of policy and without even a remote thought of interference. A situation now exists, however, which demands immediate attention.

During the year, two New York companies were prosecuted, convicted, and fined for violation of the statute of that State. In one case the trust company advertised that its services were open to the public in the matter of drawing wills, without obligation. Responding to the advertisement a certain person requested the trust company to draw his will; the trust company called in an attorney connected with its regularly retained firm of legal advisers, who drafted and supervised the execution of the will, under the terms of which the trust company was made executor. No charge was made by either the trust company or the attorney. The Court in making its finding, held the purpose of the statute to be to prevent the intervention of a corporation between a lawyer and his client, in cases where the lawyer was primarily retained by the corporation, and also that the practice of law is not confined to performing services in Courts of Justice, but includes legal advice and counsel, and the preparation of legal instruments and contracts by which legal rights are secured, although such may not be pending in Court. The record does not show that the attention of the Court was called to the exception in the law.

The other case was brought against a Title Guaranty and Trust Company, one of the employees of which drew a bill of sale of personal property and made a charge for doing so. The Court held this to be practicing law in violation of the statute and imposed a fine. In its defense the company contended that the exception above quoted made the statute inapplicable to the transaction, as the trust company was authorized to do the business in question. In denying the defence the Court said:

"The plain meaning of the statute is that the section does not apply to the defendant while engaged in examining or insuring titles to real property, but does apply while doing work ultra vires to its charter, and no corporation has power to practice law. When doing the work which is the subject of this information, it is not engaged in the examination and insurance of titles to real property, and, therefore, the section does apply."

Several well known and competent attorneys have expressed the opinion that the first case at least of the two was erroneously decided. Their view being that the exception should be construed as making the statute applicable in all cases where, as a preliminary to the exercise of its admitted corporate powers, a trust company draws a will or other instrument, in which it is made executor, trustee, agent, etc., or where a trust company, in the execution of a trust conferred upon it, does work which it is undoubtedly authorized to do, and which necessitates legal services. Thus, a trust company could draw, lawfully, a will in which it is named as trustee, but could not draw one in which it is not, or is not to be directly interested; it could appear in Court in the probating of an estate or in the executing of any other trust, the performance of which was directly within the scope of its corporate functions. The question would seem to be one of ultra vires. Whenever the corporation acts intra vires the statute is inapplicable, and whenever it acts ultra vires it is applicable.

It seems to me that the Trust Company Section should act at once in the direction of protecting the interests of its membership. I therefore recommend the appointment of a special committee to make a study of the subject and to propose such protective and remedial measures as are deemed necessary. I further recommend that when this committee's report is received it be referred to the Legislative Committee of this Section, and that the committee last named be authorized to take such action as is necessary, either by promoting or opposing legislation to put into effect the recommendations of the special committee.

There exists a condition of affairs within the American Bankers' Association which must be remedied if the association is to continue to be the representative of all our country's financial institutions. The report of your Legislative Committee informs you of the difficulties it met with while endeavoring to protect our interests; difficulties resulting wholly from a restrictive provision contained in the constitution of this association. Happily, steps have already been taken to correct this defect in our fundamental law. President Hinsch, seeing the necessity for providing for us some kind of relief, recommend to the Executive Council, at its spring meeting, the appointment of a committee to make a study of the association's affairs, and, having secured authority, appointed a committee, which I understand will make certain recommendations to the general association at this convention. If the constitution is amended in compliance with the committee's suggestions, there will be permitted much more autonomous action on the part of the several sections. Such action would be a step in the right direction, and it is to be hoped that the delegates present will vote in its favor.

This is "election year." In common with everything else, war has brought a change in what we call "politics." The word "politics" has taken on a new significance. Despite eminent authority, politics has not adjourned. In this much quoted statement, the word was used as interchangeable with partisanship. Partisanship, we all sincerely hope, is adjourned, despite discouraging signs to the contrary. But partisanship is not politics. Politics has a much larger meaning. Under the broader interpretation, it is concerned with the relationship between government and people, and just now it also covers the relationship between government and business.

In the last few years these relations have undergone marked changes. Heretofore the government has been concerned with business in two ways—first, as the constructor or operator of certain enterprises so vast in scope and cost, or so much as adjunct of public service, that private capital could not be tempted; and second, as a regulatory instrumentality.

War is always the concern of government, and this war is so huge, and war generally has become so much a matter of production, that it has surpassed the possibility of having its demands for materials satisfied by anything less than government direction.

Not only is our government conducting the war, but it is also conducting the great industrial enterprises that support the war. In regard to some of its understakings it may appear that the war served as a convenient excuse for indulging a desire for socialistic experiment. It seems certain enough that the government, by repealing its restrictive laws, could have freed the railroads and thereby secured the results desired. The necessity for "taking over" the telegraph and telephone lines is even less apparent, but the fact is that, for the duration of the war and for some time thereafter, the government is the greatest and most important factor in business.

Directly or indirectly, by law or through moral influence, the government is in complete control of all kinds of business, both essential and non-essential; it controls the supplies of raw materials; it fixes prices; supplies transportation or refuses to supply it; it exercises unrestrained control over capital investment, and the credit of the business world is coming more and more under its influence and direction. The government is engaged in building and operating ships on its own account; it is the greatest manufacturing enterprise; it does the greatest insurance business; it employs more labor, pays more wages, buys more material, and takes in and pays out more money than any combination or corporate enterprises ever dreamed of. And the government is also the greatest of labor organizations. It may be that the government has taken over organized labor despite the belief that organized labor has taken over the government. As to this, which one is to survive and which is to have final control is another question that only time can determine.

The most impressive thing about all these changes is the general conviction that there is to be no complete reversion to the ways that have been abandoned. Government has undergone, and is undergoing, changes. Politics is undergoing corresponding changes. We do not know what kind of a change it is going to take next, but we do know this: that government is no mysterious organization, remote and unapproachable, issuing decrees and making decisions of infallible accuracy, and always beyond criticism. Government consists of the people, and it responds to the registered will of the majority. Politics, then, calls business men to action and it must interest and concern them. Government as it is now constituted is not likely to relax its grip on business. In any event, and under any expectable circumstances, government is going to have a very much larger participation in business than ever before—in this country as well as others. Probably it should have. If it is true that co-operation has displaced competition—and we all hope it is true—there are certain important functions that may better be performed by government, or one of its agencies, than by any other instrumentality. In relation to banking, for instance, it was probably only by the compulsory process of the Federal Reserve Act that the national banks could ever have been brought into a co-operative organization. If the conditions under which all state chartered institutions operate were the same, the way would be open to similar compulsory processes to complete this co-operative organization. In the latter event, there would be no lack of equity among the instiuttions affected.

So, if foreign trade is considered, government is the agency to which we look for permission and direction in regard to competitive selling and buying. In many respects, government is a satisfactory trade promoter and information getter. It can secure trade concessions from other nations and make commercial treaties, surveys and investigations.

In the matter of the railroads, it has been able to produce economies in operation which we all wish to see retained. It is the one agency which can give us an authoritative inventory of our national assets.

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The British government is so pleased with its system of unified purchasing that its representatives in this country are confident they will remain here and continue their work after the war. This means nothing less than that the British government will buy all raw materials for its manufacturing enterprises for an indefinite time to come, which means that government agency, under test of its capacity, can perform such service to better advantage than private and competitive buying. It means that we are likely to do something of exactly the same kind.

If we are interested in business, we must be interested in politics—and acutely and actively interested. A popular form of government is good, or bad, or indifferent, in exact accord with the desires of the people. The people are government, and they always have exactly the kind of government they want. If bankers and business men have been indifferent about politics, then politics has provided what, from their viewpoint, is an indifferent sort of government. Political leadership has not usually been in the hands of business men. When the government, under pressure of war, went into business, it began to recruit business men, but the commanding positions have not, of course, come to them; and we must have business men in control of government, if government is going to be in control of business; otherwise we are doomed to failure.

Politics, therefore, has a new meaning for us. It no longer invites our serene contemplation as a category of ideals, whose realization would bring us at once to Utopia. It is a category of stern actualities to be reached, not merely to be reached for. If we are to get results and find satisfaction in the getting of them, every single one of us has got to get into politics and try to inject into that sphere the business intelligence which we assume is not now there. Business has grown so great in the world that it can no longer exist side by side with politics and leave room for both. For many years business has been supplanting government as the occupation which made the strongest appeal to men of education and intelligence. Government has resisted. Politics has been jealous. Under pressure of a war, which is after all a business, in that it is a struggle for economic survival, government has taken over business. Is business going to surrender abjectly, or is business—the new business, the business that is conducted for service as well as for profit, the business that regards social conditions and gives equal heed to the obligations, as well as the privileges of capital and labor, which writes success in terms of general welfare—is this new business going to surrender, or is it going to take over government?

Report of Committee on Legislation, by Henry M. Campbell, Chairman

The undersigned, Chairman of the Legislative Committee of the Trust Company Section, begs leave to submit the following report of the activities of the Legislative Committee of the Trust Company Section since the last general meeting of the Association:

Article 5, Section 15 (b) of the Constitution of the Association provides for a committee on Federal Legislation consisting of six members, whose duties are to recommend to the Executive Council and the General Convention any proposed changes in the laws, and upon the dual approval of these bodies, to do what may be necessary to promote or oppose proposed National Legislation. In case a question arises between sessions of the General Convention, the Executive Council may direct the activities of the Committee on Federal Legislation, and in case of emergency between sessions of the Executive Council, the Federal Legislative Council, which is next referred to, may be directed by the Federal Legislative Committee to take a referendum vote, which shall determine the policy of the Association respecting such legislation.

Under Article 5, Section 15 (bb) the Constitution provides for a Federal Legislative Council consisting of more than fifty members, who shall be auxiliary to the Committee on Federal Legislation, and who, when directed by the Committee on Federal Legislation, shall take a referendum vote on proposed legislation which may be submitted to the Committee.

At the General Convention held in Seattle in 1915, a resolution was adopted prohibiting any Section of the American Bankers' Association from taking any part in advocating or opposing the passing of legislation affecting the banking interests, unless the same had first been approved by the Legislative Committee.

Under this complicated system, the difficulty of effectively advocating or opposing any legislation which might be attempted and which might affect the interests of the Association, or any of its Sections, is too obvious for discussion, and is wel illustrated by the course of the Glass Bill, so-called, by which amendments to Section 11 (k) of the Federal Reserve Act are being advocated.

On February 21, 1918, a bill was introduced in the House of Representatives (H. R. 10104), known as the Glass Bill, which, among other things, sought, in Section 2, to amend Section 11 (k) of the Federal Reserve Act, which authorized the Federal Reserve Board to grant trust powers to National Banks. This bill was referred to the Committee on Banking and Currency. The attention of the Chairman of the Legislative Committee of the Trust Company Section having been called to this bill, a meeting of the Executive Committee of the Trust Company Section was called on April 8th to consider Section 2 of the bill, at which meeting it was determined that if certain changes were made in Section 2, the Committee would recommend to the Federal Legislative Council that the bill be passed. The objections to the Glass Bill were as follows:

1. Granting Trust powers to National Banks, whether or not in contravention of State or local law.

2. Making it optional, instead of mandatory, with the Federal Reserve Board, to require National Banks to make proper deposits for the protection of private or court trusts.

3. Granting of Trust powers to National Banks without taking into consideration the capital and other requirements of the various State laws in which such powers were granted.

After due consideration, resolutions were adopted by the Committee as follows:

"*Resolved*, That the Trust Company Section of the American Bankers' Association hereby protests against the passage of those portions of Section 2 of the Glass Bill, H. R. 10104, as follows:

"Whenever the laws of such States authorize or permit the exercise of any or all of the foregoing powers by State Banks, Trust Companies, or other corporations which in any way compete with National Banks, the granting to and the exercise of such powers by National Banks shall not be deemed to be in contravention of State or local law, within the meaning of this Act, whether or not such State laws expressly or by necessary implication prohibit the exercise of such powers by National Banks."

Paragraph six, which maks it optional, rather than mandatory, that National Banks be required to make proper deposits for the protection of private or court trusts.

The last paragraph, which grants trust powers to National Banks without taking into consideration the capital and other requirements of the various State laws in which such powers are granted.

"*Resolved*, That the officers of the Section, together with Mr. Campbell, be and that they are hereby authorized to present the protest of this meeting to the Federal Legislative Council of the American Bankers' Association for action."

"*Resolved*, That in the event of unfavorable consideration by the Federal Legislative Council to the request of the Trust Companies in respect to amendments to Section 11 (k) of the Federal Reserve Act, that the permission of the Council be sought to present the matter before the Congressional Committee at Washington."

"*Resolved*, That the Committee on Legislation of the Section be and it is hereby authorized to use all proper avenues of approach or influence in framing or directing along the lines of suggestions made at this meeting, the legislation proposed by Judge Elliott."

About the time this action was taken, a substitute for the Glass Bill, known as the Phelan Bill (H. R. 11283), was introduced and referred to the Committee on Banking and Currency, and reported on favorably. This bill contains provisions removing the objections to paragraphs two and three above mentioned, but made no change in the provision that the granting of trust powers to National Banks shall not be deemed to be in contravention of State or local law, whether or not such State laws expressly, or by necessary implication, prohibit the exercise of such powers by National Banks.

On April 16th, the Committee on Legislation of the Trust Company Section met to consider the Phelan Bill, and the resolutions adopted by the eExecutive Committee were submitted to them. The general counsel of the Association was then requested to ascertain, if possible, the views of the National Bank Section in regard to that part of Section 2 of the Phelan Bill, which read as follows:

"Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State Banks, Trust Companies, or other corporations which compete with National Banks the granting to and the exercise of such powers by National Banks shall not be deemed to be in contravention of State or local law, within the meaning of this Act."

Judge Paton, counsel for the Association, after a conference with the Secretary of the National Bank Section, reported that the Secretary did not concur with the Trust Company Section as to the proposed change; after which the Legislative Committee adopted the following resolution:

"*Resolved*, That this Committee recommend to the Federal Legislative Council of the American Bankers' Association the approval of the passage of Section 2 of the Phelan Bill, No. 11283, with the elimination of lines 3-12, inclusive, on page 5, reading as follows:

"'Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State Banks, Trust Companies or other corporations which compete with National Banks, the granting to and the exercise of such powers by National Banks shall not be deemed in contravention of State or local law, within the meaning of this Act.'"

On April 22nd, the President of the Association wrote a letter to Mr. Thralls, Secretary of the National Bank Section, in which, among other things, he says:

"Yours of the 9th instant received, and note what you say in regard to the activity of the Trust Company Section. I have requested Judge Paton to notify Mr. Mershon that if the Trust Company Section is attempting to interfere with this legislation, they are violating the rule which prohibits sections from interfering in Federal legislation that has not received the approval of the Federal Legislative Committee."

On the same date the President wrote to Judge Paton, counsel for the Association, as follows:

"I am enclosing herewith copy of a letter from Mr. Thralls, which indicates that the Trust Company Section was violating our rule relative to the activities of sections in matters of legislation that have not received the approval of the Federal Legislative Committee. Will you not take this matter up at once with Mr. Mershon and tell him that he must not attempt to influence this legislation until a decision has been reached by the Federal Legislative Committee?"

The Chairman of the Legislative Committee of the Trust Company Section thereupon, in compliance with the direction of the Committee, made a full report to the Federal Legislative Council at its meeting in Hot Springs, Arkansas, held May 9th, with the result that that body decided that it would take no action one way or the other in regard to the matter.

In the meantime, the Phelan Bill was passed by the House of Representatives, and coming before the Senate, the entire section was stricken out, and the matter referred to a Committee of Conference of the Senate and House, where it now remains—no time having been fixed for a hearing of the matter before that Committee.

The situation, however, is that when a time is set for a hearing on the bill before the joint Committee of the Senate and House, no one connected with the American Bankers' Association will have any authority whatever to appear before that Committee. Everybody's hands are tied. It is difficult to conceive of a more cumbersome and ineffective method of dealing with proposed legislation than that which is now provided by the Constitution of the American Bankers' Association; and it is respectfully submitted that some change should be made in the Constitution, in order that the various interests might at least have an opportunity of presenting their views respecting legislation which may be proposed in Congress.

If the interests of the several Sections are not in harmony, so that proposed legislation cannot be advocated or opposed by the Associa-

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tion as a whole, the several Sections, at their own expense, should be entitled to act for themselves.

All of which is respectfully submitted.

HENRY M. CAMPBELL,
Chairman, Legislative Committee,
Trust Company Section, American Bankers' Association.

Report of the Committee on Protective Laws

Your Committee has been actively engaged in watching the regular Legislative Sessions which were held in eleven states during the present year and which, together with special sessions called in other states, made about twenty State Legislatures in session.

The major activity shown in regard to bills affecting trust companies was in New York and Maryland.

In New York, several bills of importance to trust companies were introduced. Five bills may be mentioned:

1. A bill was introduced designed to grant fiduciary powers to national and state banks in cities of the third class. It did not pass.
2. A bill was introduced amending the New York Charter to provide for the listing of personal property amounting to $5,000 or over, for the purpose of taxation. This bill did not pass.
3. A bill was introduced designed to repeal the existing exemption in the Tax Law which provides that "the owner or holder of the stock of an incorporated company liable to tax on its capital shall not be taxed as an individual for such stock." This bill did not pass.
4. A bill was presented designed to change the Negotiable Instruments law in such manner as to protect banks honoring checks signed by officers of corporations when drawn for payment of personal indebtedness. This bill failed to pass.
5. A bill was passed which placed the burden of proof upon the maker of a worthless check or draft to show that such check or draft was uttered in good faith. Safeguards attended this measure whereby the maker is given a certain period in which to make good the check before he is liable for criminal proceedings.

A great deal of attention was attracted to a bill introduced in the Maryland legislature, which provided that every corporation acting in a fiduciary capacity in the State should pay to the Comptroller of the State one-fourth of all fees and commissions received by it in such capacity. This bill did not become a law.

A law was passed in Massachusetts permitting trust companies to carry in their assets bonds of the United States and Foreign Governments. Prior to the passage of this law only a few of the older trust companies, operating under special charters, had this privilege.

As the Legislatures of almost all of the states will be in Session starting next January and a large number of bills will undoubtedly be introduced, it is respectfully suggested that the work of this Committee, which has charge of the legislative matters in the various states, be fully outlined to the incoming State Vice-Presidents of the Section who represent the Section and co-operate in these matters, in order that the incoming Committee may be promptly and properly notified of all measures requiring its attention.

Respectfully submitted,
THEODORE G. SMITH, *Chairman.*

Report of the Special Committee on Publicity

On October 27, 1917, the following letter was addressed to all members of the Section:

"At the recent meeting of this Section, held in connection with the Convention of the American Bankers' Association at Atlantic City, N. J., the Special Committee on Publicity suggested, in regard to trust company advertising, the following, which was unanimously adopted:

1. Furnish at cost to all members, for their individual use, comprehensive advertising campaigns, using tested advertisements, form letters and booklets to be contributed by member companies.
2. Furnish at cost to all members in communities, as desired, teted material for use in the conduct of a local publicity campaign.

We are now ready to prepare these campaigns for the members of the Section. A number of companies have signified their willingness to forward samples for the use of the Committee, and a quantity of such material is already in hand.

Will you, therefore, if consistent with your policy, forward at your earliest convenience, using label herewith, samples of such "tested" advertisements, form letters and booklets, in order that selection of material may be made and campaigns prepared to offer to members at an early date. "Tested" advertisements, letters and booklets are those known to have produced results. If you have had in your community any local campaigns setting forth the functions of trust companies, will you also include samples of this material.

As soon as sufficient material is received, it is the purpose of the Committee to secure the opinion of several expert publicity men in making a selection of advertisements, etc., for reproducing and arranging into campaigns. Proper consideration will be given in the arrangement of the material to the needs of smaller as well as larger companies, and it will be adapted, as far as possible, to the requirements of trust companies in various parts of the country.

In accordance with the action of the Section the completed campaigns will be offered at cost of reproducing to all members of the Section.

In anticipation of your response, and with assurances that your co-operation will be valued most highly, we are."

As a result of this communication a large amount of material was received. The work of sorting and selecting resulted in the issuance and distribution in August of "Bulletin No. 1." This was sent free of cost to members of the Section. The bulletin contained—

1. A general letter addressed to members by the Chairman of the Committee.
2. An article on the technique of newspaper advertising.
3. Suggested style of advertisement.
4. Reproduction of ancient will as a suggested advertisement.
5. Copy for sixty advertisements contributed by member companies.

As the initial letter in the bulletin explains somewhat the plans and purposes of the Committee, its reproduction is given as follows:

A short time ago a letter was sent to you asking for copies of tested advertisements, booklets and form letters to be used by the Publicity Committee in the preparation of advertising campaigns to be sent to members.

On account of the large amount of time given to important matters of legislation it has been impossible to further this work as promptly as anticipated. We take pleasure, however, in sending herewith our first bulletin for the use of members.

On subsequent pages will be found a brief explanation of the method of building an advertisement and illustration; also copy for sixty different advertisements.

Tested advertisements, as explained, are those known to have produced results. A large amount of material was received by the Committee. The broad spirit of helpfulness manifested by companies in all parts of the country, as shown by their willingness to have other companies benefit from their efforts, is most commendable. It speaks well for a larger success in informing those persons most in need of trust company services.

Communications from many companies indicated very clearly that assistance of a definite character was needed and invited, in order that they might better present the real character of trust service to their communities.

To those companies maintaining well organized publicity, or advertising departments, this matter may be of little use. We believe it will be of considerable use to companies where such departments are not maintained. By all members such benefit should be derived from one or more of the bulletins which it is proposed to send at frequent intervals. Suggestions and co-operation from all members are cordially invited, in order that the greatest good to the greatest number may result.

It is hoped that companies will continue to forward to the Committee samples of advertisements, booklets and form letters known to have produced results, for use in future bulletins to members.

The primary purpose of the work of this Committee is to assist in the growth of fiduciary business which is necessarily slow in many sections of the country.

As it is manifestly impossible to cover all phases of either fiduciary service or advertising for such service in a brief bulletin, we shall attempt in subsequent communications to develop the subject more completely.

For instance, we shall present the matter of change of copy, timeliness and size of advertisements and the selection of mediums; how to secure legitimate publicity in newspapers and financial publications; the preparation and use of booklets, form letters and illustrations. We shall also endeavor to present the matter of advertising a bank statement, in such a manner as to surround its periodical appearance with a larger element of human interest. There will also be presented symposiums of how trust companies handle their advertising and publicity, as well as why they believe in advertising. Assistance will also be given in the establishing of publicity departments, to include the writing of copy, placing of advertising and follow-up work in order to eventually secure the business.

An early bulletin will set forth the advertising possibilities contained in the Remsen Charts for assisting clients in planning and testing wills before death. These charts are being distributed from the Secretary's office. This activity has attracted widespread attention and new advertising based on the use of these charts has already been created for the use of certain companies.

The object of trust company advertising has a direct bearing at this time upon the relation of trust companies to the war. These institutions have facilities for serving the men of their different localities who are, or will be called upon to serve their country. These men do not know about the full possibilities for them in trust company service. The method of reaching such men is through advertising. Trust Company service has taken on a new meaning in this world conflict in that it becomes as a veritable "Home Guard" for the affairs of the soldier or sailor, who is or will be on the firing line. With his mind at rest in the knowledge that his personal interests and family welfare are being properly safeguarded, his spirit and fighting efficiency will be developed and retained to their fullest capacity.

Your comments upon this bulletin, and the plans and purposes of the Committee, will be valued, as well as any statement as to the use to which you have placed this material.

Since the distribution of this bulletin a number of commendatory letters have been received from members and considerable favorable comment upon this service has been given in financial and other publications.

On November 8, 1917, the Committee suffered an irreparable loss in the death of Mr. Ralph W. Cutler, whose interest in all matters pertaining to the welfare of trust companies generally is well known to the members of our Section. Through the acceptance by Mr. John W. Platten of membership on the Committee, the plans and work were further developed and have continued throughout the year.

It is sincerely hoped that the members generally will continue to give the incoming committee the same hearty co-operation and support which it has received during the term of its existence, since December, 1916.

Respectfully submitted,
JAMES M. PRATT, *Chairman.*

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Report of the Secretary

A complete record of the work of the Secretary's office during the past year would include a detailed statement of such character as to be uninteresting to members generally. In addition to carrying out the instructions issued from time to time by the officers and Executive Committee, a large amount of time has been given to co-operating in the work of the Committee on Legislation, the Committee on Protective Laws and the Committee on Publicity. Considerable additional work has been initiated and completed. The various kinds of service performed for members, including investigations and compilations, cover many forms of trust company activity and service. A large and increasing volume of correspondence has passed between the Secretary's office and members.

At the beginning of the year, the Chairman of the Executive Committee, in correspondence with the members of the Committee, decided upon certain activities to be given first attention by the Secretary during the year just ended. These included:

1. Assistance to the Government in the flotation of Liberty Loans and other activities incident to the war.
2. Conducting a Questionnaire among member companies, as approved at the Atlantic City Convention, relative to statistical and administrative matters, and the dissemination among members of the information so obtained.
3. Special co-operation with the Committee on Publicity in the preperation of advertising campaigns for the use of members.
4. Reproduction and sale of charts on planning and testing wills before death, if permitted by the author.
5. Preparation for the use of members of an index of articles, addresses and other material bearing upon trust company work.
6. Assistance in establishing and maintaining trust company forums in City Chapters of the American Institute of Banking.
7. Assistance in the preparation of a text book on trust company work for the use of the American Institute of Banking.
8. Campaign for new members.

All of these subjects have had attention and development as contemplated. The least amount of progress has been made in connection with the text book on trust company work. This, however, will be carried out in due course.

Your Secretary has given generously of his time in assisting the sale of Liberty Bonds and War Savings and Thrift Stamps. A number of meetings were addressed and considerable time given to acting as Secretary of the War Savings Society formed at the Association headquarters in New York, as well as other forms of patriotic service performed.

At a meeting of the Executive Committee held in New York on February 25th, your Secretary was authorized to reproduce and offer for sale to members the Remsen Charts on Testing Wills Before Death, permission of the author having been secured. Over one hundred and seventy-five sets of the charts have been placed with members.

A number of inquiries have been received from companies in various parts of the country, regarding the practice of writing wills, as well as the practice of writing wills free of charge. Your Secretary has been advised that attention will be called to this matter at the present Convention. No further comment therefore need be made in this report.

The questionnaire which was forwarded to members during November and December resulted in securing much valuable and interesting information. A summary of the replies to certain of the questions has been sent to members and published in several financial journals. It is also published in brief in a booklet distributed at this Convention. A special letter was addressed to companies which reported on the questionnaire as having men in military or naval service. Four questions were asked:

1. How do you fill vacancies caused by war service?
2. How do you train the new employees engaged to fill these vacancies.
3. Do you hold positions open for absentees?
4. Do you pay salaries in full or in part?

The replies to this letter became the basis of a special article which was published in the Journal of the Association and sent to financial publications throughout the country. It was evident that the information contained in the article was desired by members generally, as much favorable comment and many inquiries were received as a result of its publication.

Several additional articles and a considerable number of news items have been written and sent to financial publications throughout the year. They were quite generally published. Articles or items of interest are submitted to the Journal of the Association each month and the matter published in accordance with the space available.

As a result of calling the attention of non-members to the facilities provided through membership in the Association 107 trust companies have been added to the roll of active members and 126 companies to associate membership in the Section, making a total of 1491 active members and 342 associate members.

Several requests from trust company men have been filled during the past year for material which would aid them in the preparation of addresses before gatherings of bankers and business men.

Frequent communications have been exchanged with the State Vice-Presidents of the Section, as well as the State Banking Commissioners throughout the country, in order to furnish or secure information, as well as to assist in the development of the work of trust companies generally. Only several of the State Bankers' Associations maintain separate trust company sections or associations. The establishment of such sections is encouraged in those States where trust company activity is sufficiently developed to warrant the formation of such an organization.

Your Secretary has represented the Association at several State Bankers' Conventions and at the Convention of the American Bar Association held in Cleveland, Ohio. An invitation to speak at the Michigan Convention was accepted. Frequent trips have been made to trust companies in different parts of the country for the purpose of rendering service or securing information. A considerable number of bankers' group meetings have been attended and many conferences have been held at the Association offices with members from all parts of the country.

Considerable assistance has been given to members in connection with determining the advisability of entering the Federal Reserve System. Every effort has been made in this connection to point out the desirability of membership in the system as a war measure, as well as to assist in the further economic development of our country. A number of these inquiring companies have joined the system.

Throughout the year frequent opportunity has been availed of to inform the Executive Committee of any news items and supply them with all information in which it was believed they would have a particular interest.

Of the appropriation granted the Section for the current year's work, $196.94 remain unexpended, as shown on Financial Statement attached herewith.

On November 9th last, your Secretary represented the Section at the funeral of ex-President Cutler, at Hartford, Conn.

It is with genuine pleasure that mention is made of the inspiration given throughout the year by President Blair, Vice-President Platten and Chairman Dinkins, as well as all members of the Executive Committee. Association with these gentlemen has materially assisted in maintaining and further developing a keen personal interest in, and enthusiasm for, the progress of those companies charged primarily with the sacred duty of safeguarding the administration of trusts for the living as well as the dead.

Respectfully submitted,

LEROY A. MERSHON, *Secretary.*

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