BANKERS' CONVENTION SECTION

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PROBLEMS BEFORE THE BANKING COMMUNITY

The annual convention of the American Bankers' Association, which assembled at St. Louis in the closing week of September, had before it an economic situation in many respects unprecedented in our own history—if not, indeed, unprecedented in the history of the world. It was a situation which could not easily be considered as a whole. Even the statesmen, who were compelled to adapt their policies to the economic developments of the hour, were able only to move step by step. From the large historical viewpoint, it was easy enough to say that the problems of the world on return of peace would be, first, to reduce the huge public expenditure; then to adjust taxation to the new conditions; then to restore the shattered production and trade of the belligerent states; then to take in hand contraction of the prodigiously inflated paper currencies to a normal status; then, by degrees, to pay off the war debts, bring back free gold payments in the financial intercourse of the world, and, along with all that, restore equilibrium in the movement of prices for commodities. But this, it can be seen at a glance, is a program which may require the lapse, not only of years but of decades, for its complete performance. It is the task of the whole world; yet the different nations differ very greatly in their ability to cope with the various problems as applied to one or another of them.

It was inevitable that the discussions at the Bankers' Convention should have converged primarily on the aspect of these economic problems as applied to the United States. That for many reasons our country is better off than Europe, and that it will be able to master more quickly and more efficiently its own part of the task, is undeniably true. Yet for that very reason—because of the strength and soundness of the political position with which our country has emerged from war—American bankers are compelled also to consider what help our financial community can give, directly or indirectly, towards solving the problems of the rest of the financial world. Consideration of this had been delayed by postponement of action on the Peace Treaty; but there were other important questions, and several of them came before the Bankers' Convention.

The Governor of the Federal Reserve Board laid emphasis on the necessity for increased production as the solution for many of the problems left to us by the war. Senator Owen dealt with the very many-sided question of inflated prices and cost of living; phenomena which he ascribed to the disruption of the world's trade, to the waste of war, to war taxation, and to the unrest of labor. Most of the remedies proposed were such as would deal with immediate manifestations of the problem rather than with its fundamental causes.

Almost on the day when the Convention was

assembling, Mr. A. C. Miller, of the Federal Reserve Board, was setting forth to another audience the larger aspects of these questions. The high prices of commodities he ascribed to three main causes—the excessive demand by belligerent governments for war supplies, both before and after our own entry into the war; the excessive expansion of banking credit; and the shortage of supplies, due to wasteful consumption, to abnormally large exportation of goods, and to slackening of production. It is interesting to observe that the speaker did not ascribe the evil to inflation and resultant depreciation of our own currency. This was undoubtedly because of recognition of the fact, first, that the great increase in our Federal Reserve note issues did not occur, and could not have occurred, except as a consequence of actual needs of trade. It must be admitted these needs were abnormal because of the war demands, not alone of our own Government, but of our Allies in the war, many of whose requirements we were called upon to supply but since a bank with a Federal Reserve credit always has the option of using it as a reserve against its own deposits where it is profitable to the bank, or of drawing it out in notes to be paid out over the counter of the bank, which would benefit only the bank's customers, the needs of trade would naturally be the determining influence. But the second reason for Mr. Miller's attitude doubtless was that when the Federal Reserve has in five months freely given up $250,000,000 gold to private bankers for export purposes, its current obligations are clearly being maintained at gold value. Mr. Miller, therefore, concludes that "the expansion of the currency has been a consequence rather than a cause of our high prices."

But how are the high prices to be remedied? That "there can be no short-cut remedies" and therefore no early return to the status of 1914; that it may require ten years more to retrace the steps taken in the way of rising prices during the war—these facts are assumed as reasonably certain. The full solution can come "only as the volume of purchasing media created in the last five years is reduced and the volume of goods produced is increased." But those processes cannot safely be left to drift. If no other part of the problem had made action to promote them necessary, the question of wages as affected by cost of living would have done so. In this regard, "some mechanism by which wages may be promptly adjusted to changes in the cost of living must be expected." Beyond that possibility, relief may be expected "with diminishing exportation of foodstuffs and other articles of general consumption to Europe, and by the fundamental change introduced when the volume of credit created by the unabsorbed Liberty Bonds is reduced through absorption of those securities into the people's hands.

Such discussions show, after all, that we have as yet merely touched the fringe of the problem which confronts the world as a whole. Yet even as to that, it must be said that, since the present condition of Europe is a primary influence on our own inflation of credit and prices, and since Europe is bound to pursue on its own account the path of industrial revival, the real turn in our own situation may come from economic events and developments across the Atlantic, rather than from events in our own country.

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BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

45th Annual Convention, Held at St. Louis, Mo., Sept. 29 to Oct. 2, 1919

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Extending Foreign Credits and Financial Exports

By W. P. G. HARDING, Governor of the Federal Reserve Board.

We would be blind, indeed, if we failed to recognize the fact that the radical and revolutionary tendencies existent in Europe have taken root upon our own soil, and in considering the means of allaying the spirit of unrest, and of maintaining the orderly processes of production and distribution, we should first determine the nature of our present troubles, and analyze the causes which have induced them. The great masses of our people are law abiding, and the native born and foreigner alike look upon this country as a land of promise and of opportunity; they respect American traditions and loyally support American policies. The agitator and Anarchist are always in our midst, it is true, but normally their influence is negligible, and it is only when they can take advantage of a general feeling that something is wrong and that a quick remedy must be found, that they are able to command a following.

The causes which have brought about present conditions are sociological and economic. They may be traced back to primal instincts—to the desire for food and shelter. Some of the changes have come from the war, have been so sudden and so marked that they have affected the popular sense of proportion. Five years ago a man doing a day's work received, let us say, four dollars, which would buy a certain amount of food, clothing and shelter. Eight dollars, at that time would in addition have procured certain pleasures and luxuries, or else would have obviated the necessity for working every day. Now when wages have been doubled, so that the same service that brought four dollars brings eight dollars, the workman feels that as he has a larger income, he can either spend more or work less. But as prices have advanced he finds that he can buy no more with eight dollars than he formerly could with four.

The farmer is having the same experience. With wheat at one dollar a bushel he had been accustomed to certain living expenses,—to paying certain prices for the things he had to buy. Wheat at two dollars and twenty-five cents a bushel would have been regarded a few years ago as an irridescent dream, and its realization meant comforts and luxuries hitherto unattainable. But with higher labor cost, and higher prices for everything he has to buy the farmer is disappointed in finding that his wealth does not increase in proportion to the advance in the market price of his products, and that if he wishes to save anything, he must live and work very much as he did in the days of dollar wheat and ten cent cotton.

A very large body of the people including professional men, preachers, teachers, accountants, salesmen and clerks are receiving only a small increase in compensation, and upon these, including those having moderate incomes from investments representing life time saving, the burden of high prices falls with crushing force.

Our troubles then, are the result of economic causes, and have come from a dislocation of the normal relationship of supply to demand. These causes are directly traceable to the great war, to its waste and destruction, to its heavy drain upon available supplies that constituted so large a part of the world's liquid wealth, and to the financial expedients, which were necessary and unavoidable in order to procure these supplies.

In treating physical ailments, it is necessary first to make a careful diagnosis—to ascertain the nature and cause of the complaint, in order that the proper remedy may be applied and a recurrence of the ailment prevented —the wrong medicine merely aggravates the disease. There are some who reason that as prices and the value of currency in circulation have increased pari passu our high costs of living are due to currency inflation, to an excessive number of dollars, and the remedy they propose is immediate and systematic contraction. Others conceded that our currency is not mere fiat money, issued, at will by the government to defray its expenses, with no provision for redemption, but is redeemable in gold at pleasure of the holder, and as its principal constituent, the Federal Reserve note, is issued only in exchange for gold, dollar for dollar, or upon pledge of

eligible paper, the result of a legitimate credit transaction; in which case a gold reserve of not less than forty per cent is required for all notes outstanding, the trouble is due not to currency inflation, but to credit expansion.

Those holding this view are more nearly correct, but credit expansion did not create the world wide demand for goods and services, but was a necessary factor in enabling the demand to be satisfied. The demand was of an unusual character; it was a demand from governments whose very existence was at stake, it was an urgent and insistent demand with quick delivery as the essential condition, and price a minor and inconsequential condition. During the years 1915 and 1916 the allied powers of the Entente had no co-ordinated purchasing agency, and they competed sharply for the goods we sold them. During this period they sent us, in payment of purchases, about $1,200,000,000 of gold, which increased our stock of the metal to more than three billion dollars and added greatly to the foundation of our own credit expansion after we entered the war. History records no more remarkable achievement than that of the United States, not a great military power, and with a navy ranking, at the beginning, no higher than third, with only a shadow of a merchant marine, in equipping and sending over seas an army of more than two million men, and in bringing that army of untrained recruits to such a degree of efficiency that in less than eighteen months of the date of the first draft, it was able to do its great part in striking those heavy blows that brought Germany to her knees. In accomplishing this our government had no time for bargaining or haggling; goods and services were needed, and time, rather than price was the essence of contracts for material and supplies. Not only were the demands of our government for its own account far heavier than any layman had ever conceived of, but those of the governments with which we were associated became heavier than ever, for as their own resources and credit became depleted, they were obliged to increase their purchases in this country, availing themselves of the credits aggregating $10,000,000,000, granted by the government of the United States.

In these circumstances it was inevitable that a tremendous strain should be put upon our productive capacity, which was stimulated both by high prices and wages, and by the fine spirit of patriotism which pervaded the country during the war, and which do not languish now, for the war is over in a military sense alone, and its problems of readjustment and reconstruction are confronting us.

These demands had been foreseen, and in great part had actually arisen before the declaration of war on April 6, 1917.

Our credit expansion in this country is due to Government purchases, and to Government borrowings—the only alternative to loans being 100 per cent taxation to meet war expenses.

The interest-bearing obligations of the Government outstanding at the time of its entrance into the war amounted to about $1,100,000,000, and since that time the net increase has been about $24,500,000,000, in which is included the sums loaned to the Allies. This takes into account all the Liberty bonds, the Victory notes, and outstanding Treasury certificates.

These obligations have not been issued, nor were the various liberty loan campaigns engaged in for the purpose of boosting wages and prices. These obligations are in existence because their proceeds were needed to purchase supplies and to pay for services necessary in winning the war. Many of them are in the banks as collateral to loans made to subscribers unable to pay all cash out of accumulated savings but who expected to liquidate gradually out of current earnings and profits. About one and three quarter billion dollars worth of them are held by the Federal Reserve Banks as collateral to paper rediscounted by member banks. This may give the statements of the Federal Reserve Banks a credit expanded look as compared with the pre-war statements, but all the circumstances considered the expansion is necessary and in view of the combined reserves of more than 50 per cent in gold not at all dangerous. The government is returning its bonded indebtedness at the rate of nearly $750,000,000 a year and private investors and subscribers, still indebted to banks on these would help reduce the volume of credits by making their installment payments regularly.

Whether or not credit expansion is dangerous and harmful, depends not only upon the gold reserves supporting the credits, but upon the character and purpose of the credit. Drastic contraction of credit undertaken merely for the purpose of giving the dollar its former purchasing power, would bring about widespread disaster, reduced production and unemployment.

What is needed is the restoration of a proper balance between the volume of credit and the volume of goods. Because of the war financing of the Government it is not practicable to reduce the volume of credit except gradually, and the best and probably the only remedy for the present unrest is to increase the volume of goods, and the facilities for their distribution. Shorter hours and higher wages, do not tend to increase production, but rather the reverse, and strikes and walkouts are doubly harmful in that they stop production without materially reducing consumption. If there could be an industrial truce in this country and all over the world for six months, more could be accomplished in the adjustment of prices and in bringing about better living conditions for all, than can ever be done by agitation and strife. There are some who fear that there may be over-production, and who dread the effects of such a reversal of the situation.

These evidently do not take into account the great destruction brought about by the war, and the urgent need for fuel, machinery, metals, lumber, textiles, hides and leather, rubber and foodstuffs, throughout Europe. But because of the inability of many European countries to settle balances in gold or by the shipment of goods, a condition reflected by the heavy discounts prevailing in the rates of exchange on most of these countries, the translation of this physical need into an economic demand, will depend upon the credit facilities granted by the governments or private financial institutions of the exporting countries. The articles for which Europe has the greatest need include many of which this country produces normally an exportable surplus.

It is important to us that Europe gets the things so necessary to the life and comfort of her peoples, for the restoration of a normal capacity for production and for her economic and financial rehabilitation. Let us not forget that a Bolshevik Europe means dangers, and constant trouble for America, for modern methods of communication have made us close neighbors to the rest of the world.

The maintenance and development of our export trade along proper lines is important in order to give us an outlet for the surplus products for which we have the capacity when labor is fully employed.

As a war measure our Government has loaned to other governments practically the entire amount of the $10,000,000,000 authorized by Congress. The fact is unquestioned that Europe needs additional credits in this country in order to procure the things she requires and which we wish to sell her. It is impossible, however, to state with any approach to accuracy the amount needed. Estimates vary from one to five billions of dollars.

There is no indication of any disposition on the part of Congress to provide for further credits by our Government, some of the objections made being that a policy adopted in a war emergency should not be continued as

a peace policy—that such a further extension of credit would be an export subsidy and would be used in part in sending to Europe non-essentials and luxuries; that such a subsidy for the benefit of a class would make it difficult to refuse Government aid to other classes, that higher taxes are undesirable, and that new bond issues would have an unfortunate effect and would retard the readjustment of our credit structure upon a normal, commercial basis. In the absence, therefore of any definite indications that there will be further Government credits to aid our export trade, it is best to rely upon private enterprises and resources. Consideration should be given to the possibility of meeting the requirements of the situation without Government aid except such as can be given through the War Finance Corporation, which is authorized, during a period of 12 months, after a formal proclamation of peace, to extend credits in aid of export transactions, to run not longer than five years, and in the aggregate amount not to exceed one billion dollars.

World banking is new to America. We have had, of course, international banking houses for many years, but their activities have been directed usually to placing American loans and securities in Europe. Our large banks have bought bills of exchange drawn against documents, and have sold in early summer their finance bills in anticipation of the grain and cotton bills available in the fall. Of recent years they have been accepting in transactions involving the exportation or importation of goods, and they have been feeling their way cautiously in underwriting credits based upon the obligation of a consolidation of foreign banks, sometimes with, and sometimes without definite guarantees of foreign governments.

One very large National Bank has numerous branches abroad and there are several corporations doing a foreign banking business in which, under the provisions of Section 25 of the Federal Reserve Act, national banks are permitted to hold stock, to the extent of 10 per cent of their capital and surplus, which must not be less than one million dollars. These institutions, however, confine their operations to short time credits, represented by bills of exchange, which are sometimes drawn under agreement to renew for periods, as a rule, not longer than one year.

In order to encourage the organization of credit companies, to aid in financing exports, Congress has recently enacted a law which authorizes any national bank, regardless of size, to invest up to 5 per cent of its capital and surplus (provided it has not already invested 10 per cent of its capital and surplus in a foreign banking corporation) in stock of companies organized for the purpose of engaging in such financial operations as may be necessary to promote exports of "goods, wares and merchandize from the United States or any of its dependencies." This law is intended to encourage the organization of corporations interested in the export of particular products or groups of products.

The Edge Bill, which has passed the Senate, and is now being considered by the House Committee on Banking and Currency, provides for Federal incorporation under liberal, but clearly defined powers, of banks and corporations doing principally a foreign banking business, or engaged in financing export transactions. Such corporations will be subject to the supervision of the Federal Reserve Board, and will be permitted to offer for sale their own obligations specifically secured by notes, bonds or other evidences of debt acquired in their foreign transactions. As American banking houses have had comparatively little experience in making long investments or in granting long credits abroad it will be necessary to develop the machinery required for conducting this business at a minimum of risk—England herself, a past master in the business of world banking recognizes the necessity for devising means of reducing and distributing the risks connected with exporting goods to disorganized countries, and the tentative plan of the British Board of Trade is attracting much attention.

This is for the purpose of carrying on the plan announced by the Prime Minister in his celebrated speech in the House of Commons on August 18. It is stated that these credits will be based on bills drawn in Great Britain by the seller or shipper of the goods and accepted by the buyer and will be subject either (a) to the deposit with an approved bank in the country of purchase of currency to an amount required by the office, or (b) to a guaranty of currency of a required amount by an approved bank, or (c) to arrangements for the handing over of produce of the buying country, or (d) to the deposit of securities with the approved bank or the office under the scheme.

Maximum Period to be Three Years.

The office will fix periodically the amount of currency required to be deposited per pound sterling, and will have power to vary its charges according to the nature of each transaction. The credits will continue for such period as the office may determine in each case, having regard to the economic prospects of the country concerned and the character of the business, but the maximum period will be three years. The charges for each period of six months will be on a rising scale in order to induce early liquidation.

The office will be entitled (a) to take over and liquidate collateral pledges, (b) to have recourse against the acceptor of the bill for any deficiency, and (c) to have recourse against the guarantor.

Credit Not to Exceed 80 Per Cent of Cost.

The Credits furnished will not as a rule exceed 80 per cent of the prime cost of the goods sold, plus freight and insurance (including the charge made by the office). In special cases, however, at the discretion of the executive, the amount may be increased, but in no case will it exceed the prime cost plus freight and insurance (including the charge made by the office). If the proceeds of the bill are less than the prime cost, plus freight, plus insurance (including the charge made by the office), the loss represented by the difference will be divided between the office and the drawer of the bill in the proportion of four-fifths to one-fifth.

Business will be taken only through banks and on the reports of banks and the aggregate amount of credit to be granted will not exceed 26,000,000 pounds ($126,529,000 at normal exchange).

The area and classes of goods to which the scheme relates will be settled from time to time by the Government, but credits will not be furnished either for the export of raw material or for the sale of stock held by Government Departments.

In financing our own export transactions, we will have a wide choice. There is no doubt that ample security is available in the countries with which we would be most likely to deal. The large debts of European countries are for the most part, internal, and while the war has made serious inroads upon liquid wealth, the fixed wealth, the lands, the buildings are untouched except in the devastated areas, which form only a small part of the whole. What Europe can do when she settles down to work has been exemplified by England's achievements in commerce and colonization, by the great stride made by Germany up to 1914 in manufacturing, shipping and trade control, and by the marvelous recovery of France after her debacle in 1871; thrusting the communists aside, she went to work, paid the last centime of her indemnity to Germany three years before maturity, and in five years was more prosperous than ever. We can not doubt that what a defeated nation has done a victorious nation can do again.

Stability in Commerce and Government

By Robert L. Owen, United States Senator from Oklahoma.

Mr. Chairman and Gentlemen of the American Bankers' Association:

Stability in industry and commerce and in government is vital to the happiness of mankind.

Today we witness some of the evils of instability in production, distribution and the purchasing power of the dollar, the effects of which appear in the *high cost of living*, under which the world groans, bitterly complains and threatens the stability of government throughout the world. When the normal income does not suffice to give food, clothing and shelter and the necessities of life and reasonable liberty, men first grow impatient, then indignant, and this indignation may rise by degrees to insensate fury, the destruction of government, of life and property, and of those productive processes vital to remedy the very evil complained of.

The Government of the United States is controlled by public opinion in large degree, and the members of your Association touching every business enterprise throughout the United States, and every depositor and agency of production and distribution, are capable of directing public opinion along safe lines that will establish stability instead of instability.

In February, 1908, in discussing the principles which should control the banking system and prevent financial panic, I emphasized then, as I do now, the extreme importance of stability. One of the great causes of instability of the past were periodic panics in the financial world. This evil has been remedied by the combined wisdom of the country, by the Federal Reserve Act, which I had the honor to engineer through the United States Senate, with the aid of many men. I wish to point out to you certain elements which have contributed to the present high cost of living, a condition of very grave instability and menace, with some suggestions which I trust may prove useful if they meet with the approval of the country and your active support.

The chief factors entering into the high cost of living are: 1. Gold expansion in America; 2. Federal Reserve note expansion; 3. Credit expansion, United States Government bonds, certificates of indebtedness, Treasury notes, deposits and loans; 4. Extraordinary prices paid for material and labor by munition makers, by the Army, by the Shipping Board, and other Governmental agencies, under the urgency of war; 5. The dislocation of peace industry during the war and diminishing production in such industries; 6. Destruction of shipping by the submarines and greatly impaired transportation facilities and equipment; 7. Extraordinary European demands and cessation of peaceful production; 8. Unrest of labor because of the high cost of living, strikes, unproductiveness because of discontent; 9. Hesitation of capital because of unstable conditions; 10. Interruption of exports because of inadequate support of European exchange and lack of credits to finance European construction; 11. Excess profits tax and heavy war taxes passed by manufacturers and merchants and business men directly on to the products of commerce to the consumer, raising the prices of all products, compelling labor to demand larger wages in order to live, and establishing a vicious circle affecting the great railway properties and all industrials and all merchandise; 12. The exaction of monopolies, restricting production, and restraining trade, and fixing unfair profits. These monopolies existed before the war, and have grown worse during the war because of the other factors heretofore recited; 13. And finally local profiteering, under which first necessity and then greed has influenced very many middlemen to take advantage of unstable conditions to charge extortionate prices; 14. Violent rising prices have led to enormous waste, extravagances and recklessness of expenditure by those who have profitted, setting a false standard and an impossible standard for those who have not profitted but have suffered by these conditions.

The effect of all these things has caused a feeling of violent unrest with some of those who have suffered, and a false leadership has arisen, advising the overthrow of the existing order, because those charged with duty of government do not afford adequate relief and offer no satisfactory solution.

I wish to offer you some suggestions that will tend to give stability, in the hope that some of the suggestions may be found of use and put into actual practice. Words without action are empty and vain.

Send Gold Abroad.

In exchange for our commodity excess shipments we have gained eleven hundred million dollars of gold. This has expanded our currency and diminished its purchasing power and caused a rise in prices. The metalic gold is lying in our vaults serving no adequate purpose, while European currency, violently inflated needs deflation and additional gold reserves. We could profitably lend a thousand million dollars of gold to other Nations without deflating American currency, because under the Federal Reserve Act commodity bills based on warehouse receipts and goods in transit can take the place of gold which we hold in excess, and which will flow back to our country unavoidably unless we permit the people of Europe to repay us in commodities the ten billions we have loaned them, and on which we will receive over five hundred millions, annually, in interest. We need have no fear in loaning money to Europe on proper security. Neither Europe nor the world is bankrupt because of the world-war. The world has only suffered to the extent of the net destruction of property. The energies of the war have created a very large offset to the destruction of property. The war debits are held as offset credits by citizens of the world, and these war debts must not be regarded as a destruction of the productive powers of mankind. If the United States issues twenty-five billions of bonds, and these bonds are held by citizens of the United States, it is merely a question of distribution, and the values of the United States and its productive power is not diminished; on the contrary, it has been greatly increased by the war. The same is true of France and of Italy and of Belgium.

Maintain Fixed Per Capita Circulation.

The Federal Reserve Board by exercising its powers could stabilize the per capita circulation of the United States at a fixed amount per capita, and this policy ought to be adopted as a means of preventing instability due to a fluctuation in the amount of currency.

The per capita circulation of money in the United States in 1890 was twenty-two dollars and eighty-two cents; in 1900, twenty-six dollars and ninety-three cents; in 1910, thirty-four dollars and thirty-three cents, due to the inflation of the national bank currency against the two per cent bonds, offered as a remedy in 1900 to

confound the free silver advocates. In 1914 it was thirty-four dollars and thirty-five cents per capita. In 1918 it was fifty dollars and eighty-one cents, due to an expansion of eleven dollars gold per capita and about five dollars on Federal Reserve notes issued to accommodate the actual daily demands of commerce. The high cost of living and the doubling of prices required more currency, and the Reserve notes accommodated this demand, but being subject to daily liquidation, could not be justly regarded as inflation.

In fact, the Federal Reserve Board points out that the actual per capita circulation outside the United States Treasury and the Federal Reserve system, is only forty-five dollars and fifty-six cents, which corresponds with the circulation of 1914 plus eleven dollars of gold per capita increase. It is of great importance that the per capita circulation should be kept stable. The ruinous effects of inflation are shown in Europe.

Effect of Credit Expansion on Prices.

Credit expansion and the issuance of Government bonds and certificates was unavoidable during the war, and was required by the tremendous energies created by the war. But these credits while less mobile than currency are nevertheless transferable and are a means by which currency is more readily accessible, and it has the effect of modifying to some extent the purchasing power of money. The conditions would be more stable if these bonds were issued payable in fifty years with the right of the Government from time to time to take them up as interest rates will fall when stability is established throughout the world.

Bank deposits and loans were greatly stimulated by the war because commodities of all kinds were salable at high prices and converted into current credits, and the extraordinary activities of the war resulted in corresponding loans, all of which contributed to making money more readily accessible, and therefore of less purchasing power in relation to commodities, and in relation to human labor. These factors should slowly adjust themselves as cost factors by increase of production and improved distribution processes.

Production and Distribution.

Now that the urgency of war has passed prices should adjust themselves to the processes of reconstruction. Industry can now adjust itself to the conditions of peace and should steadily increase production and improve distribution. The world is rapidly replacing the ships destroyed by war. The millions of European men and women heretofore engaged in war and war activities are now available for peace.

Increased production and better and more economical distribution and waste avoidance are the chief remedies for the high cost of living, and to accomplish this the banks of the United States should encourage production by extending credits preferentially for productive processes, for improved warehousing, lending against warehouse receipts, and using their good offices and friendly counsel to stimulate production and improve distribution. The encouragement of corn clubs and other agricultural clubs, encouraging boys and girls to make money out of raising pigs, chickens, etc., improving gardens, while apparently small matters are of great National consequence, and the country bankers have done fine work along these lines. Developing water power, and the use of the current for industrial purposes are productive processes of the highest order. The building of hard-surfaced roads, and the use of motor trucks, facilitate distribution. There should be organized standard systems of distribution by improved marketing methods under Government charter and supervision.

Labor, Management and Capital.

Labor is both manual and mental and is entitled to full consideration.

The unrest of labor due to the war condition, to the extraordinary prices during war-times, the reports of extraordinary profits during the war by the employers of labor, and the high cost of living should be met by encouraging a frank and free discussion, and arranging methods by which labor will participate in what it produces above a bare wage. The employee should not be regarded merely as a money-making machine, but altogether as a human being entitled of right to life, liberty, happiness and a reasonable participation in the profits arising from his labor. This policy is advisable for the sake both of the employer and of the employee. When the workman feels that he is working both for himself and his employer he will not indulge in sabotage, the killing of time, or in waste and neglect. Labor, management and capital must work together on the principle of service to all mankind, along lines of co-operation, in a spirit of friendship, mutual sympathy and support. It will not do in a democracy to rely merely on the powers of government and to demand brute force to control human unrest. That remedy may become a two edged sword peculiarly dangerous to capital.

The doctrine of arbitrary force should not be seriously entertained by thinking men after the lessons of this war. The world is entering into a new era in which humanity and righteousness should walk hand in hand in peace protected by the powers of the people.

Humane legislation to safeguard and advance the conditions of human labor should be encouraged in Congress, in State legislation, in municipalities. If labor should be found seeking employment for any reason the Government should not hesitate to expand its activities in road-building, improving waterways, building water-power plants, and auxiliary enterprises, and employ labor to the extend of absorbing unemployed labor, and protect labor from the forced and destructive competition arising from involuntary unemployment.

Every productive activity in America should be kept employed, and concrete steps taken to accomplish it. This is the most direct path to overcome the high cost of living.

There should be put on a campaign in the United States by moving pictures, and on the forum, in the press, and in the pulpit to teach men the dignity and need for honest labor and production and the shame of waste, the dishonor or willful extravagance, and the discredit of the vain ostentation of wealth, so that the people will come back to the virtues of our fathers and our mothers who regarded labor as honorable and waste as a sin.

The enormous disproportion of wealth distribution in America has led to false standards of extravagance and ostentation, going far beyond the reasonable bounds of mere luxury.

Men who create the values sufficient to sustain it are entitled to luxury if they choose to have it, and it is a wise policy for the world to encourage acquisition and hold out the rewards of property and the protection of property for those who serve the world by creating values. When acquisition passes far beyond the rewards that encourage effort, it may become a vice and need to be abated by suitable restraints.

Excess Profits Tax.

The excess profit tax and some other governmental taxes add directly to the high cost of living, because the manufacturer adds his excess profit tax onto the price of his product plus a manufacturer's profit on the excess tax. The broker passes it along and adds his profit on

the excess tax. The wholesaler adds his profit on the excess tax, and the retailer adds his profit on the excess tax, and the poor consumer wonders what is the matter with the world that the prices have risen a hundred and twenty-nine per cent since the war began. It is merely a matter of "let George do it," and "George," in the person of the Railway Brotherhood, comes in and demands the right to pass it on to the railroads, and the railroads to pass it on to the freight rate and the passenger rate and let another "George" (the people) pay it. It is a vicious circle which can only be cured by human labor, conscientiously performed, by production, by economical distribution, by economy, but since the excess profits tax are charged on the consumers, it should be repealed, and the war taxes instead of being collected to liquidate the principal of the war debt in a few years should be extended over fifty years. Every Governmental waste and extravagance and employment of unproductive labor falls on the consumer and adds to his high cost of living. Therefore, the Government should be economically administered, a fixed amount set apart in a budget, beyond which the expenditures should not be permitted to go. A householder who turns his checkbook over to his children need not be surprised if his expenditures exceed his income where there is no check on improvidence. The Government's expenditures should be subjected to a constant supervisory audit, expressly charged with the elimination of waste.

In lieu of the excess profits tax, a progressive inheritance tax should be employed, first to meet the cost of government, and second, to prevent by inheritance excessive commercial and financial power passing into the hands of a single individual to the injury of his fellowmen.

Private Monopolies.

One of the most important elements entering into the high cost of living are the private monopolies which have established control over various industries dealing with the necessaries of life. The danger to the public of unrestrained private monopolies has long been recognized, and decades ago an Act of Congress was passed to prevent market domination, and arbitrary prices by the Sherman Anti-trust Law. The effect of this Act was nullified by administrative neglect and failure of public opinion in part. It was never really enforced, and finally the Supreme Court nullified it by holding that Congress only intended to forbid restraints of trade which were "unreasonable." Since there was no standard of what constituted a "reasonable" restraint of trade this law is now but little more than a smoke screen behind which private monopolies may exercise their powers without restraint of law. It should be frankly repealed and better laws be substituted.

Bankers are not permitted to charge over six per cent under the law, some States permitting by contract a higher rate. The banker renders the highest character of service, and yet with the approval of all of the world he is limited in his profits. I remind you gentlemen of the banking profession that the value of your private fortunes has been cut in two by the high cost of living, and that if you were worth a hundred thousand dollars before the war *that* hundred thousand dollars is only worth today what fifty thousand was then, so that you are as much concerned in improving the purchasing power of your dollar as any other citizen. Even if you have a private monopoly it would be better for you that the dollars you receive in future should have an increased purchasing power, and it is to your interest to favor stability and commercial justice.

Many of the monopolies prevent production, and by making the things desired by men somewhat scarce they get a higher price for it and a larger percentage of profit. They would rather make a hundred per cent on a fixed output than twenty-five per cent on four times that output. They control the trade and, therefore, competitors do not enter the field, and I might add, dare not. This policy of diminished production and high percentage of profit is one of the most harmful forms of monopoly abuse. The Southern cotton-growers were urged to cut down the production of cotton because eleven million bales is worth more than fifteen millions bales in a cotton crop. There is no danger whatever of the farmers profiting by monopoly. They are too numerous, and adequate co-operation, therefore, is impossible to prevent the working of the broad law of competition.

If the high cost of living is to be controlled, the monopolies and interstate commodities will need to be restrained by suitable administrative mechanism authorized to require standard reports and the limitation of profits to a point that is "reasonable."

It will be far better for American monopolies to expand production and limit percentage of profit and lower the cost of living and increase the purchasing power of their own earnings and capital. Four times the production at twenty-five per cent profit is better than one production at one hundred per cent profit. We must compete in the world markets, and lower cost is essential to do this. If the prices are not lowered foreign countries will take foreign commerce and invade American markets and be welcomed by American consumers. American business men should have some vision and foresight.

Under the high cost of living labor has become more and more discontented. Unions are being organized to include every governmental agency. Even the fire department, the police, and the municipal State and Federal employees,—and they make demands upon the representatives of the people which are not always consistent with the public interest, or the interest of the great majority of the people. The average farmer does not begin to receive as much as a worker in the steel mills or on the railways. The railway worker would like the farmer to receive less for his products, if necessary, to reduce the cost of his living. The interest of one class conflicts with another. But when groups representing special interests combine to coerce the Government it should be possible for the representative to defend himself before the electorate, and his critics should have the right to show his alleged unfitness with a "publicity pamphlet," printed and distributed at public expense to every voter.

All democracies are about to be compelled to take their choice between the rule of the majority and the rule of the minority. The rule of the minority in Germany led to war. In Russia it led to chaos. In the one case it was the rule of a minority representing the apotheosis of wealth and dynastic pride. In Russia now it represents the exact reverse. In both cases it represents a gigantic example of dangerous instability of government.

The middle course of honest majority rule carries out the fundamental conception of our fathers in establishing government in America where the sovereignty was vested in the people and not vested in the few, whether dynastic military leaders, whether a few great financial and commercial captains, or the desperate Bolsheviki.

The overwhelming majority of men and women in America believe in God, in morality, in religion, in ethical conduct, in conscience, in justice, in mercy.

The overwhelming majority desire to acquire and protect property rights, and are willing to labor for it, and will support property rights. Stability in government requires the development, the perfection, the maintenance of the government of the majority, giving the people the right to initiate any law they want, to veto any law they do not want by referendum—the "right of recall,"

to recall any official who in public opinion has ceased to be desirable as a representative of the people. The laws should provide a short ballot, so that the people can function in choosing a small number whose records they may have time to study, and so that the people are not confused by the machine politicians who would put up a long list of candidates for the very purpose of confusing the people and compelling them to rely on the machine men to nominate "the ticket."

The laws should provide the *preferential* ballot, which *automatically coheres the majority* and *automatically defeats the machine politicians* who are always in a minority, except when by actual intent or by accident they do right.

The law should provide a thorough-going corrupt practices prevention Act to safeguard the majority against the corruption and fraud of the minority. These processes will give stability in government and in commercial and financial life. They will give intelligence to government, calling the very best men to the public service; will accomplish through the wisdom of the people the development and protection of human life; will abate the high cost of living and make America what it ought to be, the leader in the highest ideals of government, of industry, of finance, and of human happiness.

A Monetary Remedy for the High Cost of Living

By Professor Irving Fisher, of Yale University, New Haven, Conn.

It is a curious fact that bankers, just because they deal primarily in money, are often less interested in the fluctuations in the purchasing power of money than the ordinary merchants who daily watch the course of prices.

Some banks have in times past too often dealt recklessly in their commodity, money, with little realization of the disastrous effects they thus produce on the price level and on business conditions.

But today more than ever before bankers recognize that they perform a public function. No class of business men have tried more conscientiously, during the war, to render patriotic service and few if any other classes in civil life have played a more indispensable part in winning the war.

Now that the war is over the banker sees before him new fields of public usefulness. Besides shouldering a large part of the responsibility for financing the gigantic task of reconstruction throughout the world he has another great task, namely to help reconstruct the banking and monetary systems of the world. I wish to speak of one fundamental but neglected part of this great task.

This is the problem of curing the instability of money so signally illustrated during the war. It is coming to be realized that this problem of unstable money lies at the bottom of the problem of the High Cost of Living.

For many years the bank of England by regulating its discount rate and so controlling the volume of credit has, as Lord Cunliffe's Committee has recently noted, kept the price level of England in tune with the price levels of other countries.

The time has now come when the price level of the world itself should be controlled. The war has thrust this problem upon us.

The index number of wholesale prices of our Bureau of Labor Statistics rose 106% between 1914 before the war and November, 1918, the month of the armistice, while the index number of the London Statist rose 122%.

Retail prices of food rose in the United States in the same period 79%, in England 133%, and in France approximately 140%. It is fair to say that the war doubled prices in the United States and Canada and more than trebled them in western Europe, while in Russia it multiplied them by ten or twenty.

The price level of the United States is now three-fold the level of 1896. Expressing the same fact in terms of the purchasing power of money, our dollar of today is worth only about thirty-five cents of the money of 1896. In modern slang we may say almost literally, that, as compared with the biggest dollar we ever had, our present dollar looks like thirty cents.

We cannot get far in explaining this great rise in the price level and fall in the purchasing power of the dollar if we seek the explanation in the directions where it is usually sought.

Profiteering is an effect rather than a cause of rising prices while scarcity of goods cannot, in this country, be alleged as an important factor.

For solving the riddle we must look at the other side of the price equation—the money side.

There is much significant evidence to point in that direction. We find that the great price movements corresponds to monetary standards. Thus prices in all gold standard countries move alike and prices in all silver standard countries move alike while there is a great contrast between the gold and the silver countries in their price movements. Again we find that the ups and downs of prices correspond roughly to the ups and downs of the money supply.

In August 1915 the gold supply of our country began to increase rapidly, on account of the importation of bullion in payment for war supplies. One month later prices began to shoot upward. In February, 1916, money suddenly and temporarily stopped increasing, and there followed a corresponding jog in the course of prices. Following our entry into the war, the credit structure based on this gold also increased far faster than the customary rate and faster than would have been necessary for *normal* business.

War finance is the prolific source of monetary and credit expansion. The war has exemplified this in many forms. Russia indulged in the simple crass inflation of paying Government bills by printing irredeemable paper. Before the Bolshevist regime the Russian Government printing presses turned out, according to reports, a million roubles an hour, day in and day out for over a year at a stretch. Under Bolshevism the output has been even greater, a total of 80 billion dollars in nominal value having been issued, which is more than the money of all the rest of the world put together.

Germany allowed the people, when a new loan was asked, to deposit the bonds of the previous loans at certain banks which were authorized to issue paper money to the depositor who then lent this paper money to the Government. In the United States Liberty Bonds were likewise used as collateral at banks which, in turn, deposited them with Federal Reserve Banks and received their notes.

War finance also brought us still another, the most modern and approved, kind of inflation, due not to the increase of money proper but to the increased volume of bank deposits subject to check. Banks subscribed to Liberty Loans simply by writing deposits on their books to the credit of the Government, and individuals lent to the Government by borrowing off the banks, the sums bor-

rowed being likewise credited by the banks as deposits on their books.

All these methods of war finance, like the greenback method in the Civil War and the Continental paper money of the revolution may be defended on the plea of military necessity but they are inflation none the less, even when gold redemption has been maintained, and they therefore tend to add to the cost of living. As Dr. Miller of the Federal Reserve Board has said "Inflation is no less inflation when gilded with gold."

Gold, paper, and bank deposits subject to check are merely three kinds of circulating medium and the abundance of any one of them reduces the value in exchange of them all.

On the whole, the money in circulation in the United States rose from three and one-third billions in 1913 to five and a half billions in 1918, and bank deposits from thirteen to twenty-five billions, both approximately corresponding to the rise in prices.

Taking a worldwide view, the money in circulation in the world outside of Russia has increased during the war from fifteen billions to forty-five billions and the bank deposits in fifteen principal countries from twenty-seven billions to seventy-five billions. That is, both money and deposits have trebled; and prices, on the average, have perhaps trebled also.

The increase of over thirty billions in the money of the world (outside of Russia) is, as Mr. O. P. Austin, Statistician of the National City Bank, says, "more *in its face value*, than all the gold and all the silver turned out by all the mines of all the world in 427 years since the discovery of America."

The secret of high prices, then, lies not so much in scarcity of goods or profiteering in trade or the other conditions usually supposed as in our money and banking conditions caused by war finance. *The world's war debts have been pulverized into circulating media.* This first occurred in Europe but we in America felt its reflex effect long before we entered the war. The European inflation sent their gold to us in payment for war supplies. The billion dollars of new gold imported into the United States between August, 1915, and our entry into the war gave our price level its great war-time boost. That billion of gold and our 22 billions of Liberty Loans after we entered the war explain more than nine-tenths of our high cost of living today.

The rise of prices has hurt those with "fixed" incomes and helped those who take what is left—the so-called "profiteers."

Business is highly successful. The number of business failures has reached a low record. It is but natural that the workman should demand a share in this prosperity. In fact, it is necessary that he receive higher wages if he is to cope with the rising cost of living. In spite of the general impression to the contrary (based on certain widely advertised cases of extraordinary wages during the war), wages have not, *on the average*, kept up with the soaring cost of living. Real wages in 1918 were only 80% of what they were in 1913.

The result is wide-spread irritation and suspicion. The workman fails to realize that it is the depreciated dollar, and not his employer, which is cheating him out of a just return for his labor. The workman, and everyone else as well, blames the business man (whose prosperity is obvious) for the existing high prices. The fact is, of course, that the business man's profits are the result and not the cause of the increasing prices. But this is not comprehended except by a very few, and the average man is openly rebellious at what he considers the extortion which is being practised upon him. Thus an evil which primarily affects only one class of our population, *i. e.*, those with fixed incomes, becomes, in its secondary effects of discontent and rebellion, of grave consequence to the entire country.

Alike the danger of incurring inflation and the evil of inflation when it has taken place are bound up with the fact that the public generally is ignorant on the subject. The sound banker and the economist have always to fight against inflationistic fallacies and proposals. The average man persists in thinking that "a dollar is a dollar." As he cannot imagine having himself too much money he cannot imagine a country having too much money.

He little dreams that his present difficulties with the high cost of living are due primarily to too much money and substitutes for money, or credit.

In this combination of irritation over high prices and ignorance of their *true* cause, we find the real danger in our present situation.

Ignorant radicalism is using high prices as a lever for attacking our economic system. The incessant strikes and the difficulties of the railroads and other public utilities, two out-standing news features of the papers every day, are not yet understood as due to inflation and the shrinking purchasing power of the dollar.

This all points to the need for reaching a scientific solution of the problem before reckless radicalism has any further excuse for sweeping the country with some hastily conceived remedy such as would only leave things worse than they *now* are.

When we were suffering from the opposite aberration of our unruly dollar, *i. e.*, when we went through the drastic fall of prices beginning with the close of the Civil War and ending in 1896 (with the accompanying evils of depression in trade, bankruptcies and unemployment), the country, in an almost desperate attempt to escape these evils, nearly adopted Mr. Bryan's remedy which would have been worse than the disease.

The radicalism of those days, expressed in "populism" died out soon after prices stopped falling. The present radicalism will die out soon after prices stop rising. If only we could put a stop once and for all to these great swings of prices in either direction we would escape a vast amount of social discontent which price movements always breed.

To secure this result we need a stable price level and to secure a stable price level we must stabilize the dollar, the aberrations of which disturb the price level.

Our present dollar is constant in weight. No matter what influx of gold takes place or how much the value (*i. e.*, purchasing power of gold) the value is lessened by the increase of its paper and credit substitutes, it must bear the same nominal price. In other words, fluctuations in the price of gold can not show themselves in the altered price of gold. They are, therefore, reflected in the prices of other things.

Let us, therefore, vary the price of gold. In other words, let us *vary the weight of the dollar*, weighting it when the index number of prices is too high and lightening it when the index number of prices is too low.

This can easily be managed if we have gold circulate by means of paper representatives, redeemable at any date in whatever amount of gold bullion may be, at that date, the dollar.

In order to make the process clear, let us look at an example. Suppose that the plan were inaugurated this month, and the existing price level called 100%. Suppose further that at the next date of calculating the index number, the figure showed an increase to 101%. This, in concrete language, means that it will now take $1.01 to buy what $1.00 would previously have bought. It is apparent, then, that by adding 1% to the gold bullion in the dollar, this lost purchasing power would tend to be restored. If there were no further tendency to depreciation, this correction would be sufficient. The price level would come back to par.

If, on the other hand, further depreciation took place,

the index number might continue 101%, and call for a further weighting of the dollar at the next periodical adjustment.

Whenever this fluctuation in the purchasing power of gold (this would ordinarily express itself in a price fluctuation) ceased the dollar would be left at its in-increased weight, or if an appreciation of gold set in, the dollar's weight would be lightened. Thus increases or decreases in the purchasing power of gold are compensated for by decreases or increases in the amount of gold bullion in the gold bullion dollar.

In this way any change in the price level is always in process of being corrected, the gold bullion dollar is always being approximated to a constant purchasing power, *i. e.*, a constant price level, the circulating dollar certificates being redeemable are kept equal in purchasing power to this amount of gold and finally the credit structure (assuming a sound banking system) is also kept from fluctuating by its relation to this stabilized dollar. In other words, the *purchasing power* of the gold certificates will be kept constant in terms of goods while the weight of the gold dollar is allowed to fluctuate.

So much for the bare outline of the plan.

Several questions in regard to its application will probably come to the mind of bankers.

In the first place, at what price level do we want to start a stable dollar?

The present price level is so abnormally high that it seems doubtful wisdom to launch a plan which would fix the dollar at its present low purchasing power. At the same time it would be absurd to go back to 1896, the low-water mark of prices, for the debts existing then have almost all been paid and wages and salaries have become adjusted to a higher level. We cannot now do justice to all those who suffered by past price movements. The chief object of stabilization is to provide a stable yardstick for contracts to serve future generations of business. Next in importance is the object of preventing injustice, in the immediate future, to those who are now debtors or creditors or who would otherwise be affected by any impending unforeseen fluctuation in monetary standards.

Most existing contracts and understandings were made during the war. A rough estimate which I have made of existing indebtedness—bonds, notes, mortgages, bank loans, and other obligations—seems to indicate that their average duration is approximately two years. If then the price level should soon become what it was two years ago, say in 1916-17, it would seem wise to adopt that level as the start-off.

In the second place, if the gold dollar certificates outstanding are now equivalent, dollar for dollar, to the gold in the Treasury, but next month, because of a change in weight of the dollar, they call for one per cent more gold, must the Treasury find the additional bullion and if so how? It would, of course, be perfectly possible (though not necessary) to maintain, as at present, a 100 per cent reserve against these certificates, the government making up the deficit when gold depreciated, perhaps through taxation. If, on the other hand, gold were appreciating, the government would reap a profit. This gain and loss, however, are not really new phenomena resulting from stabilizing the dollar. They exist today. But, under our present system, the loss or gain falls on the individual holder of gold certificates instead of on the government. Stabilising the dollar simply affords a specific measure of this loss or gain, and maintaining the reserve translates that loss or gain into an increase or decrease of taxes.

It would be more simple, however, to allow the reserve, should it tend to fall below par to do so up to say, fifty per cent, before replenishing the supply of bullion. Any surplus above this fifty per cent which might exist at a time of falling prices or decreasing dollar weight could be put to work to earn interest which would to a large extent provide against loss when prices began to rise again. This could be done by investing this "surplus" in government bonds.

As to the bankers' reserves, these would all be kept not in gold but in gold *certificates* redeemable at the sub-treasuries in gold bullion of whatever weight of gold per dollar should be declared at any time. Thus the banker would not be concerned with fluctuations in the price of gold, the Government assuming this responsibility—as it should under our constitution to "regulate the value of money."

A third technical point in the plan is the choice of the index number which is to be the basis of the changes in the "dollar-weight." Although the method of computing the index number has surprisingly little effect in general on the resulting figures, nevertheless differences do appear; and it is therefore worth while to construct an index number as nearly perfect as possible. The main factors are the markets from which prices are collected; the kind of prices, that is, wholesale or retail; the list of commodities included; the frequency of calculation, and the formula for calculation.

For the first, the markets should be the chief public markets of the United States such as those now used by the United States Bureau of Labor Statistics, and the prices should be secured through government agents, trade journals, and business houses.

Wholesale rather than retail prices should be used, first because of the greater ease they offer in standardizing certain grades of goods, and secondly because of their greater sensitiveness to the influences which affect price levels. This second reason is illustrated by the contrast between street-railway fares, which remained the same through two decades of price upheavels which affected all other prices, and silver, which is rarely quoted the same on two successive days.

This same consideration is important in selecting the list of commodities, which should exclude the sluggish commodities in order to be promptly responsive to price changes. I have had an index number of such responsive commodities calculated through the help of Mr. Bell of the Bureau of Labor Statistics, and it shows a rise greater and prompter since 1914 than that of the regular index number, including, as it does, sluggish and price-fixed articles.

If wholesale prices are stabilized, retail prices will also be stable. The present discrepancy between the movement of retail and wholesale prices is due to the lagging behind of the retail prices whenever the wholesale prices move more swiftly up or down.

The frequency of calculating the index number (which means the frequency of adjusting the dollar weight) depends on the time required to calculate an index number and that required for such an adjustment to be felt. Judging from the rapidity with which some of the commercial index numbers are calculated and published, I believe an index number could easily be calculated within two or three days after the date for which the prices are quoted. How quickly the index number responds to a change in the monetary supply has never been fully demonstrated. A lag of from one to three months is most probable.

As to the possibility of the adoption of the plan by this country alone, now is our golden opportunity to take the lead for stabilization. International pars of exchange have been shattered by the war. If we, with our present financial supremacy, would inaugurate the stabilization plan, we could count on other nations soon falling into line. The benefits of stabilization will be too obvious to be missed. With the League of Nations organized, it may be possible to secure international adoption of the plan at the outset.

Even if we had to "go it alone" for a while, the benefits of the system would far outweigh the drawback of a shifting rate of exchange. Our domestic commerce is of much greater importance than our foreign commerce.

Other questions are discussed in my forthcoming book "Stabilizing the Dollar in Purchasing Power."

Suffice it here to say that the plan has for several years run the gauntlet of questions and criticisms among economists and has now their almost unanimous support. It has also been studied carefully and approved by such bankers as Frank A. Vanderlip, formerly President of the National City Bank of New York and John Perrin, Federal Reserve Agent of the Pacific Coast.

It has been endorsed by numerous other bankers, business men and business organizations such as the Bridgeport and Waterbury Chambers of Commerce. A bill has been introduced into Congress to investigate the subject. Before many more months are past it will, I believe, be an issue before the country which cannot be escaped.

The only serious obstacle to the adoption of the plan is its newness and therefore its appearance of being a radical departure from the past.

The answer to this objection is that the adoption of a stable dollar would save us from the dangerous radicalism with which the whole world is threatened today; for it is now recognized by every serious student of Bolshevism and I. W. W. ism that the chief factor which has given these movements their strength is the rise in the cost of living, *i. e.*, the fall in the dollar and other monetary units.

Democracy in Industry—Co-operative Control

By A. Mitchell Palmer, Attorney General of the United States and Formerly Alien Property Custodian.

The problems which press upon us now with insistent demand for solution will test our capacity to serve Christian civilization in a way that men of the past have never been tested. The peace and happiness of the myriad millions of the earth's people are in the balance, to be won or lost by the wisdom, the fidelity and the industry of men who to-day dream that the world will some time be a place where all men may live their own lives with assurance that not by might but by right, not by force but by common consent, will they receive that share of the world's wealth and the happiness of living which the Creator designed His people to enjoy.

The world is smaller than it ever was before. The oceans are spanned by the voices of men almost instantaneously carried around the world. The air, the sea, and the land have all been conquered and harnessed to do without delay the impatient commands of men. A new revolution to-day in unhappy Russia, a newly discovered diamond mine on the west coast of Africa, a tribal war in the mountains of India, a reform measure in the Parliament of New Zealand, are alike the subject of interest and discussion the morning after at the breakfast tables of civilized men the world around. Nothing that the world does is any longer a secret. Nothing that a nation may do is any longer the concern of that nation only, but affects the entire human race. The new problems with which we must grapple will always have relation to the new conditions created by the closeness of all peoples to each other. We cannot escape the consideration of those problems, if we would, for the world has come to believe that having conducted the most successful experiment in free government in all history, we cannot abdicate the leadership which that success has earned.

It is a block in the path of real progress that there are so many people who fail to understand what America stands for and to realize the responsibility which attaches to its leadership in free government. There are eminent American citizens of great intelligence and undoubted patriotism who preach the gospel of aloofness from the rest of the world which present day conditions make absolutely impossible; neither the safety of the Republic nor the happiness of the people who dwell beneath its aegis will be served by a narrow nationalism which refuses to be responsive to the currents of thought and action elsewhere in the world, which may affect us at any moment as they touched us in the world war and compelled our intervention. We cannot any longer play the bystander's part. We must do our share toward maintaining the peace of the world if only for our own sake, because every time that peace is upset, wherever the trouble may come, the reaction affects us and our interests.

We must also set an example of the ability of a popular government to keep pace with the aspirations of men who seek a liberty founded on justice and equal treatment for every class. To this end we shall need to do two things. We must set our faces like flint against methods which will result, through class war, in class dictation; and we must at the same time find a solvent for conditions which, according to the claims of the ultra-radical agitators, offer some excuse for a class dictatorship,—a solvent which will disarm these agitators by leaving without just grievance those whom they seek to lead.

There are amongst us some who do not or will not understand and appreciate the capacity of a free government such as ours to do that which will serve the common good. Fortunately there are not many such amongst the people who were born here or who have lived here long enough to become fully Americanized, but we have admitted, if not welcomed, to our shores in recent years many who have lived in foreign lands under conditions which have given them no opportunity to understand popular government. They have lived where autocracy has held masterful sway and where the people have been taught through generations and centuries that government and tyranny are synonymous terms. Against such conditions the people in Europe have revolted. Autocrats have been swept from their thrones and the reins of government taken over by people untaught in free government, who have, in accordance with every precedent in history, carried excesses to the other extreme. In the course of time, these new governments will find themselves, the pendulum will swing back to the plumb line, and popular government, as we understand it, will be universal in Europe.

Many of those who have come here out of such conditions profess to see little difference between this government and those from which they have come. They seem to think there is justification for repetition here of the forcible methods which have been pursued in Europe to change the forms of government. Many of these are honestly mistaken, many others are self-seekers who play upon the ignorance of their fellows. There is no room, as there is no need, in this country for those who resort to violence to impress their ultra-radical views upon the people or the government. They will get nowhere by such methods. The government must pro-

tect itself against attacks from within as carefully and as forcefully as it has shown itself able to protect itself against attacks from without. No officer of the government will be embarrassed or affected, much less frightened, by any attempts, organized or unorganized, by lawless elements in the community to terrorize and stampede the government into doing something contrary to the spirit of our free institutions as designed by the fathers and sustained by all the generations of men through the life of this Republic. Every reform which the most radical may desire to incorporate in our body politic will receive a fair hearing and full consideration and become effective only if and when a majority of the people, through the regular methods provided by the Constitution, shall so decide. No change will be hastened by the use of force. Those who cannot or will not live the life of Americans under our institutions and are unwilling to abide by the methods which we have established for the improvement of those institutions from time to time, should go back to the countries from which they came. Every power of the government will be used to compel those who remain here to comport themselves in that obedience to our laws and with that respect for our institutions which are a part of the creed of real Americans.

All the problems which beset men's minds can be worked out in the general interest in a government where the people are the only rulers. But, unless we shall be satisfied with that which is for the general interest and do not insist alone upon that which is in our own particular interest, there will be trouble and delay in the settlement. If men could learn to be patient under conditions which have resulted from The World War until a more accurate estimate of the possibilities of the situation can be made, all our problems will be sooner solved; but if impatience and selfishness shall rule and immediate, forceful or direct action be undertaken, it is perfectly obvious that nothing but disorder and delay can result. The crying need of the world just now is for peace, and not political peace between governments alone, but industrial peace among men also. The things for which men fight are never settled while war is on. An armistice must come; heads must cool; and anger must spend itself before men can sit down together and know what is best for themselves and give due consideration to the rights of others.

But peace alone will not be sufficient. There must come with it an intelligent, sincere and sympathetic effort to readjust the relations of all the forces of industry to run true to the new ideals to which the world's eyes have been opened through the grievous trials of the world's greatest war. It is a trite saying, but so obvious a truth that it is too frequently forgotten. You cannot start a factory, nor run it a single day, with money alone; you cannot start a factory, nor run it a single day, with labor alone. You must have both these ingredients of the real working capital of industry to make the wheels of industry move. One is as necessary as the other. The days of autocracy in government are gone from this earth; there must be no autocracy in industry left standing as a menace to the peace of the world. Through all the ages, in most of the countries of the Old World, money has dictated to labor what labor shall have out of the products of the joint effort of money and labor. Although, strong by organization, labor has had influence in fixing wages, the ultimate decision has been with invested money. In some of these countries the autocracy of money has been swept from its throne so long securely held and an even more menacing autocracy has taken its place. There is no occasion for a similar revolt here, for men will soon come to see that there must be built up conditions more nearly approaching a democracy in industry if our political democracy is to survive and justify its existence.

A fair and equitable distribution of the profits realized upon the products of industry, as well as a system of co-operative control and management of the terms and conditions under which money and labor yield those products, must be devised. Neither money nor labor should be permitted to dictate to or control the other, but both should participate in the fruits of their common service in just proportion to their contributions.

The imperative necessity is a fuller co-operation to bring about greater production at less cost, without sacrifice of the earnings of either money or labor and with a just division of those earnings. Such co-operation must look to other things than mere increase in the wages of labor or the dividends of invested money. It must look to increased business, better working conditions, greater opportunity and reward for individual initiative, and, in short, all the factors that go to make success. Neither wages nor profits can thrive upon failure; and failure must be the portion of any plan which gives control of industry to any class which proposes to exercise that control only to win increased profit for itself. There should be no fear in the mind of either employer or employee of a democratized industry on such a basis of just co-operation having in view a greater success in industrial effort. It is the middle ground, which once taken and securely held will avoid the obvious dangers of both extremes. We have been taught to believe in the safety of that middle ground in all our political thinking by more than a century's experience with a representative democracy in government. Co-operative control in industry is not the first step towards either nationalization or class control. It is the recognition of the very principle which has made our government not alone great but responsible to popular will in a way that protects the interests of all. There is danger in refusing to act upon this principle now that the time is here, not merely to "do something" for labor, not merely to be "good" to labor, but to be exactly just to labor, and not just to labor only but to every factor necessary to bring successful production in industry. All this may be difficult to accomplish, but the difficulty only increases the importance of attempting it. Harder problems have been solved on American soil since the fathers first held aloft the flaming touches of liberty and democracy for all the world to see.

In the meantime, while plans of this nature are being worked out by thoughtful men at both ends of the industrial organization, let us have peace. If we could have an absolute industrial armistice in America for six months; if both the necessary ingredients of capital, that is, both money and labor, would be active and constant in the problems of production, the busy peaceful days would soon yield a spirit which would make it possible for men to solve the problems which now confront us. If money and labor would both make a demonstration of the enormous capacity of American genius to produce the things which are necessary for humankind, we would soon run into an era of easier living and better times for all, and the peace made by such an armistice would be continued as the permanent peace resulting from mutual good-will. Idleness is no panacea for the ills from which the country suffers. Work may be. The cost of life is only enhanced by the idleness of men; it can be reduced by the intelligent industry of all. Other remedies may bring us part way on the road, but they will never bring us the whole distance. These other remedies should and will be applied, but the most effective cure that can be devised will be the general acceptance by all our people of the golden opportunities of this great land of plenty for all who give the best that is in them.

Russia—Its Future

By David R. Francis, Former Ambassador to Russia.

I first wish to express my appreciation of the compliment bestowed upon me by permitting me to speak to so distinguished a body as I see assembled before me. My house is a member of this association, and has been for a number of years. I believe it was Emerson who said that a man of wealth in a community improved the credit of every man in that community. The bankers of all communities are looked upon as leaders not only in financial matters, but also in everything that tends to the progress and the uplift of society. I remember with pride hearing what you performed in the struggle through which the world went.

If it had not been for the action and the farsightedness and the patriotism of the bankers, America would never have performed the part she did in The World War. Yes, your service was as necessary and as commendable in raising the credit of the United States Government as was the service of the boys who fought in the trenches. I trust that that record will serve to dissipate the prejudice existing among some thoughtless members of every community against the bankers. You know that you always have a poor opinion of the man who has accommodated you. My experience of thirty-odd years in public life leads me to the conclusion that a man you have once bestowed a favor upon, if you do not keep up that favoritism, will be a worse enemy than if you had refused him the first time.

I say that my house is a member of this association. My house was organized forty-two years ago. I don't want to betray my age, but the papers have announced that I am on the threshold of my seventieth year to-day, which is my natal day. During the forty-two years of the existence of that house it has always been under obligation to some banker, and frequently, most of the time, I may say to a number of bankers. That house would not have survived if it had not been for the banking institutions of the United States. If we didn't need money in our own business, we borrowed it to lend to people that you would not trust, and I am reminded in this connection of a story that my friend Herman Kohlsaat of Chicago, a well-known newspaper publisher, said to his wife on one occasion. He was returning from a funeral at which he had been a pallbearer, mopping his brow, he said to his wife, "My dear, it seems as if I were called upon very frequently to be a pallbearer; many of my friends are dying." "Yes," said she, "Herman, I was just thinking of that to-day, and I was wondering who you would select to perform that service for you." He said: "That was just what was going through my mind, my dear, and I have arrived at this conclusion, that as the bankers of Chicago have been carrying me all through my life, I don't think that I ought to neglect them at my obsequies." (Laughter). And so I request you if you survive me to have the bankers act as my pallbearers. You have carried me all through my business career, and I feel under obligations that I cannot express to every banker who has extended credit to my house.

But the subject assigned me has been Russia, the present conditions and the future of that great country; that suffering and afflicted country as it is to-day.

I returned to America about six months ago, very much weakened in health and strength by three years of strenuous service in Russia, coupled as it was by a major surgical operation. I did not return to St. Louis until just a few days ago, and I would not be here now if the American Bankers' Association had not decided to hold its 1919 meeting in this city. I found a woeful ignorance existing in America concerning conditions in Russia, and I was astounded—that doesn't express my feelings, but I can select no more appropriate word—I was astounded to see that the Bolshevik-Soviet Government of Russia had a good many supporters and some apologists throughout the United States. I went to Russia in 1916; I served almost a year under the Empire.

I presented my letters to Nicholas II, seven days after my arrival in Petrograd. He was not there at the time. He was absent in Mogoloff, the headquarters of the army, of which he was the commander-in-chief. I first called upon the Minister of Foreign Affairs; I said to Sazonoff "I have accepted this mission not because I am a diplomat; I have never had experience in diplomacy before, but I accepted it to negotiate a commercial treaty between Russia and the United States." He suddenly rose from his chair and threw up his hands and said: "No more commercial treaties will Russia negotiate with any country until its commercial relations with its Allies have been defined and determined."

I was disappointed, and expressed my disappointment through Sazonoff. I said to him, "If I had known that this was the position of Russia I should not have accepted this mission." You will remember that President Taft, following a suggestion from Congress, had abrogated the commercial treaty between the United States and Russia, which treaty had been in existence since 1832, over eighty years. The Senate concurred in a resolution introduced in the House by Congressman Sulzer of New York, and it passed both houses by practically a unanimous vote, that we would have no commercial treaties with any country that didn't recognize American citizenship and refused to allow its subjects the right of expatriation.

Russia had no such laws, but Germany had such laws and Austria and other European Governments had like laws. Sentiment in this country was very bitter against Russia, and the President of the United States, Mr. Taft at that time, issued a proclamation abrogating this treaty from December 31, 1912. Russia didn't take any action. That was, as you know, about 18 months before the war began and about 60 days before President Wilson was inaugurated the first time. The Minister of Foreign Affairs was amiable and I left his office and sent a very full cable of our conversation to the Department of State.

The Emperor had come up from Mogoloff, the headquarters of the army, to receive the American Ambassador, and I called on him and presented my credentials at Tsarko Selo Palace. Tsarko Selo was a suburb of Petrograd at which the Emperor lived. He had not spent one night in Petrograd since the revolution of 1915, when an attempt was made on his life. He came to the capital, but refused to spend a night in the capital. Tsarko Selo Palace was about 15 miles out of the city. I went there and presented my credentials. I was received very cordially by his Majesty.

I made the same speech to him that I had made to the Minister of Foreign Affairs, but received a different reply. He said when I stated to him the object I had in view of accepting the ambassadorship to Russia: "Russia will meet you more than half way. Russia is as desirous to negotiate a commercial treaty with the United States

as you are to negotiate a commercial treaty with Russia." I didn't tell him what Sazonoff, his Minister of Foreign Affairs, had remarked when I made the same statement to him, because I knew that His Majesty was not only familiar with the policy of the Government, but was endeavoring to mislead me. That is just the kind of a man Nicholas II was. He didn't like to have an argument, and to avoid all controversy, he agreed with the last man whom he met. He was not a bad man, but a weak ruler. The Empress Dowager had had control over him until his marriage, which occurred shortly after his coronation, and for 20 years thereafter. He was married to the German Princess shortly after his inauguration in 1894, but his mother, the Empress Dowager was of very strong character and very popular throughout Russia; she was a dainty Princess and was the sister of the wife of Edward VII of England. She retained her influence over him until the beginning of the war when she was supplanted in that influence by the Empress.

The Empress Dowager I never met. I was presented to the Empress, shortly—immediately after I was presented to the Emperor, and I found her a very gracious lady, who was under suspicion at that time of having German sympathies. She impressed me as a very much stronger character than the Emperor, and I often tell a story, which would illustrate the character of the Emperor and Empress of Russia. The Emperor was called upon one day by a liberal-minded nobleman, who expressed his opinion very curtly to the Czar to the effect that he should be very liberal with the Duma and extend more privileges to the people.

"You are right, quite right, my dear Baron."

When the Baron left, he had made a lasting impression on the Czar. A few minutes elapsed and a man came in. After salutations had passed between them, the Emperor asked him how affairs were drifting down in his section of the empire. He said: "All right, your Majesty, but I would advise the Government to check the pests and check the liberal sentiment of the country. If you do not, if some last firm step is not taken by the administration, the peasants and the liberals will own the Government."

"You are right; quite right," said the Emperor.

And the monitor, the absolute monarchist, left the palace, thinking he had made some impression on the Emperor. A few minutes elapsed and the curtain parted and the Empress entered the room. She said: "Nicky, this will not do. You are an autocrat, and should rule a hundred and fifty millions of people with a firm hand. I have heard these two conferences first with the Baron, and then with the Count. They gave you directly the opposite views. Now, Nicky, you must assert yourself; be a man."

His only reply was: "You are right, my dear, quite right."

The immediate cause of the revolution of 1917 was the dissolution of the Duma by decree of Nicholas II. He had removed Sircimo, Minister of Foreign Affairs, and Sturmer, a man of German origin, with a German name, an absolute monarchist. Sturmer was afterwards removed by the Emperor, notwithstanding the Empress's endeavor to have him retained in office. She arrived at the headquarters of the army bearing directions to retain Sturmer, a half hour after Sturmer's removal. All that occurred about four months before the revolution. His Ministry had been advising the Emperor that he should issue a decree enlarging the powers of the Duma. The Duma was in session at the time. He not only promised to issue that decree, but he went farther and promised to issue a decree promising the people of Russia a Constitution. The Ministry adjourned and the Emperor returned to Tsarko Selo Palace. That was on the 8th of March. That evening, Protopopoff, Minister of the Interior, took those decrees, which were framed by the Ministry, to the Emperor for his signature, but Protopopoff was in collusion with the Empress.

The Empress had sent Protopopoff, who had been vice-president of the Duma and had become an absolute monarchist. When the decrees were submitted to the Emperor for his signature, the Empress, being present, said: "Your Majesty, will you endanger your cause as you will do by signing these decrees?" and she was aided by Protopopoff to persuade the Emperor, which they succeeded in doing, to tear up these decrees and issue in their stead another decree dissolving the Duma.

That was the night of the 8th of March, Thursday night. The following morning the Emperor departed for the headquarters of the army, and the decree was published Saturday or Sunday morning. The Duma was astounded. The Ministers were surprised and disappointed. Protopopoff was the only Minister who sustained the decree. The Duma met, notwithstanding the decree of the Emperor dissolving them, and Protopopoff, who had charge of the garrisons which contained at least 100,000 soldiers in Petrograd, ordered them to disperse the Duma. The soldiers refused to obey. The barracks of the regiment was within a block and a half of the American Embassy. The soldiers were ordered out and refused to obey until the Colonel ordered them to do so. The soldiers were armed, but they said nothing, but when they were ordered out that started a revolution. That revolution was bloodless. Comparatively, there were only about 100 deaths. At midnight on the 12th of March the revolution was a success.

The Emperor at Mogoloff had been deprived of the news, had been protected from the intelligence of this outbreak, and rumor said that he was supplied with intoxicating liquors, if not drugs, by those surrounding him. He misunderstood the extent of the revolution and thought it would be suppressed. The following day, the 13th of March, the Duma appointed a commission of 12 men to select a provisional government which would administer affairs until a constituent assembly could meet. A constituent assembly was to be elected by direct and universal and secret suffrage by all the people. They then demanded the abdication of the Emperor and sent Goochikoff and Chandley to the Emperor to demand his abdication. They arrived in the Emperor's presence on Wednesday evening, the 14th of March. He signed his abdication. The proposition that they made to him was: You will abdicate the throne in favor of your son, and your brother will be the regent until your son attains his majority. Nicholas II said: "I will abdicate not only for myself, but for my son, also in favor of my brother, the Grand Duke Michael, without any resistance," and when he had signed this abdication he asked, "Am I a prisoner still?" "No," the reply was, "You can go wherever you wish."

He returned to Mogoloff, the headquarters of the army, where he was joined by his mother from Kiosk, and the Empress Dowager tried to console her son, who did not appreciate his humiliation as much as his mother did. He telephoned his wife, the Empress, that night and failed to tell her that he had abdicated. He did not have the courage to inform her of the step he had taken abandoning the throne of his father, and when the Empress was informed of it the following day she indignantly refused to believe it.

She said, "The Emperor talked to me last evening after you say the time he abdicated, and he failed to tell me anything about it, as I know he would have done if it had been true." But it was true. He was taken to the towers a few days thereafter, and after being taken there with his family, he was not permitted to see the Empress during the four or five weeks that they lived at Saskiospoles, except at meal times, and when the guards were remonstrated with for their cruel treat-

ment, they replied, "He is too weak and she is too strong." That is all I am going to say about the imperial regime.

Nicholas II, the Czar of all the Russians, was a weak ruler. He was not a cruel man. I met him and had a conversation with him of 35 minutes when I was presented. I congratulated him on the issuance of the decree prohibiting the sale of vodka.

The Government derived a revenue from the sale of vodka of 700,000,000 rubles a year, and they had 5,000,000 gallons on hand at the time this decree was issued by the Emperor prohibiting the sale of vodka. He was very much pleased at my expression, and said that the decree when first issued was only to cover the period of mobilization, but the appeal came up to him so strong from every section and from every class of people that he extended the operation of the decree to continue during the war, and that did not satisfy the people. Finally, in obedience to their appeal, he made it perpetual. I saw him at the reception, when they gave him a New Year's reception on the 14th of our January, 1917. He was dressed in the uniform of a Russian Colonel, and appeared very much at his ease.

I have not seen him since, but I am satisfied that not only he, but the Empress and the four Grand Duchesses, their daughters and the Czarovitch were killed without trial by the Bolsheviks at Ekatterinburg, in June, 1918. In the meantime the revolution had begun and the Provisional Government was in the saddle. I explained in a speech made last Friday evening that I was the first Ambassador to recognize that Provisional Government and I did it 10 days after the revolution had broken out. The revolution began on the twelfth of March and I recognized this Government with all the form and ceremony that I could command on the twenty-second of March. I was satisfied that the Romanoff dynasty was ended. I was likewise persuaded that monarchistic rule in Russia had seen its last day.

They feared the Soviet, at that time called the Workingmen's and Soldiers' Deputies. I well remember going to Goochikoff, who was Minister of War, and saying: "Would a recognition of my Government strengthen you?" He was very nervous. He had come out from a conference with a delegation of Workmen to receive me. He said: "Yes." I asked: "How many soldiers have you in Petrograd?" He said. "About 125,000. But 100,000 of these soldiers would follow the working men." I said: "That is a serious situation. Yes, but the recognition will strengthen the Provisional Government." "Can't you do it, can't you recognize us to-morrow?" This was the 19th of March. I said: "No, I have cabled my Government requesting authority to recognize this Provisional Government and I can't do it until I receive authority. I have recommended it warmly."

"Well," he asked, "What time do you expect a reply?" I said, "Not before morning, the 22d of March." He said, "I don't think we can hold out until that time."

If the soldiers and workmen had deposed the provisional Government in the beginning of this administration, Russia would have been withdrawn from the war eight or 12 months before she was, and Germany would have been enabled to send the divisions which she did send from the eastern front in March, 1917, instead of March, 1918. That was a year before the celebrated March drive began in 1918. Had it begun in 1917, before America could have made the marvelous preparations which she made, I don't know what would have been the result of the war, because America would never have laid down its arms, but it would have prolonged the war at least eight or ten months.

The recognition of this provisional Government saved the Russian Army for eight months. One of the first acts of the provisional Government was the general pardon of all political offenders. They threw the prison doors open and they permitted the exiles, banished under the imperial regime, to return to Russia, and these exiles came swarming back. Lenine, the arch conspirator of the day, and the brightest intellect that Russia has produced on the Socialist side, was in Switzerland. He had been advocating the defeat of his native country because he said that that condition was the only thing that could help the revolution. Russian Socialism is elaborate. Russia is not the mother of Socialism—I believe she is not—but it is a very fertile soil for Socialism to grow in. There are two great Socialistic factions in Russia, called the Social Democrat and the Social Revolutionist. Loginal and Lenine were the leaders of the Social Democrats. Kerensky was the leader of the Social Revolutionists. The Social Democrats split, and Blakanoff, who had been the teacher of Lenine, led one faction and Lenine led the other.

Leminoff advocated prosecution of the war and his faction was called a defensive faction. Lenine, from the beginning of the war, was the leader of the defeated party. He was an exile, but he wrote voluminously and his writings were always able and logical to his followers. On the beginning of the revolution Lenine immediately left Switzerland and journeyed through Germany back to Russia. He was furnished with a special car by the German Government, and his passage through Germany was aided with all possible speed. Leminoff had arrived in Russia previous to Lenine's arrival, and he was received at the Finnish station with an ovation. Lenine was received with a greater ovation.

You do not understand conditions in Russia at that time. Consider, if you will, 180,000,000 people, 90 per cent of whom were uneducated. They had been striving for liberty for generations; nay, for centuries. They had responded to the call of their country and formed an army of 18,600,000 men. Never was there such a large army assembled in the history of warfare. Eighteen million six hundred thousand men. They had lost at the time of this revolution 2,000,000 by death and disease, and 2,000,000 more were imprisoned in Austrian and German prison camps.

They foresaw no end to the war, so when Lenine promised them peace, land and luxury, they would have been more than human if they had not listened to it.

Lenine is the greatest enemy civilization has ever had. Upon his arrival in Petrograd he immediately began to undermine the Provisional Government. No provision had been made for filling vacancies in the ministry of the Provisional Government. Mackoff, Mechkhoff and Leftoff were conservative. Kerensky was looked upon as a social revolutionist. Kerensky in the first day of the revolution performed heroic work in suppressing this Bolshevik spirit, but Lenine persisted and he was joined by Trotzky from America. Trotzky is an adventurer. Lenine is a fanatic, and as I have said on many occasions a fanatic in a bad cause is a most dangerous man. Lenine was an International.

Lenine was fashioning the precepts as the leader of the Bolshevik revolution. When the Provisional Government was deposed and the Bolshevik or Soviet Government came into power it immediately began to negotiate for an armistice between the Central Empires and Russia without consulting any of Russia's Allies. We had been in the war then about nine months. That armistice was signed, was all arranged by Germany with Lenine or by Lenine with Germany. This nefarious coalition was agreed upon. It has clearly been shown in the light of the subsequent events that Lenine was the German agent and Trotzky was also.

Do you blame your Ambassador for refusing to recognize such a Government as that? This armistice was signed and it provided that the cobelligerents of Russia should be invited to participate in it, in the negotia-

tions for peace. Of course, America paid no attention to it, nor did England or France, or any of the other Allies, but the Brest-Litovsk peace was signed, and it is the most disgraceful peace that was ever imposed upon a civilized country by another civilized country. It virtually made Russia a German Province.

The President of the United States sent a telegram to the Russian people through the All-Russian Soviet Congress, assembled to ratify the Brest-Litovsk peace. He sent this on my recommendation. It was misunderstood or misconstrued by patriotic Russians as a recognition of the Soviet Government, but it was never intended as such. It was addressed to the Russian people through this Soviet Congress. The All-Russian Soviet Congress, after ratifying this disgraceful peace, which had been imposed upon Russia by Germany at Brest-Litovsk, replied to the President's telegram and Synovia, who is now the dictator of famine-stricken and ravished Petrograd, was a delegate to that All-Soviet Congress, and upon his return to Petrograd stated in his speech to the Soviet, to the Petrograd Soviet, that the All-Russian Congress of Soviets, to which he had been a delegate, had slapped in the face the President of the United States.

That reply was not to the President, but through the President as a medium to the laboring classes of America whom the Soviet opposed and the substance of the telegram was, use your influence not only to stop the preparation that America is so zealously making for entrance into the war, but overturn that capitalistic Government. I charge the Bolsheviks through Lenine's Soviet Government in Russia prolonged the war at least six months beyond the time it would have ended if Russia had not been withdrawn from the war. Lenine, with systematic and persistent energy, did everything he could, not only to demoralize the army and weaken the Provisional Government, but to promote the cause of Germany in Russia. Lenine was an Internationalist, and is an Internationalist now. He openly advocates the dictatorship of the proletariat and that means the Soviet Government. Do you know what the Soviet Government is? I think that Bolshevik and Soviet are construed and used as synonymous terms in this country. Bolshevik is the name of a party and Soviet is the name of a form of government.

The Bolsheviks approve of the social revolution and were looked upon as radical social revolutionists, and the Menshovists were a subdivision of the Social Democrats, and the Bolsheviks were also out of the administration of the Government, so that the Soviet Government in Russia now has only Bolsheviks administering its affairs.

The Soviet Government has as its basic principle that no one will be allowed the right of suffrage who employs another man. They expressly exclude in their constitution the clergy, merchants and professional classes, and they even go so far as to exclude domestics who work in the families of any of these prescribed classes. That is dictatorship worse than the Romanoff dynasty. If I had to select, if I had to choose between the dictatorship of the proletariat and the dictatorship of an absolute monarchy, I would select the latter. Words fail me to give an inventory of all the cruelties perpetrated and practiced by the Bolshevik Government. When the Provisional Government was in power one of the criticisms of it on the part of the Bolsheviki was that they had not called a Constituent Assembly. They did call a Constituent Assembly, but as the Russian people were unaccustomed to voting, they had to be educated in exercising that privilege, and the Constituent Assembly was postponed in its meeting for from 40 to 50 days. The date of it was fixed for January. The Bolsheviki came into power in November, 1917, the date was fixed for January, 1918.

The Bolsheviki came into power previous to the meeting of the Constitutional Assembly and they did not let it meet. It only remained in session about six hours when it adjourned after organizing. The Bolsheviki had arrested all of the cadets who were elected to the Constituent Assembly by Constitutional Democrats, of which Maj. Goff was the leader. Major Goff was never arrested because he was wise enough not to come to Petrograd. Goochikoff did not stop. Rosecanzi didn't come, but on the organization of this Constituent Assembly, the Bolsheviki saw that they were in the minority and they dispersed the Constituent Assembly through a drunken sailor, and when they adjourned, as they did about two o'clock in the morning, and the next day at 11 they came to the Duma, within three or four blocks of the American Embassy and were denied entrance to their assembly hall.

The Soviet Government had charged that the Constituent Assembly, was not called by the Provisional Government because the Provisional Government wished to perpetuate its powers, and when the Constituent Assembly did meet the Bolshevik Soviet Government dispersed, dissolved. The Soviet leaders before they deposed the Provisional Government advocated free speech and free press. When they came into power they suppressed every publication that was not Bolshevistic and imprisoned everyone who criticised the Bolshevik rule, and they repudiated all the debts of Russia.

Our Government had advanced $251,000,000 on my recommendation. The Soviet Government repudiated that, notwithstanding she appropriated the supplies with which that indebtedness of credit, or credit was bought. There were quantities of war supplies at Archangel and Momontz and Vladivostok.

The Bolshevik Government appropriated those at Momontz to the extent of their ability, appropriated all of those at Archangel before the Diplomatic Corps went there and before the anti-Bolshevik revolution occurred on the second of August, 1918, and would have appropriated the supplies at Vladivostok had they not been prevented from doing so by an American man of war. More, it will interest you men to know that Lenine in a speech admitted he was making money as fast as the printing presses could work, and that his object was to destroy the value of money. He did not hesitate in his public speeches to advise the overturning of all organized government everywhere. I had introduced a commission to the Ministry of the Provisional Government on its arrival in Petrograd, and I had said: "These men come from a country whose institutions have been tested by an operation of 140 years. These institutions have for their foundation the principle that government derives its just powers from the consent of the governed. They have for their superstructure universal education, and for their crowning arch equality of opportunity. A Government such as that, and I think that fittingly describes our institutions. The Bolshevists call this a capitalist Government, and they are making insidious efforts to overturn this Government, which has stood the test of a hundred and forty years, and which every true American is proud of."

A short time after this—or about two months after the Bolshevist Government came into power, I was visited by two men, separately, whom I knew very well—one had been connected with the Provisional Government in the Department of Finance, and the other with the Empire, with the Ministry of Foreign Affairs.

They said to me: "We have come to ask a great favor of you. As you know, many Russian banks have credits in New York. These Russian banks have all been nationalized and their books examined, and their presidents or cashiers, in some instances, have been ordered to send a cable in the bank's cipher to its correspondent in America, ordering them to pay certain amounts to certain people in America."

Now, both of these men said to me: "The bank presidents dare not refuse to send these cables to America to their correspondents in America," but the Bolshevist Government, the Soviet Government, which was in power at that time and had been for two months, wanted this money paid to its emissaries in America for the purpose of propagandizing Bolshevist doctrine in your country. I asked: "What can I do?"

They both told me: "You can telegraph the State Department, or cable the State Department in cipher not to comply with any cable orders in cipher from their correspondents in Russia, without confirmation."

While I realized the delicacy of the request, I complied with it. Every Ambassador in a foreign country has a personal cipher, which is for his own use and strictly confidential subjects. A cable sent in that code is to be deciphered by the Ambassador himself, likewise a cable the Ambassador sends in that code is to be deciphered by the Secretary of State. I wired, or cablegrammed the information to the State Department, and while the State Department didn't reply, I have learned since I returned to America that it complied with the request. Now, this shows what work the Bolshevist propaganda is doing in America.

The dissensions and differences or controversies between employer and employe which prevail in this country to-day and in every civilized country on the globe can all be traced back to Russia. They harken back to the Bolshevik successes in that country, that afflicted country. The Russians are applying to us for aid. They don't wish us to send an army there. We could have intervened and saved our face before the armistice was signed. The Allies and the associated Governments could have eradicated Bolshevism in Russia if they had intervened with force before the armistice was signed. But they did not do it. And the question is now, what is the remedy for that situation?

I have said since returning to this country that it is impossible to establish peace in Russia with chaos prevailing. I have concluded after six months' stay in this country that it is impossible to establish industrial peace in America with Bolshevism and Bolshevik rule in Russia.

That is not all. The Bolshevik armies, which have been growing in power and in discipline since I left Russia in November last, are disciplined and commanded by German officers. Those armies consist of mercenary Letts and Chinese, and conscripted Russians who were forced to join the army rather than starve or freeze, and are forced to join the army in some instances because their women folk have been imprisoned and held as hostages.

Germany is not only commanding this army of the Bolshevik Government through its officers, but is making plans for an economic war, and has already begun to establish her influence in Russia.

When I went to Russia, although the war had been in progress for 21 months, I found that the Russian authorities had been unable to loosen the control of the German interests on Russian industry. As I have said frequently before, if this war had been postponed in its opening for 10 years Germany would have had such a foothold, such a secure foothold in Russia, that it would have been impossible to dislodge her.

Now I have read and heard that the terms of peace imposed upon Germany are very severe. I do not feel that way myself but I can show you. I speak uncontrovertibly that Germany is making greater progress in reconstruction than any other country engaged in the war. Germany territory was not invaded except at the beginning of the war; her industries are intact and her laborers, instead of demanding a six-hour day and a week of five days, are appealing for a 10-hour day and a week of six or seven days. Germany realizes that Russia is a good field for German enterprise.

These armies of the Bolshevik Government composed of mercenaries and conscripted nations, as I have said, and commanded by German officers, are a camouflage. The contest is not between the Bolshevik and the Russians, but the contest is between the Germans and the Russians. Germany, who is better acquainted with the resources of that expansive area than any other country on the globe, if Germany gets control of Russia and utilizes its resources and organizes its enormous man-power, it will be as strong 10 years from now as it was at the beginning of the late war. The Russians are appealing to us for help, for assistance and encouragement.

I think they deserve it, Russia has twice defended us. By us, I mean the United States Government. During our Civil War, when England was about to recognize the independence of the Confederacy through the influence of Jackson and others, Russia had her cruisers in American harbors and said, "If England recognizes the independence of the Southern Confederacy, we will aid the Union cause." On other occasions, in 1893, when this country was going through the severest panic in its history, Russia offered to loan $300,000,000 of gold to the Cleveland administration in order that it would not be compelled to suspend specie payment. It was refused, and the bankers of the United States, headed by J. P. Morgan of New York, came to the rescue of the administration and stayed the gold panic.

Russia, however, did not know that that generous offer would not be accepted. The Russian people have performed a noble part in this war, notwithstanding, as I describe to you, the withdrawal of Russia one year before the war terminated. After the beginning of the war you remember that Prussia was invaded. That invasion and the invasion of Galicia, and the retreat therefrom, cost Russia hundreds of thousands of her sons, but she made the sacrifice in our cause, in the cause of civilization and humanity. It has been too soon forgotten that sacrifice that Russia made in East Prussia and Galicia saved Paris, saved all the channel ports in France and saved the French and British armies. Do you ask why? Because if it had not been for that invasion by the Russian Army at East Prussia and Galicia, Germany and Austria would have sent their divisions, as they did when Russia withdrew from the war, to the western front, and the British and French armies were comparatively small and weak and would not have had the assistance of American troops, as they did when Russia withdrew from the war, and the Germans sent their divisions—over 100 in number—over 600,000 well-equipped soldiers to the western front and began that drive of March, 1918.

This has been too soon forgotten, this sacrifice of Russia. When I arrived at Petrograd the Minister of War was in prison. He had been tried for not only betraying his country to the Germans, but failing, not intentionally, to provide the Russian army on its retreat from Galicia into East Prussia with ammunition and with arms. Those Russian soldiers marched up to the fortified places of the Germans and Austrians without arms. I do not know of any severer test of courage that an army could be expected to go through when they were mowed down by machine guns in the hands of well-equipped soldiers of Austria and Germany, the ranks were filled with other unarmed men going to the slaughter. These same Russians are asking for our assistance now. Russia deserves consideration at the hands of the Allies.

I would be in Russia to-day had my health not failed, if my strength had not been seriously impaired. I promised in the name of my Government supplies to these Russians if they would but organize and repel the en-

croachment of Germany, and that meant deposing the Bolshevik element. I have already detained you longer than I expected, longer than I intended, but when I get on this subject it is difficult to find a stopping place. How much longer will the Allies play the part of Pontius Pilate, and by washing their hands lay flattering unction to their souls that the patriotic Russians are being murdered by the Bolsheviks, and are crying for aid to us and other Allied countries? I do not advocate sending an army into Russia. It would not be necessary.

You asked me what the remedy for this situation is. In my judgment, the surest and promptest remedy is the formation of a League of Nations. That can be accomplished by the ratification of the peace treaty. What have we to fear by membership in a League of Nations? A League of Nations is our own child. We announced when we entered the world war that we didn't participate in it for the purposes of annexation, or extending our territory, and we would receive no indemnity. We looked upon it as a struggle between the forces of humanity. We raised the plane of issue above a war of conquest. We announced our intentions to make this the last war.

We announced in the beginning our plans for that, mainly, the formation of a League of Nations. I don't see anything to fear from membership in this league. We are the strongest people on the face of the globe. European Governments are indebted to us, and our balance in trade is annually three billions of dollars in our favor. We will have more influence in the League of Nations than any other two Governments. Our chair is there at the head of the table. I don't wish to impose my convictions upon you, but I see no escape from this—from the ratification of that peace treaty. What would be the effect if we should fail to ratify it? It provides that it shall go into operation when three of the great countries ratify it. England has already ratified it and France will ratify it this week. Italy and Japan and America are the only three countries left; when one of these three countries ratifies, this peace treaty goes into effect, and those who fail to ratify it will have to make their peace with Germany separately.

I didn't intend to drift into this subject, but in giving you an account of conditions in Russia, and their effect upon this country, the imagining of Lenine and his followers throughout the world, naturally you would ask me, what is your remedy for this situation? I repeat that all of the social troubles, and many of them —I mean all of these labor troubles, these controversies between employers and employes—and many of them are not for improved conditions, many of them are for enlarged power; all of these differences go back to Russia. If the Bolshevik had not been permitted to rule that afflicted country, if they had been exterminated. It would be a breach of diplomatic custom for me to say that I recommended the extermination of the Bolshevik, and I don't say it.) But if they had been exterminated before they instituted this reign of terror in the summer of 1918, and the spring of 1918, we would have had much less labor controversy throughout this broad land. But we didn't do it, and, as I said, and I repeat it, we have come to the parting of the ways. We have come to a crisis in our industrial conditions.

And I say in the ratification of that peace treaty, the swiftest and surest remedies for this deplorable situation lies. I thank you.

Pan American Financial and Commercial Relations—America's Great Future Opportunity

By John Barrett, Director General of the Pan American Union, and Former United States Minister to Argentina, Panama and Colombia.

Every banker and every man interested in the financial and commercial relations of the United States, with the twenty Latin American republics, should realize the importance of Pan America and Pan Americanism.

Pan America, geographically speaking, includes everything from the Arctic to the Antarctic oceans; and Pan America, politically speaking, covers everything from the United States south to Argentina and Chile, or the twenty-one independent republics. Pan Americanism means the cooperation of all these countries for the good of themselves individually and collectively. This implies that every banker in North and South America should be concerned with Pan Americanism and should make a study of all the influences which will promote Pan American commerce, Pan American friendship, and Pan American cooperation in all things that will be helpful to the Western Hemisphere.

That the bankers and banking influences of the United States may comprehend the real meaning of Pan America and Pan Americanism, let us have some definitions of significance. If we look upon Pan America politically, it means the twenty-one republics that reach from the United States on the north to Argentina and Chile on the far south; if we consider it geographically, it means everything from Canada to Chile. Pan Americanism means the cooperation of all of these countries for the good of each and all of them and thereby for the good of all the world. "Pan Americanism" and "Pan America" are used as terms instead of "All Americanism" and "All America," because the prefix "Pan" is common to the Spanish, Portuguese and English languages, whereas "all" is known only to English. Pan Americanism, in its broad sense, in short, includes everything from the northern to the most southern end of the Western Hemisphere.

Naturally the question arises as to the scope and responsibility of the Pan American Union, of which I have the honor to be the executive head. Let us therefore realize what the Pan American Union means. It is the official organization of the twenty-one independent American republics, devoted to the development of good understanding, friendship, commerce and trade, and peace among them all. It works for the good of the Pan American republics, just as a Chamber of Commerce works for the good of any particular city. It is not antagonistic to the rest of the world any more than a chamber of commerce of a city is antagonistic to other cities. It desires to promote the cooperation of Pan America with the rest of the world for peace and progress, and therefore should meet the approval of the rest of the world.

The Pan American Union is controlled by a Govern-

ing Board, composed of the Secretary of State of the United States, and the diplomatic representatives in Washington of the other American republics. It forms the Supreme Council, so to speak, of the Western Hemisphere and nations, and it meets the first Wednesday of every month, except those of the summer season, to consider Pan American problems. That it constitutes a practical League of Nations is evidenced by the fact that since it first met, there has been no war between any two American republics, and it has prevented many wars among themselves. The Pan American Union is housed in a beautiful building at the foot of 17th Street, in Washington, which the greatest French architect has described as "combining beauty of architecture and usefulness of purpose more than any other public building in America." Will every American banker realize that this building is always open to him and that its staff is ready to give him any information he may desire regarding Pan American relations.

To the bankers of America, I can say that the future development of Pan American relations, Pan American commerce and Pan American cooperation depends to a large degree upon them. It is all right to loan money to countries of Europe and Asia, but the countries of Latin America should be your first consideration. In the same way that a parent, a brother or a sister thinks of aiding the members of his own family, the United States bankers and financiers should think of aiding the bankers and financiers of the sister republics of Latin America. There may be an attraction about Europe and Asia that would lead the banking and financial interests of the United States first to these countries, but, when it comes to the vital interest, we should have first consideration of Central and South America. When it is remembered that every country of Latin America was aided by the United States in establishing its independence, that every Latin American country wrote its declaration of independence and its constitution upon those of the United States, there is an appeal that comes from no European or Asiatic country.

In the same manner that the central West in its early development demanded money and banking privileges from the Eastern States and the United States, and that the far Western States demanded similar aid from the central West and the East Atlantic States, so, correspondingly the countries of Latin America require the money and cooperation of the bankers and financiers of the United States, from New York to California.

I must be frank and say that unless the bankers and financiers do their part in caring for Latin America, they will be supplanted by the moneyed men and cooperation of Europe and Asia. Numerous American banking institutions have established branches or agencies in Latin America, and this must be extended until the competition of Europe and Asia is adequately met. The banking institutions of the Atlantic Coast have already shown a most progressive spirit in establishing branches and agencies throughout Latin America. The central West and Pacific Coast must do the same thing if they would play their part in the development of practical Pan Americanism.

I indulge in no exaggeration when I say that if the American banking and financial interests will invest in, or loan, a billion dollars to Latin American governments and legitimate Latin American enterprises during the next five years, they will increase American commerce a billion dollars in the same period.

It is of the highest importance that the American bond buyer should be educated to the stability of Latin American bonds and investments, and no step must be neglected to educate the American public to the quality of these bonds and investments. It must be borne in mind that there have been no instances of Pan American failure to make good in Pan American investments, and that there has been no serious revolution impairing United States investments in Latin America during the last thirty years, except in one or two countries, and in these, the outlook is more optimistic than pessimistic.

In conclusion, permit me to make a few suggestions that may appeal to the American Bankers' Association:

First. Let the American Bankers' Association, at its Convention in 1920 or 1921, invite ahead, in time for their acceptance, representative bankers of the twenty Latin American countries, to attend and participate in their sessions, with a special Pan American session which will consider Pan American problems of banking and finance. In other words, let the next Convention of this organization be a Pan American or international gathering.

Second. In the meantime, let the bankers, financiers and investors of the United States make every effort to visit the Latin American countries; study their material, political, financial and general conditions, and in turn, let the bankers, financiers and others of Latin America visit the United States for corresponding information.

Third. Let every North American banker or investor, provided he cannot go to Latin America, study the history, the past and present condition and the future possibilities of the Latin American countries, and realize the importance of the cooperation of the United States and Latin American countries for the good of themselves and the good of the world.

Committee and Officers' Reports—Banking Section

Annual Address of the Retiring President, Robt. F. Maddox

To the Members of the American Bankers Association and Guests:

At the time of our last Convention just a year ago, our country was engaged in a great conflict and we were doing everything in our power to win the great war. Our farms, our factories and our mines were beng worked with patriotic energy to furnish our army and the armies of our allies with the necessary supplies.

Our people had cheerfully purchased more than ten billion dollars of Liberty bonds and were preparing to take another issue of six billion, feeling confident that they would be promptly subscribed. We were rationing our food, that others might be fed, and our men and women in all walks of life were making every sacrifice to bring war to a quick and successful conclusion.

We had mobilized four million men in our army and had sent half of this number across the sea, trained and equipped for battle and ready to make the supreme sacrifice if necessary, to stop the onward march of the armies of the Teutonic Powers, which threatened to conquer the world. We had heard of the glorious victory our soldiers had achieved at Chateau-Thiery and at St. Mihiel and were anxiously awaiting the result of the battle of the Argonne, which had just begun.

In less than two months after our last Convention had adjourned the weight of the armies of the United States, backed by the loyalty of our people, and the great resources of our country, had brought victory to the Allies. Justice prevailed, Germany, Austria and Turkey were hopelessly defeated, autocracy fell, and human liberty was saved to the world.

AMERICA IN WAR

The accomplishments of our country while engaged in this great war reflected credit upon all our people and added glory to the splendid traditions of our past. We are grateful to the men and women who served at home and will long remember the courage and patriotism of our soldier boys who went into the battle lines in France and brought our flag victoriously back home with the Stars and Stripes shining with new brilliancy—honored and respected as never before throughout the world.

To those brave American boys who fell in battle and now sleep beneath the sod in France, many of whom went from our banking institutions, we owe a debt which can only be paid by forever cherishing their memory and carrying on the spirit of Liberty and Justice for which they so nobly gave their lives.

In all of the war activities the members of the American Bankers Association have done well their part. From the floor of our last Convention, in response to a telegram from President Wilson expressing his appreciation—"At the splendid spirit and efficiency with which the bankers of the country were assisting the Government in the all-important matters of the loans"—you remember we wired him that—"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."

How well the bankers kept that pledge is known to all men and now that the war is over, the members of the American Bankers Association can with satisfaction share with their fellow citizens the joys of victory and with renewed energy co-operate with them in courageously meeting the problems of peace.

WAR FINANCES

In meeting the uncertain war conditions and the sudden expansion of business during the past few years, the Federal reserve banks have proved a splendid and even a surprising success, for they have demonstrated that our present banking system is the superior of any in the world.

We shudder to think what might have happened if we had entered the war under the old régime of banking and are grateful to those who devised and co-operated in passing the measure and are under many obligations to the members of the Federal Reserve Board and the officers of the Federal reserve banks, who have so wisely directed their operations.

The statement of the Federal reserve banks on September 5 showed that out of 2,200 millions of bills receivable, 1,635 million were secured by government war obligations, thus demonstrating their great value to the government in assisting the member banks to carry loans secured by war obligations, without retarding their commercial transactions.

It is expected that in a reasonable time, these loans now carried by the banks of the country for the customers who subscribed for war obligations, will be paid, but considering the fact that out of government obligations now outstanding of approximately twenty-five billion dollars, the comparatively small amount of notes discounted by the Federal reserve banks, secured by these obligations, is very gratifying.

When we consider that the cost of the war to the United States from April 6, 1917, to June 30, 1919, was 30,167 million dollars and that we only issued 21,475 million dollars of bonds to meet this expenditure, relying upon taxes to make up the difference, a large part of which has already been paid; and that we now hold the obligations of our allies for approximately ten billion dollars, which in time will be paid; it would seem that, considering the magnitude of our engagements, the war has been most wisely financed and the burden of future government requirements can be easily borne.

On June 30, 1914, the deposits of all the banks of this country were about twenty-one billion dollars. The deposits of the national banks on June 30, 1919, were approximately sixteen billion dollars and while the deposits of the state banks are not obtainable at this time, estimating their increase in the same proportion as that of the national banks, it is safe to assume that their deposits are now approximately eighteen billion of dollars, making a total for all banks of thirty-three billion dollars, or an increase for the war period of about twelve billion dollars.

Our circulation has risen from 3,478 millions on September 1, 1914, to 5,743 million on September 1, 1919, or an increase of 2,265 million, more than $20 per capita.

With bank deposits during the war period increasing 57 per cent., and our circulation increasing 65 per cent., it is not surprising that the Bureau of Labor at Washington has estimated the increased living cost at 70 per cent.

That the peak of high prices has been passed seems to be indicated by Bradstreet and Dun's reports showing that their index number of commodity prices declined from August 1 to September 1.

MEMBERSHIP

Our membership at the close of our fiscal year, September 1, was 20,214, the largest in our history and showing a net gain for the year of 1171.

In this connection it is interesting to note that in the past five years since the European war began, our membership has increased 5,502. We now have more than five-sevenths of all the banks in the country, and I believe that in a short time practically every bank in the United States will realize the value of membership and will co-operate with us in making our fraternity a still greater factor in the progress and development of our country.

SECTIONS

Our financial affairs are in excellent condition, as will be seen by the Treasurer's report. The work of the various Sections of our Association, including the National Bank, Saving, State Bank, Trust Companies, State Secretaries and Clearing House Sections, having been especially satisfactory during the past year, as will be seen by the reports of their officers. The State Bank Section, the youngest section, has now the largest membership and is proving of much value to its members.

The American Institute of Banking has enjoyed a splendid year and the work of broadening its influence among the young bank men has been carried forward with great success by its present officers. This department is of great value in educating young bankers for the important work of the future and deserves our cordial and continued support. The *Bulletin*, which is published by this section quarterly, is very interesting and is proving to be one of our most important publications.

THE JOURNAL AND BANKER-FARMER

The JOURNAL is now rapidly being developed into what it should be—a magazine of general interest to our members. The past year the first in which advertising was taken and this has proved to be a proper and valuable aid in reducing the cost of publication. In another year the value of this advertising should be demonstrated to our patrons and a greater income derived from this source. It has been suggested that the JOURNAL, if published weekly or semi-monthly, might prove more interesting and beneficial to our members by giving them banking news and current information more promptly than as, at present, in a monthly publication.

The expenses, however, of publishing the JOURNAL more frequently would be very much greater than the present appropriation and it was not thought advisable during this year to make the change, but it is hoped that in the near future our income will warrant its being made.

The *Banker-Farmer*, another publication issued by the Association, has continued to prove a valuable aid in developing the agricultural interests of our country, which are now so closely allied with the growth of the banking business. During the war the *Banker-Farmer* was very active in stimulating the increased production of the farmers, and has received the cordial co-operation and endorsement of the United States Department of Agriculture. Considering the small net cost to the Association, this publication is proving a splendid investment.

The Agriculture Commission, under the able leadership of its Chairman (who at the last meeting of our Association was made a member of our Executive Council) has rendered valuable service during the past year, not only to our Association but to the country at large.

ENLARGED ADMINISTRATIVE COMMITTEE

The wisdom of our last Convention in adding the Presidents of the National, State, Savings Banks and Trust Company Sections to the Administrative Committee and adding the Vice-Presidents of these sections to the Executive Council, has been demonstrated by the fine spirit of harmony which now prevails among all of the sections. All now have direct representation on these important committees; have a more intimate knowledge of the affairs of the Association, and a voice in directing its management.

At one time it was feared that sectional differences might disrupt the Association but I am glad to say that our members now seem to realize that it is big and broad enough to be helpful to all and harmful to none and the cordial co-operation now existing promises to make our work in the future more beneficial than ever before.

WASHINGTON OFFICE

A few months ago under the direction of the Administrative Committee, the National Bank Section opened a service office in the City of Washington, where it could serve its members in connection with the many transactions they are compelled to have with the Treasury Department, and the office of the Comptroller of the Currency under whose supervision they are being operated. This office has already proved to be of much value to the members of this section.

The Administrative Committee in January was of the opinion that it would be wise to move the entire headquarters of the Association from New York to Washington and recommended this proposition to the Executive Council, which, upon a referendum vote, voted by a large majority in favor of the move. Upon subsequent consideration of the subject, however, there was some difference of opinion among the members of the Administrative Committee and among the members of the Executive Council, and it was decided to bring the matter to the attention of the General Convention for such action as it might deem best.

LEGAL DEPARTMENT

The work of the Legal Department of our Association, under the able management of General Counsel Paton, has grown very much during the past few years and now, owing to our large membership, the legal opinions requested by our members and the service rendered by the General Counsel have greatly increased.

Judge Paton has been with the Association for many years and during this period has rendered several hundred important decisions on banking questions and it has been decided to publish a digest of these opinions in book form. This book is now ready for distribution. It should prove a valuable addition to the office of any banker, and I hope our membership may take advantage of the opportunity of securing one.

PROTECTIVE DEPARTMENT

Owing to the general unrest throughout the country and the large number of men out of employment during the past year, incident to labor conditions and the demobilization of our army, the Protective Department has been very busy.

The number of attacks made on banks has been greater than in any year in our history and the amount expended for the protection of our members has likewise been greater. The efforts our Protective Department in arresting the offenders have, on the whole, been satisfactory, but in many cases the clews were not sufficient to get satisfactory results. Mr. L. W. Gammon, who has so ably managed this department, completed his tenth year of service on August 2.

COMMITTEE ON COMMERCE AND MARINE

You will remember that at the last Convention the President was authorized to appoint a committee on Commerce and Marine to study this important subject and report to the Convention. The committee was appointed and Mr. John McHugh of New York was elected its Chairman. The committee has had several meetings and has given this subject a great deal of attention.

It has been in close touch with the legislation affecting our merchant marine and the development of our foreign commerce, as its report will show, and I hope it will be the pleasure of the Convention to continue this important committee.

FOREIGN TRADE

For many years we have been producing more in this country than we could consume and the war has stimulated the output of our farms, factories and mines, so that we must look, more than ever before, to our exports to keep our people well employed.

The figures of our foreign trade are almost beyond comprehension. With an annual balance of trade before the war of 500 million dollars, our balance for the last fiscal year reached 4,200 million dollars and for the five-year period amounted to the stupendous total of 14,434 millions of dollars.

These figures tell the story of the greatest commercial activity in our history, but we must remember that this result has been attained by conditions which we cannot expect and would not wish to have again. That the decline has set in is shown by the fact that our exports have rapidly decreased in July and August.

The difficulty Europe is now having in paying for our products is shown by the recent great decline in her exchanges. With the pound sterling now selling at 14 per cent. discount, the French and Belgium francs at 40 per cent. discount and the lire at 47 per cent. discount, it is very evident that our situation will be serious unless some relief can be found.

We are fortunately able to extend this accommodation, and the only country in the world which can. If we fail to meet this responsibility, as well as this opportunity, we will in a measure lose the great benefit the war has brought to our door.

We know that Europe will require a large amount of our products in the future, but the question now is—How can this trade be financed? As we cannot expect to receive payment in goods or gold, it must be paid in some form of time obligations, either the securities of governments, municipalities, or industrial enterprises—and perhaps all three may be used.

It is thought by some that our government should extend this credit to the governments of our allies, taking short time bonds and issuing short time bonds against them, but the general impression is that there is a strong opposition in Washington to the government issuing any more bonds.

The Platt bill, recently passed by Congress, allowing the national banks to invest 5 per cent. of their capital and surplus in companies engaged in international trade and the pending Edge bill providing for the organization of corporations to engage in foreign banking and financial operation under the supervision of the Federal Reserve Board, are measures designed to facilitate our exports and assist in extending some form of financial assistance. The amounts involved are very large and it remains to be seen whether these measures will meet the situation.

In my opinion the thought of the bankers and the business men can well be turned to this export question, for it is certain that upon the continuance of our foreign trade must rest the future prosperity of our country.

LABOR AND THE WAR

When we remember that in the great conflict through which the world has just passed 50,000,000 men were recently in arms, bent upon death and destruction—that 7,500,000 fell in battle—that the contending countries spent more than $200,000,000,000 in carrying on the war—that hundreds of millions of men and women were drawn from their normal activities, it should not be surprising that there is a spirit of unrest everywhere, and it will take time for men to recover from their experiences of the recent past and calmly return to their former quiet and peaceful pursuits.

During this transition we can understand how the great laboring classes, finding their condition but little improved, still paying war prices for their necessities, forgetting that the channels of trade are still blocked by the wreckage of war; are manifesting a spirit of dissatisfaction and are easily led by false friends who point the way to salvation through the easy paths of Socialism and Anarchy. We have witnessed such tendencies spread from Russia to Europe and across the Atlantic to America.

But the civilized world has been five years in suppressing a spirit which failed to consider the rights of others and it will not now tolerate another attempt to terrorize it in submission to a practice that is wrong in principle.

The war just over was settled by the arbitrament to the sword, and the struggle, now on, will, and must be, settled by appealing calmly to the intelligence of the people. It must be made plain to those who are threatening to disregard law, that their future prosperity can only be secured by its observance. It is the duty of those in authority, everywhere, to assure the people that the rights of all will be protected, and while labor has won its way to a higher place in the world than it had before the war, that place cannot be determined by the disregard of law and order.

It is unfortunate, however, that in this country which has suffered so little, where labor as a whole has been well treated, and has been given higher compensation than in any other place in the world, organized labor has demonstrated on many recent occasions its utter disregard for the interests of any other class. But we cannot fail to seriously consider the labor question when we see branches of the union spread to clerks, policemen, firemen, school teachers, and even to actors.

The issues confronting the American people today seem to be whether the government shall be more powerful than the labor unions, whether business enterprises will be completely dominated by the labor unions, or by giving all employees a larger share in the profits and a greater voice in the management of business, the labor unions will be broken up. The difficulty is, at present, that the labor leaders do not seem disposed to accept in lieu of their union control, the profit-sharing plan, but insist upon the closed shop.

I hope, in the near future, the conference called by President Wilson on this subject may in some way solve the problem and capital and labor—"useless each without the other"—will in a friendly and co-operative way work for the happiness of all and the continued development of our great country.

RAILROADS

We hope Washington will soon act on the Peace Treaty and the League of Nations, as there are many domestic problems which require the attention of Congress. The greatest of these is legislation concerning the railroads. Nothing is more important than the service and development of our transportation systems. They are the arteries through which the life-blood of the nation flows. They touch the activities of all our people. We know that the railroads have not received fair treatment from the rate-making power and by denying them reasonable returns on their investments, their credit has been largely destroyed. Their physical condition had declined before the government took them over and under government operation it has not been improved and their expenses have increased by leaps and bounds.

Out of the many plans suggested for their future operation it is hoped that Congress, without prejudice or political consideration, may reach a wise conclusion, and these great properties be further developed and able to render better service.

THE BUDGET SYSTEM

There never was a time in our history when it was more necessary that our people should begin to check extravagances and practice thrift and economy, and nothing would be more conducive to such practice than having our government set the example.

It was, of course, necessary for the government to be somewhat wasteful in its expenditure during the war but there are no such reasons at this time. It is earnestly hoped that the

budget system of handling the finances of our government will be adopted by this Congress.

Our Executive Council unanimously recommended the adoption of such a system at its last meeting and similar resolutions have been adopted by the leading commercial organizations of the country.

DEATHS OF COL. LOWRY AND MR. LYNCH

During the past year the members of our Association learned with the deepest regret of the death of two of our most beloved and distinguished former presidents—Mr. James K. Lynch, who was elected President of the Association in 1915, died at his home in San Francisco, California, and Col. Robert J. Lowry, who was elected President in 1896, died at his home in Atlanta, Georgia.

These gentlemen served our Association with credit and ability. Their genial presence will be missed at this Convention and their loss is keenly felt, not only by the bankers of America, but by their countless friends in all walks of life.

I wish to take this opportunity to express my sincere appreciation for the courtesies which have been extended to me and the co-operation which has been given my efforts by all of the officers, committees and employees of the Association; particularly the General Secretary, the Assistant Secretary and the secretaries of the various sections; the General Counsel, the editor of the JOURNAL, the manager of the Protective Department and the other members of the staff.

In conclusion let me say, I hope that out of the history of our past and out of our deliberations here all of our members may catch anew the spirit of service and in the years to come the American Bankers Association will continue to grow in usefulness and make its influence felt in every worthy enterprise looking to the happiness of our people and the prosperity of our country.

Annual Report of the General Secretary
Fred. E. Farnsworth

NEW YORK, September 15, 1919.

To the American Bankers Association.

Gentlemen: In accordance with the requirements of the constitution, I submit herewith a report of the progress of the American Bankers Association during the fiscal year commencing September 1, 1918, and ending August 31, 1919, together with such other matters as pertain to the office of General Secretary of the Association.

Speaking broadly, the Association is to be congratulated on having enlarged its points of contact with national affairs during the past year, as a result both of committee work and the efforts of its officers. Further, in carrying out a new policy of field work, closer and more cordial relations have been established with state bankers' associations and other organizations; problems involving relations between national and state chartered institutions have been put in a fair way of amicable adjustment; and last but not least, our membership has passed the 20,000 mark, bringing so much nearer the day when membership in the American Bankers Association will become unanimous throughout these United States.

With the Association, as with the nation and the whole world, we are passing through a period of readjustment and reconstruction in which time and patient, painstaking endeavor are essential to the solution of the problems confronting us.

FIELD WORK

One of the most important accomplishments of the year was the carrying into execution of a plan of field work by utilizing the members of the executive staff in the general offices at New York. This, in turn, required close study by the Office Conference, a semi-monthly gathering which has proved its value many times. Under the direction of the Office Conference, and with the approval of the Administrative Committee, the several section secretaries and department heads were assigned to attend state conventions, the schedule being arranged with a view to securing maximum representation at a minimum of expense. In cases where we were informed that the convention would be attended by the President or Vice-Presidents, no representative was sent from the central office. By this method, and without duplication or undue expense, the American Bankers Association has been represented at the conventions of thirty-five bankers' associations. There is no doubt that the results have been highly beneficial; a direct contact has been established with all these state associations, in numerous cases the membership has been increased through better understanding of the scope of A. B. A. work, and in general it may be said that the plan has justified every expectation and should be continued.

THE STATE BANKS

At the spring meeting of the Executive Council of the Association last May, steps were taken which resulted in the formation of a conference committee on which were representatives of state chartered institutions, including representation from the Trust Company Section, State Bank Section and Savings Bank Section. Out of this conference and the spirit of co-operation which it typifies has come a better understanding of the needs of the state institutions and all differences, real or imaginary, between them and their national brethren are rapidly disappearing, if, indeed, they have not already done so.

WASHINGTON OFFICE

During the past year the National Bank Section, acting under instructions from its Executive Committee, established a branch office of the section at Washington, D. C. It is located in the Southern Building and is in charge of Major Frederick W. Hyde, secretary of the National Bank Section, who divides his time between the New York and Washington offices. It is a pleasure to say that in the short time since its establishment the Washington office has rendered excellent service, both to members and to officers. The success of this move has led to a desire for a similar service on the part of the State Bank Section and I understand that steps to this end are now in con-

EXECUTIVE COUNCIL

The spring meeting of the Executive Council was held at White Sulphur Springs, West Virginia, May 19, 20 and 21 and a comprehensive report of its deliberations was published in the June JOURNAL. The high percentage of attendance and the close attention given to the business of the Association are sufficient evidence of the value and importance of these meetings.

When the new Council meets as constituted at present, for organization after the adjournment of this Convention, it will comprise 36 members in the one-year class, 36 members in the two-year class, 35 members in the three-year class, and 22 ex-officio members, making a total of 129. This is an increase of seven over last year. In Arizona, the membership of the Association was increased to 100, thus entitling that state to an independent representation on the Council, but the election for this additional member cannot be made until the convention of the Arizona Bankers Association to be held November 3-4. In Nebraska, the membership was increased to allow for an additional representation on the Executive Council, but the election for this extra member cannot be made until the next convention of the Nebraska Bankers Association. In Oklahoma, the membership was increased to allow for an additional representation on the Council, but the election for the extra member cannot be made until the next convention of the Oklahoma Bankers Association to be held in May, 1920. When these three elections have been made, the grand total of membership on the Executive Council will be 132. The other seven states that increased their membership to allow for an additional member on the Executive Council are: California, Colorado, Indiana, Iowa, Kansas, Minnesota and Pennsylvania.

Analyzing the increase in membership by states, we find that Pennsylvania comes first with 101 new members, a total of 1,112; Oklahoma is second with 99 new members, a total of 713; Iowa stands third with 97 new members, a total of 1,100; Missouri is fourth with 67 new members, a total of 813; Texas is fifth with 61 new members, a total of 789; Minnesota is sixth with 56 new members, a total of 731; Nebraska is seventh with 54 new members, a total of 712; then comes South Dakota with 43, a total of 462; Kansas and New York with 39 each, a total of 908 and 1,139 respectively; North Carolina with 37, a total of 338; Illinois with 31, a total of 1,176; and Montana with 30, a total of 381.

As last year, Illinois stands first in the membership of the Association with 1,176; New York is second with 1,139; Pennsylvania is third with 1,112; Iowa is fourth with 1,100; Kansas is fifth with 908; Missouri is sixth with 813; Ohio is seventh with 793; then follows Texas with 789; Minnesota with 731; Oklahoma with 713; Nebraska with 712; and California with 707.

Alaska and the District of Columbia enjoy the distinction of having every bank a member of the Association; Nevada has only two non-members; Arizona and Rhode Island three non-members each; Delaware 6 and New Mexico 8.

The increase in Association membership through the efforts of the various Sections and officials of the Association by applications known to have been received through their labors for the fiscal year ending August 31, 1919 (14 new members and over), is as follows:

Sections of the Association (of which the National Bank Section secured the largest number) 102.

L. A. Andrews, State Vice-President for Iowa, with the assistance of the A. B. A. Membership Committee in his state, of which he is Chairman; also the County Chairmen	80
Harry J. Haas, vice-president First National Bank, Philadelphia, with the aid of Messrs. F. F. Brooks, B. M. Marlin, A. C. Robinson and Jos. Wayne, Jr.	64
E. P. Gum, secretary Oklahoma Bankers Association	32
H. A. McCauley, State Vice-President for Oklahoma and Chairman of the Membership Committee for Oklahoma	23
M. Plin Beebe, State Vice-President Elect for South Dakota	17
Cliff W. Gress, member Executive Council for Minnesota	14
Jas. A. Gray, vice-president Wachovia Bank & Trust Co., Winston-Salem, N. C.	14

The known credit for the greatest individual accomplishment in the membership campaign for the year belongs to Mr. H. J. Haas, vice-president First National Bank, Philadelphia, who secured 48 applications.

SECTIONS

The year just closed marks the first in which the sections have been represented on the Administrative Committee of the Association. The results secured certainly justify the action of the convention last year in adopting the amendment which made this innovation possible, for never before has there been such team work, harmony and co-operation among the sections. And in this connection I believe it is appropriate at this time, at the close of my twelfth year of service to the Association, to pay a well-deserved tribute to the work of the Administrative Committee, upon which have been thrown for solution by the Council as well as the Convention, many thorn-covered problems, most of which involved possibilities of all kinds of trouble. There are more men now on the Administrative Committee than at any time since its creation, but through its very nature this committee is bound to have thrust upon it many onerous duties which are not always understood. I bespeak for this committee,

therefore, the appreciation which it so richly merits at the hands of this convention.

Inasmuch as the several sections will present full and detailed reports to you through their accredited officers, it is not necessary for me to enlarge on their work. All have given this year an unusually high degree of service to their respective members. Through the resignation last winter of Jerome Thralls, secretary of the Clearing House and National Bank Sections, the secretarial work of those two sections was separated. Major Frederick W. Hyde, of Jamestown, N. Y., was made secretary of the National Bank Section, and Amos F. Hill, of Lowell, Mass., was made secretary of the Clearing House Section. Both of those gentlemen have acquitted themselves excellently in their respective stations. On September 1, this year, there became effective also the resignation of Milton W. Harrison, secretary of the Savings Bank Section. His successor is Leo Day Woodworth, whose qualifications promise that he will measure up to his new post in every way.

STATE SECRETARIES

The secretaries of the state bankers' associations, of which there are now fifty—one for every state and the District of Columbia and Alaska—have been of constant help in certain branches of association work in which their co-operation is practically indispensable. The General Secretary has made it a point to keep in touch with these organizations and at every opportunity to maintain the cordial relations that now exist between the American Bankers Association and the state associations.

LEGAL DEPARTMENT

During the past year, in spite of arduous legislative work, General Counsel Paton has been able to complete and bring out in book form a digest of legal opinions published by him in the JOURNAL of the Association during the past eleven years. From the demand for copies of this book it is evident that the members are highly appreciative of the excellent quality of the work which Judge Paton renders.

PROTECTIVE WORK

The work of the Protective Department has been unusually heavy in recent months because of the widespread epidemic of burglaries and hold-ups. The department has acquitted itself well in the face of this additional responsibility and will inform you more fully of its work in its printed report.

THE LIBRARY

The Library of the Association, during the past year, has made a distinct place for itself along the line of Association service. Its best known phase, perhaps, is that which appears in the monthly JOURNAL under the title "Library Limelight," and which has to do with furnishing books, pamphlets and miscellaneous information to inquiring members.

COMMITTEES AND COMMISSIONS

This has been a busy year for all committees. The Agricultural Commission has continued its splendid efforts in behalf of banker-farmer work and is performing a task of vital service to the nation. The Insurance Committee continues to look after the interests of the members in a most important branch of their business and has done well in this field. The newly appointed Committee on Commerce and Marine has taken hold of the stupendous problems of foreign trade and commerce in a manner that promises results commensurate with the high ability of the gentlemen who compose the committee. The legislative committees, Federal and state, and the legislative councils, have been fully occupied in safeguarding the interests of the banks during the progress of far-reaching legislation. Throughout all the committee work there has been in evidence this year a spirit of energy and co-operation that augurs well for the continued progress of the Association.

FINANCES

Perhaps of all difficult tasks, the most onerous has fallen to the lot of the Finance Committee. Confronted with the necessity for finding additional revenue for the Association to enable it to meet the increased expenses due to natural growth as well as the generally higher cost of living, the Finance Committee at the spring meeting of the Executive Council devoted a great many hours to studying the Association's needs and finally decided to recommend an increased schedule of dues for all members paying more than ten dollars per annum. The proposed new schedule has been presented to you in printed form so that it may be carefully studied; and when you come to act upon this particular recommendation it is the earnest hope of the Finance Committee that you will bear in mind that the necessity for these increases was arrived at by the gentlemen of the committee only after the most serious consideration, and that their recommendations merit your approval.

The report of the Treasurer shows a cash balance for the year of $1,131.18 as compared with $6,449.22 at the close of the fiscal year 1918.

THE JOURNAL

The JOURNAL has cost the Association during the past year about $19,000 as compared with $35,000 the year before. In view of the high cost of printing, paper and all other items this is a marvellously fine showing and is, of course, due to the revenue from advertising, which for this first full year of advertising patronage amounts to $17,500. Under the guidance of the JOURNAL Committee which was appointed at the last Council meeting to supervise articles and advertisements, the JOURNAL is now progressing satisfactorily and has passed out of the realm of controversy and criticism. Instead of complaints, we now receive commendation for various useful features in the JOURNAL and for the general conservative character of its policy. This happy condition is due in no small measure to the patient effort and tactful management of the present editor.

It is worth noting that the cost of the JOURNAL to the Association for the past year, $19,000, represents less than one dollar per member. In my opinion the only thing required of us now is to develop and safeguard the JOURNAL as one of the most valuable commercial assets of the Association.

MEMBERSHIP

August 31, 1918		19,043
*Erased from the roll through failure, liquidation, consolidation and withdrawal, December 1, 1918		1,105
Membership		17,938
August 31, 1919, new members gained during the year	1,464	
*Regained members (secured from the above)	812	2,276
August 31, 1919, membership		20,214
A net increase for the fiscal year		1,171
A net loss for the year in failures, consolidation, etc.	128	
A net loss for the year in delinquents	165	293
Making the actual gain in new members		1,464

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 165. These figures are related to the membership on August 31, 1918, or 19,043. It will be noted that the proportion of delinquents, as compared to the membership, is very small, which is the best evidence of the appreciation of our members in maintaining membership in this organization.

While membership in the Association is larger than ever before, the usual list of losses in membership by failures, consolidations and liquidations is small for the past fiscal year 1918-1919; this list being 128. While the number in 1917-1918 was 132 and for 1916-1917, 137. The total net losses, as shown in this report, are 293.

The aggregate resources of our membership are estimated at $27,000,000,000.00.

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	137,000.00
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	13,100	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	320,840.00
August 31, 1919 (estimated)	20,214	409,380.00

INCOME

Interest on Bonds	$3,680.00
Interest on Bank Balance (estimated)	3,000.00
Estimated Annual Dues for Fiscal Year Ending August 31, 1920	409,380.00
	$416,060.00

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	....	982	611
1898	3,424	248	....	783	535
1899	3,915	211	....	741	530
1900	4,500	234	....	819	585
1901	5,504	200	....	1,313	1,113
1902	6,354	186	....	1,159	973
1903	7,065	313	....	1,139	826
1904	7,563	500	....	1,120	620
1905	7,677	1,038	....	1,152	1,114
1906	8,383	337	....	1,043	706
1907	9,251	434	....	1,302	868
1908	9,803	691	....	1,243	552
1909	10,682	760	374	1,639	879
1910	11,405	781	298	1,504	723
1911	12,072	1,304	405	1,971	667
1912	13,323	790	330	2,041	1,251
1913	14,100	744	359	1,521	777
1914	14,720	894	384	1,514	620
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
1919	20,214	1,105	293	2,276	1,171

MEMBERSHIP OF STATES AND TERRITORIES HAVING LESS THAN 100 MEMBERS

(AS OF AUGUST 31, 1919)

Delaware	52	Canada	63
Nevada	33	China	1
New Hampshire	74	Costa Rica	1
Rhode Island	51	Cuba	23
Vermont	82	Isle of Pines	1
Alaska	19	Mexico	21
Canal Zone	1	Panama	2
Hawaii	20	Santo Domingo	5
Philippine Islands	4	Venezuela	4
Porto Rico	18		
Bolivia	3	Total	478

MEMBERSHIP

DIVISION OF BANKS IN ASSOCIATION, AUGUST 31, 1919

State or Territory	Nat'l	State	Private	Trust Co.'s	Sav. Banks	State Sec'y	A.I.B. Chaps.	Total
Alabama	66	87	3	26	7	1	1	191
Arizona	16	61	0	21	1	1	0	100
Arkansas	66	207	2	33	1	1	1	311
California	231	330	5	42	94	1	4	707
Colorado	117	152	7	15	11	1	1	304
Connecticut	68	9	8	48	61	1	2	197
Delaware	24	6	1	18	2	1	0	52
Dist. of Col'bia	14	4	3	2	28	1	1	53
Florida	52	136	4	14	4	1	0	211
Georgia	89	271	6	20	17	1	1	405
Idaho	58	117	5	10	3	1	0	194
Illinois	377	439	212	103	43	1	1	1,176
Indiana	172	203	42	81	4	1	0	503
Iowa	280	297	53	54	415	1	0	1,100
Kansas	215	676	2	6	8	1	0	908
Kentucky	86	111	1	27	7	1	0	233
Louisiana	37	144	1	33	7	1	1	224
Maine	59	0	0	44	23	1	0	127
Maryland	89	56	23	19	32	1	1	221
Mass'husetts	170	9	24	78	131	1	1	414
Michigan	96	218	44	11	190	1	1	561
Minnesota	221	487	7	7	6	1	2	731
Mississippi	33	166	1	18	5	1	0	224
Missouri	121	571	19	64	35	1	2	813
Montana	109	239	18	13	0	1	1	381
Nebraska	196	496	5	10	4	1	0	712
Nevada	10	20	0	2	0	1	0	33
N. Hampshire	48	1	0	7	17	1	0	74
New Jersey	188	29	3	108	19	1	0	348
New Mexico	43	52	2	11	4	1	0	113
New York	458	306	139	127	101	1	7	1,139
Nor. Carolina	73	198	1	56	9	1	0	338
North Dakota	133	278	0	5	4	1	0	421
Ohio	292	219	62	71	145	1	3	793
Oklahoma	285	412	0	14	1	1	0	713
Oregon	79	121	11	11	6	1	1	230
Pennsylvania	640	141	66	228	32	1	4	1,112
Rhode Island	18	1	1	20	9	1	1	51
So. Carolina	46	155	0	12	20	1	1	235
So. Dakota	112	321	3	8	17	1	0	462
Tennessee	90	149	2	71	9	1	1	323
Texas	393	294	30	67	2	1	2	789
Utah	27	67	4	7	11	1	1	118
Vermont	41	0	0	26	14	1	0	82
Virginia	118	161	12	19	13	1	1	325
Washington	73	239	16	19	10	1	2	360
W. Virginia	97	132	2	20	4	1	1	257
Wisconsin	133	352	3	12	24	1	1	526
Wyoming	36	87	2	7	0	1	0	133
Alaska	3	15	1	0	0	0	0	19
Canal Zone	0	1	0	0	0	0	0	1
Hawaii	3	9	2	6	0	0	0	20
Philippine Isl.	1	3	0	0	0	0	0	4
Porto Rico	1	15	2	0	0	0	0	18
Bolivia	0	0	3	0	0	0	0	3
Canada	0	61	0	2	0	0	0	63
China	0	1	0	0	0	0	0	1
Costa Rica	0	1	0	0	0	0	0	1
Cuba	1	19	2	1	0	0	0	23
Isle of Pines	1	0	0	0	0	0	0	1
Mexico	0	6	14	1	0	0	0	21
Panama	1	1	0	0	0	0	0	2
S'to Domingo	5	0	0	0	0	0	0	5
Venezuela	0	4	0	0	0	0	0	4
	6,511	9,363	879	1,755	1,610	49	47	20,214

ROUTINE WORK

During the fiscal year just ended we sent out from the General Offices more than 625,000 letters, circular letters, Proceedings, Journals, etc. The following statement shows the volume of mail and express matter in detail:

FIRST-CLASS MAIL MATTER

Letters	15,416	
Circular letters, etc.	75,678	
First-class mail matter other than letters, such as typewritten lists, etc.	2,811	
		93,905

SECOND, THIRD AND FOURTH CLASS MAIL MATTER

Journals	264,261	
Codes	1,523	
Signs	1,623	
List of members	21,183	
Packages	1,595	
		290,185
Total A. B. A. mail matter		384,090

SECTIONS AND DEPARTMENTS

Total first-class mail matter	64,835	
Total second, third and fourth-class mail matter	169,433	
		234,268
Total mail matter		618,358
Express packages		6,913
Grand total		625,271

IN MEMORIAM

It is my sad duty to announce that Death has taken more than his usual toll from our ranks. Two former presidents of the Association—Robert J. Lowry of Georgia and James K. Lynch of California—have been called to the Great Beyond. From the active membership of the Council we have lost only recently Elbert A. Bennett of New York. In the list are included also: Nelson N. Lampert of Illinois, J. E. Fox of Tennessee, Albert E. Edwards of California, Walker Broach of Louisiana and Charles E. Hodge of Kentucky, all former members of the Council; and Douglas H. Thomas of Maryland, who was first vice-president of the Association in 1894 and served on the Council 1895-96.

ST. LOUIS

Since the organization of the American Bankers Association at Saratoga Springs, N. Y., in 1875, including the present convention, we have held three of our annual meetings in the city of St. Louis—in 1896, 1906 and 1919.

The bankers of the city of St. Louis have been active and efficient participants in the activities of the American Bankers Association for very many years. The sixth President of the American Bankers Association was Charles Parsons, president State Bank of St. Louis, in 1888. Walker Hill was President in 1899. F. O. Watts—now a resident of St. Louis, Mo.—was President in 1910, and the late Charles H. Huttig was President in 1912. At the writing of this report, the present First Vice-President of the Association is Mr. Richard S. Hawes, of St. Louis.

When the Association was organized in Saratoga Springs in 1875, St. Louis and Missouri were well represented by delegates. St. Louis and Missouri have been most important factors in the history of the American Bankers Association. Its unparalleled success from its very inception has been largely influenced through officers of the Association and the members of the executive body in this city. For it was in the city of St. Louis that the plan germinated.

Our conventions today are largely attended by the fair sex—our wives, daughters and sweethearts—and it will be gratifying for the women to know that women are responsible for the organization of the American Bankers Association. The idea was inspired by the women. In May, 1875, two tired bankers, after a long day's work, and in a period, as the elder bankers will know, when the bankers and financiers of the country were wrestling with the silver question and the panic of '73, and the resumption of specie payment—these two bankers, Mr. James F. Howenstein, then cashier of the Valley National Bank of this city, and Mr. E. C. Breck, cashier of the Commercial National Bank, were going up Olive street, and passed the old auditorium—which, I believe, faced on Olive street in 1875. As they neared that institution, they found a large number of ladies in the auditorium. They saw a sign over the door, and it said, "Women's Suffrage Convention." Howenstein said to Mr. Breck, "Breck, if the women can get together and talk over their sorrows and their troubles and what they are entitled to in this country, why is it that the bankers cannot get together at such times as these and by co-operation and organization accomplish what we desire at the present time, the overcoming of the panic and the resumption of specie payment?" Now, the idea of the American Bankers Association came from this incident, and Mr. Howenstein at first, no doubt, was inspired by the ladies. Mr. Howenstein called a meeting of bankers in New York in May, 1875, which meeting was held at the Barnum Hotel. It was simply a conference of some of the prominent bankers, and at that meeting in New York in 1875, a call went out for a convention, which was held in Saratoga in July, 1875, at which there were present 330 bankers, representing thirty-two states. A temporary organization was effected at that time; a committee appointed, and a permanent organization effected in 1876 at the Centennial in Philadelphia.

Mr. James T. Howenstein was the first Secretary of the organization.

At the convention in 1896 our popular friend, the late Colonel Lowry, was elected President. The presiding officer at this convention was President Eugene H. Pullen, of New York City. Members of the Executive Council from St. Louis were Walker Hill and W. H. Thomson. Breckinridge Jones was State Vice-President, and it was at this convention that the American

Bankers Association made its famous declaration as to the gold standard. At the close of the convention on September 25, the Association, as a body, visited Springfield, Ill., and the tomb of Lincoln. Several addresses were made by prominent members of the Association, in keeping with the occasion.

Another prominent feature of this convention was the organization of the pioneer of sections—the Trust Company Section—with Breckinridge Jones of St. Louis as its first chairman of its Executive Committee.

At the convention in 1906, the President was John L. Hamilton, and St. Louis was represented on the Council by Walker Hill and H. P. Hilliard. Vice-President from Missouri was F. W. Hixson, of Hannibal, Mo. The most notable and far-reaching action taken at this convention was the appointment of our Currency Commission, which Commission did so much important work in laying the foundation for advanced banking and currency legislation, which resulted in the evolving of the Federal Reserve Act.

St. Louis is naturally a Convention City. Its well-known hospitality is emphasized by the spirit in which the bankers of the community fully co-operate in every way possible to make a convention a success. This co-operation has been very helpful to me in completing the intricate details of convention week, and I want to take this occasion to express my great appreciation of the efforts of the local committees of St. Louis, and for their valuable aid in making the convention of 1919 one long to be remembered.

In conclusion, I wish to extend my sincere thanks to all officers, committee members and individual members, who by their earnest efforts and whole-hearted co-operation have helped to make this a most successful year in the Association's history.

Respectfully submitted,

FRED. E. FARNSWORTH,
General Secretary.

Annual Report of the Treasurer, James D. Hoge

On September 1, 1918, the cash balance was $6,449.22. On September 1, 1919, the cash in my hands as Treasurer at the close of the fiscal year was $1,131.81, with all bills paid. In addition, there was a cash balance in the Journal account of $524, and a cash balance in the pre-paid dues account for 1919-1920 of $2,704.29—total cash on hand from all sources, $4,360.10. It has been deemed advisable this year, acting under authority of the Executive Council, to sell securities owned by the Association for the purpose of liquidating the indebtedness incurred in the First Liberty Loan Campaign and the purchase of the Del Mar Library. The securities sold were the New York City Corporation 3½'s, costing $25,506.67, for which we received $25,752.50. There is a deficit on the actual year's business amounting to $11,315.82.

Drafts to the number of 19,387 were drawn September 1, calling for the payment of $398,625. This is based on the new schedule of dues, and represents an increase of $101,585 over last year and an increase of 1,388 in number of drafts.

Again I wish to express my thanks for the honor conferred upon me in electing me to this office. It has been a great pleasure to work with the General Secretary and his competent staff of assistants in the General offices. I have found them ready to respond to any call and always attentive to the business of the Association.

The list of securities held by the Association follows:

	Par Value	Carried On Books At	Market Value	Cost
Chicago, Burlington and Quincy, Ill. Division, 4's due 1949	$50,000.00	$47,400.00	$40,250.00	$50,843.75
Chicago, Burlington and Quincy, Joint 4's due 1921	12,000.00	11,600.00	11,400.00	11,559.09
Atchison, Topeka and Santa Fe, General Mortgage 4's due 1995	30,000.00	28,500.00	23,287.50	30,825.00
	$92,000.00	$87,500.00	$74,937.50	$93,227.84

Respectfully submitted,

JAMES D. HOGE,
Treasurer.

Treasurer's Financial Report

FOR FISCAL YEAR ENDING AUGUST 31, 1919

RECEIPTS

Cash balance August 31, 1918	$6,449.22
American Institute of Banking Section	460.00
American Institute of Banking Section, Special Account	2,000.00
Agricultural Commission	7,239.84
Bills Payable	8,000.00
Codes, Telegraphic Cipher	86.00
Clearing House Section	374.01
Convention Expenses	70.84
Dues (1913-1914)	.66
Dues (1917-1918)	10.00
Current Dues (1918-1919)	303,255.00
Dues, prepaid (1919-1920)	7,772.50
Committee on Commerce and Marine	4.78
Digest of Legal Opinions	2,988.25
Executive Council	42.49
Furniture and Fixtures	57.50
General Proceedings	46.70
Investments	25,752.50
Interest on Bank Balances	2,352.85
Interest on Stock and Bonds	4,673.25
Journal of the American Bankers Association	18,415.81
Legal Department	14.00
Library	363.25
Office Fund	2,000.00
Postage, Stationery and Printing	5.42
Rent	40.00
Savings Bank Section	256.09
State Bank Section	46.25
Signs and Inserts	3.50
Trust Company Section	192.48
Traveling Expenses	88.56
War Savings Stamps	132.40
Due American Exchange National, New York, N. Y.	983.88
	$394,178.03

DISBURSEMENTS

American Institute of Banking Section	$14,773.37
Administrative Committee	2,333.57
Agricultural Commission	13,739.84
Auditors	150.00
Bills Payable	25,000.00
Bank Agencies at Cantonments	125.67
Codes, Telegraphic, Cipher	3,176.14
Clearing House Section	9,797.90
Convention Expenses	5,125.72
Silver service presented to retiring President	450.29
Current dues (1918-1919) overpaid and refunded	255.00
Committee of Five	1,585.81
Committee on Trade Acceptances	606.66
Committee on Co-Ordination of Activities	186.93
Committee on Federal Legislation	2,367.26
Committee on State Legislation	650.25
Committee on Commerce and Marine	5,348.52
Committee for Conference with Commissioner of Internal Revenue	95.28
Department of Public Relations	1,160.52
Dues (1919-1920) overpaid	17.50
Digest of Legal Opinions	1,750.49
Executive Council Meeting	14,109.16
Extra Office Help	1,286.49
Furniture and Fixtures	1,064.58
Federal Reserve Membership Campaign Committee	138.17
Membership Chamber of Commerce United States of America	700.00
General Proceedings, Publishing and Distributing	11,954.86
Interest, Discount and Exchange	153.40
Insurance Referendum Committee	438.26
Insurance Committee	678.21
Journal of the American Bankers Association	37,883.00
Legal Department	23,871.75
Library	6,179.42
National Bank Section	10,796.63
National Economy Exhibit	450.75
Protective Committee	82,819.21
Postage, Stationery and Printing	12,047.95
Premium on Officers' Bonds	111.79
Rent, General Offices	5,189.31
Savings Bank Section	13,546.20
Salaries	37,927.89
State Bank Section	9,596.01
Securing New Members by Executive Council, Vice-Presidents and State Secretaries	1,120.93
State Secretaries Section	2,547.47
Signs and Inserts, Membership	1,353.32
Trust Company Section	15,681.08
Treasurer Collecting Dues 1918-1919	673.78
Treasurer Collecting Dues 1919-1920	900.63
Traveling Expenses	2,978.74
Telephone and Telegrams	1,928.75
War Savings Stamps	132.40
War Salaries, Boys from Office	360.87
Office Fund	2,000.00
Sundries, general supplies and repairs, insurance, etc.	1,924.29
Transfer to James D. Hoge, Treas., 2d, account amount of prepaid dues less amount of prepaid bills	2,704.29
Balance on deposit in Union National Bank, Seattle, Wash.	1,131.81
	$394,178.03

Sept. 1, 1919: Cash Balance $1,131.81

NOTE: The net amount received for account of prepaid dues (1919-1920) is $7,755.00
Less the amount of bills paid for 1919-1920 ..... 5,050.71

American Exchange National Bank, New York, N. Y., to the credit of James D. Hoge, Treasurer 2d account.

NOTE: Digest of Legal Opinions shows the amount of collections made by General Counsel Paton .. $2,988.25
The amount of bills paid in connection herewith 1,750.49

Leaving a credit balance of .. $1,237.67 which is carried over to pay in part for publication. The $1,000.00 appropriated for this purpose at the May meeting was not used.

Annual Report of General Counsel, Thomas B. Paton

A survey of the Convention year discloses that with the increased membership now exceeding 20,000, the detailed work of the office of General Counsel has largely increased and more matters have been handled than in any previous year. The volume of business has necessitated a corresponding increase in the office force, which now consists of three Legal Assistants and three Stenographers. The office has a co-operative relationship in an advisory or executive way with nearly every Section and Committee of the Association and the general membership has largely availed of its facilities for legal information, advice and opinions.

FEDERAL LEGISLATION

The interests of the Association in connection with the important subjects of legislation before Congress during the past year and now pending which affect banks are in charge of the Committee on Federal Legislation and will be covered in the Report of that Committee. It is the function of the General Counsel, acting as Secretary of the Committee, to aid in operating the machinery which makes its legislative work effectivee. All bills introduced in Congress affecting banks, either favorably or unfavorably, are digested and submitted to the membership of the Federal Legislative Council and Executive Council as well as to the State Vice-Presidents of the Association and of the Sections in printed form; referenda are issued to ascertain the policy of the Association upon important bills; hearings before Congressional Committees have been attended upon important measures and the views of the Association presented; interviews have been had with particular members of Congress and with members of the Federal Reserve Board and every effort made to assert the policy of the Association in connection with pending legislation.

The Association itself also initiates and urges the passage of certain legislation deemed necessary to the banking interests. This work, of course, is under the supervision and in conjunction with the Chairman and members of the Committee on Federal Legislation who actively participate in the subjects of legislation. During the last few months, General Counsel has been materially aided by Assistant Counsel Paton, who has spent considerable time in Washington in connection with the progress of legislative bills and in interviews with members of Congress and members of the Federal Reserve Board in aid of the promotion of certain specific legislation desired by the Association. The propositions urged, among others, are to amend Section 5219 of U. S. Revised Statutes so that taxation by states of National Bank shares shall not be at a greater rate than upon other property, whether competitive or not, and permitting a proportionate amount of Liberty Bonds and other exempt securities to be deducted from the taxable value of bank shares; also to amend the Federal Reserve Act and Revised Statutes relative to admission of incorporated savings banks to the Federal Reserve System where their capital is insufficient under existing laws and permitting incorporated savings banks when they convert into national banks, to maintain savings departments and discharge the same functions as before the conversion; also other proposed legislation pertaining to classification of time deposits as savings accounts and the reserve against time deposits.

While important subjects of legislation are submitted by referendum to the members of the Federal Legislative Council and Executive Council for determination as to the stand and policy of the Association, General Counsel is becoming more and more convinced of the desirability of having a definite expression of opinion on every bill affecting banks which is introduced in Congress, from every member of the Federal Legislative Council and of the Executive Council. Such information is necessary to enable the Committee on Federal Legislation to exert its best efforts and to obtain the best results. It is contemplated to adopt a method by which, it is hoped, such full expression of opinion will be obtained.

The Association's Committee on Commerce and Marine has been giving considerable attention to the Edge bill for the creation of Federal banks to do foreign business and to the bills relating to mortgages on ships and the proposed Marine Development Act. General Counsel, as representing the Committee on Federal Legislation, has kept in close touch and conference with Secretary Collins of the Committee on Commerce and Marine in connection with the progress of these bills.

STATE LEGISLATION

The office of General Counsel has been actively engaged under the supervision of the Committee on State Legislation of the Association, in promoting in forty-one states which have held legislative sessions this year, a number of bills recommended by the Association. This work has been prosecuted through the members of the State Legislative Council in each state in conjunction with the Secretaries and Legislative Committees of State Bankers Associations and in co-operation in many states, with the heads of State Banking Departments. A comprehensive program of recommended legislation for 1919 was issued last December containing drafts of proposed laws on the subjects recommended with a short statement of the purpose or underlying reason for their enactment and a list of the states in which each draft had not yet been enacted in the recommended or some modified form. Last May there was issued a partial summary of legislation enacted during 1919 based on reports received from members of the State Legislative Council, Bank Commissioners, Secretaries of State Bankers Associations and others. This summary included legislation recommended by the American Bankers Association, other legislation affecting banks and subjects of bills which failed of passage or were still pending at the time the reports were made.

The results accomplished this year have been most gratifying and will be detailed in the report of the Committee on State Legislation. Some fifty enactments of measures recommended by the American Bankers Association have been placed on the statute books of the different states this year and most of these measures are of material advantage to banks in the safe conduct of their business. It is unnecessary in this report to detail or to refer to the salient features of the various bills which have been passed as this would duplicate the report to be made by the Committee on State Legislation. In the prosecution of this work to such successful results there has, of course, been devolved upon the office of General Counsel an enormous mass of correspondence containing advice, suggestions, arguments and explanations in connection with particular bills, many of which have been drafted by the General Counsel to carry out needed reforms in the state laws.

CHECKS OF FIDUCIARIES

Owing to the unsettled condition of the law due to conflicting and uncertain decisions bearing on the responsibility of a bank which receives on deposit or pays the check of an officer of a corporation or other fiduciary drawn to his personal order, which turns out to be unauthorized and a misappropriation, the banks, especially in the large commercial centres, have been desirous of procuring the passage of a law which would relieve them from the impracticable duty of inquiry which might be devolved upon them in such cases. The New York State Bankers Association took the initiative in causing a bill to be introduced in the last session of the New York Legislature containing a proposed amendment to the Negotiable Instruments Act which in substance provided that the making of a check by an official or fiduciary to his personal order and his negotiation or cashing of such check at a bank for his personal credit should not put the bank on inquiry as to the authority of the official or fiduciary nor charge the bank with knowledge of any defect in the check. General Counsel, at the request of the New York State Bankers Association, appeared with others in behalf of that Association before the Judiciary Committee of the New York Assembly in favor of the bill and later appeared before the Governor after the bill had passed both Houses.

The bill was opposed by members of the Commissioners on Uniform State Laws on the ground that it was unnecessary and would detract from the uniformity of the Negotiable Instruments Act and the Governor was prevailed upon to veto it. Following this, at the spring meeting of the Executive Council held May 19 a resolution was adopted that the General Counsel draft and the Committee on State Legislation recommend for enactment in the various states where needed, an amendment of the Negotiable Instruments Act or other form of statute which would make it reasonably safe for banks to receive on deposit or to pay checks drawn by officials of corporations or other fiduciaries to their personal order; further that the General Counsel endeavor to procure the recommendation of such legislation by the Commissioners on Uniform State Laws. In pursuance of this resolution General Counsel prepared a tentative draft of statute and appeared before the Commissioners on Uniform State Laws at their annual session in Boston held August of this year. Under the procedure of the Commissioners no subject of proposed legislation can be presented for consideration by that body until it is first presented to and receives the favorable recommendation of a special committee known as the Committee on Plan and Scope. General Counsel presented the proposed draft to that Committee with arguments in its favor. It is expected that the same will be favorably considered, in which event the procedure will be to refer the subject to the Committee on Commercial Law of the Commissioners who will investigate and make a report at the next annual session of the Commissioners. It is impossible under the procedure of the Commissioners to newly present a subject of legislation and obtain action thereon at the same annual session. The necessary steps to carry out the full purpose of the resolution will be taken by the General Counsel in due course.

BILLS OF LADING

The Federal Bills of Lading Act was passed by Congress August 29, 1916, after ten years of effort on the part of the American Bankers Association and commercial organizations. Before the passage of the Act, the railroad whose agent issued either fraudulently or as matter of accommodation to a shipper, a bill of lading for which no goods had been received, was not responsible to a bank or other purchaser who had advanced value on faith of the recitals in the bill. The Act changed the law and provided this rule of liability; it provided negotiability for bills of lading, punished forgery thereof and in many other ways provided an adequate code of law applicable to modern conditions under which the commerce of the country is moved and marketed through the instrumentality of bills of lading and by means of advances by the banks.

Within the last year Section 41 of the Federal Bills of Lading Act which provides for the punishment of any person who forges a bill of lading, has been judicially tested and declared constitutional by the Supreme Court of the United States. A shipper in Cincinnati forged certain bills of lading purporting to represent goods received in Indiana for shipment to Cincinnati by the Cincinnati, Hamilton and Dayton Railway Company and upon these forged bills of lading he procured advances from the bank. When indicted under the Act he demurred on the ground that no crime had been committed because the Federal Bills of Lading Act was unconstitutional and void, especially Section 41, in so far as it attempts to make it a crime and punish a person who forges a bill of lading where no shipment from one state to another is made or intended. It was asserted that the Act could only apply to bills of lading representing actual shipments of merchandise or commerce between the states, and if

intended to apply to wholly fictitious shipments, it was unconstitutional and void so far as fictitious shipments are concerned, because the power of Congress to legislate upon this subject-matter is based wholly and solely upon the commercial clause of the Constitution, and if there is no commerce there is no jurisdiction. This demurrer was sustained by the District Court of the United States for the Southern District of Ohio, but the Supreme Court of the United States on June 2, 1919, rendered a decision reversing the judgment of the court below and upholding the constitutionality of Section 41 and of the entire Federal Bill of Lading Act.

The American Bankers Association played such a large part in promoting the enactment of this measure that it is peculiarly gratifying to be enabled to record that its constitutionality has been upheld by the highest court in the land.

MISUSE OF NAME "AMERICAN BANKERS ASSOCIATION"

Quite recently a case arose wherein it became necessary for the American Bankers Association to protect its name against misuse growing out of a statement on the printed letterheads and circulars of a non-member concern in Texas—the Houston Bank and Trust Company, unincorporated, of Channel City, Texas—that it was a member of the American Bankers Association. This unincorporated concern was formerly a member of the Association but its membership ceased on August 31, 1918.

During the last summer, printed circulars and other literature were sent broadcast over the country by the Houston Bank and Trust Company offering for sale certain oil stock and containing the false and misleading statement that it was a member of the American Bankers Association. The general offices were flooded with complaints from members and others by whom such literature was received criticising these acts, inquiring whether the Houston concern was a member and insisting that steps be taken to stop the circularization of claim of membership in the American Bankers Association in connection with such literature. The telegraphic and written demand of the General Secretary of the American Bankers Association that the issue of circulars containing the unauthorized statement of membership in the Association be immediately stopped, being disregarded, the matter was placed in the hands of the General Counsel, who employed attorneys in Houston, Texas, and an injunction was obtained which was served on the defendant on August 4 restraining the Houston Bank and Trust Company, unincorporated, of Channel City, Texas, its officers, agents, servants and employees from advertising and circularizing that it was a member of the American Bankers Association. The copy of the injunction order was published in full in the August issue of the JOURNAL of the Association (page 80). Notwithstanding this, for several days thereafter, the defendant continued the mailing of the usual circulars and literature for the sale of oil stock, many of such circulars containing the same false statement of membership, although in some of the circulars issued after service of the injunction an attempt was made to obliterate by striking a line through the words "American Bankers Association." Proceedings were promptly instituted to punish the defendants for contempt for this violation of the injunction, and depositions were taken from a number of bankers who had received such circulars issued after service of the injunction. These proceedings are still pending at the date of the writing of this report (September 13). But since the middle of August the mailing of such circulars appears to have ceased.

BURGLARY INSURANCE

Certain technical defects in the Bank Burglary and Robbery Policy of the American Bankers Association copyrighted in 1918, have developed and a movement is under way to revise the policy and copyright a new form. Early in September General Counsel, upon request of the Insurance Committee of the Association, attended a meeting of that Committee at Atlantic City in conference with some twenty representatives of companies through out the country which write Burglary Insurance, known as the Burglary Underwriters' Association. An all-day discussion took place relating to every feature of the policy and there was a mutual interchange of points of view of the respective interests. The work of drafting a new form is now proceeding.

PROTECTIVE WORK

In connection with the work of the Protective Committee in ferreting out criminals who prey upon the general membership, the office of General Counsel is quite continuously employed in matters of consultation and advice as to the interpretation of the criminal laws of the different states, determining the character of particular crimes and the amenability of offenders to punishment. There is close co-operation with Manager Gammon of the Protective Department in this important branch of the work of the Association.

SPECIAL FORM OF TAX RETURN FOR BANKS

At the Spring meeting of the Executive Council, upon recommendation of the Committee on Federal Legislation, the General Counsel was instructed to endeavor to procure from the Commissioner of Internal Revenue the adoption of a special form of income tax blank for the making of returns of banks. This subject has been taken up with officials in the office of the Commissioner of Internal Revenue by Assistant Counsel Paton, and the point has been reached where such officials are willing to co-operate in the creation and promulgation of such a special form. Their objection at first was that if they made a special form for banking corporations, it would set a dangerous precedent for other classes of corporations who would make similar demands, and a further objection was that after a bank had once undergone the labor and trouble of making out its return on the general corporation form for the first year, it had already done all the work and the filling in of forms for subsequent years would be a comparatively simple matter. These objections were met and upon realization that much good could be accomplished by a special form of bank return it was suggested that we present a concrete form which would be approved by the banks. This is the point at which we have now arrived and banks interested in this subject are being requested to offer suggestions as to what should be contained in a special form for banks, or prepare and present a tentative form, so that ultimately an agreed form may be completed suitable for the returns of banks which can be presented to the Commissioner of Internal Revenue with request for its adoption.

The Library of the General Counsel is equipped with the complete statutory enactments of all the states, kept down to date, and with reports of decisions of all the courts of last resort since 1909. For decisions prior to that time the facilities of one of the general Law Libraries in the City of New York are utilized. There is also a fairly complete collection of text books on banking, bills and notes and kindred topics. The work of collecting and maintaining an effective law library suited to the particular needs and demands made upon the office has devolved upon Assistant Herrick J. Skinner of the New York Bar, who also has in charge the receipt and classification of all bills, amendments and reports of Committees introduced in Congress affecting banks; also the filing and classifying of the numerous manuscript or unpublished legal opinions which are rendered to the members by the General Counsel upon submitted questions. The number of requests from members for legal advice upon particular transactions involving questions of right or of loss and liability have increased enormously, and Assistant Frank W. Jones of the New York Bar is kept constantly employed under the supervision of the General Counsel in investigating and searching for decisions and precedents applicable to the facts of particular cases submitted which will aid in the solution of the legal problems presented.

DIGEST OF LEGAL OPINIONS

In pursuance of a resolution of the Executive Council, the legal opinions of the General Counsel which have been published in the JOURNAL of the Association for the last eleven years, have been digested and published in book form. The work of digesting was completed and the manuscript turned over to the printer about the first of July last. Distribution of the book to fill advance orders received began September 5. Pending publication of the Digest and to estimate in advance approximately how many copies should be printed, circulars were mailed to all member and non-member banks describing the Digest and enclosing order blanks, the price being fixed for members at $2.50 per copy and for non-members at $5 per copy. It is gratifying to report that down to September 1 the number of orders for the Digest totaled 4,844; that the orders are continuing to come in and sales are constantly increasing; further that a considerable number of non-members have joined the Association to obtain the benefit of the reduced price of the book to members. In fixing the price to members it was not aimed that the Association should derive any substantial profit, but simply sell the book at a figure which would cover the cost. The entire work of digesting and of marketing this book has been in the hands of Assistant Counsel Paton, to whom any credit is due. Stating figures approximately, the gross income from orders to September 1 last, including cash received in advance and amounts receivable, is $12,250. Of this there has been received in advance approximately $3,000, leaving bills receivable approximating $9,250. The total expenses for printing (6,000 copies), wrapping and mailing the book, including clerical services and other incidental expenses approximates $7,100, which leaves a net income to the Association upon books already sold at the close of the fiscal year of approximately $5,000. It is to be noted that all the orders thus far received, with slight exception, have been in advance of the issue of the book and simply as a result of circularization. The printing of 6,000 copies has covered this and left a margin of about 1,000 to spare. It is quite probable, now that the book is issued, there will be an increased demand which will call for a second edition.

THOMAS B. PATON,
General Counsel.

Annual Report of Protective Department, L. W. Gammon, Manager

During the period covered by this report there has been a marked increase in the number of crimes against members of this Association, particularly in the burglarizing of vaults, safe deposit boxes and the daylight hold-ups. As a matter of fact, all classes of crime have materially increased during the past year owing to the unsettled conditions, and I do not look for any let up in crime for some time to come.

ARRESTS

For the period from September 1, 1918, up to and including August 31, 1919, I beg to report as to the operations against criminals, as follows:

Total cases not disposed of, arrested prior to September 1, 1918		150
Total arrests since September 1, 1918		478
		628
Convicted	273	
Released, escaped, died and insane	132	405
Awaiting trial		223

BURGLARIES, ATTEMPTED BURGLARIES AND SNEAK THEFTS

Since September 1, 1918, up to and including August 31, 1919, there have been burglaries and attempted burglaries on members, and similar crimes on non-members, as follows:

	Members	Non-Members		Members	Non-Members
Arkansas ...	3	1	Minnesota ..	1	2
California ..	2	1	Missouri ...	6	2
Colorado ...	1		Nebraska ...	1	
Connecticut..			New York...	1	2
Georgia	1	1	North Dakota	2	6
Idaho	1	2	Ohio	3	4
Illinois	20		Oklahoma ..	2	3
Indiana	5	26	Oregon	1	
Iowa	3	11	Pennsylvania	1	
Kansas	6	2	So. Dakota..	1	
Kentucky ..		1	Tennesse ...	3	
Louisiana ..	1		Texas	1	
Maine		1	Washington.	4	
Michigan ...	3	1	W. Virginia.	2	
			Wisconsin ..	2	2

Of the attacks on members 50 were successful burglaries, 27 unsuccessful burglaries.

Of the attacks on non-members 46 were successful burglaries, 23 unsuccessful burglaries.

The loss sustained by members in connection with burglaries was $98,892.29, while the loss sustained by non-members amounted to $114,496.39.

There have been 54 hold-ups on members, with a loss of $424,802.72, also 10 sneak thefts with a loss of $28,175.75.

During the same period there have been 51 hold-ups on non-members with a loss of $271,733.54.

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

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

Non-members	1791	Loss	$3,707,795.11
Members	663	Loss	536,390.14
Difference	1128		$3,171,404.97

CORRESPONDENCE

During the twelve months ending August 31, 1919, the Protective Department has received 29,910 reports and other communications from our Detective Agents. The Department has also received 1090 letters and telegrams, and written 2621 letters and telegrams. These figures do not include circular letters and similar communciations.

PHOTOGRAPHS

The Department now has 6350 photographs of criminals, comprising burglars, hold-up men, sneak thieves, forgers and bogus check operators, with a complete record of each.

OFFICES OF OUR DETECTIVE AGENTS

The William J. Burns International Detective Agency, Inc., now have 20 offices of their own in this country, as follows: Los Angeles and San Francisco, California; Denver, Colorado; Chicago, Illinois; New Orleans, Louisiana; Baltimore, Maryland; Boston, Massachusetts; Detroit, Michigan; Minneapolis, Minnesota; Kansas City and St. Louis, Missouri; Buffalo and New York City, New York; Cleveland, Ohio; Portland, Oregon; Philadelphia and Pittsburgh, Pennsylvania; Houston, Texas; Seattle and Spokane, Washington.

They also have special representatives—M. D. Clemens, 820 Fleming Building, Des Moines, Iowa; G. S. Burt, P. O. Box 179, Cincinnati, Ohio; L. F. Squires, 908 Colcord Building, Oklahoma City, Oklahoma; R. L. Wallace, 306 Bank of Commerce and Trust Building, P. O. Box 464, Memphis, Tennessee, and F. F. Dearing, St. George Hotel, Dallas, Texas.

They also have offices of their own in Montreal and Toronto, Canada, and London, England; also Special Representative C. S. McTeigh,, 605 Vancouver Block, Vancouver, Canada.

The Association has a special representative at Atlanta, Ga., L. P. Whitfield, 921 Healey Building.

I wish at this time to thank the Federal, state, county and local authorities throughout the United States for their cooperation, for they have aided this Department very materially in the investigation of cases during the fiscal year.

L. W. GAMMON,
Manager.

Report of the Insurance Committee

ST. LOUIS, MISSOURI, September 29th, 1919.

To Members of the Executive Council, American Bankers Association:

GENTLEMEN:—At the last annual convention of the American Bankers Association held in Chicago, Illinois, the Insurance Committee, as a Committee of the Association, was discontinued and under a constitutional amendment the Insurance Committee was made a Council Committee, the former Insurance Committee recommended that Mr. L. W. Gammon, Manager of the Protective Department, be made permanent secretary of the Committee. The Finance Committee recommended the appointment of Mr. Gammon as Secretary without compensation other than his salary as manager of the Protective Department, but allowed five hundred dollars ($500) for clerical help and five hundred dollars ($500) addition for the use of the committee. The Executive Council approved the action of the Finance Committee.

The Insurance Committee at their meeting elected Mr. Gammon as permanent secretary.

There have been no new developments under the Fidelity Insurance since the Chicago convention which require comment or attention.

During the past twelve months the unsettled condition of the country has apparently encouraged depredations of the character of burglary and hold-up, which give the insurance policies covering these crimes an increased importance. In the time indicated twelve months up to August the thirty-first, 1919, there have been 50 burglaries and 27 attempted burglaries on member banks. The loss by these amounting to $98,892.29, and there have been 54 hold-ups on member banks, with loss of the large amount of $424,802.72. This is far in excess of the experience of any previous 12 months, and it is reasonably expected during the period of reconstruction and unrest this will continue and likely increase. The Burglary Insurance Underwriters Association have recently decided, because of this increase in crime, to separate the burglary and hold-up clauses in the policy. In other words, the burglary and robbery policy will cover only burglary, which to cover hold-ups an additional charge of $1 per thousand of insurance will be charged. The issue and distribution of some eighteen billion Liberty Bonds by the Government to the people introduces another problem. The safe-keeping of these bonds must be provided for by the banks through the more extended use of the safe deposit boxes, which are not now covered by our present policies, except where the physical location of safe deposit boxes are within the vault that contains the money chests and securities belonging to the bank contents of said boxes are covered to the extent of ten per cent of the face of the policy on property of the bank.

To meet this situation your committee have authorized a rider which may be attached to the A. B. A. Form, and for an additional charge based on equipment will insure the contents of any one or individual box up to five thousand dollars.

We have authorized the various insurance companies to place an endorsement on the 1918 copyrighted bank burglary and robbery policy covering securities, including U. S. Government bonds and War Savings Stamps, that are not the property of the bank in safe deposit boxes and the contents of which are unknown to the banks.

During the past twelve months ending Aug. 31st, 1919, every member that has been burglarized or held up has been written to regarding their loss with the suggestion that they forward their policy or policies, by registered mail, to the insurance committee for inspection and information. Most of these members have taken advantage of this offer and a large number of opinions have been rendered the advantage of A. B. A. form emphasized, and suggestions made, that they discontinue the use of existing policies at their expiration and use the A. B. A. copyrighted forms, which has a much broader coverage than any other on the market.

The character of the Insurance Committee service to members is illustrated by the recital of a few instances taken at random. One of our members in the state of Washington had a defalcation. They originally asked the Security Company for A. B. A. forms, but accepted another form; subsequently having a defalcation, they discovered in their policy they would have to pro-rate the salvage pro-rata with the company. While under the A. B. A. form they would have been entitled to all the salvage up to their loss. They took the matter up with the company and had considerable correspondence relative to construing this policy as an A. B. A. form. The company refused to construe their policy as such, then the bank referred the matter to the Insurance Committee, who went into the same very carefully, with the result that the Security Company agreed to construe the policy as that of an A. B. A. form, and from the salvage the bank recovered an additional fifty per cent of the face of their policy.

There was another case where a bank member was burglarized, and they organized a posse, and requested the insurance company to pay the expense incurred. The company refused and stated that such expense was not covered by their policy, which was correct. The matter was taken up with the insurance committee and the company agreed to stand the expense incurred by the bank and notified their adjustors accordingly.

There is still another case where a bank member was burglarized. The burglars stole several thousand dollars of registered bonds of the last issue. It appears that the first coupon of these bonds was a cash or bearer coupon. The agent of the Insurance Company contended that the company was not liable for the coupons or for the expense incurred by the bank in furnishing a surety bond to the government in order to have a new bond issued. The bank took the matter up with the Insurance Committee, who conferred with the Insuring Company, with the result the company concluded to pay the claim of the bank.

A most interesting and unusual situation recently developed by reason of the interpretation of the United States Circuit Court of Louisiana, of certain language appearing in the American Bankers Association Copyrighted Form Bank Burglary and Robbery Policy, the outcome of which is of great importance and interest to all member banks.

The 1918 and 1914 Copyrighted Bank Burglary and Robbery Policy Forms of the Association cover, under Section 1, General Agreement "B" in the 1918 form, and Section I, General Agreement "C" in the 1914 form, all loss by robbery of money and securities, "from within the banking enclosure reserved for the use of officers or office employees of the Assured." General Agreement "B" in the 1918 form and General Agreement "C" in the 1914 form also provides that robbery is covered "from within that part of the safe or safes or vaults insured hereunder, caused by robberies during the day or night

by compelling an officer or an office employee of the assured to unlock and open the safe or safes or vault."

The decision of the United States Circuit Court of Louisiana above referred to held that the safe or safes or vault were not necessarily a part of the banking enclosure reserved for the use of officers or office employees of the assured, and that the policy did not cover the robbery of money and securities from the safe or safes or vault unless the safe or safes or vault were closed and locked and the robbers compelled some officer or office employee to unlock and open same.

Recently a member bank of the Association sustained a loss by robbery of $59,000, approximately $38,000 of which was due to the abstraction of money and securities from unlocked safes and vaults by the robbers, which safes and vaults were open in the usual conduct of the bank's business, and which was not opened at the time of the robbery by any officer or office employee being compelled to do so by the robbers. The insurance company covering this member bank under the American Bankers Association copyrighted form held that it had no liability for that part of the loss being approximately $38,000 above described. The insurance company quoted the decision of the Louisiana court above outlined. The matter was referred by the bank to the Insurance Committee of the American Bankers Association, which committee, through its secretary, took the case up with the insurance company. It was the contention of the Insurance Committee that the copyrighted policy as compiled by the Insurance Committee in conference with the Bank Committee of the Burglary Underwriters Association, and after frequent and full discussions by and between these two committees both the language and the intent of the policy were agreed upon that it was neither the intent of the policy or of either committee that any loss occurring under the conditions cited in this article should be excluded from the policy. The insurance company agreed to submit the whole matter to the Insurance Committee of the American Bankers Association for a decision as to whether or not the claim of the bank should be paid. The Insurance Committee unanimously agreed that the claim should be paid, and the insurance company, upon being duly notified of that decision, promptly transmitted to the bank its check in full settlement.

The Insurance Committee, through its Secretary, then brought the whole situation to the attention of the Burglary Underwriters Association, with the result that an indorsement was agreed upon which would clearly eliminate any further doubt as to the coverage of the policy under conditions of this sort. The indorsement was then submitted to all of the insurance companies licensed to write the American Bankers Association copyright forms, and all companies unanimously agreed not only to attach this indorsement to all copyright burglary forms hereafter issued by them, but also to construe all existing and outstanding policies written on the copyright forms as covering in accordance with the indorsement.

The members of the Insurance Committee and its Secretary are greatly pleased with this result—first, because it clears up satisfactorily a doubtful clause in the policy, and, second, because it indicates that the impartial and fair attitude which the Insurance Committee has tried at all times to assume in all matters between member banks and insurance companies, has caused insurance companies to abandon technical positions to seek a just and fair and liberal basis upon which to do business with the member banks of this association.

All the thirty-three (33) Insurance Companies licensed to write the copyrighted form of the American Bankers Association have agreed to use the indorsement referred to on the new policies and to construe existing policies as subject to the terms of the indorsement, whether or not such indorsement appears on the policy. For your further information a copy of the indorsement agreed upon is as follows: "From within the banking enclosure reserved for the use of officers or office employees of the assured, or from within any locked or unlocked safe or vault, located within or opening directly into said enclosure, provided at least one officer or office employee of the assured in present and regularly at work in the said premises."

On September the eighth, 1919, there was a meeting held at the Hotel Traymore, Atlantic City, N. J., by your insurance committee and the Burglary Insurance Companies. There has never been a meeting held before of the Companies themselves and the Insurance Committee. In the past the Insurance Committee has met with the Bank Committee of the Underwriters Association. It was a very interesting meeting and of great value.

There were five subjects on the program:

First: New copyright burglary policy 1919 issue. This policy was discussed very fully and certain changes were suggested by the various insurance companies. The proposed form of policy was then submitted to the Burglary Underwriters Association at their meeting the following day at Atlantic City, and they are to submit a new draft to the Insurance Committee for such action as they deem advisable in the near future. There is no radical changes contemplated but a few in clearing up certain phraseology.

Second: Special copyright form to cover securities only at reduced rate. This is to be taken care of by the proposed changes in the 1919 form.

Third: Safety Deposit Box Coverage: It was unanimously voted that a separate and distinct policy be gotten out to cover the insurance to banks covering the safe deposit boxes be drafted and adopted.

Fourth: Forgery Coverage: This subject was referred to the Fidelity Section, as the Burglary Departments decided it was better to confine that class of coverage to the surety end.

Fifth: Increase in Rate on Hold-Up Insurance: The Burglary Insurance Underwriters Association submitted figures for the past 18 or 19 months showing the actual loss by states (shown below) paid in connection with burglaries and hold-ups and the cases still pending, they dividing two classes:

State	Robbery Paid	Robbery Outstanding	Burglary Paid	Burglary Outstanding
Arizona	$100.00	.....	$1,356.87	.....
Arkansas	17,120.04	$5,000.00	8,162.30	$600.00
California	20,571.91	.....	324.43	.....
Colorado	100.00	.....	999.46	.....
Florida	.....	.....	676.50	.....
Georgia	.....	.....	6,808.66	5,150.00
Illinois	197,471.29	.....	61,379.56	4,008.85
Indiana	36,844.26	.....	10,153.71	267.00
Iowa	11,508.78	20,000.00	10,481.25	.....
Kansas	86,249.00	21,935.00	12,882.88	2,802.00
Kentucky	3.93	1,000.00	800.00	.....
Louisiana	10,000.00	7,000.00	.....	.....
Maryland	.....	.....	107.50	.....
Michigan	5,502.44	.....	6,195.18	825.00
Mississippi	.....	.....	84.77	.....
Missouri	63,173.75	50.00	14,188.07	100.00
Minnesota	55,271.47	11,500.00	188.15	.....
Montana	.....	.....	3,272.95	.....
New Mexico	1,343.26	.....	17.90	.....
Nebraska	.....	.....	500.00	.....
New York	3,966.55	.....	2,238.11	.....
North Carolina	.....	.....	66.70	.....
North Dakota	.....	.....	24,359.02	.....
Ohio	18,293.00	.....	5,098.20	1,750.00
Oklahoma	33,644.24	23,000.00	292.98	445.00
Oregon	7,054.50	.....	345.55	71.80
Pennsylvania	2,728.00	400.00	2,506.30	.....
South Carolina	.....	.....	142.28	.....
South Dakota	3,500.00	.....	84.59	.....
Tennessee	6,397.50	.....	.....	250.00
Texas	475.00	1,000.00	508.25	554.00
Washington	6,797.52	.....	74.52	300.00
West Virginia	2,008.75	.....	1,305.73	.....
Wisconsin	3,300.00	.....	691.17	200.00
Wyoming	300.00	.....	.....	.....
Virginia	.....	.....	.....	200.00
	$593,725.19	$90,885.00	$176,293.54	$17,523.65

Total robbery reported claims, $684,610.19. (This is 78 per cent of all losses.)

Total burglary reported claims, $193,817.19.

Total of above as itemized:

Robbery paid up	$593,725.19
Robbery outstanding	90,885.00
Burglary paid up	176,293.54
Burglary outstanding	17,523.65

They also report the robbery losses as itemized from newspaper clippings as follows for what it is worth:

Money	$1,120,353.00
Securities	938,050.00
Money and securities	288,000.00
Total	$2,346,403.00

This is the first time that the Burglary Insurance Underwriters Association have submitted any figures as to the losses that they have paid, as they have always claimed that they did not separate the bank business from their other burglary lines. The Committee did not go on record as approving or disapproving the action of the Insurance Companies increasing their rates, but their figures submitted would indicate that they have not made any profit on the Bank Burglary and Robbery Business for the past 18 or 19 months. They also stated what their annual premium was, about $500,000.00. Your committee is engaged in checking up these figures. There were about 40 people present at the meeting, including your Committee and its Secretary and General Counsel, Mr. Thomas B. Paton, and the Secretary of the Burglary Insurance Underwriters Association.

The Hartley-Cooper Group of Lloyds have submitted a new form of Lloyds Blanket Bank Policy for the approval of the Insurance Committee. This form was discussed very fully by the Insurance Committee and by General Counsel Paton. General Counsel Paton made some suggestions as to changes which Lloyds agreed to insert. The new draft of the blanket bond gives the banks a wider coverage than anything that has heretofore been seen in the American or Foreign markets, but the Insurance Committee, as has been its custom in the past whenever approving the form of any Lloyds contract, to qualify with a statement that while the reputation of the Hartley-Cooper Group for paying claims in America is high, it is nevertheless a fact that in the event of differences between the bank and Lloyds and results litigation, suit would have to be brought abroad.

One particular clause (covering forgery) we wish to call your particular attention to is as follows: "By reason of the payment whether received over the counter or through the clearing house or by mail, of forged or raised checks or (genuine) checks bearing forged endorsement or the establishment of any credit to any customer on the faith of such checks." In the American Blanket Bond there is no such clause, as the American bond does not cover forgeries of any kind.

The Insurance Committee has approved the Lloyds Blanket bond as to form, and further qualified their approval by the explanation as previously outlined.

Thirty-three insurance companies have been licensed to execute our 1918 copyrighted bank burglary and robbery policy of the association and thirty-five companies have been licensed to execute the 1913 copyrighted form of Fidelity bond. If you haven't the copyrighted forms indicated above, we advise you to write for them before a loss is incurred.

We emphasize the necessity of continuing the work of the Insurance Committee, as some agency must be on guard to watch the application of our insurance to new conditions and decisions, and to secure the protection we pay for by further amendments to the insurance contracts as the necessity may demand.

Your committee has submitted a budget to the Finance Committee for the appropriation of $3,000.00 to continue the work of the Insurance Committee for the fiscal year ending August 31st, 1920.

In concluding this report your committee desire to express their appreciation of the loyal and efficient service of our Secretary, Mr. L. W. Gammon.

Respectfully submitted.

H. G. PARKER, *Chairman*,
L. W. GAMMON, *Secretary*,
GEORGE A. HOLDERNESS,
L. E. SANDS.

Report of Executive Council by R. F. Maddox

The Executive Council held its first meeting after the adjournment of the last Convention in Chicago on September 27th.

The newly elected members were cordially received into the Council and for the first time we had the benefit of the presence of the Chairman of the Agricultural Commission, and, as members ex-officio, the first Vice-Presidents of the several Sections, who were made eligible by an amendment to the Constitution at the last Convention.

A total number of 69 members answered to the roll-call.

The following officers of the Association were then elected:

FRED E. FARNSWORTH, *General Secretary*.
WILLIAM G. FITZWILSON, *Assistant Secretary*.
JAMES D. HOGE, *Treasurer*.
THOMAS B. PATON, *General Counsel*.

COMMITTEE ON NOMINATIONS

The Committee on Nominations submitted their report and their nominations as suggested therein were unanimously adopted. As the personnel of the various committees was published in the Journal, I will refrain from going into details on this occasion.

REPORT ON FINANCE COMMITTEE

The report submitted by the Finance Committee estimated receipts for the ensuing year at $300,000 and recommended appropriations for the fiscal year beginning September 1, 1918, amounting to $298,750. The several items included in this budget were carefully considered and the report was approved.

BANK DEPOSITARIES

The following banks were designated depositaries of the Association for the coming year:

Union Savings & Trust Company, Seattle, Washington.
Continental & Commercial National Bank, Chicago, Ill.
American Exchange National Bank, New York City.

SPRING MEETING

Several invitations were presented in connection with the spring meeting of the Council and after some discussion a resolution was passed authorizing the Administrative Committee to select the place of meeting and perfect arrangements.

ARTICLES PUBLISHED IN JOURNAL

The action of the Executive Council at its previous meeting in September, restricting the columns of the Journal to articles contributed by officers of the Association, was reconsidered and it was decided to accept such articles as in the editor's judgment would be proper, said articles before publication to be approved by the General Secretary.

Bank advertising in Journal after a few discussions. The Council passed a resolution permitting the editor of the Journal to accept the advertisement of banks provided that the advertisement of each bank be limited to one-quarter of a page.

The Spring Meeting of the Executive Council was held at the Greenbrier Hotel, White Sulphur Springs, W. Va., on May 20-21, 1919.

One hundred and three members responded to the roll-call.

COMMITTEE ON COMMERCE AND MARINE

The President reported that as provided by resolution adopted at the last Convention he had appointed the following Committee on Commerce and Marine:

John McHugh	John E. Bouden, Jr.
William F. Collins	Robert F. Maddox
Fred T. Kent	James J. Fagan
William A. Law	John L. Hamilton
Lewis F. Pierson	Robert N. Harper
Charles H. Sabin	Charles A. Hinsch
F. O. Watts	Thomas B. McAdams
Daniel G. Wing	Arthur Reynolds

RESIGNATIONS ON CURRENCY COMMISSION

The President reported that, owing to the resignations of Joseph A. McCord of Atlanta, Georgia, and John Perrin of San Francisco, there were two vacancies on the Currency Commission, and the Council approved the election of Andrew J. Frame of Waukesha, Wisconsin, and Judge O. E. Dunlap of Waxahachie, Texas, to fill these vacancies.

45TH ANNUAL CONVENTION IN ST. LOUIS

The invitation to hold our 45th Annual Convention in St. Louis was unanimously accepted and the dates were fixed for September 29-30 and October 1-2.

VACANCIES IN SECTIONS

The President reported that Mr. Jerome Thralls, who had so ably and so long served the National Bank Section as its Secretary, had resigned, and that Frederick W. Hyde had been elected as his successor. Mr. Thralls' resignation necessitated the election of another secretary for the Clearing House Section, and the election of Mr. Amos F. Hill to fill this vacancy was approved.

LIBRARIAN

Mr. George F. Allen was elected librarian in place of Mr. Weltner.

AGRICULTURAL COMMISSION

The President reported the following appointments on the Agricultural Commission for the ensuing year:

Joseph Hirsch	O. N. Sams
W. C. Gordon	Fred N. Shepherd
B. C. Powell	J. R. Wheeler

George F. Roberts

BUDGET SYSTEM

The Council unanimously passed a resolution recommending the adoption by Congress of the Budget System.

RESOLUTIONS ON DEATHS OF COL. LOWRY AND MR. LYNCH

A committee consisting of H. H. McKee, F. E. Farnsworth and F. W. Hyde was appointed to draft resolutions on the deaths of our former beloved presidents, Robert J. Lowry and James K. Lynch, and the resolutions were unanimously adopted.

FLOATING DEBT PAID

You may recall in 1917 at the first meeting of the Executive Council, after the United States entered the European War, a committee was appointed to co-operate with the Government in placing the first Liberty Bond issue. This committee did splendid work and its efforts contributed a great deal towards the success of the first issue of Liberty bonds.

Owing to the emergency of the situation no provision was made for paying the expenses of this committee, which amounted to approximately $20,000.00. During the same year the Delmar Library was purchased at a cost of $5,000.00. At the meeting of the Executive Council held September 28, 1917, the President and Secretary of the Association were given authority to withdraw securities from the Treasury of the Association and to sell the same for the purpose of reimbursing the current funds to the extent of $25,000.00. This action was ratified at the subsequent Annual Convention. Owing to war conditions, however, it was not thought advisable by the Administrative Committee to sell the securities at that time, and this floating debt of $25,000.00 was carried until January of this year, when $30,000, par value, New York City Corporation 3½s were sold for $25,752.00. Twenty-five thousand dollars of this amount was invested in Treasury Certificates maturing in July, and $752.50 was put in Treasury. Upon maturity of the certificates in July the floating debt of $25,000 incurred, as above outlined, was paid.

At this meeting of the Executive Council the subject of popular education in elementary finance was considered. In the course of discussion the fact was emphasized that the way in which innocent investors have been induced to exchange their Liberty Bonds for wildcat "securities" is only one of the many examples of imposition on the public by unscrupulous promoters. Efforts have been made through legislation to prohibit the sale of worthless stocks and bonds, but there is an arousing public opinion that something more comprehensive should be done.

The Executive Council referred the subject matter to the State Secretaries and American Institute of Banking Sections. Pursuant to such action, the American Institute of Banking Section has made a survey of the situation, and we hope that something may be developed by which a broader study of the subject of Banking and Business Principles may be introduced in public schools.

AMENDMENTS

ASSISTANT TREASURER

It was unanimously recommended that an amendment to Article V of the Constitution be made providing for the election of an Assistant Treasurer by the Administrative Committee.

The election of this officer would facilitate very much the collection of dues without taking the custody of the funds from the Treasurer, elected by the Council. Owing to the great distance, in the past few years, between the home of the Treasurer and the office of the Association, it was found that there was great delay and unnecessary difficulty in collecting the dues, and it was believed that an Assistant Treasurer, with an office at the headquarters of the Association, would remove the present difficulty in handling the dues.

This amendment has been published and will later be submitted for your consideration.

TIME OF REPORT OF NOMINATING COMMITTEE

The Council believed it wise to change the time now provided in the Constitution for the report of the Nominating Committee and unanimously recommended an amendment to the Constitution, providing that this report be made preferably on the morning of the last day of the Convention, and providing for the election of officers immediately after the report of the Nominating Committee; also providing that the installation of the new officers shall come at the close of the last day's session of the General Convention. This amendment has been published and will later be presented for your consideration.

INCREASED DUES

The report of the Finance Committee recommending that the annual dues of member banks with capital and surplus in excess of $100,000 be increased, was carefully considered. After a full discussion the Council recognized the importance of increasing the revenues of the Association to meet the expenses of its enlarged activities, and approved an amendment to the Constitution increasing the dues of some of the members, and this amendment will be submitted later for your consideration.

SECOND VICE PRESIDENT MEMBER ADMINISTRATIVE COMMITTEE

The Council also recommended that the amendment to the Constitution be made providing that the Second Vice President of this Association become a member of the Administrative Committee. This amendment will be submitted later for your consideration.

VOTING FOR MEMBERS OF EXECUTIVE COUNCIL

As there has been some question raised at some of the meetings of the members of our Association, held at the time of the State Conventions, as to whether or not a delegate can represent more than one member, it was decided to recommend an amendment to By-Law IV providing that no delegate shall represent more than one member. This amendment has been published and will later be submitted for your consideration.

VACANCIES OFFICE STATE VICE PRESIDENT

There being no provision for filling the office of State Vice President, through death, removal from the state, etc., an amendment to the Constitution providing that vacancies be filled through the President of the State Bankers Association, with the approval of the Administrative Committee, will later be presented for your consideration.

ENLARGEMENT OF FEDERAL AND STATE LEGISLATIVE COUNCILS

The Council thought it advisable to amend Article V of the Constitution, providing for the enlargement of the Federal and State Legislative Councils. This amendment has been published and will later be submitted for your consideration.

INDEPENDENT ACTION BY STATE AND FEDERAL LEGISLATIVE COMMITTEES

For the protection of the interests of the several sections it was decided to recommend an amendment to Section 16 of Article V of the Constitution, providing that subjects of State legislation of special interest to any section, may be presented to the Committee on State Legislation, as previously provided, or such subjects may be urged independently by the State Legislative Committee of any section, in which case any expense incurred by the section shall be charged to the appropriation of the section; and where a subject of special interest is thus independently urged by any section, no action in such case shall be taken by the State Legislative Committee of the Association, except under the instructions of the Association in Convention assembled; and also in the subjects of National Legislation, giving the Federal Legislative Committee of any section the same privilege of independent action. These amendments have been published and will later be presented for your consideration.

ELIGIBILITY OF MEMBERS

The action of the Administrative Committee in defining the eligibility of members was approved, as follows:—"In addition to banks, corporations and firms engaged in the following lines of business are declared eligible; namely, Dealers in Commercial Paper, Dealers in Investment Securities; Dealers in Real Estate Mortgage Securities, Title Companies, Safe Deposit Companies, and Morris Plan Banks.

LIMITING EXPENDITURES OF CONVENTION CITIES

The Council approved of the action of the Administrative Committee in passing a resolution requesting the cities of the country entertaining the Annual Convention of the Association to limit their expenditures for entertainment purposes to $10,-

COMMITTEE OF SEVEN

The President reported the appointment of the Committee of Seven provided for during the Chicago Convention, which committee is in substitution for the former Committee on Co-operation and Consolidation of Activities of State Bankers Associations with the American Bankers Association.

The President subsequently named as said Committee of Seven the following:

William George, President, Old-Second National Bank, Aurora, Ill.

M. A. Graettinger, Chairman, Sec'y Ill. Bankers Association, Chicago, Ill.

W. F. Keyser, Sec'y, Missouri Bankers Association, Sedalia, Mo.

Haynes McFadden, Sec'y Georgia Bankers Association, Atlanta, Ga.

John W. Staley, President, Peoples State Bank, Detroit, Mich.

P. W. Goebel, President, Commercial National Bank, Kansas City, Kan.

Geo. W. Hyde, Sec'y Massachusetts Bankers Association, Boston, Mass.

Owing to our large membership the work of the Association is now principally accomplished through the Commitees of the Convention, the Council and the several Sections. These committees during the past year have given careful consideration to many important subjects as their reports will show.

These committees have worked hard to promote the best interests of our members and the Association as a whole and I wish to express to them our sincere appreciation of the results they have accomplished.

The officers at our headquarters in New York had a very busy year. They have all labored faithfully to keep up the high standard of efficiency in the service of the Association, during the unusual conditions through which the country has passed, and I wish to express to them my personal thanks for their cordial cooperation and the appreciation of the Association for their loyalty and splendid service.

Report of Currency Commission by A. Barton Hepburn

September 25th, 1919.

MR. FRED E. FARNSWORTH, *Secretary*,
American Bankers' Association,
5 Nassau Street,
New York City.

MY DEAR MR. SECRETARY:—

The Federal Reserve Board addressed to Senator McLean, Chairman of the Committee on Banking and Currency of the United States Senate on August 8th, a letter reviewing the financial situation in which they make use of these words:

"The Federal Reserve Board believe that any currency legislation at this time is unnecessary and undesirable, and would suggest that, whether viewed from an economical or financial standpoint, the remedy for the present situation is the same, namely, to work and to save, etc."

Out of respect to the sentiments and attitude of the Federal Reserve Board, the Currency Commission has decided unanimously to take no action upon the subject under their jurisdiction at this time. We address this to the Convention in explanation of our attitude and action.

Very respectfully,

A. BARTON HEPBURN,
Chairman Currency Commission.

Report of Committee on Federal Legislation by Waldo Newcomer, Chairman

GENTLEMEN:

Since your last convention your Committee on Federal Legislation has endeavored to keep an eye on the numerous bills introduced into te 65th and 66th Congresses.

In December the Phelan and Hitchcock bills were introduced in te House and Senate and, as finally passed, amended Sections 7, 10 and 11 of the Federal Reserve Act, and Section 5172 of the United States Revised Statutes.

The amendment to Section 7 authorized Federal Reserve banks to apply their net earnings to the increase of their surplus until it equals 100 per cent of the subscribed (not paid in) capital and provides that thereafter 10 per cent of such net earnings shall be paid into surplus. Your committee argued in favor of an amendment permitting the member banks to carry the stock of the Federal Reserve banks on their books at book value, or some reasonable proporttion thereof, and that future purchases by new members or those increasing their stock, and sales by those going into liquidation, should be at the value so fixed and, furthermore, that the member banks be given an increased dividend not to exceed 10 per cent of the cost of their stock. These suggestions appeared to be favorably received by the members of the committee but were not enacted into law.

The amendment to Section 10 provided that the restriction as to the ineligibility of members of the Federal Reserve Board to accept positions in banks for two years after they cease to be members of the Board shall not apply to a member who has servedthe full term for which he was appointed. Your committee at first viewed this as personal legislation and opposed it, but upon the explanation that it had no connection with the members then retiring but was a move to enable them to secure desirable members of the Board our opposition was withdrawn.

The amendment to section 11 permits member banks to exceed the 10 per cent limit of loans to an individual, provided that the excess notes, not exceeding an additional 10 per cent, are secured by bonds or notes of the United States issued since April 24, 1917, or U. S. certificates of indebtedness.

The amendment to Section 5172 of the United States Revised Statutes permits the use of engraved signatures of officers on National bank notes.

The Phelan bill as introduced and reported to the House contained provisions providing for branches of National banks in cities against which your committee protested, and the provision was not retained in the Senate bill and did not become a law.

Your committee was active in connection with the Revenue bill during its passage through Congress and successfully urged two amendments: (1) eliminating stamp tax on checks; and (2) the insertion of adequate provision protecting mercantile tax payers in the case of material reduction in the value of the inventories.

Unsuccessful efforts were made to promote the passage of a bill to extend the franking privilege to banking institutions in connection with business relating to the collection of instalment payments upon subscriptions to the Liberty loans.

Several bills were presented for the relief of contractors and your committee, without attempting to make any decision as to which of several bills was the better, strongly urged the prompt passage of some bill that would grant relief in this most important matter.

The Appropriation bill which passed the House on January 18 contained a provision for the abolition of the sub-treasuries. The American Bankers' Association, at its last convention, took the ground that the abolition of the sub-treasuries at this time was unwise and your committee took action in opposition to such abolition. On January 31 the Senate Committee on Appropriations reported the bill with an amendment which struck out the provision of abolishment and substituted appropriations for the officers and employees of the various sub-treasuries and the bill, thus amended, finally became a law. There was introduced, however, in the 66th Congress, House bill 6749, providing for the immediate abolition of sub-treasuries, but at the time of writing this report, we understand that the Committee is likely to report a recommendation that all the sub-treasuries be continued for five years, at the end of which time all shall be abolished except three, which will become permanent.

On February 8 your committee submitted a referendum to the Federal Legislative Council, at the request of the Savings Bank Section, requesting their vote for or against certain proposed amendments to the Federal Reserve Act which would permit mutual savings banks without capital stock to become members of the Federal Reserve system and authorize the Federal Reserve Board, by regulation, to define savings accounts. A majority having voted in favor of the proposed amendments as provided in the Constitution, the policy of the Association was thereby determined in favor of this legislation and bills carrying same into effect were introduced in the House by Mr. Moon, of Tennessee, and in the Senate by Senator Calder, of New York, which bills were referred to the respective Committees on Banking and Currency of both houses. Congress adjourned, however, before there was opportunity for action on such bills.

At the Spring meeting of the Executive Council, on motion of the savings bank section, the Committee on Federal Legislation was instructed to take no further action in urging the proposed amendment for the admission of Mutual Savings banks, a difference of view having developed among the members of that section as to the advisability of pressing such amendment. But, at that meeting a resolution was adopted, that the Committee urge an amendment to the Federal Reserve Act, endeavoring to procure the cooperation of the Federal Reserve Board, permitting incorporated savings banks to join the Federal Reserve System, and also an amendment to Section 5154 of the U. S. Revised Statutes, which would authorize incorporated savings banks, which convert into National banks, to maintain separate savings departments and continue to discharge the same functions as in the State System, such savings departments to be operated under rules and regulations to be promulgated by the Federal Reserve Board.

Judge Paton has been in conference with Mr. Harrison of the Department in connection with this matter before the 66th Congress.

Amendment to Section 5209—Penalty Provision. At the Spring meeting of the Executive Council our attention was called to the fact that the amendment to this section, designed to make prosecutions more effective by giving the judge power to mitigate the extreme penalty, had been loosely drawn and as a result serious offenses were receiving extremely light penalties. Governor Harding was interviewed on this subject and was greatly surprised at the wording of the amendment and referred the matter to Judge Elliott for correction.

The following bills have also had our best attention:

House Bill 7589, providing for the shipment of currency free of charge by the Government. This bill is opposed by Secretary Glass and by some members of Congress. There seems to be much doubt of the passage of this bill, but we believe it to be fair and advantageous not only to the banks but to the public in general, and have, therefore, issued a circular to members of the Federal Legislative Council and Executive Council urging them to get their several States actively behind the bill.

Senate Bill 170, authorizing National banks to open branches in cities of over 500,000 inhabitants. Your Committee has filed a protest in the name of the Association against branch banking in any form, and requested a hearing if this bill is likely to come out of Committee. Our information is that it will not.

Amendment to Section 5219, clarifying the provision relating to State taxation of National banks by preventing discrimination and providing for a limited power of deduction of United States securities. Our Committee have been in conference with members of the Federal Reserve Board to settle upon the terms of a bill upon this subject preliminary to its introduction in Congress.

Senate Bill 2574, abatement of taxes on interest due nonresident aliens. We have urged this strongly.

Senate Bill 2472—the Edge Bill, providing for corporations to be organized for the purpose of engaging in international or foreign banking. Your Committee has been co-operating with the Committee on Commerce and Marine with regard to this bill and your chairman took up with Governor Harding the question of a few amendments designed to protect existing commercial banks against possible competition. Governor Harding, however, furnished us with a copy of the rules under which the Federal Reserve Board proposed to require the said banks to operate and urged us not to insist upon changes in the law, as there was so much opposition in the Senate that any interference was likely to prevent the passage of the bill. We believe that the rules referred to protect the banks and have stated that we would not press the amendments unless specifically instructed by this convention.

Senate Bill No. 2395. The McLean Bill, permitting national banks, irrespective of capital, to invest 5 per cent of capital and surplus in the stock of federal or state banks or corporations organized to engage principally in foreign trade, was signed by the President on September 11 and is now law. There are at present no such federal corporations, but the Edge Bill, above referred to, is designed to provide such a class of corporations.

House Bill 7478, permitting National banks to exceed 10 per cent limit when lending against staple commodities, was vigorously pressed and has passed the House, and we believe, is in a fair way to become law.

In conclusion, we would mention that the Committee has been frequently urged to take up bills which were not strictly banking matters, but of collateral interest to banks in certain parts of the country. We have adopted the policy of declining to act in such matters, unless the matter was of Nation-wide importance or we were instructed by the convention, the Executive Council, the Administrative Committee or the referendum.

We have also been requested on some occasions to employ as assistant counsel, a lawyer who perhaps represented certain banks or certain merchants. Your Committee has taken the ground that our official counsel is the general counsel of the Association, that it would not be a wise policy for us to employ such assistant counsel in general, and, that in any case, we did not regard it as a proper use for any of the limited funds at our disposal.

We have also thought it wiser to save ammunition and believe that we increased the effectiveness of our attitude on the bills we did take up by ignoring those likely to be strangled in Committee, and for reliable information on this point we are greatly indebted to our very good friend, Mr. H. H. McKee, of Washington.

We also highly appreciate the very full hearted and active co-operation of General Counsel Paton, whose assistance and advice has been at the service of the Committee at all times and has proved invaluable.

Respectfully submitted,

WALDO NEWCOMER, *Chairman;*
R. D. SNEATH,
F. A. IRISH,
T. W. YATES,
FRED. COLLINS,
GEORGE E. BROCK,
Committee on Federal Legislation,
American Bankers' Association.

Report of Committee on State Legislation

Your Committee on State Legislation have been active during the past year in promoting bills recommended by our Association for enactment in the different states. The results accomplished have been most gratifying.

The work has been accomplished through co-operation of members of the State Legislative Council in each State working in conjunction with the State Vice-Presidents of the American Bankers Association and of the Various Sections and with the active assistance of secretaries and Legislative Committees of State Bankers Associations; also with the co-operation in many instances of the heads of banking departments.

The Committee organized by assigning to each of its twelve members certain states to which each such member should give particular attention.

In December, 1918, a program of Legislation recommended by the Association for state enactment, containing drafts of proposed laws with explanatory statements of their purpose and with a list of the states in which such laws were needed was issued under the auspices of our Committee and placed in the hands of all interested workers. Copy of this program is appended to this report.

Over 40 states have held regular legislative sessions during this year and an active campaign was inaugurated in each of these states. The result in detail, so far as reports have been received, is given in two summaries of State Legislation affecting banks, enacted during 1919, one issued last May and a supplemental summary issued this month, copies of which are also appended to this report. These summaries give not only the Association bills which have been passed but also bills on other subjects affecting banks and while they are not absolutely complete because final reports have not all been received, still they present a digest of a vast amount of bank legislation which has been enacted this year, which will prove of value.

So far as our Association measures are concerned, the following recapitulation will be of interest:

The negotiable instruments Act has been passed in the State of Texas and this law has now been enacted in every state of the Union with the single exception of Georgia.

The Uniform Bills of Lading Act has been passed in the states of North Carolina and California.

The Uniform Stock Transfer Act was not passed in any of the states this year, but an effort to repeal the Act heretofore passed in the State of Connecticut was successfully opposed.

The Act to punish derogatory statements affecting banks has been passed in the states of Georgia, Kansas and West Virginia.

The Act to punish the giving of checks or drafts without funds has been passed in the States of Arizona, Georgia, Mich-

igan, Minnesota, Montana, New Jersey, New Mexico, Pennsylvania and Wyoming, although in a number of these states it was modified so that the providing of funds by the maker within a certain number of days after notice of non-payment relieved him from criminal responsibility.

The Act defining and punishing the crime of Burglary with explosives has been passed in the State of Nevada.

The Act fixing the liability of a bank to its depositor for payment of forged or raised checks has been passed in the States of Georgia, Missouri, Nebraska, Nevada, and West Virginia and in Idaho the form of law originally passed was amended to conform to the draft of act now recommended.

The Act relative to payment of deposits in two names has been passed in the States of Georgia, Nevada and West Virginia.

The Act relative to the payment of deposits in trust has been passed in the States of Georgia, Nevada, Ohio and West Virginia.

The Act concerning the competency of bank notaries has been passed in the State of West Virginia.

The Act to limit the liability of a bank for non-payment of a check through error has been passed in the states of Michigan, North Carolina, Tennessee and West Virginia.

The Act authorizing banks to forward items direct to the payor has been passed in the States of Georgia, Michigan, Minnesota, Missouri, Nevada, Oregon and South Dakota.

The proposed Act authorizing State institutions to join the Federal Reserve System, in the form recommended by the Association, has been passed in the States of Arizona, Nevada, New Mexico, North Carolina, Tennessee, Utah, Vermont, West Virginia and Wyoming. In the State of Ohio an act was passed in different phraseology but embodying the substance of the recommended bill; and in the State of Colorado sections 1 and 2 of the bill were passed.

In all, sixty enactments of measures recommended by this Association have been placed on the statute books of the different states this year, and our Committee feel gratified that their labors have met with such a considerable degree of success.

Report of Acceptance Committee by Jerome Thralls

To the 45th Annual Convention of the American Bankers Association—

Your Committee entered upon its duties with the firm belief that the credit system of this Country could be greatly improved and its financial position could be greatly strengthened through the proper adaptation of the American acceptance method of financing.

After careful survey of the situation it was determined to merge the work of the Committee with the American Trade Acceptance Council. Shortly thereafter a special Committee was appointed charged with the responsibility of re-organizing the American Trade Acceptance Council with the view of broadening its scope of activities to include bankers' acceptances, the development of the open discount market and other vital problems of common interest to the bankers and business people of America.

This special Committee called a conference for January 21, 1919, in New York—250 leading business men and bankers from throughout the nation responded. The American Acceptance Council was organized with a membership of over 150 banks and business concerns—each paying annual dues ranging from $100 to $500.

The officers of the American Acceptance Council are Lewis E. Pierson, President; Arthur Reynolds, Vice-President; Jerome Thralls, Secretary, and Robert H. Bean, Executive Secretary. Paul M. Warburg is Chairman of the Executive Committee, Daniel G. Wing of Boston, 1st Vice-Chairman; Fred I. Kent of New York, 2nd Vice-Chairman. On March 1st, 1919, the Council established offices at 111 Broadway, N. Y., and started a nation-wide campaign to drive home to the business men and bankers the true merits of both trade and bankers' acceptances. On June 9th, 1919, the Council held its first annual acceptance Convention at Detroit—over 600 prominent business men were present. Every phase of the acceptance subject was discussed. Since then an official publication, the Acceptance Bulletin, has been published and the following pamphlets containing authoritative information have been printed and widely distributed by the Council.

The Trade Acceptance—a Statement of Principles by Paul M. Warburg. The Acceptance as the Basis of the American Discount Market by John E. Rovensky, Vice-President National Bank of Commerce, New York. The Banker and Trade Acceptances, by George Woodruff, President, First National Bank, Joliet, Ill. American Acceptances and Foreign Trade, by Fred I. Kent, Vice-President, Bankers Trust Company, New York. Dangers to be Avoided in Trade Acceptance Practice, by David C. Wills, Chairman of the Board, Federal Reserve Bank of Cleveland. Trade Acceptance Experiences, James A. Green, President, The Matthew Addy Co., Cincinnati. Acceptances in our Domestic and International Commerce, by Paul M. Warburg. Domestic Acceptances—Financing Warehoused Staples, by R. S. Hecht, President, Hibernia Bank and Trust Co., New Orleans, La., The Proceedings of the First Annual Convention and various leaflets giving the experience of acceptance users.

The Council has found that many people are confusing Trade and Bankers' Acceptances and is therefore treating the subjects separately. The remainder of this report will be subdivided accordingly.

PART 1. TRADE ACCEPTANCES

The Council has devised and recommends the following form for general use. (Exhibit A.—Attached). 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 is approved by the Council of the Federal Reserve Board and the counsel of the American Bankers Association and various other leading authorities. This form may be altered to meet the needs of any particular line of trade. The Council recommends, however, that the form used be as simple as possible and free from entangling notations that might hamper or hinder the negotiability and retard the movement of the completed bill in the market.

The list of known users of the Trade Acceptance has grown rapidly, having increased over four thousand in the period of one year. It includes practically every line of industry and all sections of the United States. Out of the reports received not one single valid objection has been presented where proper use of the Trade Acceptance has been undertaken. In actually every legitimate case the instrument is praised most highly. Experience has actually demonstrated that the use of the Trade Acceptance enables an equal amount of capital to do a greater amount of service. It has also enabled its users to reduce their bills payable account, to buy a greater amount of Treasury Bills and to handle without difficulty, the increasing volume of their business with the attending high prices, to shorten the credit period, to reduce the number of claims and disputes, to afford a definite check-up on all transactions and to generally stabilize their business—producing at the same time a great volume of liquid paper—eligible for rediscount at the Federal Reserve Banks and for service as the basis of currency issue.

The greatest success with the trade acceptance has been noted in cases of united action of a whole trade. That is where the Trade Acceptance was made a term of sale. This was done 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.

As an indication as to the growth in the volume of trade acceptances no better index can be had than the figures of the Federal Reserve Banks—which show that they rediscounted in 1916 over five million dollars, 1917 over 37 million dollars, and in 1918 over 187 million dollars of trade acceptances, and at the same time purchased in the open market in 1916 16 millions, 1917 over 37 millions, and in 1918 over 61 million dollars worth of such bills.

The path has not been smooth all the way. Some real problems have developed and now confront the banking fraternity. They are (1) The general demand by the users for a preferential rate when Trade Acceptances are offered for discount. (2) Arranging a fair and satisfactory schedule of service and collection charges for handling trade acceptances. (3) Devising the most efficient and economical method of handling trade acceptances in the banks and business houses. (4) Perfecting a comprehensive market for Trade Acceptances.

Regarding the first problem—It is unfortunate that business people generally were led by certain enthusiasts to believe that a preferential rate of ¼ to ½% would be accorded by banks when discounting Trade Acceptances, because preferential rates were quoted by Federal Reserve Banks. It should be remembered that a lenders' market has prevailed for many months and the banks have found ready use for their funds at favorable rates. Until conditions change, rates may fluctuate but in no event will all trade acceptances find a ready market at a preferential rate. Banks and other investors will take into consideration the name and character of the drawers and acceptors. The prime names will be accorded a better rate than the unknown names.

The second problem—Arrangements should be made with the American Acceptance Council for the appointment of a special committee of bankers and business men to work out a satisfactory schedule of service exchange and collection charges. Many trade acceptance users have the idea that trade acceptances can be handled on the same basis as checks and that they should be collectible at par through the Federal Reserve Banks. They have also misunderstood the action of the New York Clearing House which refers to clearing of local trade acceptances as meaning trade acceptances payable at any point in the United States may be cleared or collected at par through New York, or other principal clearing centers.

The use of the Trade Acceptance will transfer to the bank much labor heretofore done in the business house. The business house will be relieved from sending letters, drafts, duns and other notices. By the concentration of this work in the banks it can be done at less expense but whatever the expense it certainly should be borne by the trade acceptance users.

It is believed that on thorough explanation of this point the users would be satisfied to pay a reasonable fee for the service and cost of collection of acceptances. It is necessary to send trade acceptances to the place of payment before maturity. They must be ticklerized on receipt and carefully watched until maturity. From origin to the point of payment the work in handling trade acceptances is greater than that involved in the handling of ordinary checks. But since trade acceptances payable at banks may be charged to the accounts of acceptors in most of the states—their use obviates the necessity for the issuance of checks to pay the bills the acceptances displace, thereby affording a big saving in labor and expense.

The third problem—That of devising the most efficient and economical method of handling trade acceptances in the banks and business houses should be delegated for solution to a Committee of bankers, trade acceptance users and accountants.

The fourth problem—That of the development of the market must necessarily be a slow one. Many leading banks are turning their attention to trade acceptances as an investment in preference to commercial paper, but they consider only the very best names and it is certain that the bulk of trade acceptances taken by concerns outside of the large financial centers must find lodgment in the local banks. The expense of

investigating the names alone would preclude them from finding their way to the open market.

Although great progress is being made with the Trade Acceptance system of merchandising, its maximum of success depends upon the bankers. The merchants and others who are called upon to sign trade acceptances usually consult with their bankers. If their bankers are well informed and desire to aid in placing the credit merchandising business of this country on the soundest possible basis, they will advise the signing of the acceptance, otherwise the chances are they will not.

PART 2. BANKERS' ACCEPTANCES

Bankers' acceptances have been a most valuable aid in financing of our export and import business. The extent of their use has expanded rapidly as is evidenced by the fact that the number of accepting banks now exceed 500, while the number in March, 1919, was reported as 362 with acceptance power of $1,027,270,000. The volume of outstanding acceptances of these (362) institutions in March was $451,265,000—99 National Banks and 35 state banks and trust companies had qualified for the 100% acceptance privilege. They had accepted 86% of this total—the 228 others being responsible for 14% only.

A further index to the growth of bankers' acceptances is given in the report of the Federal Reserve Board for 1918. It shows the purchases in the open market by the Federal Reserve Banks in 1916, $386,000,000, 1917, $1,077,700,000, and 1918, $1,809,500,000. The purchases for the first seven months of 1919 were $1,369,582,000.

Our acceptance power has been further augmented by the formation of acceptance houses and through a great number of strong private banking houses such as J. P. Morgan & Co., Brown Bros. & Co., and Kuhn Loeb & Co., of New York, having filed with the Federal Reserve Bank statements and the necessary agreements to permit them to accept.

Great headway has been made by Discount Corporations and other acceptance dealers in the effort to develop a comprehensive open discount market. The combined portfolios of these concerns run an approximate average of 80 million dollars or about 1/6 of the total acceptances outstanding. The dealers stand ready to purchase high grade bankers' bills at all times. The prevailing rates range from 4 5/16 to 4½% for 90 day bills; 4¼ to 4⅝% for 60 day bills, and 4 3/16 to 4¼% for 30 day bills. The dealers, in turn, sell the bills to investors (individuals, corporations, banks and others) at a profit of from 1/16 to ⅛% per annum. One of the greatest obstacles to the development of the market for bankers' acceptances is the short term United States Treasury Bills.

Another obstacle is the present plan of handling the Stock Exchange call loans. Many banks send funds to New York to be loaned at call on the Stock Exchange. It is believed that the practice should be curbed and a plan of periodical settlements should be arranged. These reserves should be invested in a character of paper that is readily convertible, such as bankers' acceptances.

Another difficulty is the rates fixed by the Federal Reserve Banks. In some districts, the Federal Reserve Banks have given a rate of 4½ to 5% when re-discounting for their members 6% commercial paper, at the same time quoting a like rate on acceptances.

The rate on 15 day notes secured by single name paper is the same as it is on 15 day bankers' acceptances and oft times a better rate is allowed by the Federal Reserve Banks on 15 day notes secured by Government obligations.

A great number of accepting banks have not yet realized that in order to develop the business along the right lines they must at certain periods become acceptance buyers and should discontinue the practice of swapping bills, which means getting and giving accommodation endorsements.

Another handicap to the dealers is the difficulty to get at preferential rates a sufficient quantity of funds to carry their portfolios. If they are required to pay the regular loan rate for funds it wipes out their margin of profit or forces them to sacrifice the bills.

Some of the Federal Reserve Banks, particularly the Federal Reserve Banks of Boston and New York have been quite liberal in aiding the carrying of acceptances by purchasing the bills under the 15 day re-purchase agreement.

The commercial and industrial interests of the country are greatly benefitted from the use of bankers acceptances because of the bankers being enabled through their use to grant them the accommodations under proper conditions in excess of the 10% limit fixed by Section 5200.

It is found, however, that some bankers are abusing this privilege in that they do not keep the acceptances properly secured where the amount of the accommodation is in excess of the 10% limit.

There has been considerable demand for an amendment to the law providing for an increase in the limit as to the volume of acceptances that may be made by any one bank.

It is believed by your committee that this feature should be carefully safeguarded and that if a greater limit is fixed, it should be subject to the control of the Federal Reserve Board.

A preference is being shown for endorsed bills and for the bills of members of the Federal Reserve System. The Clearing House rules of a number of cities have been amended so as to permit acceptances to be cleared through the regular clearings.

A number of unusually large foreign credits have been arranged during the year under the acceptance plan. These include the Belgian credit of 80 million, and the Czecho-Slovakian credit of six million dollars.

Fully 75% of the bankers' acceptances cover export business and about 64% of the bankers' acceptances now being issued are accepted by financial concerns in the cities of Boston and New York. During the year arrangements have been made under which acceptances made payable in any Federal Reserve or branch Federal Reserve Bank City can be collected through the Federal Reserve Clearing System and settled for through the Gold Settlement Fund.

Under this plan, an acceptance payable in St. Louis can be converted by a New York bank into reserves on the day of its maturity.

Your committee believes that every endeavor should be made to develop and properly guide the acceptance method of financing in this country and it recommends to every bank that desires to avail of its acceptance privilege, that it first communicate with the Federal Reserve Bank of its district in order to get the necessary instructions to make certain that its bills will be drawn in accordance with the desires of the Federal Reserve official, and secondly, it should get in touch with its reserve city correspondent and get from that source advice and suggestions.

It should also communicate with some good discount house or other dealer in order to make certain that its bills will be drawn in a form that will make them readily convertible in the open market.

The Committee further suggests and recommends the appointment of a committee of three to be charged with the duty and responsibility of preparing and disseminating among the members of the American Bankers Association a pamphlet setting forth in clear and understandable terms.

(1) What acceptances are.
(2) How they may be used.
(3) Why they should be used.
(4) The dangers to be avoided in their use.

This pamphlet should include sample forms and all information that is needed in order to enable any banker or any business concern immediately to institute the acceptance method of financing.

Respectfully submitted,
ROBERT F. MADDOX
OLIVER J. SANDS
JEROME THRALLS
Acting for
ROBERT H. TREMAN, Chairman.

St. Louis, Missouri, October 1, 1919.

Report of the Committee of Five on Foreign Exchange, Thos. B. McAdams, Chairman

SEPTEMBER 30, 1919.

American Bankers Association,
St. Louis, Missouri.

GENTLEMEN: During the year your Committee has had two meetings and has given careful consideration to the development of the Exchange Question. Conferences have been held with members of Congress, and the Federal Reserve Board. Investigation reveals the fact that any effort to pass new legislation having for its purpose the clarifying of the language of the existing statutes dealing with the Exchange Question, would be strenuously opposed by the leaders of the Banking and Currency Committee of both Houses, the Secretary of the Treasury and the Federal Reserve Board. Even should it be possible to pass such legislation in the face of this opposition, we feel confident that such pressure would be brought to bear upon the President by those closely associated with him, that he would veto the Measure.

The General Counsel of the American Bankers Association is still of the opinion that there is reasonable ground for contending that the rulings of the Federal Reserve Board of this subject are not in entire accord with the language and spirit of the existing statute, and your Committee believes that at this time, relief can only be secured through the institution of proper legal proceedings.

Very truly yours,
COMMITTEE OF FIVE.

Report of the Special Committee on Forms for Excess Profits in Income Tax, Mr. Elias Doar, Chairman

Col. Fred E. Farnsworth,
General Secretary A. B. A.,
St. Louis.

DEAR SIR: I find it impossible to attend the Convention and acting upon your suggestion of the 24th inst. I beg to report for my Committee.

About January 11, 1919, we were courteously received by the Honorable Commissioner of Internal Revenue, and as Chairman representing the Committee I had a conference with the Department's "Expert" upon "Forms."

I regret to report that when the "Forms" arrived it appeared that our efforts were in vain, as the "Forms" are more complicated than ever. I suggest that the Committee be disbanded as I do not believe any relief can be had along the lines hoped for.

With thanks to the officers of the Association for the honor of my appointment and kind personal regards,

Respectfully,
ELIAS DOAR, Chairman.

Report of the National Councillor for and Representing the American Bankers Association at the United States Chamber of Commerce Meeting

The meeting which was held in the City of St. Louis last spring was largely attended; that organization, as you know, is perhaps one of the largest business organizations in the United States, as practically every industry is represented.

I believe that the American Bankers Association and the United States Chamber of Commerce are working along parallel lines and it has always been the intention of the administration

Committee of the officers of the American Bankers Association to co-operate in every way with the Chamber of Commerce I believe.

The Convention was a great success, very largely attended and I hope it did some good.

Report on the Federal Reserve Membership Committee by Mr. Puelicher

MR. PRESIDENT, LADIES AND GENTLEMEN: There are approximately 9,000 State Banks in this country that are eligible to membership in the Federal Reserve System. Of that number there have joined the system during the past two years 1,085 State Banks, with total assets of $8,139,460,000.00. I feel that those banks have been well served by the System. I feel that the system was inaugurated at a time when it proved itself of the utmost usefulness to our country. I can't conceive how we could have financed the great war into which our country was plunged but for the fact of the existence of the Federal Reserve System and of the support of that system by the state banks of the country. I hope that during the coming year a great many of the 9,000 eligible state banks that are not yet members of the System may find it wise to join.

Report of Committee on Commerce and Marine

To the President and Members of the American Bankers Association:

Your Committee on Commerce and Marine reports definite progress and increasing opportunities for constructive work along the lines of activity marked out in the authorization given by the Association at its annual convention in Chicago, in September, 1918.

That authorization was in the form of a resolution, adopted by the Association, together with subsequent action directly following vesting in the President of the Association the power of naming the Committee. The resolution was—"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." The authorization, pursuant to the adoption of the resolution, for the appointment of a special Committee by the President, which Committee should include the President, stated that the Committee should be known as the Commerce and Marine Committee, and that it should "study this important question and bring it before the Association."

As noted in the report of the Committee, made to the Executive Council, of the Association at White Sulphur Springs, W. Va., May 21, 1919, and unanimously adopted by the Executive Council, a copy of which report is appended as an integral part of this report, the Committee on Commerce and Marine, comprising fifteen bankers representative of all sections of the country, was called together for organization by the President of the Association, in New York City, January 21, 1919. The Committee's work, which soon took active shape, was fully covered, up to May 21, in the report to the Executive Council just referred to

It was the judgment of the Committee at an early date that its most important function, under the circumstances, and one in strict accordance with the spirit of the resolution which called it into existence, was in the direction of focusing attention on the creation of American credits abroad. These credits, it was and is believed by the Committee, constitute an essential basis for the maintenance and extension of our foreign trade, and it was and is held by the Committee as evident that this basis can be secured, to a markedly important if not wholly necessary degree, by wisely-made American investment in high-class foreign securities, not only government issues, but also municipal and industrial, if properly guaranteed.

There has been and continues to be much discussion in general as to methods to be adopted to bring such securities in effective volume, and surrounded by necessary safeguards to insure their ultimate payment, before the American investing public. Legislation is pending, having the same object in view. Credits aggregating a few hundreds of millions of dollars have been extended by several banking institutions to meet pressing needs. Altogether, however, no well-organized effort has yet been made, and your Committee, therefore, believes it timely to say that it is confidently of the opinion that the necessary financial machinery in the form of a large, capably managed and thoroughly equipped organization, with which the bankers, business men and manufacturers of this country would become identified, and which might very properly be initiated and supported by the members of the American Bankers Association, should be provided with the least possible delay. Such an organization should have ample capital and be sufficiently resourceful to extend credits running into the largest figures that can be required for the purchase of American products, and its efforts should most certainly be supplemented by the maximum of production here, in order not only that our own people be kept well and profitably employed, but that they be not subjected to the payment of excessive prices for their own needs. If such financial machinery were provided and had the support of the members of the Association, there could be no question of its success, and its success would find reflection in prosperous conditions in every section of the country. Such an organization might confine itself to investment in securities of merchants, manufacturers and others of foreign countries when guaranteed by their bankers and their governments, and our own Government should indicate its willingness to lend its friendly offices to such an organization in its negotiations and in the collection of such foreign obligations if need be.

Your committee believes that the so-called Edge bill, S. 2472, affords a basis for organization in connection with the financing of export and import trade, and that such organization would not be in restraint of trade, but would promote it under careful governmental supervision and with such support as the Government might consistently and effectively extend; and, therefore, earnestly recommends this view to the Association, to the end of prompt and effective action by the Association. The foreign trade financing contemplated under the Edge bill must, of course, be carefully safeguarded, to the protection of the Industrial, commercial, agricultural, labor, financial and other interests of the United States.

It was the Committee's opinion as far back as last April, that high-grade foreign securities, or debentures issued against them by responsible and thoroughly well-informed companies, with ample capital and officered by men having the confidence of the public both as to ability and integrity of purpose, should be absorbed by American investors in increasing volume, and that to bring this about would require carefully planned and consistently directed efforts.

It was in pursuance of recognition of the wisdom of establishing some such basis for the extension of American credits abroad that the Committee sent out on May 3rd, with a circular letter to the membership of the Association, a reprint by the Committee of the address, "America's Equipment for Foreign Trade," delivered by Fred I. Kent, Vice-President of the Bankers Trust Company, New York City, at the Sixth National Foreign Trade Convention held in Chicago the latter part of the preceding month. The Chairman of your Committee expressed at that time the Committee's belief that Mr. Kent's analysis and recommendations, particularly with regard to the necessity of the absorption by American investors of high-class foreign securities, should be given the most careful consideration by members of the Association.

There was widespread interest in the reprint, and requests for additional copies were received, and still are being received, from various parts of the country. On August 16, the Chairman with the approval of the Committee, sent out to the membership of the Association a circular letter asking expression of opinion, for the benefit and guidance of the Committee on Commerce and Marine, on legislation dealing in general with foreign trade. In this connection, special attention was directed to the so-called Edge bill, S. 2472, not with the idea of endorsing that or any measure then before Congress, but to develop constructive criticism of important proposals in the field of legislation under consideration. This was followed by a reprint by the Committee of the Edge bill as passed by the Senate. In the circular letter reference was made to salient features of the Edge bill, and various points favorable or debatable relative to that measure were brought up. The replies to this circular letter received from bankers in many parts of the United States, have been distinctly informing and helpful, and an analysis of them, so far as recorded, is at the service of the Association. In all this, the Committee on Commerce and Marine has been keeping in close touch with the Association's Committee on Federal Legislation and with Federal Legislative Council of the Association, putting at the disposal of the Committee on Federal Legislation and the Federal Legislative Council all results developing from the circular letter sent out on August 16.

The letter in question has had a large circulation in addition to the membership of the Association, and the same is true of the printed report of the Committee on Commerce and Marine made to the Executive Council of the Association last May. Many requests from this report have been received, public institutions figuring largely in these requests, and interest has been evinced in it abroad as well as in this country.

Sections of this report of last May dealing with shipping policy and declaring, among other things, for the working out of a merchant marine plan involving privately owned and operated vessels with such assistance as might be necessary to make their operation successful against all competition, were presented to the United States Shipping Board at a conference held in Washington, May 22 and 23 last, those sections having special significance because they had been approved by the Executive Council of the American Bankers Association. It is felt that the Committee has had and is exerting an important influence, as representative of the Association, on the shaping of national policy in this particular. The Committee has had a sub-committee working on a safe and consistent plan of ship financing, in case the Government should decide to dispose of its mercantile shipping on reasonable terms.

Your Committee appreciates the difficulties relative to the working out by Congress of a plan which should give the freest possible activity to private initiative in shipping and, at the same time recognize and take account of the government's investment in shipping. It is, however, the Committee's firm belief that present conditions more than ever, demand a speedy determination of shipping policy, and that such policy should, first of all, be based on the fact that private initiative and experience in shipping cannot safely be set aside in favor of experimentation in untried fields. Under the pressure of war necessity, the United States constructed a vast merchant fleet, and the number of government-built vessels of this type is constantly being augmented. This fleet, properly placed and effectively operated, should be a tremendous factor in the development of our foreign trade. The situation is, that, up to this time, it is not fully so employed, this being due to a variety of causes. There must be worked out at the earliest possible moment a plan providing for the disposal of this fleet to responsible American concerns at prices fairly corresponding to the value of such vessels in the markets of the world, and, in this disposal, well established shipping firms should have their rightful opportunity to expand their business. Pending

such disposal, the mercantile shipping future of the United States requires the chartering of available vessels, at fair terms, to concerns evidently able to operate them to the national advantage. Other countries are rapidly placing their mercantile shipping on a sound commercial basis, and if the United States lags in this, the effect, seemingly, cannot fail to be disastrous. It also is true that our navigation laws require careful, intelligent and business-like revision in order that foreign competition, which now exists to a marked degree, can be met, due regard, of course, being exercised with respect to proper compensation for the men on American ships and with respect, also, to proper return on American capital in shipping.

The Committee, in addition to being fully cognizant of banking and other plans for our foreign trade, has kept carefully informed for the benefit of the Association as to developments at Washington and elsewhere relating to the Shipping Board and to shipping matters generally, and has been fully alive to the necessity of keeping itself thoroughly informed also as to the trend of thought and policies of qualified shipping men generally, of exporters and importers, of manufacturers and of agricultural, labor and other interests. It has held before itself the fact that America's foreign trade, both export and import, in proper relative volume, is a prime essential to a satisfactory and prosperous domestic situation, particularly with regard to labor. The Committee has paid attention, which it is thought, has proved resultful, to the subject of free zones in ports, to the development of Pan-American trade, to the significant development of regional interest in phases of foreign trade and to the question of special importance to numerous bankers, of increasing, by fair and proper means the security value of ship's mortgages, a point that is of particular meaning in connection with disposal of government merchant marine holdings to private interests. Your Commitee has been carefully following the progress of legislation to this end, voicing opinions which, it is believed, have been of assistance in the framing of constructive enactments.

The Committee months ago recognized the wisdom, if not the actual necessity of correlating its efforts, especially in respect to the extension of American credits abroad, with those of committees or other organizations working along lines more or less similar. This ideal of concerted effort, wherever feasible and advisable, has been one of the guides to the Committee, primarily, of course, for the attainment of results, and secondarily, though scarcely less importantly in a sense, for the avoidance of duplicated activities. Something has been done in this field of co-ordination, but much remains to be done. Concerning co-operation, the Committee has particularly appreciated the advisability of enlisting the interest and aid of State Bankers' Association in its work, and evidences of co-ordinated effort on the part of certain State Associations has been especially welcome and valuable.

The Committee has established informative relations with important manufacturing and trade associations and commercial bodies throughout the country, many matters referred to it have received prompt, and, it is hoped adequate attention, and a very large amount of correspondence, between the Committee and individual members of the Association has been handled.

It is the Committee's considered belief that as an active and productive branch of the Association, its functions, if the work thus begun is to be continued and amplified, will be even more important the coming year than has been the case in the one just ending. It would seem to be without question that the interests of the Association, especially at this time of rapid national and international developments, can be served effectively by continuance of the Committee's work, adequately financed, taking up the work at the present stage and broadening and emphasizing it in accordance with the Association's desires. It is just as unquestionable that, for desired results, there must be brought to that work constructive ability and earnest effort. It is apparent that special dignity and influence would be given the successor to the present Commitee, if it were constituted a permanent Commission or Commitee of the Association—permanent, that is, in its machinery of organization—and were given reinforced authorization to do these things: First, to keep in close touch with all developments directly associated with finance; second, to do all that it can to keep the bankers of the country informed as to these developments, and third, to encourage by all proper means, through and for the American Bankers' Association, the favorable consideration of such plans as in its judgment may prove worthy.

Respectfully submitted,

JOHN MCHUGH, Chairman.

ST. LOUIS, MO., SEPTEMBER 29, 1919.

[The Committee on Commerce and Marine, made up of fifteen bankers representative of all sections of the country, was appointed by the president of the American Bankers' Association as the result of a resolution adopted at the last annual convention of the Association. Its membership is as follows: John McHugh, vice-president Mechanics and Metals National Bank, New York, chairman; John E. Bouden, Jr., president, Whitney-Central National Bank, New Orleans; James J. Fagan, vice-president, Crocker National Bank, San Francisco; John L. Hamilton, president, Equitable Securities Company, Columbus, Ohio; Robert N. Harper, president, District National Bank, Washington, D. C.; Charles A. Hinsch, president, Fifth-Third National Bank, Cincinnati, Ohio; Fred I. Kent, vice-president, Bankers Trust Company, New York; William A. Law, president, First National Bank, Philadelphia; Robert F. Maddox, president, Atlanta National Bank, Atlanta, Ga., and president, 1918-1919, of the American Bankers' Association; Thomas B. McAdams, vice-president, Merchants National Bank, Richmond, Va.; Lewis E. Pierson, chairman of board, Irving National Bank, New York; Arthur Reynolds, vice-president, Continental and Commercial National Bank, Chicago; Charles H. Sabin, president, Guaranty Trust Company of New York; F. O. Watts, president, First National Bank in St. Louis, and Daniel G. Wing, president, First National Bank, Boston. The 1918 convention of the American Bankers' Association instructed that the president of the Association should be a member of this committee. The resolution preceding the appointment of the committee stated that the Association "pledges itself to support by every means in its power the development of export trade, to encourage manufacturers to enter into 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," and the Committee was directed to "study this important question and bring it before the Association."]

Report of Committee of Seven on Co-ordination of State Bankers' Associations and American Bankers' Associations

MR. GEORGE:

TO THE MEMBERS OF THE AMERICAN BANKERS' ASSOCIATION:

Since the appointment of the Committee of seven one year ago, some considerable work has been done along the line of gathering further data and facts relative to this important proposition and combining it with the statistics gathered by the predecessor of this Committee. Our duty has apparently been to develop some plan whereby greater economy and more perfect co-operation and co-ordination of the 49 State Bankers' Associations and the American Bankers' Association, one with another, could be accomplished. The original Committee appointed by this Association consisted of the secretaries of each of the 49 State Associations. Several meetings were held and the matters involved were quite thoroughly discussed. A report was made a year ago, which was accepted, and the Committee discharged and a new Committee of 7 appointed to carry on the work. It may be well to call the members' attention to a few facts: The American Bankers' Association's annual expenses are about $400,000 and the 40 State Associations expend about $450,000, a total paid out annually for member banks of about $800,000. There are in the United States approximately 30,000 banks, of which a little over 20,000 are members of the American Bankers' Association, and the remainder, of approximately 10,000, are not members of the American Bankers' Association, but are mostly members of some State Association. It is gratifying to note that largely through the co-ordinated activities of the State secretaries much helpful work to the members of the various State Associations is being accomplished. Especially is this to be noted in their protective work. What is being done by them to prevent duplicated effort in this line will, no doubt, be extended to other and greater activities and eventually will result in considerable saving to member banks. It is only fair to here state that banks are rapidly appreciating the good derived from this State Association co-operative work.

A most important feature that lacks a perfect relationship between the various State Associations and the American Bankers' Association, is that of the apprehension of criminals. Of course, it is difficult to develop a proper plan of co-operation between State Associations and the American Bankers' Association, so long as there are two classes of banks, namely, one a class of member banks and the other of non-member banks, the former protected and the other not protected by American Bankers' Association service. There is much confusion of systems adopted by various bank associations in regard to apprehension of criminals, paying of rewards, etc. A great majority of the banks are members of both a State and the American Bankers' Association. Bankers are paying $800,000 for membership and expect service. The question is: are they getting value received. It is our opinion that an ideal condition might be developed could the payment of one membership fee entitle the member to all the protection and all the privileges of both the State and American Bankers' Associations, thus giving also greater influence for good in all Federal and Legislative matters. In general we deem it a part of our duty to develop a Bank Association system of greater economy and of greater usefulness, a system that will more effectively guard the passing laws by the Legislature in the various States, and by the Congress of the United States, a system that will effectively handle all protective questions in whatever state they may arise, a system that will work like one great co-ordinated business, then results will be for the good of each bank without duplication of effort and without unnecessary loss of time or unreasonable expenditure of money.

Recognizing some nine years ago the need of co-operation between the American Bankers' Association and the State Associations, the organization of State secretaries was embodied as a section of the American Bankers' Association. We believe that the results have been most beneficial and can be greatly augmented by bringing the Presidents of the State Association into direct contact with the administration of the American Bankers' Association. It is, therefore, the sense and judgment of your Committee that the next step in bringing about a closer co-ordination of the work and efforts of the A. B. A. and the 49 State Associations would be by enlarging the executive council of the American Bankers' Association by adding to its membership the President of each State Association as an ex-officio member of the council; and this Committee unanimously recommends that this suggestion be embodied in an amendment to the Constitution and By-Laws of the American Bankers' Association, to be presented for action at the Convention in 1920.

I wish to add what I was directed to add by the Committee, viz., that it is their opinion that where such an amendment is proposed there shall be coupled with it a provision that the expense of extending the membership of such presidents at the Spring Meeting of the Executive Council should not be a burden upon the American Bankers' Association, but should be borne by the states from which he comes.

In conclusion, your committee respectfully submits its report and asks that it be accepted and the committee continued.

WILLIAM GEORGE,
P. W. GOEBEL,
HAYNES MCFADDEN,
JOHN W. STALEY,
GEORGE W. HYDE,
W. M. KEYSER,
M. A. GRAETTINGER.

DISCUSSIONS REGARDING THE REPORT ON THE FLOOR OF THE CONVENTION

Mr. Lord of Texas:

Mr. Chairman, I believe that report of Chairman George is one of the most important documents that this Convention will listen to. I noted with interest the contents of that paper. There were a great many things in that paper, Mr. Chairman, that we will all, I believe, shortly subscribe to, but I believe that I can detect in the contents of that paper some things that are open to serious question. There is a sentence, which perhaps I cannot quote verbatim in that report that reads something like this, that it might be possible to arrange an ideal condition under which the payment of one set of dues would be sufficient, and entitle a member bank into membership in the State Association, and also to membership in the American Bankers' Association. Mr. Chairman, I believe that it is in order to sound a note of warning against this. I believe that would be a most dangerous, as well as a most unwise thing to do. I believe that there is an impression that is more or less prevalent among the delegates to this convention, that some members at least of that Committee of Seven would favor if not all, openly, a merger between the American Bankers' Association and the various state associations. I want to say to you, as a member from the state of Texas, that would be a most unpopular proposition in my state. Reference was made there and recommendations—I will say to you, in order that you may know that I will be in parliamentary order, that at the conclusion of my report I will make a motion— Another recommendation that is in that document was to the effect that the various Presidents of the State Associations be made Ex-Officio members of the Executive Council. I have the honor to be President of the Texas Bankers' Association. Every banker in this country believes that membership in the Executive Council of the American Bankers' Association is an honor to be received.

AMERICAN BANKERS' ASSOCIATION
GENERAL CONVENTION
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coveted, but I believe that that would be a mistake. I believe the Executive Counsel is already too large, if anything. They tell me anyway that most of the men on that Executive Counsel do not have very much to say about what goes on; that the affairs are handled not perhaps in just as popular and in as democratic a way as some of us would like to know that they are handled. We would like to see the A. B. A. a democratic organization. I, for one, and my colleagues from Texas, feel a great appreciation and an affection for the American Bankers' Association, but I want to say to you, sir, if the continuance of this committee can be taken to mean directly or indirectly that we are in favor of a merger between the American Bankers' Association and the State Associations, I am not in favor of continuing the Committee. I would be in favor of receiving the report and filling it and discontinuing it. I believe in co-operation between the American Bankers' Association and the various State Associations, I believe in co-ordination; I believe in elimination of any unnecessary effort and work; I believe in economical administration; I believe a medium excerpt law by which all of those things can be easily accomplished. I refer to the organization known as the State Secretaries' Association. The State Secretaries' Association has the Secretary of each one of these forty-nine State Associations sitting around the table. I had the pleasure yesterday of attending one of their sessions, and I believe through that medium we could get in close and personal and immediate contact with the various State Associations. I believe, Mr. Chairman, if the impression could be allowed to get out that we are beginning, beginning in a way to take over some of the perogatives of the State Association, and merge them into this American Bankers' Association, that instead of popularizing and making friends for ourselves in the various States, that the very direct opposite would be in evidence; and so, sir, based on remarks that I have made that for the reasons therein given: First: That we already have close and cordial co-operation and co-ordination between the various State Organizations and the American Bankers' Association and, second, because an organization already exists through which this co-operation and co-ordination can be operated and make even closer, namely to the State Secretaries' Section, I make a motion, Mr. Chairman, that the report of the Committee of Seven be received and filed and that the Committee be discharged.

THE PRESIDENT: Gentlemen, you heard the motion; do I hear a second?

FROM THE FLOOR: Mr. President, I second the motion.

THE PRESIDENT: The motion is made and seconded.

THE PRESIDENT: Gentlemen, the motion is open for discussion, any discussion?

MR. PHILLIPS, OF ILLINOIS: Mr. Chairman, I agree with a good many things the gentleman has just said; I do not believe that we ought to have one great organization, but I do not think it is the purpose of the Committee to work out plans now or any other time that wouldn't amalgamate the State Association with the great American Bankers' Association. There may be some men think we should work out a plan of that kind but I don't care to have it proposed, so far as the Presidents of the different Associations are concerned, it seems to me that it would be of great value to each President of each State of the Union to be in a little closer touch, if possible, with the current association, and yet be of great value to the state that he represents. I am not President now; I belong to one of the "has-beens;" but I know that it would have been of great value to me at that time several years ago, to have been in touch with this organization, closer than I was at that time, and I would like to offer at this time, as a substitute, that this report be accepted and the Committee continued. The gentlemen that are on that committee are of the soundest of the whole association, among the best men we have; some of the ex-Presidents of this association and the ex-Presidents of the State Associations, and I don't see anything in discontinuing it; in fact I believe a great deal of good can be done by continuing the Committee. That has so wisely in my judgment, although I do not agree with them on some points, worked out the things that are going to be not only a benefit to us but of all the States in the Union, individually as well as collectively.

MR. RUSSEL OF ILLINOIS: Mr. Chairman, I second the substitute.

MR. GEORGE: Of course, the Chairman of a Committee feels that it is his duty to defend a proposition, and in this instance I think it is more than his duty. If there be a class of men in this Institution who are perfectly satisfied with taking $850,000 a year with no attempt at economy, then I do not think they are thoroughly loyal no matter what State they may happen to come from, not thoroughly loyal to the duties that are imposed upon the men that are upon this council, and who fill the offices. I think that this Committee has endeavored to arrive at facts and figures which they did not see fit to bore you with this afternoon, that are conclusive proof that the better scheme or organization or greater co-ordination and co-operation can be easily accomplished, so far as an actual consolidation is concerned, you will note that there is nothing in that report that authorizes or justifies the statement made by the gentleman from Texas. The facts are that the majority of that Committee are not in favor of an actual consolidation, but they are in favor of some plan that will reduce these expenses. Already this Association has passed an amendment that increases the dues. Already this question is coming up before you "How will you operate this Association with its present expense," and the same thing is true in some of the State Associations.

If the gentleman from Texas had studied the duplications of effort as has Mr. Goebel and some of the other men that composed the Committee, and were on the Committee last year, I don't think he would have made so eloquent and forceful an argument against the continuance of this proposition, of this investigation; that's all it is, we stand as a sort of monitor committee, a committee that is trying to find out how things can be bettered, how greater efficiency can be accomplished. Personally, I would like to be relieved from serving upon this committee, but personally I am strongly enthusiastically in favor of a committee that will go on with this investigation. Take if you will, their tables and see, Mr. Gentleman from Texas, what percentage of the men that support this organization ever come to the meetings. Take it by years, if you will, and I will show you that it is like the Clubs of the country, the fellow that supports the Club doesn't attend very much; it is a few fellows that get the benefit. Now, those are facts and one of these days, unless you make this more democratic than it is now, some people won't care to pay out their money, especially when you find it necessary in order to keep up this great organization, conduct these meetings without increasing the expense.

I don't care to push the ideas of the committee upon this organization. I believe that the majority of men here are men who, in their own business would be glad to adopt any scheme that would co-ordinate the activities of their business and developments. The idea of this committee is to develop it, to develop this Association to make it broader and better,—not narrower,—and so, gentlemen, I believe that it is a good idea to continue the committee. I, personally, would like to have someone else to serve in the place that I happen to hold at this time, but it is up to you, and the motion has been made, your Honor, to substitute the motion to approve the report and continue the committee.

THE PRESIDENT: Any further discussions?

MR. GOEBEL: Mr. Chairman and gentlemen of the Convention, I took part in the deliberation of this committee. It is a tremendous plan to undertake to amalgamate the efforts of the various bankers' associations and the American Bankers' Association. The report states that it might be ideal, to have a membership in the state association; also provides a membership in the American Bankers' Association, but nobody knows better than the members of that committee that it is not practicable. As I said before, it might be ideal, and in twenty-five years from now, something of that kind may be brought about when we learn more about the methods of co-operation.

As to the continuance of the committee I have no more to say, only I hope if the committee is continued that there will be a new membership selected by the incoming president of that committee.

MR. HYDE: As a member of the executive council, I do not like to have the member for Texas give this convention the wrong impression regarding the activities of the council. I am serving my second term on the council, and I want to say to you frankly that every member has been given freedom of speech and freedom of action in all matters, and I have not yet discovered a one that controls the freedom of the council. I simply want you to know that your council has every freedom and is given the right to express it.

THE PRESIDENT: The question has been called and I think that under the six parliamentary rulings the motion of Mr. Phillips would be out of order as the original motion was to discontinue the committee. But as we are not holding strictly under parliamentary rulings, we will vote on the substitute of Mr. Phillips that the report be received and the committee continued. The council informs me that that means that the same committee is continued, and if the committee was appointed by the general convention, and names given at that time—

JUDGE PATON: Mr. President, my interpretation is that when a committee is continued, the same membership is continued with it unless the convention authorizes a change in the personnel. If you continue the committee and say nothing about a membership, then the membership of the old committee is continued.

MR. GOEBEL: I would like to have Mr. Phillips include in his substitute that a committee be appointed by the incoming president.

MR. PHILLIPS: I am willing to do that, but I hope that the President upon two things commits.

MR. LOND, TEXAS: If the convention decides to continue that committee, and I hope that they will not so decide, of course, there will be no objection to the continuing of the personnel of the committee because I believe you could not get better. I did not intend to intimate that there was anything wrong with the executive council, but I stand here to say, as a friend of the American Bankers' Association and with its interest at heart I want to go on record that in my humble judgment and the judgment of scores of members, this American Bankers' Association needs to be more democratic in its administration. There are only about fifty here of our members, but when it gets to be more democratic, I think we may have ten times fifty in attendance upon your session.

THE PRESIDENT: The chair feels called upon to answer the gentlemen, and if you will pardon me, I will say this, all conventions are controlled by the actions of the membership. So in the American Bankers' Association every delegate has the right to vote. You gentlemen meet in these annual sessions and have a perfect right to bring into the discussion any suggestion for improvement for the management of the association. Its officers are merely your servants and if at any time the delegates wish to change the system it is entirely in their power. If the conventions are held yearly and no changes recommended, naturally there are no changes made. So I

would suggest that the gentlemen who have in mind any changes, we would be glad to have them bring in resolutions and present them to the resolutions committee and we would be very glad at any time to have resolution of changes looking to the betterment of the association.

MR. LOBB: That leads me to believe that some will soon be presented.

THE PRESIDENT: As it stands now, the same committee will stand. All in favor of adopting the substitute will please say aye, those opposed, no.

The ayes have it.

Report of the Agricultural Commission

In September, 1918, the report of the Agricultural Commission to the annual convention of the American Bankers' Association, closed with these words:

"AGRICULTURE—WAR—AND AFTER"

While the first necessity is a maximum production for 1919, as a war measure, the commission at the same time believes that every effort should be made to develop a permanent constructive agricultural program that will take into account the problems of after the war. The nation, which today is for the first time taking a genuine interest in the soil, must not be forgetful when the present crisis ends.

That agriculture may be placed on a permanent, prosperous contented basis is a necessity for the well-being of the republic and this will call for the best thought and co-operation of our leaders.

"No class aside from the farmer himself can be as influential and as helpful in placing agriculture and country life on the proper footing as the banker."

This is again submitted as significant that the Commission whose efforts for two years had been concentrated on a maximum production that would supply the food that was needed to sustain the nation and its Allies, was looking ahead to the conclusion of the emergency, when not only the problem of production, but others of equal importance, were to be attacked by the bankers of the country.

CLOSER RELATIONS WITH U. S. DEPARTMENT OF AGRICULTURE

Closer relations with the U. S. Department of Agriculture had been foreshadowed by a meeting at the convention at Chicago called by the Commission. The Department had dispatched to this meeting its assistant secretary, Clarence Ousley, who repeated the assurance that the activity of the American banker for agriculture and country life was more than welcomed by the Department. The sentiment of the Department was crystallized by Secretary Ousley when he said:

"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."

In his annual report for 1918 Secretary Houston had said:

"For some time it has been part of the plans of this department to enlist the more complete co-operation of bankers and other business men and of their associations in the effort to make agriculture more profitable and rural communities more healthful and attractive. Recent events have lent emphasis to the appeals and very marked response have been made in every part of the Union."

CONFERENCE IS PLANNED

That the leaders of the U. S. Department and the bankers might meet to hear how co-operation might advance the common cause, the Chairman of the Commission announced to the convention, a conference of the two organizations was in prospect.

Upon the signing of the armistice it was clear to every student of agricultural conditions that the nation could never again permit its interest in agriculture to lapse. That the bankers, whose activities in supporting the farmer in his achievements in production during the war, and not only continue but expand their effort was conceded. This was not alone the view of the bankers but it was that of such men as Secretary Ousley who said in the December Banker-Farmer, "There is need for maintaining the organization which we have started in wartime in order to make it a permanent asset of rural development and national welfare. Therefore, there is all the more need of the continuance of the fine effort which The Banker-Farmer represents."

Previous to the war, of course, and even during the crisis the Commission had constantly urged attention to the problems, such as rural education, farm tenancy and marketing, which must be solved if agriculture is to become safe, permanent, profitable and contented. That there was need of the projected conference with the Department at Washington, even though the war had ended, was certain. Accordingly the Commission went ahead with its plans and on February 26 and 27 the conference was held.

Representatives of thirty-seven state associations and every member of the Commission except one gathered at Washington. The conference was addressed by such men as Secretary of Agriculture Houston, Assistant Secretaries Ousley and Christie, Bradford Knapp, in charge of extension work in the South; C. B. Smith, in charge of extension work in the North and West; J. R. Mohler, chief of the bureau of animal husbandry; C. H. Brand, chief of the bureau of markets; C. W. Thompson, of the bureau of markets; Dr. P. P. Claxton, U. S. Commissioner of Education and Judge C. E. Lobdell of the Federal Farm Loan Board, and there were also informal remarks by the delegates.

DECLARATION OF CONFERENCE

Out of the conference came the following declaration:

The unique opportunity of the bankers of the United States to be a power for the development of a permanent, prosperous and safe agriculture and a contented country life is conceded by the U. S. Department of Agriculture and the state college of agriculture.

Much has already been accomplished by the bankers in the realization of this opportunity and responsibility, so important to the entire nation. But the surface has only been scratched. By loyal co-operation and intelligent leadership the bankers of the United States can be welded into a force that will be one of the greatest factors in the solution of the problems of agriculture and country life that must be solved if the national welfare is to be preserved.

BANKERS STATE COMMITTEES

This conference of representatives of 37 bankers' state associations urges upon every bankers' state association the importance of active committees on agriculture and education.

Those states which have been active should continue and strengthen their efforts, and those having no committee on agriculture and education, or whose committees are dormant, should set about immediately to establish active and aggressive committees.

To the Agricultural Commission of the American Bankers' Association is suggested the advisability of formulating and submitting to these associations plans for the organization and operation of these committees.

This conference calls upon the bankers' associations to make possible constructive work by these committees by providing them with sufficient financial support.

RURAL EDUCATION

Agriculture will never become permanently prosperous and country life contented until the nation and states by financial appropriation make sure that the children of the country receive the education that is their right. Farm tenancy and other evils inevitably follow the lack of educational advantages in the open country. The children of the country should receive education equal to that received by the children of the city, with the addition that it should be an inspiration and preparation for farm life.

That a majority of the one room school houses in the United States in which most of the children of the farm receive all of their education can be a consolidated school, the improvement of rural schools which are not susceptible to consolidation and better training and better salaries for rural teachers.

This will undoubtedly involve supplementary state legislation and we call upon the committee on agriculture and education of the various bankers' state associations to urge their states to take immediate advantage of any federal appropriations which may be made and otherwise to co-operate to improve conditions in rural education.

THE FARM BOYS AND GIRLS

This conference bespeaks for the boys and girls of the open country the continued and increased interest of the banker, as manifested in numerous club activities in the past.

Nothing should be left undone to make the farm profitable and likeable for the generation that is to occupy it. It is suggested that some of the drift to city can be averted by a recognition of the farm boy that involves making him a partner of his father. The good offices of the banker can be factors in bringing this about.

FARM TENANCY

Farm tenancy is a constantly increasing menace to a permanent prosperous and safe agriculture and a contented country life. It has resulted in a loss of the priceless fertility of the soil—the creation of an unsettled farm population—illiteracy—an inefficient country school system—a drift from farm to city—and unprofitable methods of agriculture.

Means must be found by which the industrious young farmer of character and skill in agriculture, even though of limited financial resources, can look forward to becoming a farm owner.

This conference recommends that committees on agriculture of the bankers' state associations give serious attention to methods of correcting this dangerous condition.

To the committees is suggested the advisability of selecting a banker leader in each county to bring together farm owners and tenants to devise means for the purchase of farms, utilizing governmental and private agencies.

These committees should also inspire better systems of leasing that will provide protection for the fertility of the soil, longer tenures and provisions for the maintenance of live stock.

AGRICULTURAL LEADERSHIP

This conference commends the work of the U. S. Department of Agriculture and the state colleges of agriculture. Bankers may well urge upon the public wider co-operation with these agencies and a more extended use of the great help to agriculture and country life which they are ready to supply.

To the Bankers' State Association Committees is suggested the importance of making sure that the state colleges of agriculture receive from the various state legislatures requisite financial support.

COUNTY AGENTS

The county agricultural agent has proved a wonderful force in the extension of agricultural knowledge.

The extension of the county agent system should be con-

tinued until, as provided by the Smith-Lever Law there is an agent in every agricultural county in the nation.

The county farm bureaus now existing should be strengthened in every possible manner and the bankers of the United States are urged to co-operate to widen their influence.

Where emergency county agents have been established as war measures, every effort should be made to continue the system permanently, that the nation may be supplied with agricultural agents even more rapidly than contemplated by the Smith-Lever Law. To Congress is suggested the importance of making this possible by continuing appropriations for these temporary agents.

This conference also urges the extension of the system of home demonstration agents for women that nothing may be left undone that will make the lot of the farm woman happier and healthier.

MARKETING

No problem is more pressing than that of the marketing and distribution of farm products. The influence and energies of the bankers of the United States should be placed behind all movements which tend to improve and stabilize these processes. In this connection we believe:

First:—The organization of farm marketing associations should be encouraged.

Second:—The adoption of uniform warehouse receipts should be urged.

Third:—We favor laws authorizing the Secretary of Agriculture to still further prescribe grades and standards for farm products and to provide for the inspection of same.

Fourth:—We commend the work of the Bureau of Markets of the United States Department of Agriculture in furnishing a market news service and urge its further extension.

GOOD ROADS

It is very gratifying to note the apparently rapid growth of sentiment and action favorable to the establishment of good roads and highways throughout the country. This matter is vitally connected with the betterment of agricultural conditions.

It is inseparably connected with the problems of improved rural school conditions. It is a valuable factor in securing profit, convenience and economy of time and effort in farming operations and in modernizing farm life. We, therefore, urge on states, counties and committees to continue the work of the building of good roads extensively providing funds for this purpose by loan issues and other methods and meeting the conditions necessary to share in federal funds which are and shall be available for this work.

"THE BANKER-FARMER"

In order that the widest possible publicity may be given to the projects advocated by this Conference of Bankers' Agricultural Committees we recommend that every bankers' association co-operate with the American Bankers' Association in distributing the official magazine of the Agricultural Commission, The Banker-Farmer, to its members. It is the Commission's principal means of disseminating information and inspiration.

J. R. WHEELER, Columbus, Wis., Chairman.
H. M. COTTRELL, Little Rock, Ark.
J. L. DUMAS, Dayton, Wash.
M. A. GRAETTINGER, Chicago, Ill.
W. C. GORDON, Marshall, Mo.
D. S. KLOSS, Tyrone, Pa.
R. H. SCHRYVER, Columbus, Ohio.

It has been widely published and has been commended by influential journals of agriculture.

PROGRAM TO COME OUT

This, then, is the program which is suggested to the bankers of the United States. That it may be carried out demands aggressive organization by bankers' state associations. This is what the Commission is seeking to stimulate, at the same time stressing especial problems of national compass, such as farm tenancy, rural education and marketing and distribution.

The conference at Washington has stimulated state associations, hitherto inactive, and has revived others. The Commission looks forward to the time when every association will have an aggressive organization for agriculture, sufficiently financed and reaching out to every county in the state.

That more banks than ever before are engaged in some form of banker-farmer activity is evidenced by reports which come from every state. More than ever before the extension divisions of the state colleges of agriculture are mapping out their programs with a view to enlisting the support of the bankers of the state.

THE BANKER-FARMER

To inspire the bankers of the country to carry out the program of the Washington conference the Commission knows of no agency at its command which can perform this mission as economically and efficiently as the publication monthly of The Banker-Farmer, by which, through co-operation with state associations it is reaching nearly 15,000 banks every month.

It has been possible to present to these bankers the conclusions of the foremost leaders of agricultural thought. At the same time frequent stories of banker-farmer activities are told that other activities may be inspired. Letters from many banks explain that they have thus been led to enter upon banker-farmer work.

By virtue of having an agency at hand, the Commission was able to tell the story of the Conference at Washington in a special edition and place it in more than 30,000 banks, at a minimum cost.

In the 12 months of the current fiscal year of the American Bankers' Association, 292,600 copies of The Banker-Farmer have been published. Of these 177,063 have been received by bankers and the remainder have gone to farmers, farm editors, and others.

The Commission finds its publication most valuable in stressing the importance of consideration of farm tenancy, rural education and marketing and distribution. Therefore, it hopes to increase its circulation through state associations and suggests to members of the executive council their assistance in this matter.

The Commission believes that cooperation with the farmer by the banker will prove to be one of the greatest agencies in preventing social unrest. It has been predicted that the agricultural population of the United States in the final analysis will prove a sheet anchor of safety for the nation. But agriculture must be made permanent, safe, profitable and rural life must be made contented. There must be more actual owners on the land. The opportunity of the American banker to contribute much to the carrying out of these ideals is clear.

The Commission takes this opportunity of expressing its appreciation for the increasing support of thousands of American banks, who, with a desire for a better and more profitable agriculture, are giving of their time, effort and money in the belief that "he profits most who serves best."

And I want to ask you further to give it still further support and consideration because one of the most and greatest contributing factors toward the allaying of unrest in this country is the production of food and the farmers of this country if the proper relationship and understanding is established between them and the bankers and the business men of this country against unrest in this country. I thank you.

Report of the President of the Trust Company Section by John W. Platten

Since the Chicago Convention the Trust Company Section has been very active in developing forms of service of particular interest and value to its members.

The Executive Committee has held its meetings throughout the year, and the various sub-committees have met at frequent intervals in order to confer regarding the work in hand. A few of the concrete accomplishments may be stated as follows:

a. Through the Committee on Legislation an unnecessary and undesirable feature contained in the Edge Bill was eliminated.

b. The Committee on Protective Laws, having in charge the matter of State Legislation pertaining to Trust Companies, has worked closely in conjunction with the State Legislative Committee of the Association in forwarding or combatting bills of primary interest to Trust Companies introduced in the Forty-three State Legislatures which have met during the past year.

c. Through the Committee on Publicity a large volume of advertising matter has been collected and distributed, and definite help given through personal visitation at Trust Company offices and talks before groups of bankers in planning and establishing publicity and new business departments.

Many Trust Company officers have called at the office of the Secretary throughout the year in search of help along this particular line, and much service has been rendered by him in co-operation with the Committee.

d. The Committee on Standardization of Forms and Charges has conducted a nation-wide investigation in reference to Trust Company fees, and has presented at this Convention a comprehensive report, accompanied by a schedule of fees for various forms of Trust Company service as they were in force in different parts of the country.

e. The Committee on Co-operation with the Bar, which was appointed at the Chicago Convention to endeavor to harmonize the existing conditions between the legal profession and Trust Companies, and to eliminate as far as practicable any causes for such misunderstanding or lack of co-ordination as may exist, has made excellent progress, and we confidently hope that before another year has elapsed complete harmony between Trust Companies and attorneys will obtain in all parts of the country.

f. The Committee on Fiduciary Protection for men in service, also appointed at the Chicago Convention, performed excellent service until the date when the armistice was signed, after which its activities ceased.

g. The Committee on Railroad Securities has kept in close touch with the various plans promulgated and bills introduced upon this all important situation. Its policy at the present time is one of watchful waiting in order that the influence of the Trust Companies of the United States may be availed of at the proper time to assist in the passage of a bill which it is hoped will evolve from the present confusion which exists in reference to this matter.

h. At the meeting held at White Sulphur Springs, West Virginia, a special committee on Legislation was created to co-operate with similar committees from the Savings Bank and State Bank Sections in order that joint consideration by the three committees would lead to concerted and harmonious action upon the part of the State Chartered Sections in connection with legislative matters needing attention from time to time.

The State Vice Presidents of the Section have performed valuable service throughout the year, and it is believed that through these officers much will be accomplished during the

coming year to direct favorable attention to the work of the Section and open new avenues of service which we can perform.

The Eighth Annual Banquet of the Trust Companies of the United States, held under the auspices of the Section in New York City on February 20, brought together nearly eight hundred Bank and Trust Company officers from all parts of the country and proved in points of attendance, popularity and interest up to the high standard set in previous years.

One hundred and thirty-two members have been added to the Section this year, making the number of active members One Thousand Five Hundred and Sixty-three, and associate members Four Hundred and Two, totalling One Thousand Nine Hundred and Sixty-five.

The expenditures have been kept within the appropriation granted.

Respectfully submitted,

JOHN W. PLATTEN.

Report of the Clearing House Section by Thomas B. McAdams

American Bankers Association, New York City.

GENTLEMEN: The Clearing House Section comprises in its membership every regularly organized Clearing House in America, with a total membership of 243 and approximately 5,000 banks.

During the year the energies of the Section have been devoted to the building up of a comprehensive and intelligent financial service and the improvement of banking methods.

The Section suffered a severe loss last December through the resignation of the Secretary, Mr. Jerome Thralls, who resigned to accept the Secretaryship of the Discount Corporation of New York. Mr. Amos F. Hill of Boston was selected as his successor and is already rendering a real service in developing those ideas, some old and some new, which are of real value to the Clearing House banks of the country.

The expenses of the Section during the past year was $9,707.90, the increase over the expenses of last year being largely due to the fact that it was necessary to employ a secretary for our Section instead of having one whose time was divided with the National Bank Section.

In addition to the symbols already in use, during the year a wire non-payment symbol has been adopted and recommended to the banks.

A careful analysis is being made of the rules of the various Clearing Houses of the country, with the view of presenting a digest of these rules so that each Clearing House may have the opportunity to adopt such of the rules and regulations in vogue in other centres which have proved of real value to the banks of those cities.

A careful study has been made of the operations of the Country Clearing House and a detailed report prepared showing the actual saving in dollars and cents through this method of handling checks on banks not collectible through the Federal Reserve System. Every effort will be made during the coming year to stimulate the organization of these Clearing Houses in the several Federal Reserve districts where they are needed; so that they will not only serve a local need but also, through an interchange of business between these clearing houses, make less complicated our present collection system, save transit time and reduce expenses.

The form adopted by the Clearing House Section last year for the use of corporations selling their paper in the open market has been put in final shape and recommended to the note brokers for adoption. Committees have been appointed in the various cities for the purpose of getting paper buying banks to insist upon paper offered them for sale being accompanied by this or similar information. It is felt that a bank buying paper originating in other sections of the country is certainly entitled to more data than is contained on the usual balance sheet. Plans are now under way by which we feel confident this statement will be put into general use in the near future, but the details of this plan cannot be announced at this time.

The Clearing Houses of the Country again proved themselves to be one of the most important factors in the successful flotation by the Government of the Fourth Liberty and Victory loans, and the banks are to be congratulated upon the wonderful way in which they measured up to these responsibilities and rendered financial service of such real value to the nation.

Very truly yours,

THOS. B. MCADAMS, President.

Report of the American Institute of Banking by J. C. Thompson

Mr. Chairman, and Ladies and Gentlemen: It is a pleasure to come here and to report to you for the Section which has received such favorable consideration at the hands of this Convention and the Executive Council, and which has received such cordial support from this administration. The American Institute of Banking Section is proud of its connection with the parent organization. We also are conscious of our responsibilities in that we are training the men who are to be the future members of this Association. I want to tell you just a little bit of the progress during the last year. You realize that the first part of the year our efforts were devoted very largely to what help we could render in the way of Liberty Loan and the War Savings campaign, and the Institute has been a very vital factor in every city where we have a chapter in helping the War Savings campaign and in helping in the work of promoting thrift, and of trying to teach the people to save and spend wisely.

In spite of flu and in spite of war conditions, the Institute has a gain of over 12 per cent in its membership this year and now has nearly 24,000 members. We have cut out from our work all chapters—every chapter which has not been active, and have also organized ten new chapters this year—including two State Chapters. These State Chapters are a new feature in the Institute work. We are hoping that we will be able to reach the majority of the bank men in this country which we have not been able to do so far through the organization of such Chapters. These State Chapters will give to the men in the banks in the smaller states, which are too small to have a Chapter, something of the benefit of personal contact and the competition which comes through such Chapters. We are hoping that in that way the Institute may be a factor in many places where it has not been heretofore. You will be interested to know that there have been four hundred men who have received the Institute Certificate, which means that they have completed a three-year course in economics in banking and in law. During the past year over thirty-two hundred men have done that. Most of these certificates are issued by the Chapters under the arrangement whereby those certificates and the work that those men have done, receive actual credit for degrees in recognized state universities, so that you may be sure that the work that is done and the work that has been required to receive that certificate is of a very high character.

The Institute has offered the facilities of its educational forces to the women employes of the banks, and we have done that, gentlemen, in order that the Institute might do what it had agreed to do to serve the banks better. The Institute had grown. I wish you could have attended the graduation exercises of New York Chapter last year. The New York Chapter had a class of five hundred members during the year. They had graduation exercises at which they had a regular organized class. The bankers of New York came and saw their graduates of their own banks who had completed this course of study and who, at the end of three or four years had a lot of knowledge, a lot of information that you older gentlemen would have been glad to have had when you were in the banking business, starting in. That has been true over the country—San Francisco, Chicago, Boston and various chapters are making wonderful progress until today, gentlemen, the Institute is in a position where we are proud of the quality of the work that we are building. This is the work that is done by the American universities of bankers. The Institute is doing a lot of good that you do not appreciate probably in the training of the young men who are coming out. The Institute has made good.

I do not need to tell you that if you were to have come to the dinner of the Institute alumni which was organized at the annual dinner last year, that you would have seen many of the men who are leaders in the various Sections, many of the men who are prominent are Institute men. I do not need to tell you that the Institute man as an individual has made good. But I am going to tell you something that you may not have noticed yet that the bank which is an Institute bank, and I know at least one bank in this country which is proud to call itself an Institute bank, that the Institute bank is distinguished for the services that they have rendered, for the little cooperation of this force and for the fact that we are building and training them and the next step done in recognition of the Institute of this country is going to be when the banks realize that the Institute bank is the best bank.

Even though that Institute is taking a very important part in the force, the principal forces, we realize that the banker today has got to come in contact with outside elements with a lot of outside businesses spreading among the large communities to understand things brought about by these methods as they have done before. The Institute sends out speakers to speak before the schools that they spread an education so that they do these things, so that they speak before your state banks convention. We hope you feel that when you go back to your state banks conventions next year you can go to these young men and get the benefit of their research that they have obtained through this institution. They realize the Institute was started for the purpose of training the young men. We should consider you are familiar with the unrest in this country. There is a large and vast portion of the men in this country that are trying to better themselves, trying to advance themselves through the methods of strikes and through the method of organization. As the principle formulated by your organization twenty years ago, and used by the American Institute of Banking whereby men in the banks are training themselves through their own efforts and your advice, knowing that they are learning through practical experience so they may take the business and go ahead which is gained by that experience. These men are in the banks, these men are happy and are contented and work in banks because they know they can advance themselves through their and your efforts.

There are two principles I want to submit to you today as representative of what is known as the capitalistic friends of America, as men who are supposed to be leaders, and who are leaders, in the community, that the banks of America in this condition of unrest, in this unsettled time, could do no better thing than to state the object and to encourage the American banking institutions, in developing them, and showing to the other organizations, particularly the labor organizations, that men who work side by side as officers and employes can work together in harmony, can develop themselves and can through their efforts and their education advance themselves. I submit to you that there is a thought that is worth thinking of. Further than that, your association has appointed a Committee on Education. That committee has done some splendid research work this past year. As I understand it is proposed that that committee should extend its efforts, and that the Association should do what your President has said is one of the most important things this Association has ever done, in

attempting to mold public opinion, and particularly that of younger children, and younger people who are coming on, in order that they may understand your business, in order that they may have proper ideas of thrift, and of economy. Do you realize that in the 24,000 or 25,000 young men who have been trained in the principles of economics and of banking and of law, who have just recently completed their school years, who are equipped through public speaking courses to speak, that there is the finest body that you could possibly get to carry on that work? Gentlemen, the Institute is proud of its connection with your Association, the Institute is attempting to finance itself, and administer itself as far as self-government is concerned. We appreciate everything you have done; we are at your service. I am sure that during the next year, with your help, the Institute as a whole is going to have one of the best years in its history. I thank you very much.

Report of the National Bank Section, Oliver J. Sands, President

GENTLEMEN OF THE CONVENTION: The National Bank Section was organized at Seattle, Washington, four years ago. From the outset the officers and others actively interested in this Section realized that it would not attain full usefulness to its members until it had an office in the city of Washington, and a competent representative in charge. At successive conventions of the association and meetings of the Executive Council requests were made for authority, and at a meeting of the Council at White Sulphur Springs, W. Va., last May, the prayer of the Section was granted. On the first of July the Washington branch service office of the Section was opened in Room No. 1 of the Southern Building, which is situated one block from the United States Treasury, and since that date the Section Secretary has divided his time and labors between the general offices in New York and the Washington branch office. The experiment has more than realized our expectations. From all parts of the country the Washington office is in receipt of requests for the performance of various services in connection with the Administration, the two houses of Congress, the federal departments and bankers who journey to the capital find in the office sources of information which contribute to their convenience and enable them to perform their missions expeditiously and with a minimum expenditure of effort.

A gratifying feature is that the business of the office steadily increases, proving that the bankers of the United States see in this agency a reliable and authoritative means of accomplishing various purposes which have relation to the administrative, the law-making and the departmental headquarters of our republic. Our Washington office is distinctly a service station and we earnestly and cordially invite bankers to avail themselves by personal visit, or by correspondence, of all our conveniences and facilities. It is proper here to state that our office is recognized as worthy of confidence by national legislators and by government chiefs, and by business and official Washington the establishment of the office has been welcomed and approved. We are confident that the coming year will witness a quickening of interest in this undertaking by bankers in every part of the country and that our sphere of usefulness will broaden greatly.

On behalf of the National Banking Section it is our privilege at this time to gratefully acknowledge the liberality and good will of the Executive Council, representing all branches of banking, in cheerfully according to us the opportunity to carry into effect our long cherished plan to render interested, direct and reliable service to those who support and maintain this Association, and to do this without regard to section lines, but to all who may proffer a request.

To meet the expenditures consequent upon the maintenance of two offices—one in New York and the other in Washington—and in order to cope with the constantly mounting demands for information and execution of commission, we ask this year for an appropriation of $20,000.

The American Bankers Association is one of the greatest organizations in the world. Its plan of organization is the result of years of labor and experience. It should continue to foster the work of its several classes of members through the Sections, permitting them to serve their own membership to the fullest possible extent, but exercising over them the corrective and restraining influence of a wise and devoted parent, thus avoiding duplication of effort and waste of money and energy.

During the past year the Executive Committee has held three meetings. Mr. Jerome Thralls resigned as Secretary of the Section and Maj. Fred. W. Hyde was elected to fill the vacancy. Mr. A. F. Dawson of Davenport, Iowa, was elected to fill out the term as member of the Executive Committee of Mr. N. M. Lampert, of Chicago, whose death occurred shortly after the Convention of 1918.

Standing Committees of the Section have studied the questions of "Acceptances," "State Taxation of National Banks," "Forms for Use in Banks," "Post War Conditions" and "Secret Assignment of Accounts," and have made reports thereon. In addition the subject of "Latin-American Trade" has been discussed and a communication relating thereto submitted to the Associations Committee on Commerce and Marine.

The program for the Section's activities for the coming year will include, first, development of the Washington office, then subjects which are of most vital interest to our members.

This Section has co-operated with the general office throughout the year in efforts to increase the membership of the Association and Section, and the results have been encouraging; a year ago the National Bank Section had 6,337 members, while now the total is 6,613, a gain of 279 during the year. Of August 31, 1919, the non-member national banks in the United States numbered 1,289. There will be no relaxation the coming year in our purpose to enroll every National Bank in the American Bankers Association. Up to and including August 25, 1919, the number of National banks that had been granted trust and fiduciary powers by the Federal Reserve Board was 983. The Comptroller of the Currency in the year ending August 31, 1919, granted 210 charters to National banks; 268 National banks received authority to increase their capital, the authorized net increase being $36,654,100. The resources of National banks June 30, 1919, amounted to $20,799,550,000, a gain over like date in 1918 of $2,960,048,000. From January 1, 1918, to date there were only two failures,—and these small institutions—in a total of nearly 8,000 National banks.

The Federal Reserve system grows stronger and greater year by year—the premier national financial organization of the world. In addition to all the National banks which are by law members, the system on August 25, 1919, had enrolled state banks to the number of 1,099. On the par collection list of the system July 15, 1919, there were 8,848 members and 12,071 non-member banks, or more than two-thirds of all the banks in the United States. It is a matter of justified pride with the National Bank Section that the Federal Reserve Board welcomes our cooperation and manifests a friendly and helpful attitude towards us that is certain to be productive of good results to all bankers and to the financial and commercial interests of our beloved country.

Report of State Bank Section by C. B. Hazlewood

As bankers we have some very serious responsibilities to face during the coming year, the most important of which is to keep the financial boat steady. In my opinion this will be no easy task. Economists agree that the setback, the waste and the absolute losses of the war can only be compensated by the universal practice of thrift—individual thrift, national thrift and world thrift.

In an address before the West Virginia Bankers Association two weeks ago Governor Harding said "the most effective remedy for the present conditions, whether viewed from the economic or financial standpoint, is to work and save." Millions of American people are doing neither at the present time. Besides the steel strike, with its far-reaching consequences, there are literally thousands of strikes going on in the country today and in almost every line of industry. Besides the loss of productive labor there is the loss of added consumption of those idle. Economy and thrift from the standpoint of personal expenditures, generally speaking, do not exist. Among the middle classes luxuries are in great demand and among the rich excessive income and profit taxes have caused voluntary increases in personal expenditures. It may be said, on the other hand, that bank deposits, including savings deposits and bank clearings, have increased and that this is a favorable sign. It does indicate prosperity, but it must be borne in mind that bank deposits represent credit and not cash and are the credit equivalent or the measure of value of goods. Your bank's customer who buys shoes from the wholesaler pays twice as much as he did before for the same number of shoes and your loans to him are increased in proportion. The wholesaler in the city banks the check received in payment, which is twice as large as for the same number of shoes, and the city bank's deposits are increased in proportion. It would be impossible, of course, to say how much bank deposits and loans are increased by this process and how much by the natural increment of thrift and the increase in margin between production and consumption, but that the former cause has been responsible for a great part of the increase there can be no doubt.

The tremendous advantage which the United States possessed at the end of the war and its finely developed commercial and manufacturing facilities as compared with the European countries, whose resources and man power were infinitely more impaired, led us naturally to believe that tremendous foreign trade was in prospect. This was realized during the first part of the year to such an enormous extent that the balance of trade which was heretofore on the debit side for us rolled up to a tremendous credit. As a result a sharp break of exchange rates was inevitable and our exports, from which we anticipated great profits, have necessarily been greatly reduced in the last sixty or ninety days. The European countries have a most urgent need for our commodities, but not to the extent that they can afford to pay a premium of 15 per cent to 100 per cent for exchange in addition to our cost and profit.

I believe, gentlemen, that our present economic and financial position is fraught with danger, and I would be somewhat pessimistic did I not have confidence in the resourcefulness of the American people, confidence in the sound condition of our banks, both National and State, and confidence in the proven ability of the Federal Reserve System to take up the slack or to absorb the shock of a great financial reaction.

I think you will agree that there will never be another currency panic. The power to issue federal reserve currency, secured by 40 per cent of commercial paper, with a 60 per cent cover of gold, which enabled us to expand our volume of Federal Reserve notes outstanding from $357,239,000 on April 1, 1917, to $2,504,753,000 on August 1, 1919, undoubtedly prevented such a catastrophe during the war period.

Under the old system with a government and National bank currency definitely limited by law, we would most certainly have had to resort to the issue of script and clearing house certificates, as we have done before. With the gradual absorption for fixed investment of government securities and the substantial increase to surplus accounts of the federal reserve banks from earnings, the system's available resources will be considerably increased. Every dollar added to these resources is an additional protection against the consequences of a sudden credit deflation or panic.

It is perfectly safe to say that the banks in our country, of all classes, are in better condition than ever before. Our bank assets are more clean and more readily convertible than ever before. Banking laws are being constantly improved in every

state and methods of bank supervision and examination are more and more intelligent and failures of State banks have been remarkably few. The State bankers can very well afford to compliment the National banks, the Comptroller of the Currency and the examining force, and more particularly the National bankers themselves regarding their record in this respect. Our banks are in fine condition and well prepared to meet any emergency that may arise.

These are indications that the situation with regard to labor troubles may have reached its worst phase and that we are now in a fair way to improve. It appears that public sentiment is undergoing a change and that the unwarranted breaking of labor contracts is subject to criticism by the conservative labor element. We have observed in the last thirty days that members of Congress and Senate dared to express themselves frankly on this matter.

Under all these circumstances it is very possible that we can work out of our difficulties and save ourselves from the very bad situation in which some of the European countries are now in. The bankers of the country have demonstrated more than once their knowledge of their moral and financial responsibility.

I want to remind you that as bankers we are in a pretty fortunate position. We are not being investigated, threatened or legislated against, and we do not have to contend with strikes or lockout. Under these circumstances we are free to go along about our business, watching our assets, increasing our liabilities and paying a reasonable return to our stockholders. We make mistakes a-plenty, but in one particular we have used the best possible judgment during all the war period, we have not treated the public unfairly, been guilty of unfair trade practice nor of profiteering in any sense of the word. Money has been and is the cheapest commodity one can buy and bank credit is as free and available for worthy purposes now as it has ever been. Any sound business venture can be financed.

During the war period State banks were invited and urged to join the Federal Reserve System in order to strengthen the country's financial position. To date State banks own $8,130,460,111 of Federal Reserve Bank resources. One thousand and eighty-five State banks are now members of the System.

A Committee of the American Bankers Association, of which the first president of this Section, Mr. John H. Puelicher, was Chairman, is credited by those who know the facts with a very large share of the results in inducing State banks to join while the war was on. Since September of 1918, however, the patriotic reason for joining has been removed.

While the State banks who have become members have not the advantage of the daily suggestions, constant correspondence and affectionate relationship with the Comptroller of the Currency, which is enjoyed by our National bank friends, we have nevertheless found many practical and profitable advantages in belonging to the System, and at the same time retain those powers and privileges which are granted by the laws of the State. Joining the Federal Reserve System is now a matter to be decided purely on the basis of business policy, and I have yet to find a member State banker, whose business is largely commercial and whose demand is variable, who would be willing to abandon his membership.

Some have found that there are even easier ways of making money than charging exchange on checks. One way to which I invite the attention of those of you who are eligible nonmembers is the possibility of reducing cash means and increasing loans, having the assurance behind you that you can use your government securities and your eligible paper to replenish your reserves if you need to. Deposit in the Federal Reserve Bank a part of the gold and legal tender reserve you have been carrying in your bank for years and which has been counted over and over by your officers and examiners and rarely, if ever, actually used. A supply of this kind of money can be had for the asking at the Federal Reserve Bank. Close some of the accounts you have kept with other banks in order to get cash items or to pay for round-about collection of transit items. Use the collection system of the Federal Reserve System for everything they can handle. Abandon the obsolete par list arrangements you have had with many correspondents and make one or two take all of your non-collectible transit items on a compensating balance arrangement at par. A smart city banker can show you distinct advantages in this and various special ways to justify your retaining, at least, one account in his city for these purposes. If you have surplus funds above your collection requirements which you want to carry in balances put them on a short notice basis at a higher rate. Reduce your total cash means 3 per cent, 4 per cent or 5 per cent and loan this much additional to your customers or buy commercial paper with it. Every dollar which you can take out of your cash means at 2 per cent, 2¼ per cent or no return will bring you 6 per cent at home.

I have talked with a great many bankers on this subject of joining the Federal Reserve System and have found the impression that many are inclined to consider the matter with a slight prejudice which may have been incurred when the advocates of the System were crowding them pretty hard on the score of the then patriotic duty when their consciences were quite clear on this point. I believe and I am sure you will agree that those bankers would be making a mistake of judgment if they did not now consider the matter with this prejudice aside and purely from the standpoint of the best interests of their bank and their community.

I desire to give you briefly the high lights in the year's work of the State Bank Section. Following the Convention at Chicago a meeting was called of the Executive Committee and Chairmen of the standing committees in New York in November. The purpose was to determine the lines of activity for the new year. It was decided to send to all the members a questionnaire in order to determine what appeared to be the subjects of greatest interest in their minds. The response was very gratifying and many of the replies received have been published in our part of the Bulletin and the subjects which appeared to be of the greatest interest will be presented to you during your sessions at this Convention. The more important of these are the subjects of State Banking Laws, Trust Powers for State Banks, Bank Advertising and Exchange. We selected speakers whom we believed were best available to present these subjects to you and we feel confident that you will find much of interest in what they say and in the general discussions which we hope will follow.

The American Bankers Association is composed of both National and State chartered banks, but the majority of offices have been filled and policies determined by representatives of National bank institutions. There have been very good reasons for this condition. Up to a few years ago under the old reserve system the National bankers were principally interested in securing reserve accounts.

Furthermore, legislative matters taken up in the big Association were of primary interest to National bankers and of little concern to State bankers. In the last year or two, however, the situation has materially changed and State bankers are interested, vitally interested, in federal legislation, both as it relates to the Federal Reserve System, but also as to such matters as trust powers, government financing and foreign exchange. As a result the State and Trust Company and Savings Bank men are taking a much more active part in the proceedings of the Association and are demanding larger and more important representation in the Association's activities.

At last year's convention in Chicago two things happened which are of importance in this connection:

First: A new office was created, that of Second Vice President, to which was elected a man representing a State chartered bank. I predict, gentlemen, that when Mr. John S. Drum of San Francisco is President of the Association you will find him to be one of the smartest and ablest men of a long list of smart and able men who have filled that position and which includes the present incumbent.

Secondly: It was provided that representation on the Federal and State Legislative Councils and Committees be divided more evenly than formerly and that the Chairman of the State Legislative Council should be a State banker.

With these changes effected complete harmony prevailed and as one National banker friend of mine put it, he felt harmony was the next thing to having it all his own way.

If the State bankers do not obtain a fair share of representation it is their own fault. Next year it will be again up to the State bankers to start a man in the chairs of the Association, and it is not too early to think who that man should be. We must keep the standard high.

Two years ago a new organization of State bankers was launched at St. Louis, called "The United States Council of State Banking Institutions." The gentlemen who started this movement put forward a criticism of the American Bankers Association which, I think, was and is just, though not to the extent that a new organization of bankers was necessary or desirable. This criticism was that under the Constitution any Section of the Association is estopped from independently urging or opposing any legislation which applies particularly to their interests.

I am very happy to say to you that at the May meeting of the Executive Council of the American Bankers Association a conference was had between representatives of the State Council organization, including its President, and of the three State chartered sections of the American Bankers Association, as a result of which the State Council's officers and Executive Committee will recommend the abandonment of that organization and uniting effort through the American Bankers Association, providing that the main body of this convention will approve a constitutional amendment which will allow each section of the Association entirely independent action on any legislative matter if taken in the name and at the Expense of that Section. This amendment has the approval and recommendation of the Administrative and Executive Council of the Association and is a democratic measure. There are no dangers in its application as if any Section chooses to go it alone on any matter which might conflict with the interests of any other Section, that other Section may be depended upon to present its case as well.

While this change was suggested by the State Bank interests its use is equally available to the National Bank Section and you can be free, therefore, to ask your National bank friends to give this change in the Constitution their hearty support and vote.

The matter will come up at the first day's session of the Convention Tuesday morning, and I urge all of you to be present to help put through this constructive amendment and I am confident that result will be a more businesslike and direct handling of matters of legislation that will be of special interest to any class of bankers in the Association.

The three Sections in the Association representing State chartered banks, the Trust Company, Savings Bank and State Bank Section have much in common in legislative matters. The Executive Committee of these three sections were of the opinion that efficiency could be obtained by the formation of a conference committee composed of representatives from each of these three Sections.

During the first part of the year the Secretaries and Committees of each of the three Sections named and the Secretaries and Committees of the United States Council organization were all active in Washington in relation to legislation effecting State chartered banks. Many of the matters presented were identical and it was mildly intimated that time and effort could be saved for all concerned if on matters of joint interest one committee or representative handled it. A need for such

a Conference Committee seemed apparent therefore to the representatives of the various sections and the United States Council organization and it was organized.

Three representatives were elected from each section and Mr. W. H. Booth of the Guaranty Trust Company of New York was selected by the Trust Company Section as one of its three representatives, and he was made Chairman of the Conference Committee. He will report to you this morning regarding the activities of the Conference Committee, and I am sure you will be impressed with his keen and comprehensive knowledge of banking legislation as it affects State banks.

Representatives elected from the State Bank Section were John H. Puelicher of Milwaukee, who was also elected Vice Chairman of the Conference Committee, E. D. Huxford of Cherokee, Iowa, and Fred Collins of Memphis, Tennessee.

The action creating this Conference Committee is, of course, tentative and subject to your approval and to the passage of the necessary amendments to the Constitution of the three sections. It will be presented to you in the regular course. I ask your support of this piece of machinery which will enable State chartered banks of the country to concentrate their fire, so to speak, on any legislative or administrative body in behalf of a clear majority of the State chartered banks of the country.

The State Bank Section now has 9,499 voting members and 1,248 associate members. Previous to the organization of the State Bank Section a number of State banks were voting members of other Sections and many of them are still so classified. It is not the policy of the State Bank Section to do any proselyting to increase its own membership, and it only accepts voting members previously enrolled in other Sections upon the written request of institutions that wish to be thus transferred.

The State Bank Section is inspired by the spirit of democracy and cooperation and particularly represents the thousands of country banks that constitute the majority of its membership. Coincident with the existence of the State Bank Section, and perhaps partially on account of it, the sentiment of State bankers has become unified, and the rights of State Banks have become recognized.

The fact is becoming apparent that the interests of the country banks of the United States are so interwoven with the interests of the communities which they serve that any banking custom or any banking law that benefits or injures country banks affects in like manner the millions of rural Americans who constitute the backbone of the Nation.

Resolutions Adopted at the Convention

INLAND WATERWAYS.

Resolved, that recognizing the vital importance of the inland waterways of our country as an important part of our system of transportation and realizing that increased transportation facilities are at this time one of our nation's greatest needs, we urge upon Congress immediate legislation and appropriation to improve and extend these highways of commerce so as to afford in as many sections of the country as possible the most economic route from interior points to the seaboard.

STOCK SWINDLING EVIL.

Whereas, the great army of investors created by Government war loans are being defrauded of tens of millions of dollars by unscrupulous venders of worthless stock, and

Whereas, the consequent depletion of the country's capital, unemployment, reduced buying power and reaction in the minds of the people turning them from patriotic thrift into dissatisfaction and distrust of our institutions and of public securities, is of vital concern to all reputable business, and

Whereas, a movement has been initiated to organize business associations to combat the stock swindling evil, and

Whereas, Secretary of the Treasury Glass has said of such a movement that it "will not only be desirable but almost essential," and Chairman Hamlin of the Capital Issues Committee has written that he believes the proposed plan "will go far towards checking the evil"; be it

Resolved, that the American Bankers Association endorses the purposes of the Business Men's Anti-Stock Swindling League and requests enrollment as a co-operating member.

GOLD PRODUCTION.

Whereas, the gold production of the United States, which declined so rapidly during the war period, has since the signing of the armistice still further declined because of the extreme economic pressure to which the gold mining industry has been subjected, 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 that the monetary reserve be protected; 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 domestic production of new gold in sufficient volume to satisfy the present anticipated trade requirements for this metal, and ask that steps be taken immediately to that end; and be it further

Resolved, that the General Secretary of this Association be, and hereby is, instructed to send a copy of this resolution to the President of the United States, the Secretary of the Treasury, and the members of the Senate and House of Representatives of the United States, 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.

NATIONAL THRIFT MOVEMENT

Whereas, the United States Treasury Department is continuing to offer its savings securities not only to provide funds for the use of the Government but to encourage thrift as an essential condition for economic readjustment; and

Whereas, the high cost of living crisis re-emphasizes the need of thrift, since thrift promotes increased production and saving upon which the readjustment of wages and prices waits; therefore be it

Resolved, that the American Bankers Association heartily endorses the principles of the National Thrift Movement inaugurated by the United States Treasury Department, namely, wise spending, intelligent saving and safe investment; and pledges its members to aid the movement in every possible way; and be it further

Resolved, that this Association heartily endorses the plan for "National Thrift Week" set for January 17, 1920.

UNIVERSAL TRAINING

Resolved, that the American Bankers Association endorses the principle of universal training for the youth of the nation and recommends to the Congress of the United States that suitable laws be enacted to provide for this important and very valuable education in the duties and responsibilities of citizenship for all young men as they reach maturity; be it further

Resolved, that the Association call upon its members individually in favor of universal training to do their full duty in spreading without delay, full information in every community in order that the people may understand the object and the results to be expected from such laws.

CORPUS CHRISTI.

Whereas, a terrible disaster has overtaken the people of Corpus Christi, resulting in the loss of about a thousand lives, and which has left many hundreds of people destitute; be it

Resolved, that we call to the attention of the members of the American Bankers Association the necessity for prompt and generous financial assistance.

GENERAL SECRETARY FARNSWORTH.

Whereas, it has come to the attention of the American Bankers Association in convention assembled, that Col. Fred. E. Farnsworth has indicated his desire to leave the office of General Secretary of the Association to accept another position; and

Whereas, under the administration of the said General Secretary, he has been largely instrumental in increasing its membership from 9,251 to 20,214 members, has greatly enlarged its activities and inspired constructive policies, investments and services of untold value to American bankers, and as incidental thereto he has taken part in the establishment of the Journal of the Association, a Legal Department, a Protective Department with a Rogues' Gallery containing over 6,000 photographs of criminals and alleged criminals, a large Library of specialized works accessible to the members of our Association, all of which has been helpful in making this Association one of the most potent and effective factors in developing the banking and trust business of the nation; and

Whereas, in addition to the material benefits which he has brought to this Association and its membership, he has also assisted in creating a warm and helpful personal relation between the members of our Association and a large circle of public officials and economic and business experts, thereby building a strong national support for and confidence in the American Bankers Association as an instrumentality for our national welfare, as well as the good of its own members; therefore be it

Resolved, that the American Bankers Association in this forty-fifth annual convention assembled, does hereby extend to Col. Farnsworth its deep and grateful appreciation for his efficient official services, and for the personal sacrifices which he has made for the growth of our Association and the extension of its material benefits to our members; and be it further

Resolved, that the Association does hereby extend to Col. Farnsworth its good will and best wishes in the new field of endeavor which he is about to enter and that the influence and grateful appreciation of this Association shall go with him.

COMMITTEE ON EDUCATION.

Whereas, conditions now existing in this country emphasize the necessity for public understanding of banking and finance and bring forcibly to our attention the duty of American bankers to do their utmost to correct misunderstandings regarding the functions and purposes of our several banking systems, to promote through early training habits of thrift, to familiarize the coming business men and women of this country with the nature of money and its uses, to enable them to distinguish between speculation and investment, and to broaden the service of the bankers of this nation to the general public by drawing the people into closer relations with the bankers of each community; and

Whereas, the Executive Council at its meeting held in White Sulphur Springs in May last adopted a resolution concerning the preparation of text literature on banking and finance suitable for use in the public schools of the United States, and referred the same to the State Secretaries and American Institute of Banking Sections; and

Whereas, the American Institute of Banking Sections has submitted a report describing text books now in existence, the opinions of publishers regarding present and prospective demands for such literature, and statements of state and city superintendents of schools, clearly demonstrating the inadequacy of the text literature now available; therefore, be it

Resolved, that the President be authorized and directed to appoint at this session of the convention a Committee on Education of not less than five members; that such committee shall be authorized to employ if necessary a suitable person to compile suitable literature, to have it carefully revised by competent educators, and to endeavor to secure its introduction into all the schools of the United States; and be it further

Resolved, that the Committee on Education shall also be authorized and empowered to devise and execute such other plan or plans as it may deem advisable looking to the education of the general public on subjects above outlined.

Officers of American Bankers' Association 1919-1920

President: Richard S. Hawes, Vice President First National Bank, St. Louis, Mo.

First Vice President: John S. Drum, President Savings Union Bank and Trust Co., San Francisco, Cal.

Second Vice President: Thomas B. Adams, Vice President Merchants National Bank, Richmond, Va.

General Secretary: Fred. E. Farnsworth, New York.

Treasurer: Harry M. Rubey, President Rubey National Bank, Golden, Colo.

General Counsel: Thomas B. Paton, New York.

Assistant Secretary and Assistant Treasurer: William G. Fitzwilson, New York.

Report of Committee on Nominations

Your committee appointed at the last meeting of the Executive Council for the purpose of reporting to the incoming Executive Council nominations of the three-year class to committees and to fill vacancies, would report as follows:

INSURANCE COMMITTEE

For the three-year term: Mr. John R. Wasburn, Vice President Continental & Commercial National Bank, Chicago.

We also nominate as Chairman of Committee: Mr. George A. Holderness, President, Farmers Banking & Trust Co., Tarboro, N. C.

COMMITTEE ON STATE LEGISLATION

For the three-year term: Mr. Chas. S. McCain, Vice President, Bankers Trust Co., Little Rock, Ark.; Mr. Edward Buder, Treasurer, Mercantile Trust Co., St. Louis; Mr. J. P. Matthews, President, Palmetto National Bank, Columbia, S. C.; Mr. W. P. Andrews, Cashier, First National Bank, Fort Worth, Tex. Chairman of Committee; Mr. M. A. Traylor, President, First Trust & Savings Bank, Chicago.

STATE LEGISLATIVE COUNCIL

For members of the State Legislative Council for the ensuing year:

Alabama—E. C. Melvin, Pres., Selma Nat. Bk., Selma.

Arizona—R. E. Moore, Vice President, Valley Bank, Phoenix.

Arkansas—Charles S. McCain, Vice President, Bankers Trust Co., Little Rock.

California—F. J. Belcher, Jr., Vice President, First National Bank, San Diego.

Colorado—Theo. G. Smith, President, International Trust Co., Denver.

Connecticut—R. LaMotte Russell, President, Manchester Trust Co., S. Manchester, Conn.

Delaware—Geo. H. Hall, Pres., Milford Trust Co., Milford.

District of Columbia—C. J. Bell, President, Am. Security & Trust Co., Washington.

Florida—John T. Dismukes, President, First National Bank, St. Augustine.

Georgia—Chas. B. Lewis, Pres., Fourth Nat. Bk., Macon.

Idaho—Walter E. Miller, Pres., First Nat. Bk., Nampa.

Illinois—M. A. Traylor, President, First Trust & Savings Bank, Chicago.

Indiana—Charles W. Camp, President, Garrett State Bank, Garrett.

Iowa—George S. Parker, President, Livestock National Bank, Sioux City.

Kansas—E. E. Mullaney, President, Farmers & Merchants Bank, Hill City.

Kentucky—J. K. Waller, President, Peoples Bank & Trust Co., Morganfield.

Louisiana—A. T. Kahn, Vice President, Commercial National Bank, Shreveport.

Maine—E. S. Kennard, Cashier, Rumford Nat. Bk., Rumford.

Maryland—John W. Ennis, Cashier, Pocomoke City National Bank, Pocomoke City.

Massachusetts—George A. MacDonald, President, Chicopee National Bank, Springfield.

Michigan—A. G. Bishop, President, Genesco Co. Savings Bank, Flint.

Minnesota—Cliff W. Gress, Vice President, Citizens State Bank, Cannon Falls.

Mississippi—T. W. Yates, Vice President, Commercial Bank & Trust Co., Laurel.

Missouri—Edward Buder, Treasurer, Mercantile Trust Co., St. Louis.

Montana—Ralph O. Kaufman, Vice President and Cashier, Union Bank & Trust Co., Helena, Mont.

Nebraska—J. F. Coad, Jr., Pres., Packers Nat. Bk., Omaha.

Nevada—Geo. Wingfield, Pres., Reno Nat. Bk., Reno.

New Hampshire—Ira F. Harris, Cashier, Indian Head National Bank, Nashua.

New Jersey—Jno. B. Clement, Second Vice President, Central Trust Co., Camden.

New Mexico—H. B. Jones, Pres., 1st Nat. Bk., Tucumcari.

New York—Benj. E. Smythe, Vice President, Liberty National Bank, New York.

North Carolina—Leake S. Covington, Cashier, Farmers Bank, Rockingham.

North Dakota—E. Beissbarth, President, First National Bank, Brinsmade.

Ohio—I. M. Taggart, Pres., Merchants Nat. Bk., Massillon.

Oklahoma—T. H. Dwyer, President, Chickasha National Bank, Chickasha.

Oregon—W. L. Thompson, Pres., Am. Nat. Bk., Pendleton.

Pennsylvania—J. W. B. Bausman, President, Farmers Trust Co., Lancaster.

Rhode Island—Michael F. Dooley, President, National Exchange Bank, Providence.

South Carolina—J. P. Matthews, President, Palmetto National Bank, Columbia.

South Dakota—John W. Wadden, President, Sioux Falls National Bank, Sioux Falls.

Tennessee—Fred Collins—Vice President, Bank of Commerce & Trust Co., Memphis.

Texas—W. P. Andrews, Cashier, First Nat. Bk., Ft. Worth.

Utah—W. S. McCornick, President, McCornick & Co., Salt Lake City.

Vermont—F. H. Farrington, Brandon, Vice President, Rutland Savings Bank, Rutland.

Virginia—C. E. Tiffany, Pres., Fauquier Nat. Bk., Warrenton.

Washington—D. W. Twoby, Pres., Old Nat. Bank, Spokane.

W. Virginia—H. W. Chadduck, Vice Pres., Nat. Bk. of Fairmont, Fairmont.

Wisconsin—L. A. Baker, Cashier, Manufacturers Bank, New Richmond.

Wyoming—Geo. W. Perry, Vice Pres., Sheridan Nat. Bank, Sheridan.

COMMITTEE ON FEDERAL LEGISLATION

For the three-year term: C. H. McNider, Pres., First Nat. Bk., Mason City, Ia.; Jos. Wayne, Jr., Pres., Girard Nat. Bk., Philadelphia, Pa. For Chairman of the Committee: Mr. Fred Collins, Pres., Bank of Commerce & Trust Co., Memphis.

FEDERAL LEGISLATIVE COUNCIL

Alabama—E. C. Melvin, Pres., Selma Nat. Bk., Selma.

Arizona—R. E. Moore, Vice Pres., Valley Bk., Phoenix.

Arkansas—Robert Neill, Cashier, Ark. Nat. Bk., Hot Springs.

California—J. M. Henderson, Jr., Pres., Sacramento Bank, Sacramento.

Colorado—J. M. B. Petrikin, Pres., First Nat. Bk., Greeley.

Connecticut—R. LaMotte Russell, Pres., Manchester Trust Co., South Manchester.

Delaware—Geo. H. Hall, Pres., Milford Trust Co., Milford.

District of Columbia—C. J. Bell, Pres., Am. Security & Trust Co., Washington.

Florida—John T. Dismukes, Pres., First Nat. Bank, St. Augustine.

Georgia—E. C. Smith, Vice Pres., Griffin Banking Co., Griffin.

Idaho—Walter E. Miller, Pres., First Nat. Bk., Nampa.

Indiana—Robert A. Morris, Fairmont State Bank, Fairmont.

Illinois—Andrew Russel, Vice Pres., Ayers Nat. Bk., Jacksonville.

Iowa—C. H. McNider, Pres., First Nat. Bk., Mason City.

Kansas—Geo. A. Guild, Vice Pres., Central Nat. Bk., Topeka.

Kentucky—J. K. Waller, Pres., Peoples Bank & Trust Co., Morganfield.

Louisiana—A. T. Kahn, Vice Pres., Commercial Nat. Bank, Shreveport.

Maine—E. S. Kennard, Cashier, Rumford Nat. Bk., Rumford.

Maryland—John W. Ennis, Cashier, Pocomoke City Nat. Bk., Pocomoke City.

Massachusetts—Geo. E. Brock, Pres., Home Sav. Bk., Boston.

Michigan—Dudley E. Waters, Pres., Grand Rapids National City Bank, Grand Rapids, Mich.

Minnesota—C. L. Hansen, Vice Pres., First Nat. Bk., Thief River Falls.

Mississippi—T. W. Yates, Vice Pres., Com. Bank & Trust Co., Laurel.

Missouri—J. R. Dominick, Pres., Traders Nat. Bk., Kansas City.

Montana—Roy J. Covert, Pres., Merchants Nat. Bk., Billings.

Nebraska—J. F. Coad, Jr., Pres., Packer Nat. Bk., Omaha.

Nevada—Geo. Wingfield, Pres., Reno Nat. Bk., Reno.

New Hampshire—Ira F. Harris, Cashier Indian Head Nat. Bank, Nashua.

New Jersey—Elwood S. Bartlett, Cashier, Atlantic City Nat. Bank, Atlantic City, N. J.

New Mexico—H. B. Jones, Pres., First Nat. Bk., Tucumcari.

New York—Delmer Runkle, Pres., Peoples Nat. Bk., Hoosick Falls.

North Carolina—Geo. A. Holderness, Pres., Farmers Banking & Trust Co., Tarboro, N. C.

North Dakota—F. A. Irish, Vice Pres., First Nat. Bk., Fargo.

Ohio—E. L. Coen, Vice Pres., Erie County Banking Co., Vermillion.

Oklahoma—Guy C. Robertson, Cashier, First Nat. Bk., Lawton.

Oregon—W. L. Thompson, Pres., Am. Nat. Bank, Pendleton.

Pennsylvania—Jos. Wayne, Jr., Pres., Girard Nat. Bank, Philadelphia.

Rhode Island—Michael F. Dooley, Pres., Nat. Exchange Bank, Providence.

S. Carolina—J. P. Matthews, Pres., Palmetto Nat. Bank, Columbia.

S. Dakota—H. L. Hopkins, Pres., Securities Bank, Clark.

Tennessee—Fred Collins, Vice Pres., Bank of Commerce & Trust Co., Memphis.

Texas—J. W. Butler, Pres., First Guarantee State Bank, Clifton.

Utah—W. S. McCornick, Pres., McCornick & Co., Bankers, Salt Lake City.

Vermont—F. H. Farrington, Brandon, Vice Pres., Rutland Savings Bank, Rutland, Vermont.

Virginia—C. E. Tiffany, Pres., Fauquier Nat. Bk., Warrenton.

Washington—E. W. Purdy, Pres., First Nat. Bk., Bellingham.

West Virginia—H. W. Chadduck, Vice Pres., National Bank of Fairmount, Fairmount.

Wisconsin—Walter Kasten, Vice Pres., Wisconsin Nat. Bk., Milwaukee.

Wyoming—Geo. W. Perry, Vice Pres., Sheridan National Bank, Sheridan.

COMMITTEE ON MEMBERSHIP

For the three-year term: Willis D. Longyear, Vice Pres., Security Trust & Savings Bank, Los Angeles. For Chairman of the Committee: H. W. Chadduck, Vice Pres., National Bank of Fairmont, W. Va.

ADMINISTRATIVE COMMITTEE

For the two-year term: John F. Hagey, Vice Pres., First National Bank, Chicago, Ill.

FINANCE COMMITTEE

To fill vacancy: A. M. Graves, Cashier, Red River National Bank, Clarksville, Texas.

For the three-year term: W. E. Purdy, Asst. Cashier, Chase Nat. Bank, New York; Tom Hartman, Vice Pres., Producers St. Bk., Tulsa, Okla.; Frank W. Blair, Pres., Union Trust Co., Detroit.

COMMITTEE ON LIBRARY

For the three-year term: R. LaMotte Russell, Pres., Manchester Trust Co., South Manchester, Conn.

Chairman of the Committee: Julien H. Hill, First Vice Pres., National State & City Bank, Richmond, Va.

AGRICULTURAL COMMITTEE

We nominate Joseph Hirsch, Pres., Corpus Christi National Bank, Corpus Christi, Texas, as Chairman of the Committee and recommend that the Council delegate to the President of the Association the function of appointing the other members of the committee, subject to confirmation by the Administrative Committee. Respectfully submitted,

Signed { JOHN H. MASON, *Chairman*,
A. M. GRAVES,
M. H. MALOTT.

The above report was presented at a meeting of the Executive Council held Thursday evening, October second, 1919, Hotel Statler, St. Louis, Missouri.

Upon motion duly made and seconded the above report was adopted unanimously.

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Thirteenth Annual Meeting, Held in St. Louis, Mo., Sept. 30-Oct. 1, 1919

INDEX TO CLEARING HOUSE PROCEEDINGS

Problems and Progress With Dollar Acceptances

By JEROME THRALLS, Secretary-Treasurer of the Discount Corporation of New York.

Mr. Chairman, delegates and visitors:—I feel that I am still in the service of the Clearing House Section and am glad of this opportunity to discuss with you a subject which I believe to be of vital interest to every Clearing House and every Clearing House Bank in America. I regard the Clearing House Section as being one of the most efficient, powerful, and useful divisions of the greatest financial organization in America—The American Bankers' Association.

You have in this section 234 regularly organized Clearing Houses, including in their membership an aggregate of about two thousand National banks, State banks and Trust Companies. These respective organizations have done as much as any other factor in America in bringing about the improvements and changes that have made our banking system the premier system of the world. The thirty thousand American banks co-operating through the Clearing Houses and the Federal Reserve Banks have faced during the past four years the greatest internal and external demands that have ever been made upon any banking system; their ability to supply the ever increasing needs of our domestic commerce and industry, extend our foreign trade, and at the same time accommodate and aid our friends across the seas, was due in no small measure to the utilization of new privileges and facilities provided for in the Federal Reserve Act. Among the greatest of these facilities and privileges is that of the power conferred upon members of the Federal Reserve System to grant acceptance credits. Another is the provision whereby bankers and trade acceptances will serve as the basis of currency issue.

Two hundred and fifty leading business men and bankers from throughout the nation recognizing the importance of these two features conferred in New York on January 21, 1919, for the purpose of forming an organization (The American Acceptance Council) whose purpose would be (1) to conduct a nation wide campaign designed to inform business men and bankers throughout the country as to the merits of bankers and trade acceptances; (2) to aid in the development of the open discount market, and (3) to assist in other matters that will improve the credit system and strengthen the financial position of America.

Both bankers and trade acceptances are very simple instruments. I believe the problems and progress arising in connection with their use should be discussed under separate divisions. I will take up first the Bankers Acceptance.

BANKERS ACCEPTANCES.

Under the provisions of Section 13 of the Federal Reserve Act members of the Federal Reserve system are authorized to accept drafts drawn upon them (having not more than six months to run, exclusive of days of grace,) arising out of transactions involving (1) the exportation or importation of goods (2) the domestic shipment of goods (3) the storage in the United States of readily marketable staples. Under this provision any member bank may lend its credit up to the aggregate of 50% of its combined Capital and Surplus in addition to lending its money. It can, further, upon application to and with the approval of the Federal Reserve Board grant such credits or accept an additional aggregate of 50% of its capital and surplus in connection with export and import business. In no event, however, is any member bank permitted to accept in connection with domestic transactions an aggregate greater than 50% of its combined capital and surplus. There is a further provision under which, with the approval of the Federal Reserve Board a member bank may accept drafts drawn upon it by banks in foreign countries, the dependencies or possessions of the United States, for the purpose of creating dollar exchange in the aggregate of 50% of its combined capital and surplus.

A banker's acceptance might rightfully be defined as being a draft or bill of exchange, the acceptor of which is a bank, trust company, firm, person, company or corporation, engaged in the business of granting acceptance credits. Under date of March 1, 1919, three hundred and sixty two members of the Federal Reserve System were availing of the acceptance privilege. Included in this number there were ninety-nine national banks and thirty-five state banks and trust companies that had arranged with the Federal Reserve Board for permission to accept up to 100% of their combined capital and surplus. Since March 1st, the number of accepting banks and trust companies has increased to over 500.

Under the acceptance plan of financing these member banks were enabled to extend accommodations to worthy customers in the nature of secured acceptance credits,

beyond the ten per cent limit fixed by Section 5200 of the Federal Statute. Under this plan they had the ability to lend in this way over and above the amount heretofore provided, an aggregate of $1,027,000,000. They were lending on March 1st, a total of $451,000,000. 75% of this total of $451,000,000 worth of acceptances outstanding on March 1st was based on export and import business—64% of the bills being accepted by banks in New York and Boston.

In addition to the acceptance power of the members of the Federal Reserve System the laws of most of the States have been amended giving the state chartered institutions that are not members, the privilege of accepting. Possible of the 30,000 American banks and trust companies, 25,000 now have the privilege of lending their credit through the acceptance method, as well as lending their money. In addition to this great power, strong private banking houses, such as J. P. Morgan & Company, Kuhn Loeb & Company and Brown Brothers & Company of New York have filed statements with the Federal Reserve Bank and have made arrangements under which their acceptances are made eligible for purchase in the open market by the Federal Reserve Banks. A number of acceptance corporations and acceptance houses whose principal business is that of granting acceptance credits have been organized in New York and other centers throughout the country. The Foreign Credit Corporation of New York opened its doors only a few days ago. It has a paid up capital of $5,000,000 and a surplus of $1,000,000, and is devoting its attention to the business of accepting. I understand a similar corporation, the principal stockholders of which will include one hundred of the leading Texas banks is being organized at Dallas, Texas with a proposed capital of $2,000,000. Strong organizations of this character can safely grant acceptance credits in the aggregate of five or six times their combined capital and surplus. Some of our friends have suggested the need for an amendment to the Federal Reserve Act providing for an increase of the limit of the aggregate that members can accept, to 200% of their combined capital and surplus. It would seem that since the records for March 1, 1919, show that the 362 member banks that were then accepting, were exercising but 44% of their acceptance power, that the demand for an increase in the limit is hardly justified and that we should go along and develop the acceptance method using extreme care to the end that it be developed along safe and sound lines. When the time for extending the limit arrives, provision certainly should be made under which the exercise of the additional power will be subject to the supervision of the Federal Reserve Board or some other recognized Federal authority.

The creation and use of bankers acceptances like production or manufacture, can progress and increase only as the market for the product is developed. The creation and maintenance of a comprehensive open market for bankers' acceptances is therefore an essential feature of the acceptance method of financing. Acceptors, drawers, and other holders of acceptances must be assured of a ready market in which they can dispose of their holdings of bankers' acceptances at all times and at stable rates.

The Discount Corporation I have the honor to represent was organized for the purpose of devoting its resources and energies to the development and maintenance of such a market. A number of other strong discount houses and dealers in acceptances are also devoting their energies and resources to this purpose. These strong concerns stand ready to purchase at all times prime bankers' acceptances and high grade trade bills bearing first class bank endorsements. The dealers of New York are now carrying in their portfolios an aggregate of approximately $80,000,000 worth of such bills. These bills are purchased outright direct from the drawers, the acceptors or other holders and are then resold by the dealers to purchasers throughout the United States. The dealers operate on a margin of about 1/16 of 1% per annum gross profit. Their purchase rates for prime bankers' acceptances today are 4 5/16% for ninety-day maturities, 4 ¼% for sixty-day maturities, and 4 3/16% for thirty-day maturities. That is on eligible bills payable in New York or some other Federal Reserve center. It has been held by some authorities that dealers should not purchase acceptances direct from the acceptors and that all bills should be returned by the acceptors to the drawers to be marketed by them. In theory this is ideal, but in practice it is not. For illustration—we purchase bills from a certain St. Louis Bank. We will suppose that this bank accepts in a certain day ten drafts of $10,000 each for ten different customers. If the acceptances are to be marketed in New York, under the theoretical method, it would be necessary for each of these ten concerns to send one or more telegrams to New York and for the New York dealers to respond, whereas, should the accepting bank under the practical plan, serve as the agent for the drawers in the marketing of the acceptances, one telegram to New York will answer the purpose in obtaining the rate and closing the deal for the sale of the acceptances. In this way nine or more telegrams to New York and nine or more replies are obviated. Further, the work in handling the transactions and the expense connected therewith are reduced to a minimum.

The Federal Reserve Banks are permitted under the law to purchase from their members and others, bankers' acceptances having not over ninety days to run and drawn in conformity with the law, rulings and regulations of the Federal Reserve Board and Federal Reserve Banks. They are also authorized to purchase this character of bills with six months time to run if secured by live stock. Likewise, they are authorized to purchase trade acceptances having not more than ninety days to run. No better evidence of the progress in the use of the dollar acceptance may be had than the records of the Federal Reserve Board which show that the Federal Reserve Banks purchased in their open market operations in the year 1916, bankers' acceptances aggregating $386,000,000; in 1917, $1,077,000,000; 1918, $1,800,000,000, and during the first seven months of the year 1919, $1,369,000,000. The acceptance dealers stand ready to quote rates on application by wire or by letter. They send to banks and other prospective purchasers, individuals, firms, corporations, and companies that may have temporary funds for investment a daily offering sheet on which is given the denominations of the bills offered, their respective maturities, and the rates at which they are to be sold. With these lists before him any investor is enabled to select high grade bills suitable as to maturities, denomination, etc. Bankers' acceptances being salable in the open market or to the Federal Reserve Banks serve as an excellent reserve. They can be converted into actual cash instantly. They are sound and safe because you have responsible thereon, 1st, a high grade bank (the acceptor), 2nd, a first class merchant, exporter, importer, manufacturer or other business man (the drawer) and the bills are usually collateralized by readily marketable staple. The laws of all but two states have been amended authorizing savings banks to invest a part of their resources in bankers' acceptances. I have in mind a particular savings bank that purchased a liberal supply of bankers' acceptances from us about six weeks ago. The acceptances were of ninety-day maturities and were sold to this bank on the basis of 4 1/4% discount. Thirty days after the bank made its purchase, it was confronted with heavy withdrawals. It did not want to sacrifice its securities in the market and did not want at that time to deplete

its balances with its depository banks. The officer of the bank in question called us by telephone wanting to know if we would repurchase these acceptances.

We did so discounting them at 4 1/4%. Within twenty-four hours the proceeds of these acceptances were being used by the bank to pay its depositors. Consequently, so far as concerns the bank the acceptances served it just as well as would have a balance with a depositary bank. Instead of earning from 2 1/4% to 2 1/2% the savings bank realized an earning of 4 1/4%.

The savings banks of America have resources of some seven billions of dollars. During the past four years their scope of usefulness and influence has been tremendously expanded. Their business is now affected by foreign exchange operations and other international business. Three per cent of the savings banks' resources might to the advantage of the savings banks and to the advantage of the commerce and industry of this country be diverted to investment in high grade bankers' acceptances. The deposits of savings banks are dependent upon our commercial and industrial progress. Savings banks should therefore turn their attention to the investment in this character of paper and pass on to the seventeen million new investors that have been created in this country during the past four years a part of their holdings in long time securities.

A number of clearing houses have recently modified their rules so as to provide for the clearing of acceptances through the regular daily exchanges. This greatly facilitates the handling of the maturing bills. The Ferral Reserve banks have also made arrangements under which bankers' acceptances payable in Federal Reserve and branch Federal Reserve Cities may be collected through the Federal Reserve clearing and collection system and settled for through the Gold Settlement Fund. In this way an acceptance made payable in St. Louis can through the Gold Settlement Fund be converted into actual reserve on the day of its maturity by the New York holder. You will therefore readily see that through the use of bankers' acceptances, funds may be attracted from the section of the country where they are most plentiful to the section where they are most needed; exchange may be equalized, interest rates may be levelled and the shipment of actual cash to and from the different sections of the United States may be obviated. In the same way funds may be attracted from foreign countries to America or from America to foreign countries as conditions may warrant. Exchange and discount rates may be equalized and the shipment of gold may be reduced or obviated. Recently a large number of Belgian merchants determined to make heavy purchases of American raw materials. In order to finance these purchases a number of New York banking houses formed a syndicate. This syndicate operating in conjunction with a like syndicate of Belgian bankers granted acceptance credits against the sale of American commodities to Belgian purchasers to the extent of $50,000,000. A similar credit of $6,000,000 was arranged by New York banks with consortium of Czecho-Slovakian banks. $40,000,000 worth of the Belgian acceptances were absorbed by the New York dealers in a three-day period.

The dealers' purchase rates for acceptances are an evidence of the stability of the bills and the market therefor. During the past ten months the rates have fluctuated but 1/16 of 1%. That change applied to bills of maturities from eighty to ninety days only and was in effect only a few days, whereas during the same period the call loan rate on the New York Stock Exchange fluctuated from 4 to 20%. Savings bankers throughout the country have considered favorably the matter of investing a part of their resources in bankers' acceptances. Their failure to do so to a greater extent up to this time, has been due to the fact that a large supply of short term United States Treasury bills have been in the market constantly, yielding 4 1/2% without considering the deposits arising out of their purchase and the tax exemption feature which if considered, makes the yield on this character of paper practically 5%. It is believed that as the Government needs for accommodations are reduced and the offerings of these short time Government bills are lessened the savings bankers and other investors in such bills will turn their attention to bankers' acceptances.

One of the great obstacles confronting the dealers in the development of the discount market has been that of getting ample funds with which to carry their portfolios. That is, at rates which would not entirely wipe out the dealer's profits. About one year ago J. P. Morgan & Company announced that they would lend money on call against acceptance collateral at a preferential rate of 4 1/2%. Other large New York banking institutions have since taken like action and the rates have ranged from 4% to 4 1/2%. The Federal Reserve Banks of New York and Boston, realizing that the development of the open market for acceptances was essential to the success of the system, have greatly aided by the purchase from the dealers of bills on what is termed the fifteen-day repurchase agreement plan. Under this plan the dealers sell to the Federal Reserve Banks with an agreement to repurchase within fifteen days prime bills at 4 1/4%. The development of the acceptance market has been retarded because of the practice of banks throughout the country to lend their temporary funds on the New York Stock Exchange at call. We all know that reserve funds should not be utilized in this way for the reason that such loans are not collectible and can be called only in event the burden can be shifted to other shoulders while loans against prime bankers' acceptances or investments in such acceptances can be liquidated on any day for the reason that the acceptances serve as a basis of currency issue and can be rediscounted or sold to the Federal Reserve Banks. The Federal Reserve Banks, however, are not obliged as originally intended to be a means through which interest rates might be regulated and controlled. It can be safely stated, however, that no condition will arise where prime bankers' acceptances will not be given preference when offered for discount by a member to a Federal Reserve Bank or when offered to a Federal Reserve Bank in its open market operations.

An effort is now being made to work out a plan for periodical settlements of stock exchange call loans. If such a plan is evolved it will materially aid in the development of the acceptance market. Bankers' acceptances will be used more and more by the banks as a means of adjusting their cash position.

Another obstacle to the development of the open discount market has been the practice of swapping bills. This practice should be discontinued wherever it is in vogue because it is nothing more or less than the arranging for accomodation endorsements. It seems to me that taking everything into consideration that the development of the bankers' acceptance method of granting credit has progressed satisfactorily. Our real duty now is to keep a careful watch on this method and see that its further development will be along absolutely sound and safe lines. Our endeavor should be to gve through the use of this method all possible aid to domestic commerce and industry and to the development of our foreign trade. By this I mean not alone export but import business as well. There is a vital need for the bringing about of a proper relationship of our export to our import business. Otherwise the lack of stability in foreign exchange may preclude America's obtaining much of the business to which she is rightfully entitled. Bankers' acceptances will be graded as are other bills and commodities. The bills of the best known institutions with unquestioned standing drawn by concerns of the

same character and collateralized by stable commodities will be put in a class known as prime. The acceptance of other institutions will be graded, so much off prime. In other words, even though the intrinsic value be as much in the one case as in the other, the acceptance of a high grade small bank whose name is not known among investors will not find as ready a market as will the acceptance of a strong large well known banking house. Where acceptances are to be accepted payable at a point other than the city wherein the acceptor is located they should contain the following clause—

> "The drawee may accept this bill payable at any bank, banker, or trust company in the United States which such drawee may designate."

Any bank desiring to engage in the acceptance method of financing should thoroughly familiarize itself with the law and the rules and regulations of the Federal Reserve Board and the Federal Reserve Banks. It should confer with the officials of the Federal Reserve Bank of its district in order to make certain that the bills will be drawn in eligible form and in a form satisfactory in every way to the Federal Reserve Bank. It should get in touch with its correspondent and get from that source such information as may be available. It should also get in touch with some good discount corporation or acceptance dealer in order to make certain that its bills will be drawn in a form that will insure proper consideration and will aid in their ready movement in the market.

Trade Acceptances.

A trade acceptance is a time draft drawn by the seller of goods upon the buyer thereof for the purchase price and accepted by the buyer with his promise to pay at a specified time and place; in other words, a trade acceptance covers a current transaction or current transactions in merchandise. Trade acceptances may be secured or not as agreed between the parties thereto. Usually, however, they are not secured. The Federal Reserve Banks are authorized under the law to purchase trade acceptances in their open market transactions; that is, when they are in strictly eligible form and have not to exceed ninety days to run.

Next to bankers' acceptances, trade acceptances are the highest grade of commercial paper in existence. The Federal Reserve Banks give a preferential rate of from ¼ to 1½% on this class of paper when rediscounting for member banks and it will serve as a basis of currency issue. It is therefore desirable that the use of the trade acceptance method be encouraged and substituted wherever adaptable for the old open book account method of merchandising.

The progress in the use of the trade acceptance is evidenced by the fact that within a period of one year the list of known users increased over 4,000. As a further evidence of the growth in the use of the trade acceptance, the Federal Reserve Board's report shows that the Federal Reserve Banks discounted this character of bills in the year 1916 to the extent of $16,000,000; in 1917—$30,000,000; 1918—$61,000,000, and the Federal Reserve Banks purchased in their open market operations in 1916 an aggregate of $5,000,000 worth of trade acceptances; 1917, $37,000,000 worth; in 1918, $187,000,000 worth. The greatest success with the use of the trade acceptance has been in cases where it has been applied to entire lines as in the cases of the West Coast Lumber Dealers, the Flour Millers of the State of Washington, and the National Silk Dealers. In these respective lines the sales terms have been revamped so that the sales are either for cash or trade acceptances, sales on open account being entirely eliminated.

I have in mind one concern whose sales for the first six months of the year on the trade acceptance basis were $1,600,000. Its terms were 2% ten days net 60. The average time of its outstanding accounts heretofore had been 78 days. Every acceptance but one in this total volume of $1,600,000 was paid at or before maturity. The acceptance that was not paid was involved in a failure. It was for $647. In other words, this concern through the use of trade acceptances saved eighteen days' interest on $1,600,000. It made a further great saving in the matter of labor and expense in handling its business. Other users of the trade acceptance praise it because it enables an equal amount of capital to do a greater amount of service. It enables its users (1) to reduce their bills payable account, (2) to buy a greater amount of short term Treasury Bills, and (3) to handle without difficulty the increasing volume of their business with the attending high prices; (4) to shorten the credit period, (5) reduce the number of claims and disputes, (6) to afford a definite check up on all transactions, and (7) to generally stabilize their business producing at the same time a great volume of liquid paper eligible for rediscount at the Federal Reserve Banks and for service as a basis of currency issue.

A number of clearing houses have amended their rules so as to provide for the clearing of trade acceptances made payable at the offices of their respective members through the regular daily exchanges. In the development of the trade acceptance method of merchandising financing we find that the banks are now confronted with four important problems. One, the general demand by the users for a preferential rate when trade acceptances are offered for discount; (2) the matter of arranging a fair and equitable schedule of service and collection charges for handling trade acceptances. (3) The devising of the most efficient and economical method of handling trade acceptances within banks and business houses. (4) The problem of perfecting a comprehensive market for trade acceptances.

Regarding the first problem, it is unfortunate that business people generally have been led by certain enthusiasts to believe that a preferential rate of from ¼% to ½% will be accorded by banks when discounting trade acceptances, because the banks are able to obtain preferential rates when rediscounting such bills with the Federal Reserve Banks. Many users have further been misled into the belief that trade acceptances can be discounted at the banks or sold in the open market in unlimited volume. It should be remembered that a lender's market has prevailed for many months and will likely continue for some months. Bankers have found ready use for their funds at favorable rates. Until conditions change rates may fluctuate, but in no event will all trade acceptances find a ready market at preferential rates. Banks and other investors will take into consideration the name and character of the drawer and acceptor. The volume that will be discounted for any holder will depend upon that holder's standing and upon the standing of the other parties to the transaction. Prime names, that is, the best and well known names will be accorded a more liberal rate than will the unknown names. Some fear has been expressed along the line that through the use of trade acceptances our credit system will become inflated. If trade acceptances are properly used they can come into being only when an actual transaction in merchandise takes place. If the bankers and others whose business it is to grant credit and discount bills, will apply the acid test to all names on the trade acceptances that are offered, danger of inflation will be obviated. It may be found that some concerns that are now getting heavy accomodations from banks will be restricted because the trade acceptance will reveal that they are doing a character of business that does not warrant their getting the accommodation that they have been heretofore accorded against their accounts.

receivable. In other cases, however, it will be found that certain concerns do business only with high grade customers, people who can be depended upon to pay their obligations promptly. In such cases the accommodation extended through the discount of trade acceptances, may be greater than has heretofore been accorded to such concerns on their single name notes.

The American Acceptance Council has approved and recommends for general use a form of trade acceptance, including the following—

> "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, the drawee may accept this bill payable at any bank, banker or trust company in the United States which such drawee may designate."

It is believed that the trade acceptance form should be kept free from all entangling notations and conditions: otherwise its negotiability will be hampered.

Second Problem—Arrangements should be made for the appointment of a special committee of bankers and business men to work out a satisfactory schedule of service, exchange and collection charges. Some acceptance users have the idea that trade acceptances can be handled on the same basis as checks and that they should be collected at par through the Federal Reserve Banks. They have also misunderstood the action of the New York Clearing House and other clearing houses with reference to the clearing of local trade acceptances, as meaning that trade acceptances payable at any point in the United States may be collected through New York or other principal clearing centers at par. The use of the trade acceptances will transfer to the bank, much labor heretofore done in the business house. The business house will be relieved from sending letters, drafts, duns and other notices. By the concentration of this work in the banks it can be done at less expense but whatever the expense is, it certainly should be borne by the trade acceptance users. It is believed that on thorough explanation of this point to the users they would be satisfied to pay a reasonable fee for the service and cost of collection of the acceptances. It is necessary to send trade acceptances to the place of payment before maturity; they must be ticklerized on receipt and carefully watched until maturity. From origin to the point of payment the work of handling trade acceptances is greater than that involved in the handling of ordinary checks. But since trade acceptances, payable at banks may be charged to the accounts of the acceptors in most of the States, their use obviates the necessity for the issuance of checks to pay the bills the acceptances displace, thereby affording a big saving in labor and expense.

Third Problem—That of devising the most efficient and economical method for handling trade acceptances in the banks and business houses should be delegated for solution to a committee of bankers, trade acceptances users and accountants. The credit man of a certain concern told me recently that through the use of trade acceptances, his house was enabled to dispense with the services of one clerk. The work heretofore done by this clerk is now being done in the bank.

Fourth Problem—That of the development of the market for trade acceptances must necessarily be a slow one. Many leading banks are turning their attention to trade acceptances as an investment in preference to commercial paper. These banks, however, are considering only the very best means and it is certain that trade acceptances taken by concerns outside of the large financial centers must find lodgment in the local banks. The expense of investigating the names on the bills of small denominations would alone preclude their finding their way to the open market.

The Clearing House Section could do no greater service than to turn its energies to the solution of these four problems. Great progress is being made with the trade acceptance method of merchandising, its further extension and development will depend largely upon the attitude of the bankers. If the bankers in the 234 clearing house centers are thoroughly convinced that this method is sound and efficient, and means better and safer business and will so advise the merchants, manufacturers and other business people in their respective communities, the future progress of the trade acceptance method will be made certain.

There never was a time in the history of this nation when there was greater need for clear thinking, for the exercise of sound judgment and for the careful direction of our commercial, industrial and financial affairs than at present. Our progress during the past four years is without parallel. Our business methods and practices have been revolutionized. We have witnessed a nation of one hundred ten million people working as an individual for a single purpose.

On turning from the accomplishment of this purpose to peace-time pursuits, we find our entire population more prosperous than ever before, but with this prosperity there has come extravagance, a demand for ease and comforts, a desire for shorter hours, less work and more pay, as well as other vexatious problems which must be solved, and solved rightly if we are to hold the place we have achieved as a leading commercial, industrial and financial power of the world.

We have rolled up a staggering credit balance in connection with our foreign trade. (From July 1, 1915, to July 1, 1919, the excess of our exports over our imports totaled $13,350,322,816.) We have loaned to foreign governments the tremendous total of over $9,000,000,000. We have great surpluses of foodstuffs and raw materials urgently needed by other nations throughout the world. The unsettled foreign exchange situation makes the prices of these commodities to the principal foreign countries almost prohibitive.

Some of our chief competitors, driven by adversity are concentrating and uniting their forces. They will soon be back to a normal basis and will be offering their surplus products in competition with ours. Close co-operation and low production costs will make their competition keen.

The Clearing Houses of the United States afford the best instrumentality through which to get the concrete judgment of the best banking minds in America. The leaders in the Clearing Houses throughout the country should turn their attention to the study of these important problems and the devising of ways and means through which they may be solved. Some plan must be devised under which our great foreign trade credit balance may be liquidated, proper relation of exports to imports may be established and the necessary long time credits with which to further extend our foreign trade may be arranged. It would seem, even though great progress is now being made that we will need take hold of the situation with a stronger and more determined hand. The spirit of close co-operation, efficient and conscientious effort must be crystallized in the minds of the people throughout this country.

No class of people in America can do more toward bringing about these results than can the bankers. The liquidation of our foreign trade credit balance and the extension of our foreign trade make it desirable and necessary for the people of America to invest in foreign securities. We have created in recent years more than 17,000,000 new individual investors. When our Government financing is out of the way these investors will be in a position to absorb billions of dollars worth

of foreign securities annually. A gigantic co-operative corporation should be formed with the strength, power and influence that will be necessary in order to induce these new investors to invest in foreign securities and in order to protect such investments.

If the Edge Bill, now pending in Congress, should become a law, a corporation of this kind with a capital of from $50,000,000 to $100,000,000 and with the American banks as its stockholders might readily be formed should the banks represented in this Section of the American Bankers' Association get behind it with the spirit and enthusiasm that characterize them. With the banks throughout the country acting as the agents of such a corporation and co-operating through it, our international, commercial and financial problems would be easy of solution and needed facilities might be provided to the banks throughout the nation and the whole people would be greatly benefited.

The Clearing House; A Factor in Foreign Trade Development

By Sol. Wexler of J. S. Bache & Co.

It gives me great pleasure to be afforded the opportunity of saying a few words to this important section of the American Bankers' Association, in which I was at one time quite active and of which I once had the honor to be president, but I regret exceedingly that the strenuous times through which we are passing have given me too little time to make a genuinely critical study of the relation of banks to international trade and to prepare an address entirely worthy of such an intelligent and discriminating audience. I trust you will therefore be content with a brief expression of my views upon this subject.

As Clearing Houses are merely associations of banks primarily to facilitate their daily transactions, the subject should more properly be "The Relation of Banks to Foreign Trade Development." The necessity of promoting and aiding foreign trade can best be stated in the declaration of the seventh annual meeting of the Expert Group of the American Chamber of Commerce, dated May 1, 1919, as follows:

> "The stimulation and development of the nation's international trade is vital to the country's prosperity and the solution of its economic and industrial problems. All business, agricultural and industrial associations and organizations should direct the attention of their members to the importance of this subject and the necessity for encouragement and support of all measures which will facilitate and enlarge American trade with other countries, extend American banking and insurance to accompany and supplement the foreign enterprises of American commerce, and provide adequate cable and wireless facilities,"

and the relation of banks thereto can be summed up in the few words that without the moral encouragement and financial assistance of banks foreign trade development is impossible.

Failure on the part of banks to render such assistance affects the whole commercial, financial and economic structure and will create problems the solution of which may involve us in serious difficulty. I make this statement because there is no single individual, however humble may be his occupation, and no line of business, from the most insignificant to the most important, that is not immediately concerned in the development of foreign trade, and such being the case banks, the fountain heads of business and upon which all reactions, whether favorable or unfavorable, are immediately registered, are the ones most directly concerned.

The great balance of trade in our favor during the war, which filled our coffers with the gold supply of the world, will rapidly disappear if we fail to grasp the opportunity which we now have of continuing to control a liberal share of the world markets for our surplus merchandise and manufactured goods and, in return, to find a local market for a reasonable proportion of the production of other countries so that exchange between us and them may be stabilized.

Our Merchant Marine, which for a century amounted to nothing and which now, through force of circumstance and despite governmental incompetency, has reached a position of importance, will again languish if cargoes both ways are not provided, and in consequence our budding shipbuilding industry with its great consumption of steel products and vast employment of labor will return to pre-war conditions of stagnation. With the export trade goes the insurance of cargoes, the employment of freight cars, the victualing and coaling of ships, the employment of warehouse and dock space, the continued employment of labor, so that it can be seen how intimately our general prosperity is connected with our foreign trade. A number of banks have established important branches in foreign countries. If we do not continue to develop our foreign trade these will be merely vehicles for financing and facilitating the business of our competitors.

We come now to the practical side in which banks can lend their necessary assistance. The volume is of such magnitude and the sums involved so great that the business is far beyond the financial capacity of individuals and of but a small percentage of firms and corporations. The export and import business must of necessity evolve more or less into a specialty business, each becoming experts in particular lines. Merchandise must be manufactured requiring capital or credit until the shipment is assembled. The financing of such transactions is a proper function of the local bank. The shipment then goes forward either against a through rail and sea bill of lading or on a local bill of lading to the port. The local bank then needs reimbursement and the bank at the financial centre or at the port commences to function and must advance against the bill of lading. If, as was the case before the war and as will be the case in course of time, a regular demand sixty or ninety day bill could be drawn against a confirmed or an unconfirmed credit the transaction would be simple, but at present the foreign buyer needs longer credit, and the accepting banks and merchants are no longer in the same financial position as before the war, nor are the governments of the countries in which they are located sufficiently stable, in many cases, to make the transaction as free of risks as formerly, and yet the business should and must be done. To illustrate a transaction now pending in which a syndicate of foreign spinners wish to buy 20,000 bales of cotton: each member of the syndicate is liable for his proportion, seven banks in and around the capital of the country propose to accept the bills, all seven of the banks are jointly responsible for the whole, they are willing to pay a fair price for the cotton as well as for the credit, but

they want to buy on six months' credit with three renewals, or eighteen months. Such a transaction is a reasonable business risk but is too much for any one bank to undertake and should be syndicated and banks throughout the country should take part, each in proportion to its financial ability. It is by such means that the financial assistance can be rendered.

The moral assistance and encouragement can be furnished in many ways and in many directions. First, by showing the exporter how the transaction can be handled and not merely turning him down. Second, by allowing documents to be taken out in trust on trust receipts to be exchanged for ocean bills, and, Third, by furnishing credit information as to the standing of foreign firms and, further, by performing various small services not strictly, perhaps, within the function of the bank and often troublesome to loan clerks and bank officials, yet necessary until the business is properly under way and working smoothly.

Bankers have never yet fully realized the tremendous influence which they can exert. It was somewhat demonstrated in the framing of the Federal Reserve Act. They are like sleeping giants in this respect. This influence should be exerted in a big and broad way and among the things in aid of foreign trade that might be accomplished would be to demand of Congress an appropriation for the establishment of a school of consular agents so that our commerce would be represented by men qualified for the job, paid well enough to make it attractive, and not by political appointees without experience and training.

Banks can use their influence to have the old cry against so-called "dollar diplomacy" relegated to the scrap heap, for I am sure you all agree that the American dollar, if honestly invested, is entitled to protection, whether it be in Mexico or in Timbuctoo. It was never anything but a political catch-penny phrase (like the "free breakfast table" in the tariff discussions). Every American ought to be made to feel that the Department of State is ready to give ear to his complaint and if well founded will take such action that no man and no country will have the temerity to confiscate, unduly tax, or defraud an honest American enterprise or investment. Bankers may use influence to have the Sherman Anti-Trust law so amended or construed as to enable business to be done in a big way, so that concerns may join issues and combine capital and create economies of management and operation that will better enable them to compete with countries not hampered by similar legislation. Bankers may use their influence, and this refers more to the so-called country bankers, to see that men are sent to Congress of sound business judgment, of unflinching patriotism, who put the welfare of the whole country above partisan politics and who have a decent regard for the rights of all men, whether owners or workmen.

Much has been said in the press and by public speakers upon the subject of providing funds for the rehabilitation of devasted areas in Europe, for the erection of public buildings, bridges, roads and other permanent improvements, a function which in my humble opinion banks should *not* perform except perhaps to a very moderate extent, and then only as an intermediary between the borrower and the investor.

The conversion of liquid capital and credit into fixed investment is always dangerous and should be done from gradual savings and accumulations not needed in the channels of trade. Such investments in the Argentine caused the failure of the great banking house of Baring Bros. in London in 1890, from which a world panic ensued. Rehabilitation and reconstruction should be slow and gradual and should not be permitted to interfere with the needs of trade and should be the inducement of the particular community to save for this purpose. While we should exert every means to provide credit for raw material and manufactured goods and for agricultural implements and labor saving machinery to take the place of man power, we should not flood the country nor fill up bank portfolios with bonds of foreign municipalities and political subdivisions except to an amount which will represent a small percentage of idle funds in this country seeking investment.

After the Civil War it took many years for the devasted area, caused by Sherman's march to the sea, to be reconstructed, and it was finally done by the people of the immediate section out of their own resources and accumulations.

In conclusion, we owe it to the community in which we live, to our farmers, laborers and manufacturers, to the whole country itself, to help stimulate, finance and encourage international trade along intelligent lines, always, however, having in mind the old adage that charity begins at home and that the paramount duty is to keep the home fires burning.

The Need for Clearing Houses in Smaller Communities

By Wayne Hummer, President La Salle National Bank, La Salle, Ill.

Four years ago at Seattle I had the pleasure of listening to an address on County Clearing Houses by R. F. McNally, now of St. Louis, and so impressed was I by his eloquent words that upon my return home I told my banker friends that an organization of this kind was just what we needed in our own district. At that time we were all on friendly terms, but some of us had little more than a speaking acquaintance with one another. As for co-operation, we simply did not know the meaning of the word, at least so far as local bank co-operation was concerned. A short time later an invitation to dinner was extended to all the bankers in our community, and before the dinner was over, we had formed the Tri-City Clearing House Association, comprising the six banks of La Salle, Peru, and Oglesby, Illinois, towns which adjoin one another.

Words cannot tell how much this organization has meant to us. But if I were asked to state its advantages, I should place ahead of all else the fact that the bankers of our community now really know one another. We are, in fact, the very best of friends, and once there is this kind of a spirit it is needless to say that all else is easy of accomplishment. We have a set of by-laws, but they contain no hampering features, no rigid rules and regulations. Action of any kind can be taken only with the unanimous consent of all the banks.

We have a president, a vice-president, a secretary-treasurer and we hold regular monthly meetings, first at one bank, and then at another. There is little or no expense involved, there being a nominal membership fee of ten dollars. When additional funds are needed, we simply levy an assessment.

At these monthly meetings each bank is represented by one and sometimes by more than one official, and we

discuss everything of common interest. Not the least important matter that comes up before nearly every meeting is the question of loans to individuals who go from one bank to another seeking accommodations. Before the organization of our association we had no way of checking this abuse, but now each bank presents a list of names of borrowers at the meeting, or of those that he may desire to inquire about, and we have not infrequently discovered that some of our "good customers" were also "good customers" of two or three of the other banks. The remedy in cases of this kind is simple, and it is certainly advantageous to find out about practices of this kind before they go too far.

There are, as you know, also some individuals who say, if you will not do it for me, the bank across the street will. A few years ago the concession asked for was usually granted in order to retain the business, but today, at least that's the way we do it, we call up the bank across the street and say, "if you will help us out, we'll appreciate it, and we'll do the same for you." The incident is then usually closed and instead of playing one bank against another without profit to either the customer and the bank usually get together.

In order that the meetings of our association might be of more value to us, we decided at our last meeting to bring up for discussion at each of our winter meetings certain subjects in which we were all interested; and a committee was appointed for the purpose of preparing a list of subjects and of arranging for one or two bank representatives or officials to lead the discussion. We had talked of this before, but last winter most of the time of our meetings were taken up with the discussion and working out plans for doing our part of the war financing, and largely through the efforts of our association, not only our own district, but the entire county oversubscribed all of the Liberty Loan and Certificates of Indebtedness issues. When the Government first called upon the banks for assistance our association volunteered its services, and the county chairman for the Liberty Loan and Certificates of Indebtedness campaigns were both officials of banks of our local Clearing House Association. I merely mention this to show how, because of our organization, we were in a position to act at once and, therefore, able to render some assistance to the Government when it was most needed.

When a number of progressive bankers began preaching the doctrine of County Clearing Houses a few years ago many other communities were quick to realize the advantages of County Clearing House Associations, and there are today upwards of two hundred and fifty Clearing House associations in the country. However, I regret to state that there are many more communities with three or four or more banks where there is no organization, and, what is even worse, in some of these communities the bankers are not even on friendly terms.

The first question that is usually asked in connection with these associations is how to go about their organization. I have already told you about the Clearing House association in my own community and I cannot see why the problem should be more difficult elsewhere, although possibly a more rigid set of by-laws might be advisable. In any event, our plan shows clearly how banks in a small community can co-operate through a local clearing house association. The Clearing House Section of the American Bankers' Association is prepared to send proposed by-laws and any other information that may be desired in connection with the organization of an association. It is in reality a simple matter to form an organization. If one progressive banker in any of the smaller communities of the country today would undertake the organization of a Country Clearing House Association there is little doubt that his efforts would bring about the desired results, because, as I have pointed out, conditions have gradually altered during the past few years.

Another question is—What are the problems that can be solved or how can banks co-operate through an organization of this kind? I have already mentioned the important subject of loans, and the old abuse of playing one bank against another, also how, when it is necessary for the banks to work together, as was well illustrated during the Liberty Loan campaign, a community where the banks are organized, are decidedly in a more advantageous position. Then there is the question of interest on deposits, often the cause of friction between banks; the deposit of public funds frequently not prorated between the banks; the charges for handling collections and also accounts where the average balance falls below a certain amount; opening and closing hours; the policy to be adopted in connection with answering inquiries. This is a courtesy extended by all banks, but it is frequently abused, especially by the mercantile agencies. Then there is the question of the policy to be adopted in connection with the safe keeping of securities and the rental to be charged for safety deposit boxes, not to mention many other problems which come up from time to time.

I do not mean to say that a Clearing House Association will solve all of these problems at once, but most of the abuses can be corrected and there are, indeed, few if any problems that cannot in time be solved.

The economies alone that can be affected in the clearing of items, where the volume is large, is more than enough to warrant the formation of a Clearing House Association. In some of the smaller communities, however, this function is not so important, but in solving problems such as those previously mentioned, many abuses are not only prevented, but economies as well are effected.

These organizations operate almost without effort on the part of anyone. The by-laws provide for the time and place of the meetings and these may be altered or amended at any regular meeting, provided all agree, and as to expense, there is practically no additional expense. What expense there is would in all likelihood be incurred anyway, but instead of being paid by each bank individually where all the banks are interested, as would be the case where there is no association, the secretary of the association now pays the bills, and as his duties are not much of a burden, he is usually glad to serve without compensation.

Although the subject of my address is "Country Clearing Houses," country bank co-operation is really what we are after, and I, therefore, want to take this opportunity to tell you something about Illinois County Federations. The main purpose, in fact, of the County Federation and Country Clearing House are almost identical in that each are organized primarily for discussing and working out plans for the solution of banking problems.

For the past few years I have been Chairman of the Committee on County Federations of the Illinois Bankers' Association, and during this time our Committee has organized County Federations in some forty counties. Although two or three years ago it was at times difficult to arouse sufficient interest to get even a majority of the bankers in a county together, conditions have gradually altered and it is now a comparatively simple matter to organize a County Federation, and for this reason I am sure we are going to see more co-operation between Country Bankers in the future than in the past. During the Liberty Loan and other campaigns of a similar nature they were thrown together and became acquainted with one another.

These first Federation meetings are usually of especial interest, for bankers who for years have lived ten or twenty miles apart often meet each other at these meet-

ings for the first time, and almost invariably, they end up with an enthusiastic endorsement of the County Federation idea.

Our County Federations in Illinois are contributing in no small measure to making the Illinois Bankers' Association a great organization. Ninety per cent of the counties are now organized. They hold Spring and Fall meetings at which there is a freedom of discussion of current banking problems, not possible at State or even Group meetings. Sometime in the near future, we are planning to have a meeting of the County Chairmen of these organizations. Country bank co-operation will be the key-note of this convention, and one of the main purposes of the meeting is to work out a definite plan for the organization of Country Clearing Houses through the County Federations. Without complete harmony and co-operation between the banks in the smaller communities, the County Federations will be hampered in all their work. We hope, even in communities where there are only two or three banks, to induce these banks at least to work together toward keeping the local situation in hand.

It has always been a comparatively easy matter to induce the banks in the cities and larger communities to support our state association, but this has not always been the case with the banks in the smaller communities and rural districts. We want every bank in Illinois to be a member of our association, and in order to interest the banks not already members, we realize that we have to do something for them and this we are trying to do through our County Federations.

The following incident is an illustration of the actual results being accomplished by Illinois County Federations. Less than a year ago I called upon the bankers in one of our prosperous Illinois cities, which was the County Seat, and asked them to act as hosts to the other bankers in the County in order that we might organize a County Federation. Much to my surprise I found that the bankers in this community were not even on speaking terms. In fact, they had not spoken for twenty years, that is, two of the bankers. Their quarrel grew out of the desire of each to obtain the administration of a certain estate. After some persuasion, however, they consented to act as hosts to the other bankers in the County and at the dinner, in the presence of their friends, shook hands and buried the hatchet forever.

Illinois Bankers are now acquainted with the bankers in the neighboring communities. They are working together for their mutual interests, and the day is not far distant when these organizations are going to exert far more potent and beneficial influence than at present. As stated previously, our work of organization is now nearly complete. A meeting to be held in Chicago will be called some time in the near future of all the County chairmen and at this meeting we intend to work out some plans for definite and uniform action throughout the state.

How well I have succeeded in impressing upon you the need for Country Clearing Houses, I do not know. This much, however, I am sure of, and I know that you will agree with me. The country banker of America has a great responsibility, greater now than ever before. Frequent conferences with fellow bankers will, I claim, make the country banker a broader, bigger and better man, and he will thereby be better enabled to fulfill his mission as advisor and counsellor of his customers.

In fact, the country banker must extend his vision far beyond the boundaries of his own locality. We find the problems of the world at our very doorstep. These must be solved and the country banker of America must not shirk his responsibility.

Uniformity of Clearing House Rules and Practices

By Frank K. Houston, Vice-President, First National Bank in St. Louis.

Mr. Chairman and Gentlemen:

In discussing any uniformity of rules or action for Clearing Houses, I think it is well to pass over any consideration of constitution and by-laws, as that would embrace a mass of detail that would be uninteresting and unimportant. Then too, they are all more or less alike and necessarily have considerable uniformity. Suffice it to say that they, in the main, provide for a President, Vice-President and Manager, fines, assessments and means of meeting expenses.

Of the 40 odd Clearing Houses taken into consideration, 50% of them require three-fourths majority vote for the election of new members and most of the remainder simply a majority vote. In many cases it is necessary for any bank becoming a member of a Clearing House association to have a certain amount of paid up capital. In other cases it is required that they be in business with capital stock fully paid for a period of at least six months prior to application for membership, and in some instances, as in Albany, N. Y., one year is required.

In most all Clearing House rules we found that it was necessary that any applicant for membership at least submit to examination of the Clearing House Examiner, if there was any, or submit a detailed statement for consideration. In the majority of the cities, it was found that a member could withdraw from the Clearing House by giving from 1 to 30 days' notice, and in a few cases it was found that a two-thirds majority vote of all members was required to permit any member to withdraw.

In practically all cases, fixed hours for clearing items among each member are prescribed by the Clearing House rules.

Instead of going further into the provision of the constitution and by-laws of Clearing Houses in a paper of this kind in the short time allotted, would suggest that it might be well for the benefit of the members of this section that the Secretary be asked as soon as possible during the coming year to codify the laws of the different Clearing Houses for use of the members.

I have selected a few of the chief functions of Clearing Houses and shall try to explain how they are being performed by some of the best operated Clearing Houses of the country today.

The chief functions of the Clearing House are, as its name implies—

First. To clear items for the members, including those on each other and those on associate members.

Second. Promote sound and conservative banking.

Items on non-members, not in the same city, are often collected through a country check collection department, and this department is usually called a Country Clearing House.

For examination of the rules and practices of a large number of Clearing Houses of the country, I have evolved the following composite plan, which appears to me to embrace the best features of most of them:

After the exchange of checks at the Clearing House in the usual manner and the entry on the Manager's Balance Sheet showing the net debit and credit balances, the Manager draws what is known as a Manager's certificate of indebtedness on the debtor members in favor of the creditor members. These certificates are called for within one (1) hour by the creditor members and deposited with the Federal Reserve Bank or branch, if any, otherwise cashed, settled by Cashier's Check, or other exchange. This institution makes the proper credit and debit entries on its books completing to the satisfaction of the creditors at the Clearing House the settlement of balances of the day.

The settlement of balances resulting from the exchange of items at the Return Session is effected by giving the Manager of the Clearing House a desk and number. To the Institution having a credit balance, a draft is issued on No —— Manager for the amount of the credit balance. The Manager draws on each of the debtor institutions for the amount of their debit balance. All of these drafts are cleared in the Morning Exchanges of the following business day, completing settlement of Return Session balance of previous day.

The expenses of the Clearing House can be met; first by payment of annual dues; second by assessments against members, pro rated according to the amount which each member has sent to the Clearing House during three months period, preceding the assessment. The expenses of the Examiner's Department and Country Check Collection Department are met in other ways, and will be explained by these Departments.

Of course, there are diffeerent ways of doing these same things, as, for instance, in Los Angeles settlements with members are made through the Federal Reserve Bank in San Francisco by telegraph. On or before 11.45 A. M., the Manager of the Clearing House advises the Federal Reserve Bank in San Francisco by telegram, signed by the President or Vice President of the Clearing House, the result of the day's clearings, giving balances from and to both debtor and creditor banks in detail. The total debit balances to equal the total credit balances for the day. The Federal Reserve Bank thereupon charges the debtor bank with the amount due from each of them respectively and credits to each creditor bank the amount due it.

In most larger cities clearings are made only twice each week day and once on Saturday, but in New York three exchanges are made each day, except Saturday when afternoon exchange for return items is held.

In Baltimore the Federal Reserve Branch is made the agent of the different members of the Clearing House to effect the clearings, and does so by charging and crediting their reserve accounts. In some places, as in New Orleans, the hour of clearing is 8 o'clock in the morning, and banks there do not close their individual ledgers at 3 o'clock P. M. but at 8.30 A. M. the following morning.

In San Francisco banks having credit balances for the day settle same by checks drawn on the Federal Reserve Bank of San Francisco, settling agent, against accounts maintained at said bank. Credit balances due members for the day are placed to the credit of the accounts maintained by said members with the Federal Reserve Bank.

The second most important function performed by a Clearing House, in the writer's opinion, is that of examination and keeping check upon the financial condition, standing and progress of its members. This may be done in different ways, as in many cases, for instance St. Louis, by having a regular Clearing House examiner with a corps of assistants who examine the member and associate member banks as often as possible, and at least once a year. We found that the cities that have a Clearing House examining department are very enthusiastic over its operation. They claim that it gives the stability and confidence to the banking interest of the City that is not afforded by any other means of examination. For instance, such examinations are more thorough and more scientific. The examiners are removed from political influence that so often enters into State Banking Departments and bears upon State examiners. Then the fact that they are more familiar with local conditions and they examine both State and National banks gives them an insight into and knowledge of local credits that is most valuable. They are able to warn the members against designing and constant borrowers who may try to play one institution against another.

Of the many ways of meeting the expenses of such department, we found the one most in vogue, and which apparently had proven most satisfactory, to be that of pro rating the expenses among the members in proportion to the time spent in examining each. Often a small institution might require more of the examiner's time than a larger one. Some Clearing Houses require that a report of each examination be filed with the Clearing House Manager, or a Managing Committee, but in most cases no such report is required unless, in the opinion of the examiner, it is considered necessary.

Another method is to have the State Bank Examiners or Department furnish detailed report to the Clearing House of all examinations of its members, and the Clearing House in turn furnish a summary of this information to its members. As in Louisville, for instance, each member of the association is required to furnish the Manager on the first day of each month a statement of its condition, which shall be tabulated by the Manager and kept by him in a book subject to the inspection of the principal officers of any member. The member failing to comply with this requirement within five days is subject to a fine of $50.00.

In New Orleans members of the Clearing House are required to furnish the Manager each Friday morning with a report of its average daily condition during the preceding week. A condensed copy of this statement is furnished each member and a comparison made against the same time a year previous.

Another ruling of interest that the New Orleans Clearing House Association has is to the effect that no member of the association, nor any bank or trust company clearing through a member of the association, shall accept for deposit or collection from local customers checks drawn against local banks or trust companies which are not members of the association, and which do not clear through members of the association, nor shall any member of the association receive from or send through the Clearing House any checks deposited by, or belonging to any bank located in that city not a member of the association.

In Louisville a member of the association may send through the Clearing House exchanges of a non-member by paying into the association for the privilege a sum equal to the fee required to be paid by a new member upon entering the association, and the liability of the member so clearing shall be the same for this business as for his own. This liability shall continue until the day next following the receipt of notice of discontinuance of clearing for the said other institution.

In the matter of fines and assessments, there is considerable uniformity existing. Some associations take this matter up more in detail, as in one case a fine of 50c is imposed for every unstamped check delivered in the clearings. Most all of the associations have rules covering fines for delay, tardiness and other errors. In some cases, as at Columbus, Ohio, prizes are given to the representatives who make no errors, or those who have the least number of errors.

We find due diligence to be uniformly considered the presentation of any items to the members by the close of

the next succeeding business day after receipt of same. In most cities the Manager is under bond, and the amount varies from $5,000.00 to $100,000.00.

The very important matter of interest rates is one that we find controlled by many associations, and one that we believe should be regulated by all. The plan adopted by the New York banks of regulating interest rates, according to Federal Reserve discount rate we find is being followed by many other Clearing House associations, and we believe is logical and practical and should uniformly be adopted.

In most cases provision is made for the rate of interest to be paid upon Savings Accounts, Certificates of Deposit, whether time or demand, public funds, bank deposits and individual checking accounts. This rate we find to vary according to section and locality, and offenders to be subjected to varying fines.

In order that the rules prescribed covering interest rates may not be obviated, the Seattle Clearing House Association has a provision that no bank or trust company shall permit any of its officers to become associated with, or permit their names to be used in advertising by any savings or loan association, or any other institution soliciting from the public funds as savings accounts when such advertising conveys the impression that such institution pays a stated rate of interest on savings accounts, when in fact such advertising and statements are misleading and the funds placed in such institutions are not guaranteed interest, but apply to a subscription of stock which is not delivered to the depositor.

Most of the rules of the Clearing Houses consulted permit interest to be paid on balances created by uncollected funds, but some do not, and this, we believe, is a very important matter for the consideration of this section. Money used or withdrawn before checks deposited are collected is simply money borrowed for that length of time. In the same way, balances created by foreign checks deposited are not balances until said checks are paid. Any interest allowed thereon is interest paid on a balance that does not really exist. It is especially easy for banks to fool themselves and lose money in overlooking this feature. This is especially true on bank balances and other accounts on which interest is paid.

We find that several associations have in the past year or so adopted rules or regulations covering a service charge on accounts. In such cases, checking accounts averaging for the month less than $100.00 $500.00 or $1000.00 as the case may be, on which any checks have been paid, are subject to a service charge of from 25c to $1.00 or $5.00 per month, and the same is charged to the account. From personal investigation, I know that this rule has worked very satisfactorily and profitably in most of the cities where it has been tried out. If you have never made the investigation, I believe you will be surprised to find the large number of active checking accounts on the books of your bank that average very small, and on which, in themselves, your bank constantly loses money.

While it may be true in some cases one account may average small and the same depositor has a larger one, yet this fact does not diminish the loss on the one, and is more reason why said depositor should make both accounts profitable. Customers realize this, and I believe in most cases agree that it is a fair and just stand for the bank to take. It is a matter, however, that can only be handled by Clearing House action, and the same minimum fixed for all member banks. In these days of high cost of stationery, printing and such things, it is quite a consideration. If some uniform action on this rule were taken by more Clearing Houses of the country, it would certainly add greatly to the profits of the banks.

In practically all of the regulations examined, it was found that members could apply to the association for assistance. Generally such application was required to be made in writing, either to the Manager or a Committee appointed for that purpose. When such application is made, it is generally provided that an examination of the applicant be made and a report submitted to the association. If it is deemed advisable to extend assistance, the Clearing House, or Committee appointed for that purpose, generally accepts from the member making such application satisfactory security or receivables to protect the other members for the proportionate amount of assistance they may advance. All such advances are of course repaid with interest as soon as possible thereafter.

The matter of donations, subscriptions and advertising is one that can be very well handled by Clearing House Associations to the great profit and benefit of many of its members. In the mind of many of the Directors and Stockholders, there is a grave doubt whether or not the bank has the right to give away the money of its Stockholders in donations and subscriptions. Most of this is done however, in the way of advertisement or necessary expense, and we believe it is generally passed by the examiners. Of course, a broad view to take of such action is that it serves to build up the good will of the bank and therefore increases its business. Many of the associations have the provision that no individual donations or subscriptions can be made in excess of a certain amount except by associated action of the bank. Such a rule often relieves individual members of embarrassment.

In advertising, we find that many of the associations list the different periodicals in which its members may advertise, therefore greatly reducing the advertising expenses and no doubt saving its members considerable money. Both of these plans we believe have merit.

In some of the State legislatures, Missouri for instance, there has been introduced in recent years, Bills purported to incorporate Clearing House Associations and put them under the jurisdiction of the State Banking Department, subject to its regulations, examinations, etc. Such action, we believe, would be very harmful and detrimental to the best interest of the Clearing Houses and would prevent them from rendering their members services in many ways that they now do. It would, to an extent, put them into politics and prevent the cooperation they now enjoy.

Much has been said and done recently in regard to exchange charges made to city customers on outside checks. We believe that such charges would be more clearly understood and more easily explained if they were characterized "Interest Charges," determined by the time in transit, and not Collection Charges. This is the theory of the Federal Reserve Collection System and has enabled various Clearing Houses to adjust their charges on a basis much more satisfactory to their customers.

When the time comes that the Federal Reserve Banks collect all items, we have no doubt but what it will be on this basis. While we may all look forward to the time when the Federal Reserve Collection System will be established on a broader basis and handle all items, yet I do not believe that this can ever be done on a par basis to the depositor, because interest on items in transit is a necessity, and should be considered in practically the same light as a loan to the customer.

Some Clearing Houses have followed the above plan to advantage in prescribing charges on Bill of Lading items drawn with exchange that are outstanding beyond the normal time for transit. This they do by making, in addition to the exchange charge, an interest charge for the extra days.

More Associations are constantly coming to prohibit the "Payable if desired" items, and we believe that

such a practice will soon be discontinued entirely. (Comptroller's rulings and dangers.)

We could not close this paper without laying some stress on the advantages and savings under present conditions of Country check Clearing Houses. By the establishment of such departments in the different Associations, we see the possibilities of banks in any section collection on any point, in the most direct and least expensive manner. If banks in the East could feel certain of prompt returns by sending their items to a Country Clearing House on the Pacific Coast, from which they would be sent direct to the place of payment with the least possible time consumed, it would be an incentive to the Eastern banks to make their collections in this manner. If the whole Country was linked by Country Clearing Houses, there could be built up a system of collecting and clearing items similar to that which is now practiced by the Federal Reserve Banks. Under the present method, checks are collected in every way, and before reaching place of payment may be farmed out to a half dozen different banks and routed all over the country.

Besides the benefit of more direct collection, there is great savings in this method of wholesale collection through the Clearing Houses, because of lower rates of exchange that can be secured and reduces the administration expenses in postage, stationery, tracing, correspondence and clerk hire. Such a volume of business can also be used to attract accounts from sections where the banks may scatter their balances or do business elsewhere. Banks receiving this volume of business are pleased with the fact that only one draft is needed for remittance while several were required before. Of course, this method of collecting out-of-town items is practical and profitable only in territories where there is a large proportion of banks that are not members of the Federal Reserve System.

The influence that Clearing Houses have for harmonizing competition and erasing evils that have grown up in the banking business cannot be over estimated. Their power of collective bargaining and co-operation instead of individual action, has been of the greatest benefit to their members, their cities and country. This was demonstrated by their actions in 1907 and was shown on many occasions during the War.

Domestic Reconstruction Problems

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

Mr. Chairman, and gentlemen of the American Bankers Association, at the very outset of my remarks I want to declare my pleasure in being able to be with you to-day and renew the old-time acquaintances in the American Bankers Association. I think it is thirty years ago that I first began attending the American Bankers Association Conventions, since which time the annual conventions of the Association has been about the most pleasurable event I have to look forward to. I have often said that this Association has presented the avenue into which, and through which the young bankers of America have been enabled to express themselves, and it has been the route through which they have traveled to promotion and advancement in their own respective sphere of activity. I feel complimented that there is anybody here to-day to listen to a talk as warm as the weather is, and I have not come with any prepared set speech to read to you. I have come in the spirit of just having a heart-to-heart talk in the way of a conversation and discussing several things that appear to me to be very important in our industrial and commercial life at this time. I am glad that I am a banker. I congratulate you gentlemen upon your being members of this profession. I say this for many reasons, for without doubt it is found that the conduct of the average banker during the war, and the willingness to which he has gone to sacrifice and the patriotic endeavor which he has put forth to help the government in every possible way was no small factor in the wonderful achievements this country made in preparation for and for the activities, resulting in our having so much activity in ending of the War.

Secretary Daniels said in Chicago a year ago that the accounting houses of the Banks of the country were the Clearing Houses of Patriotism, and I think you gentlemen are willing to agree with me that this statement was well spoken at that time. I am not here to-day with any recipe which I am willing to recommend as a sure cure for all of the troubles and the ills that exist in our commercial and industrial life, nor have I any definite formulae that I was willing to stake my reputation upon its recommendation. We have many problems which are important in our financial, industrial and commercial work. I think as bankers you will realize that a discussion of any one of these problems would require a very much longer time than has been allotted to any one of these speakers at these Section meetings. Therefore we must in discussing the matter be rather general in our terms of the subject and discuss those things which perhaps touch the greatest number of people in this country. We have many important problems. One of the most important and perhaps one of the longest standing is that of the railroad problem. Now I don't propose to suggest any remedy for the solution of the railroad question, because our Congress has that particular matter in hand at this particular time. It seems to me that the ultimate settlement of the railroad question which carries with it a finality and which brings a satisfaction to the public, along with that settlement must be a state of public opinion, where it will appreciate that the public must pay freight again for the character of service which it demands.

To my mind the railroad question will be easily and quickly solved whenever the bulk of the people of the United States understand that it is a law in economics. Rates must be sufficiently large to pay for the kind of service that they exact of the railroads, if I were to say that there is a crux in one thing more than another it would be this one thing. I think one of the greatest troubles in the treatment of the railroad problem has been the fearless, I may say the reckless way, in which it has been studied, because each man or each set of men representing different characters of business or different classes of citizens have viewed it from different points of view. Nearly every Chamber of Commerce in the United States, and almost every city of any size has a Chamber of Commerce, has employed among other employes an expert, whose duties it is to study proposed rates of railroad freight, and whose purpose it is to keep these freight rates down. In other words I think we have been given to viewing the situation too much from the standpoint of the theory it is all right for me as a shipper to have my goods hauled the distance it may be necessary at a fair price, but if I take the point of view that I expect these goods to be hauled at a

price lower than will pay for the service in expediting the transfer of these goods it seems to me it is certain to result in disappointment somewhere, because under the laws of economics the service must be paid for in a price which will be proportionate to the amount of service which was taken. We have required of the railroads to give us more and more luxurious accommodations so far as traveling is concerned, but we have wanted cheaper and cheaper rates all the time. Now personally I believe that the whole question of the settlement of the railroad problem in the long run must come through sound understanding by the public and the making of a sound public opinion which will recognize sound and economical laws which are attached to this question, and when that time comes our people will have no trouble in solving the problem. Those several schemes before Congress now, and I must say frankly that I do not pretend to be sufficiently well informed to know exactly which is the best of those schemes. I think there is good in all of them. Something perhaps will have to be obliterated. I am hopeful that out of all the discussions and out of all the plans will come some general compromise that will result in some scheme which will solve this very vexed question, and to my mind very important question.

The railroads employing as they do such a large number of men on the one hand, and having such large purchases of steel and iron and different commodities, on the other, are important factors in our industrial and commercial life, and I venture the assertion that the situation in a business way will never be entirely satisfactory until this question has been settled and settled fairly and substantially; so we can go forward without all this talk of railroads and all this discussion which we have had in recent years. We have many other problems which are important, that like the railroad question they are more or less difficult of solution. At the moment, as you all know, there is stagnation in our foreign business. This is due very largely to the condition that exists abroad throughout the many countries that have been at war. Almost every country in Europe is looking towards the United States at this time in the hopes that she may secure credit, thereby secure the necessary help to enable them to begin solving their problems in reconstruction which are so important to them, and indirectly so important to us.

I think almost every speaker that has spoken at this convention thus far has referred to the fact that until we can open up trade with Europe we cannot hope to manage that full measure of success which this country is destined to enjoy, and which we have enjoyed in the past. It is a very easy matter to say that we must extend credit to Europe. If Europe is to get on her feet and is able to buy outside. But as a banker I have been spending perhaps half of my time lately looking into the various applications for credit which have come from the other side, and I am frank to confess that the more I see of the situation the more I am at a loss how to handle the problems the less courageous I am in the matter of helping to solve that problem. In so far as the extension of credit to those countries is concerned, I think every banker in this country realizes the necessity of American extension of trade to Europe—you at this time, and I think every banker would be very glad to co-operate in the extension of that credit, but the question is to know how it is to be done and done safely. It would be of no advantage to this country to extend credit to Europe, if in so doing we are in a worse condition; in the matter of extending credit, were we to lose money because if credits are extended where failures are made, the undertaking to which credit is given would be worse off than if we had not extended the credit in the first place, and I am getting more and more toward the feeling that this helpfulness to Europe which they so much need and which they are depending on us to such great extent must come in some large co-operative way in which the banks of the country will work as a whole.

Some discussion has been done with reference to the organization of large corporations representing possibly a hundred million dollars of capital, representing each of the different industries—the purpose of these organizations being to help these particular lines of industry finance their own sales to Europe. In other words, it has been suggested that possibly through the organization of a corporation of this kind of a hundred million dollar capital by the cotton men—men of the south, they could assist their cotton men in financing their sales abroad, and so down the line. This scheme or plan contemplated, originally at least, the organization of another large and more important corporation of perhaps a billion dollars capital in which banks of the whole country would be invited to join to a small per cent in each case, and then this plan contemplated still further assistance on the part of the government. The purpose of the organization of the large body of a billion dollars capital was to help the smaller corporations to do financing of various lines of industry, this corporation in turn falling back on the government for co-operation. This is not an original thought with me, and I might not be giving it to you as clearly as it may be expressed by others who have the work in hand. But it was the thought of those who suggested this plan that possibly the government could be induced to take considerable part in this sort of a plan in financing and subordinating their interest to the interest of the stockholders of these various corporations which were formed for this purpose. I am not going to try to elaborate upon that. It is my purpose to talk about something else rather closer home. At the moment I only brought this out for attention in the future and say frankly I only believe it is through united effort and through co-operation of a number of these banks jointly that this financing can be done upon the scale at all helpful and will ultimately open up foreign trade to the extent we will get benefit from that which we expect.

Under the existing conditions, if you sell your goods abroad, you are paid in foreign money, and that money has depreciated so in July it is impossible for you to charge upon this basis. A man here in St. Louis told me yesterday he had a small transaction abroad. He had been paid in the money of the country in which goods had been sent, and when the man discounted the money, to turn it into the American dollar, the discount was such that after he made the transfer, he lost six thousand dollars in the transaction whereas he expected to make a fair profit in the sale of the goods. Now, my friends, you people from the country may not appreciate the importance of this but it is an important thing, because if the American market could get back to old-time basis of production we may have these markets open, otherwise we will have no place where we can send these goods for sale when they are made, and I do not think it is necessary for me to point out to you what would be the result if this condition should exist.

One of the other problems concerning us at this time is, the successful transportation of large products abroad, even though we may find some way of financing it. I know I am not striking the popular chord when I am talking to people of the agricultural section of the country on the topic of merchant marine. I want to see them successfully constructed and Americans all. In the transportation of American products to Europe from 1914 until the time we got into the war, the farmer in the agricultural district would have been the territory to have the greatest benefit and reap the greatest profits therefrom. I have for twenty years

been advocating the establishment of a merchant marine, and I think this is an opportunity to get every interest to support it in the matter of cost. But this question of exchange is one that is very discouraging. As I said before, the German mark has been down as low as a trifle over four cents, its normal value to be twenty-four. The lire of Italy is sold under ten cents, I mean quoted under ten, and so it is at practically all of the central European countries. The money which circulates in these countries and which is paper currency has depreciated in value to such an extent that it is impossible for an American to trade with them upon this basis. I know of one concern in our city that has twenty-four billion marks due it on business already sent over there, and they are skirmishing around now to see how they can get their money back with very little prospect of a satisfactory solution of the problem.

Now, we have a great many problems, particularly one of the things that comes closest home is the high cost of living. Surely it is the principal topic of talk, talk by almost everybody. These problems are most of all economic. We have one other outstanding problem which to my mind is even more important than any or even all of these economic problems. That is a problem of the tendency of the American people toward socialism and Bolshevism. We have many pleasant memories of the glories of the days gone by, so far as achievements of this country is concerned but we cannot but remember that these achievements were under different conditions than now exist. We have a new order of things to-day, and though we are successful now and have hope in the future, we must meet the problems of to-day and lay the foundation for whatever the future may have in store. But this unrest has traveled over the country and is very disturbing to me. Take right at Omaha, a day or two ago, where a crowd attempted to hang the Mayor of the City of Omaha simply because he merely was trying to perform his duty in keeping the mobs from taking a human life in his keeping. When I see so many evidences of the quickness with which this mob rule takes a hold of the people of the country, I think it is more than a problem. It is a menace, and so far as I am concerned, it seems to me we must strike at them. First in order that we might solve other prominent problems permanent and satisfactorily. Later on, and I am not sure when that is solved, all this will, in part, at least solve the other problems, which are purely economic. I believe that America is made for Americans, and so far as I am concerned, I would make the man who comes here subordinate his views to American institutions and American ideals. I have no objection to the men themselves as I have objection to public officials. The demonstrations we have seen taking place all over the country—I am afraid too much of the trouble is in politics, and I do not mix pleasure with politics, and I do not mix pleasure with politics when I say that.

I am not so sure but this great country of ours for which our forefathers sacrificed so much could at least be treated with the same respect that the Methodist Church requires when a man goes in with a profession of faith. They take him on probation for six months, and I believe when these men come from foreign countries, they ought to know when they come here that they should have freedom of speech and action so long as that does not run contrary to our American laws or our American purposes. But the moment that freedom of speech does run contrary to our laws, just so soon that man ought to be taken in charge and sent back to where he come from. No man in America is more anxious in welcoming the honored, well-intended foreigner who comes to our shores for the purpose of making a home for himself and family than I, provided he intends to obey the laws, but if he comes here for the sole purpose of stimulating propaganda, that has as its basis the tearing down of our laws, the quicker we take him in and send him from the country, the quicker we will solve these problems. The only way you can stop this is to hit it on the head when and where you see it. And if it comes to the point that our public officials take good and proper action, then as good American citizens it ought to be your duty, the duty of each man to swear out an information and see they do take action necessary to stop that insidious undermining the institution for which we have stood and sacrificed so much.

I want to make a distinction in anything I may say to-day as between what I call laboring men and the Bolshevists. Labor is not "Red," no one would go further than I to see that labor shares in the prosperity which this country enjoys. I am willing to say in times past, it may not have had its full share, but if I can know to what extent I must give up to them that which I had to, to see they got their share, I am willing to give it, but what they get must be gotten justly and fairly under the laws of this country and not by the commands of their leaders. There never has been a time in the history of America when so much thought was given by prominent men to the subject of labor and to the thought of that which will be most conducive to benefit the honest labor, for we know in this country men of birth, men of prominence, men of means, have been studying this problem and at no time in the history of this country was there such a leaning toward honest labor.

One morning we were electrified to hear the police of Boston had joined the labor union. My friends, I have no objection to collective bargaining, I have no objection to labor unions, and I will go as far as I can in helping them to get their just deserts in all things in which they are concerned, but when American citizens, we must not lose sight of this fact, when a man sets himself up to be a public servant, he is a servant of all the public, and when he is a policeman he is a servant of all the public, and when a member of the militia is a servant to all the public, and when the servants of the public whose duty it is to conserve the interest of every citizen, high and law, rich and poor, and when he undertakes the associations of any kind, whatsoever, and hopes to secure things he cannot get in other ways, then you have no government left. And the quicker the American people recognize this, and put upon this a public fight, we will reach a point where we can go forward with assurance.

Now, this question of Bolshevism in this country, it is all you hear. Governor Francis in a talk this morning, you will recall, he stated he was called upon to transmit money from some of the officials in Russia to America, the purpose of which was to publish propaganda in this country for Bolshevism. That is what is going on all the time, throughout this country. Daily money has been sent from Europe here to keep agitators who distribute propaganda. They are not employed citizens, but they represent the scum of Europe, and they come here with the direct purpose of tearing down our laws and substituting might for right. You say now, how are you going to meet it. To my mind we have got to meet propaganda with propaganda. In Michigan recently there was a foreign organization which had for a purpose, as one man stated to me, the taking of all the state of Michigan in the scheme. Is there any intelligent man or woman in America who can look toward bloody Russia to-day and can see the chaotic condition in that country who can see the pangs of murder and wreck, and for one minute want us to put in this country the same scheme of government. I think not. Personally I am strongly of the opinion that much of this agitation, or rather the result of this agitation comes from misrepresentation and misinterpretation which is not contradicted.

NATIONAL BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Fourth Annual Meeting, Held at St. Louis, Sept. 30—Oct. 1, 1919

Improving the Relations Between the Federal Reserve Banks and Member Banks

By WALDO NEWCOMER, President of National Exchange Bank of Baltimore.

Mr. President and Gentlemen of the National Bank Section:

I appreciate highly the honor of being invited to present for your consideration a subject so important and so interesting to all of us as that covered by this paper. A keen sense of responsibility rests upon me and I know that some things that I shall say will be sharply criticized, but I want to speak with the utmost frankness and freedom and therefore I ask you to accept my assurance that not one word in this paper is intended as a criticism of, or a reflection upon, any Reserve Bank, Member or Non-Member Bank, or any individual.

This is not intended to be, in any sense, a philosophical discussion on the theoretical relations between the Federal Reserve Banks and the Member Banks, nor yet a didactic sermon on the duties of either, but it is an earnest, however unsatisfactory, attempt to make a few practical suggestions, which may lead to closer co-operation and more efficient results. I do not mean to intimate that there is anything unsatisfactory in the present workings of the system, but any machinery of human origin, however near perfection, has possibilities of improvement and in this case we are all interested in having it approach as closely as possible to the unattainable limit of absolute perfection, and wish to do all in our power to assist.

Nor does this paper represent any personal hobby or theory of the writer, elaborated in the secrecy of his private study, but it has been prepared after correspondence with various officers of Reserve Banks and their branches, and with a number of officers of Member Banks of all sizes, scattered over the whole United States, and to all these the writer desires to express his appreciation of their cordial responses and valuable suggestions.

The Federal Reserve system, in its plan for consolidating and mobilizing reserves, has frequently been compared to a reservoir of water as a protection against fire. For my present purpose, I prefer to think of it as a reservoir of drinking water, supplied by numerous streams covering a wide-spread and diversified area. You will see at once that two things are necessary that it may be thoroughly satisfactory in the accomplishment of the work expected of it.

First: The feeding streams must be developed and directed so as to supply the maximum amount of the purest water obtainable to the reservoir.

Second: All leaks and waste places in the reservoir itself must be eliminated and the freest possible streams distributed to the population, new outlets and supply pipes being added to take care of enlarged demands, and the whole system so administered as to give satisfaction to patrons and tax-payers.

You will observe that these two things are of equal importance and interdependent. The best watersheds in the world are useless without a good reservoir, and the best reservoir in the world is equally useless without a good water supply, and the two must be properly co-ordinated.

Now we have in the Federal Reserve System a magnificent reservoir of tested capacity. Reversing the usual practice, perhaps fortunately and perhaps unfortunately, this reservoir received its first test not under normal conditions but under the strain of an unprecedented emergency. Nobly did it stand the test and few will be found to deny that, but for it, the financial system of this country would probably have collapsed in the great world war. We now desire not only to have the system revert to a peace basis but to put on the finishing touches of its construction and so co-ordinate its activities with those of our individual banks that all may attain to their highest possible efficiency.

The first thing that struck me in considering this matter was that apparently in this case there was more room for improvement in the feeding streams than in the reservoir and that this was perfectly natural. Ever since the Federal Reserve Banks were established their officers have been working, studying and conferring with each other without cessation in the effort to improve the system and to devise additional ways of making it more useful to members whilst the members have not bestowed anything like a corresponding amount of attention on their end of the problem. I say this is perfectly natural for this study and these efforts to perfect the system formed the business of the Reserve Banks while to the members it was merely an incident among their numerous duties. And this brings me to my first suggestion: We Member Banks should now make it our business to study the Federal Reserve Act, the Reserve Banks, our relations with them, and the possibilities of utilizing their services to an extent not heretofore contemplated. Misunderstandings, minor disagreements, and criticisms are frequent and lost opportunities to re-

ceive benefits are legion, due not to ignorance or mental inability to grasp some complicated situation, but simply to the fact that individual bankers have not realized the importance of the subject, nor the advantages to their banks that were lying within their grasp, and have failed to familiarize themselves with the system. I wonder how many of us have carefully read the Federal Reserve Act with its Amendments. There should be a copy on the desk of every banker and he should give it at least one careful reading from beginning to end before considering it merely a useful book of reference for frequent consultation. Whether or not we fully approve of the system in all respects, it will pay us to study it carefully from an unbiased and sympathetic standpoint, and try to realize its big broad purposes and possibilities, and cease to regard it as simply a machine to effect clearances and collections. To be fully up to date with our knowledge of its meaning and development we should also read all the circulars of the Federal Reserve Banks and the rulings of the Federal Reserve Board. These are so numerous that few of us have the time to comply literally with this suggestion. But we can and should, in that case, appoint some one in our bank to read these and call the attention of the proper officers to all matters of importance. They are too valuable and important to be consigned unread to a waste basket, or what is practically synonymous therewith in many cases, filed for future reference without reading. Perhaps you will suggest that the Reserve Banks might co-operate by cutting down the number of these communications so as not to overwork the individual delegated to read them. Let us remember, however, that it is inevitable that these circulars should be more numerous now than will be necessary later. Many rulings have been necessary to explain and clarify the meaning of the Act, many rough places incident to a new structure have to be smoothed down, and no doubt many of us members have had to be instructed and educated.

So much for our preliminary education. Now, how can we co-operate? If you have frequent business transactions with another bank, or a mercantile house, or an individual, a personal acquaintance with the man in authority clarifies and simplifies your problems to a wonderful extent. So now it will pay us well to become personally acquainted with the officers of our own Federal Reserve Bank, to discuss with them any matters we do not understand or of which we disapprove, and have a frank interchange of views. It would be well to send the heads of some of our departments to personally confer regarding the work of that department where it comes in contact with the Reserve Bank. In the case of country banks which cannot conveniently visit the Reserve Bank frequently, they should take up any difficulty direct with the Reserve Bank and not through a correspondent, and take it up as a frank discussion and not as a complaint. Get as near as possible to the basis of a face to face talk. To a certain extent the Federal Reserve Banks can co-operate in this by adopting generally a plan which one or two are trying with very satisfactory results. That is, by holding group conferences at regular intervals to which are invited representatives of all banks in a given section or of a certain class, until in the course of a year or less, every bank in the district has attended or at least has had a full opportunity to do so. At these conferences free discussions are encouraged, questions are answered, difficulties removed, misunderstandings cleared, and the larger purposes of the system made plain.

The Federal Reserve banks should, and I think they do, welcome suggestions from Member Banks for the improvement and enlargement of their services, and we should feel free to make such suggestions, always however with a mind open to accept an explanation of the impracticability or the inadvisability of their adoption.

I think it would be well for the Federal Reserve Bank of a district to be represented at all State Bankers Conventions and Bankers dinners in that district, and when practicable their representative should visit those country banks which otherwise might not come into personal contact with them. These travelling representatives should make their reports to their superior officers and matters of importance should be passed on to the Federal Reserve Board.

The Federal Reserve Act provides quite an elaborate and detailed plan for the nomination and election of Class A and Class B Directors. This plan was not made elaborate for the purpose of causing extra work, nor is it really complicated. But under it each of us has a full, fair opportunity for participation in the selection of Directors. Let us see to it, then, to the best of our ability that the best available men of our district are nominated.

We all know how seriously we are annoyed by the carelessness of a correspondent who does not handle his end of mutual business in a businesslike manner. Need I say that almost every Reserve Bank in the country would be saved an enormous amount of work and unnecessary bother if we members were all careful to be businesslike in such details as sending renewal notes on time, advising as to our wishes with regard to the disposition of maturing paper, giving accurate descriptions of collateral, seeing that all the notes we tender are legally eligible, wrapping and sorting currency properly, promptly returning bags, etcetera?

Since the advent of the Federal Reserve Banks, and due to their requirements, there has been a wonderful improvement in the completeness of the credit files of Member Banks. It is well worth our while now to endeavor to secure financial statements in proper shape from all our borrowers at regular intervals. This will work to our own advantage in lowering our loss ratio and also make all our paper, otherwise eligible, ready for immediate use in rediscounts, thus forming a large secondary reserve.

It is probably unnecessary to remind you that reserves should be kept up to the required amount in actually collected funds, but I am told that many of the smaller banks do not carry a transit account on their books but charge all items to the Federal Reserve Bank on the Reserve account when deposited. Of course their books can never agree with those of the Reserve Bank. Even the smallest bank should open such a transit account and each day the transcript should be checked up and discrepancies reported at once.

It would be a great convenience to the Federal Reserve Banks and also to each of us if all checks were of a uniform size and all bore the number of the Federal Reserve District as well as the A. B. A. transit number. Perhaps this is a little outside the scope of this paper and an attempt to make the improvement obligatory might meet with opposition from some of our customers, but I merely refer to it in passing and hope that in the future some method will be found for bringing about this reform at least to the point that the check of special size will be the exception.

In order that the Federal Reserve System may reach its fullest development and efficiency it is essential that every eligible non-member bank should become a member. I understand that State Banks and Trust Companies to the number of more than one thousand and representing more than fifty per cent. of the resources of all the State Banks and Trust Companies of the country have already joined, but the actual number of eligible non-members is still very large. Now, if so many have found it advisable to come in, and they are not all very large ones by any means, there is very little doubt that it would be advantageous to the others also, but they do

not seem to realize it. Perhaps it is in our power to do a little missionary work which will rebound to the benefit of the Reserve System, ourselves, and of the converted heathen. Some large banks are said to be mildly discouraging these non-members from joining on account of their fear of losing their reserve accounts. It is not easy to be unselfish in this world, but if the banks will remember the old theory that their deposits would shrink terribly when members transferred their reserves to the Reserve Banks, and how groundless was the fear, and will realize that the stronger and more efficient the system, the greater is their security and their opportunity to make profits, they may realize that they can, from a very selfish standpoint, take an unselfish position and encourage these non-members to join and share in the benefits. Now, before we can be very satisfactory missionaries we must ourselves realize more fully than some of us do the benefits of the system to us in our own banks. I therefore suggest that every doubting Thomas and every lukewarm Laodicean take his pencil and figure the following:

1. Take your deposits and calculate how much was free for loaning purposes under the reserve provisions of the old National Bank Act, and your income from this plus the interest on reserves in the hands of Reserve Agents. Compare this with your income at the same rates on the loanable funds from the same amount of deposits under the reserve requirements of the Federal Reserve Act.
2. Consider the mobility of your present reserves.
3. Consider the decrease in your float.
4. Consider the ease of securing currency.
5. Consider the rate at which you can borrow.
6. Consider the opportunities for profit in business which you could not transact under the old law.
7. Consider the advantages of a secondary reserve in income producing acceptances.
8. Consider the possible future advantage of cable clearances and transfers in the world commerce which appears to be developing.

After you have assimilated the above, see whether you are yourself using your Federal Reserve Bank to the utmost.

Perhaps you may not have the time nor the inclination to enter into long arguments with the non-member and you will always find that the arguments of the man who does not wish to be convinced are very adroit and difficult to answer satisfactorily to him. But there is one argument that is easily used by you and difficult to answer. Ask him to confer with some State Bank or Trust Company which has been a member for at least six months and ask whether they have regretted the step or would care to resign. You can rest on that and the argument is almost unanswerable. In this connection, may I call your attention to an excellent little pamphlet, issued by the Federal Reserve Bank of San Francisco, entitled "State Bank Membership in the Federal Reserve System." This pamphlet contains 104 questions and answers and is not only good for this purpose but incidentally it puts the salient points of the Federal Reserve Act before one in a form easily comprehended and convenient for reference. I shall quote but three of these bearing closely on this subject:

Q. "How does membership enable a bank to extend additional accommodations to its customers?"

A. "The law requires the maintenance of a reserve proportioned to deposits. Experience shows that increased loans mean increased deposits, which in turn mean larger reserves. By rediscounting a bank can at once build up its reserves and thus increase its lending capacity. The ability to rediscount with the Federal Reserve Bank is both surer and cheaper than borrowing from a correspondent."

Q. "Is it not true that the smaller banks have little if any paper eligible for rediscount?"

A. "Many banks think they do not have such paper when in reality they do, or their paper can readily be put into such shape that it is eligible. This has been the experience of many banks throughout the country."

Q. "How may a member bank offset the loss of interest on its balances with the Federal Reserve Bank?"

A. 1. "The deposit with the Federal Reserve Bank can generally be made in part from cash now carried in vaults which is not drawing interest. Excess vault reserves are no longer necessary to be sure of maintaining the minimum required by state laws, and the Federal Reserve Bank can be relied upon to supply currency at any time.

2. "Member banks can safely carry much smaller excess reserves and have a part of the present excess reserves for loaning or investment; if invested in paper eligible for rediscount, it serves every purpose of a reserve, since it can be immediately made available. Paper eligible for rediscount has come to be regarded as a member bank's emergency reserve.

3. "Member banks can borrow at the Federal Reserve Bank at lower rates and with greater certainty than from correspondents.

4. "By using the check collection service of the Federal Reserve Bank the member can effect a saving in two ways: (a) Balances carried with correspondents solely for purposes of check collections may be discontinued and these balances loaned at current rates. Since checks on the vast majority of banks can be collected at par and without cost, this is clearly a desirable thing to do. (b) Checks can be collected through the Federal Reserve Bank in the shortest possible time, since checks are routed direct. The funds thus become available for loaning more quickly than under the old system of indirect routing."

"The experience of member banks show that the saving and added profits more than offset the loss of interest on the balances carried with the Federal Reserve Bank. One state bank has volunteered the information that its profits have been increased 25% through membership."

In view of the importance of having non-members join the system, some have advocated measures designed to force them to join, and others have favored the granting of special privileges to induce them to join. Personally, I am opposed to both methods, though the suggestion which I am about to make may appear to have some of the elements of coercion. I do not think it fair to give them privileges not accorded to members nor would I attempt to compel them to come in. Leave the matter to the slower but less irritating processes of education and growing intelligence. It is greatly to their advantage to join; more are seeing this every day, and in time all will realize it. Consider this point, however: Suppose you were members of a club which offered special advantages and valuable privileges to members, and you invited a number of men to join, knowing that the club would be of great benefit to those men, and that the additional membership would enable it to greatly extend its usefulness. If those men failed to recognize this and failed to join, you would not think of attempting to compel them to adopt your views, but let me ask you this: would you extend to them the benefits and advantages of membership without the payment of dues or the assumption by them of the duties and responsibilities of membership? I think not, and yet that is exactly what we are doing in this case in many instances. And, therefore, on these grounds exactly, and not as a measure of coercion, I suggest that we members refuse to be the medium for the collection through the Federal Reserve Banks of items for the benefit of banks which will not themselves reciprocate by remitting at par, and that we refuse to discount for eligible non-members when we are forced to rediscount with the Federal Reserve Banks in order to carry them, unless we do so at such rates as really pay us and are more expensive to them. There is no earthly reason why they should secure the advantages without the obligations and then say with some justice that there is no further advantage to them in joining the system.

Section 4 of the Federal Reserve Act enumerates the powers of the Federal Reserve Banks in eight items and my attention has been called to a paragraph in the eighth item, which reads as follows:

"Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

A very high authority has asked me to express an opinion on the above and puts the question in this way: "Do you feel that as a matter of conservatism on the part of a Federal Reserve Bank and with the further idea of allowing the larger banks to continue their relations with the country banks, normal lines of credit, based either on capital and surplus or aggregate re-

sources should be allotted by the Federal Reserve Bank to the member banks, or should the entire question be left open to be determined as the needs of each particular occasion may arise?" My answer to the above question is, of course, nothing more than a personal opinion submitted respectfully and with some diffidence. As for assisting the larger banks to retain their business with country banks, I do not think there is any obligation of this nature. Existing business arrangements should never be summarily swept away by law, but if a thing is for the general good, and its adoption is not going to seriously cripple the one affected, I do not think his more or less selfish interests should be allowed to interfere. Moreover, in this case I do not believe any large bank cares materially whether his country correspondent, who already has a right to borrow from the Federal Reserve Bank, is permitted to exercise that right to the extent of a considerable proportion of his resources or to a limit granted arbitrarily by the Reserve Board. If I am correct in the above, there remain only two considerations that would suggest the limitation to a percentage of Capital and Surplus or of Resources. One is the limit of credit which can safely be extended to a given bank and the other is the limit of available resources of the lender and the desire for a fair distribution of these among the would-be borrowers. Neither of these considerations, to my mind, necessitates the fixing of such a limit. As for the first, some Banks are absolutely safe for such advances to a limit of double their capital and surplus and others questionable at fifty per cent. thereof, depending upon their management, the amount of their borrowings elsewhere, and the purposes for which they desire the proposed advance. I think the Federal Reserve Bank and the Federal Reserve Board can safely be granted wide powers of discretion on this point. As for the second consideration, whilst the loanable funds are not absolutely without limit, yet a legitimate demand can scarcely come heavily from all parts of the country at the same time, while under the present rediscounting arrangements among the Federal Reserve Banks the loanable funds can, and in the light of the experience of the past two years, I do not fear the exhaustion of the lending power of the Federal Reserve Banks through any legitimate demands.

There are two additional powers or duties which I think might with propriety and advantage be transferred to the Federal Reserve Board. One of these is the power to grant or refuse charters to National Banks, now vested in the Comptroller of the Currency. The Federal Reserve Board is supposed to have power to grant or refuse to State chartered institutions the right to join the Federal Reserve System, yet I am advised that several cases have arisen where they refused admittance to a bank on account of the personnel or character of its management, whereupon the same individuals secured permission from the Comptroller to nationalize, thus automatically becoming members, against the judgment of those presumed to be authorized to pass upon the matter. The other duty to which I refer is that of examination of National Banks. There are now three examining powers in the country, the State Banking Departments for all State Chartered Institutions, the Comptroller of the Currency for all National Banks, while the Federal Reserve Board has a right of examination of all member banks. The first of these has inalienable rights so far as the Government is concerned, and in general their reports are accepted by the Reserve Board without waiving its rights; it also accepts the Comptroller's reports as to National Banks; at the same time, I think it would be advantageous to cut the number of examining authorities from three to two and that the files of the reports of these examinations should be where they belong, in the custody of the Reserve Board which deals directly and constantly with the credit and management of these banks.

I recognize the fact that a self-evident corollary to the above suggestions would be a recommendation that the office of the Comptroller of the Currency be abolished. This has been recommended before and, so far as I am aware, the chief opposition to it has come from the incumbent of that office, who regarded the movement as an attack upon him and his administration, and perhaps justly so. My thought, however, is entirely impersonal and I would be glad to see the plan adopted, effective upon the retirement of the present incumbent from office. The case is analogous to that of the Sub-Treasuries. The movement to abolish these (which will probably succeed in the near future as practically all the valid objections were based upon the conditions at the time it was attempted in the past) is being pressed on the ground that the Federal Reserve Banks can take over and perform the duties of the sub-treasuries. Similarly the Reserve Board can readily take over the duties of the Comptroller's office and, in view of the complete identification of the National Banks with the Federal Reserve System, it is a natural move in the right direction.

We now come to the question of the possible extension of the services of the Federal Reserve Banks for the benefit of members. If we are perfectly frank with ourselves we will admit that many of the thoughts which occur to us and many of the suggestions of our friends are not based entirely upon an unselfish desire to improve the system, but grow out of a feeling that the Reserve Banks are making large profits and that we should have some of them. I have tried to free myself from this obsession and also to bear in mind that the profits of the past year were abnormal and we must not ask them to go on a basis which will involve an expense not bearable in normal times, but a fair discussion of an equitable disposition of profits, if earned, is admissible.

Remembering that member banks furnish the entire capital and the greater part of the deposits of the Federal Reserve Banks, are they not entitled to share on some reasonable basis in the profits, whether abnormal and temporary or normal and permanent? The Government is entitled to an eventual profit in return for the very liberal charter and franchise rights granted, but is it entitled to the entire accumulation of surplus, no part of which can ever go to stockholders under present regulations? The present cumulative dividend of 6% is a fair return for the money actually invested in stock and should be continued, but when earnings are large they should be shared on some reasonable basis. I would like to see the member banks granted the right to carry Federal Reserve Bank Stock on their books at amount paid in plus a certain percentage of its surplus. Such a price should then be paid for it by new members and at this price it should be taken back from members liquidating or otherwise leaving the system. In the matter of dividends, why not give them a 6% cumulative dividend on amount paid in and a lower rate, if earned, on the excess. Suppose, for example, we were allowed to capitalize 25% of the surplus and to receive 4% on this, and suppose the whole surplus of 100% of subscribed capitalization, which is 200% of amount paid in to have been earned and set aside. Even under these exceptional and ultimate figures our book value would be 150 and our highest possible dividend 8% on cost to original members. Perhaps it would be less complicated to provide for a 6% cumulative dividend plus a small additional non-cumulative dividend payable only if earned and not to exceed two or three per cent. Is this excessive? If it is, then revise the basis but adopt the principle.

For a long time I have advocated the payment of a moderate rate of interest on balances in excess of required reserve, believing that this was fair and would

encourage many banks to be more liberal and not cut such close corners. Abuse of the privilege could be prevented by limiting the amount on which interest would be paid to a certain percentage of excess over required reserve. Suggestions on similar lines have come from several of my friends also. I am not fully convinced that this would be bad banking but will frankly say that it has been opposed by the Federal Reserve Board, officers of Reserve Banks, and by National Bankers of the highest standing in whose judgment I have the utmost confidence. Among other reasons, they say that if interest is paid on deposits the Reserve Banks might in self defense, in order to make their dividends, enter into competition with member banks. I admit myself outvoted and partially convinced and will press the suggestion no further, being quite willing to compromise on the adoption of the above suggestion as to book value and dividends.

Now, without any further attempt to loot the treasury, permit me to suggest a few ways in which the Reserve Banks may increase their services to members. We must remember that during the abnormal times through which we have been passing they have been deep y absorbed in war work and I feel sure that they are already working toward the accomplishment of much that I shall suggest. For instance, the broadening of the collection system is known to be receiving their very active interest. Probably no department of their work is of such generally recognized interest to members as this. Those of us who represent city banks with numerous collectible items are keenly interested in seeing all checks on the par list. Those country banks which make money on exchange feel aggrieved that they should be asked to give this up. Some of their arguments are very plausible, but they usually show a lack of, shall I say sincerity or consistency? A favorite argument is this: "Checks on this bank are payable at its counter and if you ask me to remit to another point for your convenience, I am entitled to be paid for the service. The fact that I lose nothing, and really gain by the deferred charge of my check sent in payment, has no bearing. You are asking me to render a special service. For this I charge so much and you can pay it or I stand by the letter of my obligation." Now, take the gentleman at his word and say: "Very well, we do not wish to pay for any extraordinary service or ask anything unreasonable, and since you prefer it, we will have all checks on you presented at your counter and take the cash to which we are entitled." He then cries out for mercy and says you are trying to coerce him. Not at all. If your grocer charges for each parcel delivered and you consolidate your orders and carry home your purchases in a basket, are you coercing him? Passing over the flagrant abuses such as excessive charges and remittances made by checks requiring additional time and expense to collect, is there any valid reason why checks on Vermont or New Hampshire should be collected free and those on South Carolina be subject to an exchange charge? A broader collection system must come. Some of the Reserve Banks have already succeeded in parring checks on every bank in their district. Let the others endeavor to do the same and let us do all in our power to help them. It may be necessary to continue, at least for the present, the practice of a deferred credit. There is no reason in equity for the entire absorption of the float by the Reserve Banks, but it will be a splendid service if they can shorten this deferred period and, when they have learned what their earnings are in normal times, they may be able perhaps to carry the float on all items requiring not more than one day to reach their destination. A moderate service charge is defensible, covering cost of service, and might properly be allowed to member banks, particularly for items not drawn on themselves, this being a very different thing from the so-called exchange charge referred to above. My own hope is that upon investigation, such defensible charges will be found to be so small that they will be voluntarily waived. Notes, time drafts and messenger items are being handled to some extent and we believe this service can and will be broadened as time goes on.

In this connection I quote two paragraphs from an interesting memorandum prepared by Mr. J. H. Ardrey, Vice-President of the National Bank of Commerce, New York: "The propriety of the Federal Reserve Banks absorbing the exchange charge on cost items has been questioned. Undoubtedly, however, the present as well as the prospective earnings of the Federal Reserve Banks permit them to easily absorb those charges without interference with their dividends. Furthermore, many member banks feel that they should receive a moderate rate of interest on their reserves held by the Reserve Banks, and still others suggest the payment of interest at even a higher rate, on balances in excess of required reserves maintained with the Reserve Banks. These proposals come chiefly from the smaller member banks, and from the non-member banks as reasons for their not joining the system. Universal par facilitities through the Reserve Banks would unquestionably be regarded by these institutions as fair compensation, in part at least, for their loss of interest on reserves and for their loss of exchange in remitting for collections sent them under the old order of things. The objection that it is unfair for the Reserve Bank to pay exchange for the collection of checks on non-member banks and not pay exchange to member banks is not sound, because with universal par facilities the member banks thereby save the cost in the collection of its non-member items, paid either in direct exchange or in reduced earnings, by maintaining balances for the service with city correspondents; whereas the non-member bank must still pay in these ways the collection of its own cost items on non-member banks and is deprived of the other benefits of membership in the Reserve System.

"Along with the broadening of the facilities for the collection of cash items should come more liberal regulations for the collection of time and messenger items. Naturally, faster progress can be made with respect to the collection of such items payable in cities having Reserve Banks or their branches because of better facilities for their presentation, as well as the facility of immediate settlements through the Gold Settlement Fund. The Federal Reserve Banks are now receiving for immediate availability on the day of maturity, subject of course to final payment, bankers' acceptances payable in cities having Reserve Banks or their branches, when deposited with the Federal Reserve Banks sufficiently in advance to reach place of payment in time to be cleared against the paying bank at maturity; and there does not appear to be any good reason why the same privilege should not be extended to strictly commercial paper, payable at banks in cities having Reserve Banks or their branches. Likewise, there does not appear to be any good reason why the Reserve Bank should not immediately begin handling as cash, with appropriate additional time allowance if necessary, demand drafts, with or without documents attached, drawn on individuals, firms and corporations in cities having Federal Reserve Banks or their branches, and in time further extending this service as the facilities are developed, to similar items payable at any point."

I have quoted the above because I believe that its suggestions are worthy of very careful consideration, but the latter part opens up a possibility of embarking the Federal Reserve Banks on lines which might be objectionably competitive with members, and I am not recommending it for adoption as a whole.

In conclusion, may I suggest a very interesting possible development of the activities of the Federal Reserve

Banks through the building up of a regular market for acceptances, purchasing from those banks which wish to sell, and selling to those which wish to buy. This subject is too important and too technical to be adequately dealt with in this paper (already rather long) and I shall content myself with a brief comment on the subject, expressing at once my indebtedness to Mr. John E. Rovensky, Vice-President of the National Bank of Commerce, New York, for a very valuable discussion on the subject, his paper being unfortunately too long to be quoted in full, and yet so concise as to defy abbreviation. The Federal Reserve Act has introduced the bank acceptance and made it available as a standard instrument of credit which will bear the rate of interest which money will command, with no addition to cover credit risk. Our banks of deposit naturally take the place of the Acceptance Houses of Great Britain, and with the establishment of a broad discount market where banks could buy acceptances when they had surplus funds, with the full assurance that they could resell without disturbing interest rates, when their condition changed, we would soon have a National Discount Market and its operations could soon be extended to an international basis. The advantages claimed for such a market are:

1. To regulate the cash and investment situation of the banks.
2. To equalize interest rates between different sections of the country.
3. To equalize interest rates between the United States and foreign countries.
4. To minimize the necessary gold movements between countries.
5. To stabilize interest rates within the country and so prevent some of the present wide fluctuations.

I thank you, gentlemen, for your very kind and patient attention and, whether the particular suggestions in this paper meet with your favor or not, may I plead for hearty, sympathetic, unselfish co-operation in working out the great possibilities of the system and building up in this country the greatest and soundest financial system possible in this world. The foundations are laid on broad and comprehensive lines and there are vast possibilities for a magnificent structure if our activities are unselfish and constructive rather than selfish and destructive.

America as Atlas

By John Skelton Williams, Comptroller of the Currency, Washington, D. C.

Mr. Chairman, Ladies and Gentlemen:

Let me ask your attention to the thought and the fact that the bankers of the United States have just finished the performance of one miracle and are beginning another. They have done the swiftest and most important job in all the history of banking and finance and now face work demanding even more of their wisdom, their resourcefulness and their genius. The Atlas of mythology carried the world on his shoulders. You bankers in reality are to supply the strength and sinew with which this Republic is to lift and for a time, at least, carry a world yet seething, after the extinction of the fiercest of the flames that threatened to consume its hope.

Having this in mind, I feel especially honored by the opportunity to address those who have achieved such mighty tasks and written in history a chapter of accomplishment so wonderful. Therefore I am deeply grateful to you for asking me here and beg you to believe that I thank you heartily.

Since I last had the honor of speaking to you three years ago at Kansas City you have furnished our Government the funds with which the war was won. You not only obtained and supplied from your own resources and by your stimulation and aid to our people the funds to equip and maintain our army of nearly four million men, but you also provided for our Government the ten billion dollars additional loaned to our allies. I vividly recall the memorable occasion, while the war was raging, when the British Ambassador said to me in Washington that unless the advances which we were making the allies should be kept up their cause would fail, and he solemnly added: "If we go first it will be your turn next." It is interesting to note incidentally that the amount we have loaned the allies is more than three times as great as what we have heretofore regarded as the huge sum which this Government raised by the sale of bonds to pay the cost of our Civil War.

I may claim some distinction as one of the few men in this country not equipped with a solution, all worked out and ready, of the world's present and pressing financial, commercial, social and political problems. Perhaps I should be ashamed to confess the deficiency, but truth is mighty. I see now no way out. I acknowledge that as frankly as I feel and say confidently that there is a way out and that the American people will find and follow it.

As has been said, Columbus did not know where he was going nor how to get there, but he went in the general direction indicated by common sense applied to acquired knowledge and found not only safety but a new world.

One basic fact which we may accept as proved and indisputable to begin with is that America must carry and guide the world a while at least. There is no way out of or around it. We may as well face it here and now, and face the further fact that the American banker must do much of the carrying and guiding. Gentlemen, it is clear as day. Suppose we cut every cable and stopped every ship sailing between here and Europe. It is a fact that Europe does not make or grow anything we must have to live comfortably. We can grow and manufacture for ourselves practically all we need but coffee and tea, and we could bring those from the Orient and the other Americas, but while we make more cotton and wheat than we can use ourselves we need Europe for a market—an outlet for our surplus. Without it we would have a long period of glutted home markets and low prices and consequent loss of the buying capacity of the people. The primers of political economy and our most primitive knowledge of life tell us that nations, like individual men, are required by laws which can not be resisted nor evaded to be interdependent. Every advancement and improvement in means of communication and contact among human beings has widened the operations of these laws and made their mandate more imperative. Attempt to escape or defeat them incurs disaster and ruin to the body politic or the individual as surely as the disassociation of one organ of the human body from the others means death.

St. Paul taught his disciples that long ago, in the parable of the body and its members. We can not and should not be content with mere existence. The human race was not created and society is not organized merely to live. The lowest animals do that. For humanity life without progress and growth must mean decadence and retrogression. We are not given the capacity to stand still. The moral and intellectual life has its laws

of gravitation as potent as those of material nature. We know that this invisible force is drawing us downward always and must be resisted by will and movement. A man falls the instant his brain ceases to direct him to balance himself and control his limbs, and he can not long be upright when motionless. It is so with communities and nations. To live we must move and go onward. In doing that we must be in contact and association with others who are living and moving. A nation can no more prosper among the putrid and festering corpses of other nations dead than a man can be healthy in a charnel house or a banker happy and sound in the wreckage of a ruined community. As we have seen and are seeing and feeling, a sick or dying people give off exhalations which are more deadly and poison the atmosphere more direfully than those of the corpse left by the most frightful disease.

There is no need before an audience like this to elaborate the argument. The case proves itself. The conditions and the facts force conviction too clear to be questioned. The plain demands of self-interest are in precise harmony with the clear call of Christian and human duty. Selfishness and altruism kiss each other. Sagacity and ethics are of one voice. When we go down to the roots we usually find that generosity, like honesty, really is the best policy; but in this instance the conclusion is right before us on the surface and we do not have to dig.

For our own safety we must take on the burden that threatens the crushing of our neighbors. For our own progress we must pump the breath and blood of life into their commercial lungs and heart, carry those of them that need and should be carried, bear—if we must—the weight of the world. We are the one power strong enough for the task. Our strength gives us responsibility along with opportunity. The necessities of these other peoples appeal, and will continue to appeal, to our good will, to our instinct of self-preservation and to our impulse to go. I am not talking politics or treaties. I am talking business and trying to look at things in the world as you practical men, who so frequently must carry the burdens and meet the emergencies of your own communities, look at them. If American banking as a whole will expand and enlarge its thought and purpose from community to universe, the quick and successful doing of the mighty and magnificent work that is to be done will be assured.

How? I do not know nor pretend to know. Nor do you know. I do know, and you know, that no other nation ever has been in the position in which this nation is today—the one strong, secure, established power of a community of nations stunned, shaken, stricken by a shock and upheaval unprecedented. Therefore no other nation has had thrust upon it a duty so solemn and splendid and an opportunity so dazzling and glorious for great work and great reward, spiritual, moral and material, for the near future and the far future—far beyond our foresight, as we have. I know, and you know, that a very large share, probably the largest share, of the burden, duty and responsibility that are and will be on the United States will be on the bankers of the United States, the men representing so much of the intellectual power, the money power and, in the final analysis, the political and social power of this most powerful of the peoples of the earth.

All of you, within the scope of your own activities, have been confronted with problems to which you could see no solutions—with intricacies and balancings of good and bad, probabilities, possibilities, chances one way and the other, which baffled your thought. You have been compelled to feel your way from day to day, from point to point, from one indication or condition to another.

So Columbus sailed the seas to an objective unknown but believed in and found to be there. Whatever may be the exceptions of individuals or within individual experiences, generally you have been splendidly successful. The statistics of my office and the prosperity and solidity of your institutions and of the country prove your success. They prove, too, that you have been guided by certain fixed principles and known rules.

We are to bear our burden and carry it through uncharted, changing and vast regions. That is exactly what Americans do best and what the real American man exults in doing. It is our favorite game. Any drunken fool of a sailor can scull a boat across a smooth harbor between buoys and in broad day. A blind horse can trot on a straight and level road. A man without the sense and knowledge to watch the stars and the sun and to provide himself with a compass walks in a circle in desert or wilderness because one foot steps further than the other. You men have brains and courage and propelling power. These things were given you for the express purpose of doing things that never have been done, for going ahead on paths that never have been trodden, for pressing on, like Columbus again, where there are no buoys or lighthouses or landmarks. We have that lesson froom the time of Ulysses, who also sailed uncharted seas. We have it driven home to us by our own immediate ancestry. The men who made the Government did a new thing that nobody ever had done. From chaos and doubt and darkness they built our Constitution, declared by Mr. Gladstone, after a century of test, to be the sum and essence of human wisdom and foresight.

Many of you come from the West. That magnificent country, the world's strength and our nation's strength this day, was found and made by men who had no guidance but their own brains and courage and death-defying purpose to go on and to do. Where brains—the brains you have—come in is when forty roads open, to take the right one. That is what you are for. Too many of you don't realize it. You don't understand that God Almighty has entrusted you with mind and power and courage to find and follow the ways, as He has endowed this country of ours with the strength to carry any load.

Ulysses was called by the sirens and found how to resist them, and he also steered safely between Scylla and Charybdis. The old fairy story has it that the hero on the right road to the mountain crest was assailed by voices telling him he was wrong and warning him of horrors ahead. He pressed upward. Fantastic as the tale is, it has its lesson. The same brains that find for you the right safe way in your local labyrinths will pick for the country the right road from the forty. The great majority of you have as much sense and as much nerve as Columbus, as the farmers and storekeepers and lawyers who built the Constitution, as the pioneers who found and opened and made the West. History seems to demonstrate that the people who landed at Jamestown and on the Plymouth Rock and organized and established America had not as much ability, experience or drive as the men to whom I am talking this minute. I say to you frankly my own belief is that the bankers of this country, most of them elderly or old men, who have won their way to eminence and power by labor and courage and the supreme courage of self-sacrifice have in them exactly the spirit that stirred our younger men on the battlefields of France as the words "let's go" came down the lines. Those boys of ours went at the word. They went into darkness, to bloody mud, to unknown and ghastly trenches and wire entanglements. But they went. And they won. Most of us could not go. Now is the time for us to do. From our secure homes we backed the boys at the front. Now is the time for us to back them by making secure the victories they won and by carrying to completion the ulti-

mate purposes for which they fought and went and died—the betterment, freedom and elevation of humanity.

We do not have to walk in circles in the wilderness. We have some sure compasses and unfailing and fixed stars by which to guide. In business as in astronomy, we have established and permanent points and places in the firmament. The law is clear. Above the statute law is the law of righteousness and fairness. With it is the compass of experience. With these we must tread cautiously, adapting our forward footsteps, as our ancestors before us did, to the lay of the land and the circumstances. We may help Europe best around by way of the Americas, stimulating production of some things and demand for others. We may help through Russia, a country of enormous possibilities and vast varieties of population, terrain, climate and potential absorption and production. The way for us may lie through the Orient; through people closely akin to us or those separated from us widely by differences in language and tradition. We can not tell yet. We can tell no more at this moment how nor what we must do than could the fathers who stepped upon the edge of an illimitable and forest-covered continent held by a strange race who might be friends or foes. We know we must do, we must go on for the world and for humanity, for our own safety and prosperity. Circumstance has thrown us on a new and storm-beaten shore with the goods on our backs and the responsibility upon us, and we must go and do.

Ninety-eight years ago Europe was considering us as we now consider Europe. Of course the situation was on a small scale as compared with the present, but areas, populations and capital then were small as compared with now. We owed Europe $32,000,000 and had no way to pay it. Balances of trade were hopelessly against us. Not only our national and state bonds, but our real estate mortgages and even sheriffs' warrants were held abroad to secure our indebtedness to the banks, merchants and exporters of England and France.

In 1821 the Ways and Means Committee of the House, in its formal report, quoted approvingly by the then Secretary of the Treasury of the United States, gave this brief dismal summary of the situation:

> "Few examples have occurred of distress so general and severe as that which has been exhibited in the United States."

All students of the conditions of the time seemed to agree that the nation was poorer in 1820 than it had been in 1790, thirty years before. Explanations of the causes of disaster also accorded substantially. We had been doing then voluntarily what Europe has been forced to do. We had bought more than we sold. After we had made peace with Great Britain in 1814 the internal wars of Europe continued. Prices soared. Everything we were making could be sold abroad and at great profits. A brief period of frantic extravagance resulted. Gentlemen, the reports and comments of that time, nearly a century ago, read almost like a history of the last two years. There was this difference: The American people of then developed a madness for buying foreign and expensive goods. Our imports of sugar, molasses, rum and coffee were enormous for the population. Then came peace in Europe, increased production there and decreased demand for our products. I shall dwell on this a little because we may, in a measure, judge of prospects in Europe and of our own outlook from developments of that former period of trial and distress. Our national income in 1817 was $24,000,000. In 1818 it rose to $26,000,000. In 1819 it dropped to $21,000,000; in 1820 to $20,000,000. There was a deficit of $6,000,000 for the ordinary expenses of the Government. On January 1, 1821, the actual money in the Treasury was $476,831. "From which," said the Secretary of the Treasury to the Ways and Means Committee, "must be deducted the amount of the deposits in the Bank of Vincennes, which it cannot pay, $24,808." That was a brief blunt statement of an unpleasant fact—half the cash assets of the United States Government in a broken bank. Certainly the statesmen and financiers of that moment had not a cheerful situation. The estimated income for 1821 was $16,000,000. With a population of nine and three-quarter millions and wealth of three and a half billion dollars, the United States gave little promise of becoming, before a century should pass, the Atlas able to bear on its shoulders the weight of the world. Yet we have attained to that stature and strength in less than 100 years, in which time we have fought three foreign wars and a civil war. The figures, the facts and the measurement of time make a story almost inconceivable and unbelievable.

The public debt of the United States in 1821 was $93,000,000, carrying interest at 5, 6 and 7 per cent., the most of it the last two figures. Reports to Congress said that while the population had increased one-third from 1790 and crops were abundant, wealth actually had diminished. The currency in circulation had been reduced from $110,000,000 to $45,000,000, or about $4.75 per capita, because there was no business to employ it. Congress debated at length a proposal to forbid the banks from issuing notes of less than $5 so that the metal currency would be forced into circulation. Such of it as had not been sent abroad was being hoarded. Official reports said that Europe had taken to secure our indebtedness "bank stock, public stock, book debts, notes, bonds, judgments and bankruptcies"—everything that could be utilized to represent value or security. The national debt per capita was $9.44. These figures seem trivial to us now, with national wealth estimated at 250 billion dollars, but they are useful for comparison. In nine years the per capita debt of the United States was reduced from $10 in 1821 to $3.77 in 1830 and our debt to Europe had been wiped out. The young giant Republic had begun to feel and use and know its power.

Gentlemen, if we could pay Europe then and clear up our debts Europe can pay what she now owes us. In the twenty years between 1820 and 1840 we reduced our national debt from $10 per capita to 21 cents per capita—the lowest of our history as a people. Yet we have pessimists who tell us we will not be able to pay our present debt in a century. What the people of ninety-eight, ninety and eighty-five years ago did, with the comparatively crude and scanty means at their disposal, we can far more than do now, although our debt is vastly more percapita than theirs was. We have a banking and currency system apparently as near perfect as human thought can devise. The Americans of the early part of the last century were feeling their way with experiments, many of which proved disastrous, working with financial and economic machinery which rarely worked well and frequently broke down. The land was bewildered and frightened with croaking voices of evil prophecy and discordant howls of revolution, disorder and ruin. In the larger American cities, according to the intimate chronicles of the times, the misery was like that which has prevailed in recent months in some of the European cities—multitudes of idle men depending on charity for food and ripe for mischief and plenty of busy agitators and mischief-makers to urge them on to destroy and ravage.

Gentlemen, there were Americans then who never lost their heads or their faith. There were men of affairs who kept steady eyes through the driving mists and howling storms on the future and the facts. There were masses of the people, scattered as the people were and isolated as many of them were, who kept manfully to their labor, each man doing his own part as best he could, who thought soberly and bent their minds to construc-

tion rather than to destruction. Exports of wheat and corn had fallen almost to nothing. The farmers of the South went to the rescue with cotton. They furnished practically one-half of our total exports in that trying year of 1821-22. They increased their production of the one thing we had that Europe was compelled to buy of us, aided tremendously by the cotton gin, just then being accepted for general use. While mobs shrieked about the streets and demagogues beset the public ear with vague demands for vengeance and upheaval the farmers of New York and other Eastern States were working plans to increase their output of flax and wool that we might have more to sell, and business men and real statesmen with foresight calmly but energetically pushed forward the Erie Canal, the building of steamboats to develop water traffic and the establishment of manufacturers to decrease the drain on our resources.

We have Americans of those same kinds and calibres and impulses and purposes. We have better tools with which to work. In the eighteen-twenties we were a feeble folk, regarded as more or less of an unsubstantial freak of a nation and in some respects appearing to deserve the estimation. We are not Chinese or ancestor worshippers and may as well frankly face the fact that there were just as many fools, quacks and chronic soreheads in proportion to population as we have now. If these could be eliminated there really would be little opportunity for the actually great, strong and clear-thinking men and little credit for them.

The sound men of the twenties—the sound men of all classes—won against them and over them and deserve all the more honor and reverence because of their victory over the inevitable human obstacles and nuisances.

So will the sound and real men, the balanced and 100-per-cent-American business man, thinker and voter, win now. We are a strong folk—the strongest of all. Nobody considers us with contempt or tolerance or views us dubiously as a freak institution. We are established. The eyes of the nations turn to us for guidance and their hands are held out to us for aid. We owe twenty-five times as much per capita as the people of the twenties in this country in the last century owed, but we are a thousand times stronger than they were in equipment, in standing, in credit and power.

Our own task for ourselves is simple. If we chose to adopt short-sighted and craven policies we could extinguish our own huge net debt comparatively quickly and, I may say, easily. But no really broad-minded and forward-looking business man devours his debtors; that is a crime against commercial ethics, maxims and principles as serious and destructive as defrauding creditors. As a matter of wise management, of self-protection and provision for the future we must take on our mighty shoulders so much of the world's burden as may be necessary for us to carry. As no man can continue to thrive in a community of paupers, so no country or people can continue to prosper and grow in a ruined world. We are the biggest thing in the world and we owe the biggest duty and must brace ourselves to do the biggest part in the work of restoration, of the re-establishment of confidence and hope and in the renewal of prosperity and activity.

This is no new thought for me. It is no new thought for you. I am quite sure I am but putting into words, after a fashion, the ideas and conclusions you men have in your minds. Excuse me for saying that three years ago at Kansas City, when I last had the honor of addressing you, I undertook to outline and forecast just the situation we have now. Because I said there and then precisely what I wish to say here and what is verified I take the liberty of quoting two paragraphs of my statement to you at that time:

"We have been born into the world almost in a moment, full grown—I hope and believe with teeth. We are not only a world power. We are the world power. While nearly every other country has been depleted we have been augmented. * * * No nation in the world's history has had the opportunity this country of ours will have at the ending of the European war for self-building and for raising to their feet a sad procession of exhausted nations."

Europe owes us now as we owed Europe ninety-eight years ago. Europe's debt to us is less in proportion than ours was to Europe. The cases and conditions are not parallel throughout.

This was a new country, with new resources and sources of wealth constantly developing, a fast-growing population and a boundless territory to be developed, but by usual commercial rules we were more thoroughly insolvent than Europe is today.

We have endured subsequent financial and industrial disturbances and periods of distress and consequent disorder. Authority so respectable and persuasive as James G. Blaine contended that the great panic of 1837 was due to some of the same causes that brought the crisis of 1821; that again a period of war in Europe had given us great prosperity, and peace there made a sudden check to our foreign commerce, resulting in the crash. Opinions of very eminent men on the subject differ, however. Political economists have been disputing eighty-odd years over the whereabouts of the fault for the disaster. Some practical thinkers believe that the panic of 1837, like the panics of 1857, 1873 and 1907, were natural reactions from times of vast activities, swift development and overcrowding of business on financial systems intrinsically weak and defective. These say that the apparently direct causes were merely provocations—incidents—like the finger push on a boulder resting insecurely and balanced on a thin edge. In none of these, however, was the element of heavy and increasing balance of trade against us and heavy indebtedness abroad which in 1821 made our situation so vividly resemble that of Europe now. We have public men who more than broadly hint that a panic now would be the quickest and surest cure for our maladies and solution of our difficulties. Their theory is that a convulsion something like that which frees an overloaded stomach would bring us to normal functioning of our commercial, financial, social and political systems, the four being parts of the one body. There have been cynical philosophers who contended that war, pestilence and famine were nature's remedies against the overloading of the earth with humanity and the over-development of human capacities and energies. That is precisely in line with the doctor who gave his patient something to cause fits, explaining that he knew nothing about other diseases but that he was at home with fits and if he could start them would know precisely what to do. War, pestilence, famine and panics may have been natural results of conditions of the past and may have left the survivors to enjoy life, but the intelligence of man has outgrown reliance on such fearful remedies—is fast outgrowing acceptance of them as unavoidable. We are getting away from them as we may have gotten away from dependence on herb and root doctors, from treating typhoid with incantations and regarding yellow fever as an inevitable part of the summer in Southern ports. The doctors now devote most of their study and apply most of their science to preventive treatment.

No business man of today regards a convulsion as the essential preliminary to health or ruin as necessary for recovery. Every alert and sagacious American business man is giving his attention to checking disease, to preventing its development, to stimulating and directing the natural vitality and strength of our country to throw off the germs, to heal the tissue where it is infected, to regain full health and vigor.

The same forces, elements, quantities and powers that have fitted this country to be the Atlas, the mighty bur-

den bearer, for the world will keep it fit and enable it to perform triumphantly the most stupendous and magnificent and magnificently honorable task ever put upon a people. We have among us the steady, foreseeing eyes, the dauntless hearts, the clear vision, the energy undismayed, the ambitions and aspirations scorning opposing circumstances and trampling obstacles, the invincible common sense and the quiet patriotism that is part of the marrow of the bones and the core of the heart among the great unheaving but resistless masses of the people. These have brought us from weakness to unprecedented greatness. They have led us and impelled us through every test and trial and danger that could beset a nation. If any of us ever were inclined to fear decadence or to doubt the future, surely the crowding swiftly succeeding events of the thirty months since April, 1917, have given us full assurance. We were asked to do what no nation or government ever had been asked to do. We did it. We are asked now to do what no nation or government ever has been called upon to do. Gentlemen, we will do it.

Probably we will do it with ease and swiftness that will astonish our most enthusiastic optimists. In 1821 some of the clearest minds at Washington could see no light ahead. Secretary of the Treasury Crawford's reports were saturated with gloom, and he combined the qualities of statesman and politician, and, although forgotten now, narrowly missed the presidency. Yet in 1822 the clouds were lifting; by 1825 the country was in the broad light of prosperity and by 1830 the weight of debt was trivial and our obligations to Europe had been cancelled.

I hesitate, gentlemen, to talk shop to you or to burden you with figures at this time, but I know of no other way by which it is possible for me to express to you so vividly your splendid accomplishments, and I might also add the magnificent growth and achievements of our national banking system in a period, the most critical and important in the history of our race. Without the prompt, the resourceful and self-sacrificing aid which was given by the bankers of this country from that fateful day in April, 1917, when we declared war until after the signing of the armistice on November 11 last, our victory would have been impossible.

In the summer of 1914 at the time of the outbreak of the European war, the total banking power of the United States, including capital, surplus, profits, deposits and circulation of all the national banks, State banks and trust companies of the country was less than twenty-five billion dollars, and the total money of all kinds, including gold and silver coin and certificates, legal tender notes, national bank notes and subsidiary currency in all of our 26,765 reporting banks, was only $1,639,000,000, of which the national banks held $1,023,000,000 and the State banks and trust companies about $616,000,000. At that time we owed to the European countries on demand and short-term credits and bank balances nearly four hundred million dollars, and the American securities held abroad, which the European countries were frantically endeavoring to sell back to us, amounted, it is estimated, to four or four and one-half billion dollars in addition. Suppose someone had announced at that time that before the war could be won it would be necessary for this country to come in with all its might and to provide after its declaration of war the colossal sum of more than thirty-two billion dollars in the space of about two years, of which over seven billion dollars must come from taxes and twenty-five billion dollars—an amount greater than the total banking power of the country—must be subscribed for Government bonds and certificates. Such a prediction and such a task would have been regarded as inconceivable and beyond belief, but, gentlemen, that is precisely what our country has done, and in doing it we have saved civilization.

Although the resources of our national banks are somewhat less than the resources of the State banks, trust companies and savings banks of the country, the records show that a majority of all the Liberty bonds were placed through the instrumentality of you national bankers.

Official figures illustrate the growth and progress of the national banks in the past five-year period from July, 1914, to July, 1919. On June 30, 1914, the total resources of all the national banks were $11,482,000,000. On June 30, 1919, their resources were $20,799,000,000, an increase of $9,317,000,000.

The increase which has taken place in these past five years has been greater than the increase for the nearly forty-year period from 1880 to the present. The records also show that while there has been an enormous increase in resources of all banks of all kinds, the national banks of the country for this period have increased more rapidly than the banking institutions under State supervision. The increase in resources of all national banks from June, 1914, to June, 1919, was 81.14%; the increase in the resources of the State banks, savings banks and trust companies for the same period was about 69%. It is also gratifying to me to be able to point to the record which shows that the admirably efficient work which the national banks of the country have been performing has not been without its reward, but that the increase in the profits of the national banks, both gross and net, has been unprecedented.

From June, 1914, to June, 1915, the gross earnings of the national banks of the country were $527,985,000; for the calendar year 1918 your earnings were $856,549,000—an increase of over 60% in five years.

From June, 1914, to June, 1915, the net earnings of all national banks amounted to $127,053,000. The following fiscal year, 1916, they were $157,544,000, the next year, 1917, $194,321,000; for the fiscal year 1918, net earnings were $212,332,000, and for the calendar year 1918 they were $223,531,000, which is more than 20% per annum on the total capital stock of all the national banks.

These returns have been obtained coincidently with the lowest average interest rates throughout the entire country that we ever had. This reduction in interest rates is due to the admirable operations of the Federal reserve system and to the insistence by the Comptroller's Office that the laws of the country regulating the rates of interest shall be observed by the banks, and it has been exceedingly encouraging to me to receive the assurances which have come from so many different sources that the adherence of the banks to the legal rates of interest has not only proved of enormous benefit to the public and the customers of the banks, but that the banks themselves are making more money and doing a larger and more satisfactory business than they did with interest rates regulated only by what the traffic was supposed to be able to bear, but which sometimes proved crushing. It will probably interest you to know that the records tell us that the national banks of the country are today manned by an army of approximately 100,000 men and women and that the owners of your banks—your stockholders, men and women—number approximately 500,000 souls, who have entrusted to you the stewardship of their talents. The returns prove that you have by no means wrapped these talents in a napkin or hidden them in the earth. The average of 20% per annum on capital stock will vindicate you from any such suggestion.

It is especially gratifying to me to be able to point to your very excellent record in reducing, as you are doing by wise, safe and honest management, the number of national bank failures to almost the vanishing point. From February, 1914, to February, 1918, there was a total of forty-four national banks which were placed in the hands of receivers. Of these banks ten were restored to solvency and nineteen additional banks have paid de-

positors in full or expect to do so, leaving but fifteen of the banks failing in those four years from which depositors are likely to suffer loss.

It is with special pride that I offer you my warm congratulations upon the admirable record which you have made in the matter of exemption from bank failures for the past twenty months, from January 1, 1918, to September 1, 1919. During this entire period but two small national banks have failed and been placed in receivers' hands. This means an average of one failure each ten months, against an average of one failure in about every twenty days in the entire twenty-five-year period preceding this administration. This extraordinary record covers the period of the greatest trial the world has ever seen, including ten months of the shock of war and ten months of the strain of reconstruction, and I ask you to note the deeply significant and eloquent fact that the records show the average number of national bank receiverships per annum per thousand operated banks for the twenty-five years prior to 1914 was twenty times, or 2,000%, greater than the average number of such failures per thousand banks for the critical period which has elapsed since January 1, 1918.

Not only have there been fewer national bank failures than ever before in the history of the national banking system, but the records show that of the national banks which have failed during this administration approximately 60 per cent have been restored to solvency or have paid their depositors 100 cents on the dollar or are expected to do so, whereas in the nearly fifty years prior only about 35 per cent of the failed banks were restored to solvency or paid depositors in full.

In the period from January 1, 1914, to September 15, 1919, charters have been granted to 984 new national banks, including 420 State banks and trust companies converting into or reorganizing as national banks. Of the national banks which went into liquidation during this period 365 were to enter the State bank system. In the same period 914 national banks have increased their capital and only 72 have reduced it. The total net increase in capital, surplus and profits of the national banks at this time, as compared with June 30, 1914, is more than $300,000,000.

In conclusion let me assure you again, gentlemen, that what America did in 1822 she can do now and Europe can do now. As our country recovered from an adverse trade balance and debts owed abroad reaching into the most intimate internals of her business life, she can help Europe do, now that the case is reversed. We are entitled to a kind of jingoism of prosperity, peace and restoration; we have the brains; we have the balance; we have the courage and nerve and drive and faith. We have the deep ingrained, ground-into-the-soul, love of country, Constitution and institutions. We have the wealth; we have the inventive genius undiminished, the patriotism untarnished, the will to go and the power to do. Ask the Hun. He knows. Our young men taught him in France and Flanders and our older men, our women and the great body of the people showed him here. He knows. We know, and our confidence that we can do whatever we may be given to do can not be shaken nor be made to falter.

With the guidance and favor of the Almighty the honest and faithful American banker and business man has been the directing power of the nation. He has been the unbreakable rear guard in times of disaster and retrogression, the eager and trusty leader of the vanguard in advance and progression. In those olden times to which I have referred, in the wildest days of wildcat banking and business methods, there were conservative, substantial banks and institutions which amid all the turmoil and peril stood like rocks. That history and tradition are yours. You inherit them. They are written indelibly and no shrieks against capitalism, no shrill howling against bankers and enterprise, can blot them out or dim them. They stand to attest how honorable your avocation is, the vital and incalculable service it has done in preserving this Republic and making it foremost among all countries and the hope and mainstay of the nations.

It is your lot—and when I say "your" I mean all American bankers in and out of the national system—to lead now in the huge work of upholding, guiding, restoring. The world is your field of operations. The nations are your clients. Your prospects of extension are illimitable. Your opportunity for widening the regions of your country's activities, for increasing its wealth and power are boundless. No other community of bankers ever has had such work to do—such opportunity to use. Never before has it been given to any body of men with such abundant means at their hands to secure in peace with energy and intellect the endless blessings conquered for humanity by valor and skill in war and to win for their own country not only riches and growth, but, far better, security and glory which will be everlasting because founded on world-wide gratitude well earned. You can do it. You will do it. You have given your proofs as the men at the front gave theirs. You will no more know how to fail than they did.

The Trust Department of a National Bank

By Virgil M. Harris, LL.D., Trust Officer of The National Bank of Commerce in St. Louis.

Mr. President, Ladies and Gentlemen:

I consider it a great privilege and an honor to be asked to address the American Bankers Association.

It is my purpose, in a brief address, to give you the practical side in the development of a Trust Department of a National Bank.

The strong arm of the United States Government has now been extended to National Banks to enable them to act in fiduciary capacities, and now that this right has been granted, we wonder that it was not done before. It marks an important epoch in the financial history of this country. The eight thousand National Banks of the United States are structures based on solid foundations and have, since their creation, been the chief bulwarks of financial strength and stability.

The Federal law, as originally passed, and the enactments of Congress of September 26, 1918, have been given so much publicity that I do not feel that any good purpose can be subserved by going into the validity of these enactments; but proper tests have been made in the highest courts of the land, and the way is now open for the enjoyment of the advantages afforded. The Federal Reserve Board has shown a keen interest in the promulgation of the law and in the regulations prescribed for the conduct of Trust Departments.

The entry of National Banks into this new field of service is one which should receive serious consideration, and it is well at this early date for bank officials to realize the marked difference between the time-honored usages of commercial banking and the principles which obtain in the operation of a Trust Department. Commer-

cial banking, in an abstract sense, is largely a question of arithmetic. Safe banking depends upon loans amply secured; the interest takes care of itself; on the other hand, the assumption of fiduciary relations means the undertaking of grave responsibilities which are entirely new to National Banks, and which can be successfully discharged only by experts and trained officials who have a thorough knowledge of the intricacies incident to all fiduciary matters. Nothing short of technical knowledge, coupled with years of training, will serve to avoid the pitfalls which beset those who undertake the administration of trusts and kindred matters. At a recent meeting of Trust Officers, the President of one of the leading Trust Companies of the United States said that not more than two per cent of commercial banking gave cause for solicitude, but that he had found that seventy-five per cent of the business which naturaly falls into a Trust Department is fraught with complications and perplexities, and subject at all times to litigation; and I am free to say that after twenty years of experience, I heartily concur in his statement.

Let no National Bank assume that the addition of the new line of work is a sinecure, for it requires more than a permit from the Federal Reserve Board to accomplish the desired results. It will be found that competition is keen, and rivalry will be encountered.

With these general suggestions, I shall pass to those features which, in my judgment, are the basic principles for success in the operation of a Trust Department.

1. Considerable misapprehension has arisen as to the exact nature of a Trust Department of a National Bank. Many well-informed people, including lawyers, believe it to be a Trust Company within a Bank. Such is not the case. It is not a separate entity; it is a part of the Bank itself, and as much so as the Savings Department or Commercial Department, and while this is true, yet the Federal law requires that the books and assets of the Trust Department shall be kept separate and apart from those of the Bank itself.

2. I do not think that I am unduly praising my brother Trust Officers throughout the United States when I say, in all seriousness, that the selection of such an official is a matter of prime importance, and that in the history of Trust Companies I do not recall an instance of defalcation or betrayal of trust on the part of a Trust Officer. The duties of the Trust Officer are multifarious. He should be a lawyer, and a versatile one, for there come before him every form of business complication and every phase of human character, good and bad. There is no problem, legal or otherwise, which our complex civilization brings forth, which he may not be called upon to solve. The orphan's cry, the widow's weeds and the lamentations and denunciations of disappointed heirs are everyday occurrences to him. He must exercise a broad sympathy, and yet be firm in the performance of his duties. The Trust Officer should have a capable force of assistants and clerks at his command; he should receive from the executives cordial support and encouragement. The Trust Officer who possesses the necessary qualifications for his office is not easily found. One of the largest Banks in the South, desiring to open a Trust Department, applied to me some time ago for a man to fill the position of Trust Officer. In spite of the fact that the salary offered was a large one, a suitable man could not be procured for six months.

3. The Trust Department, with reference to its location in the Bank, should be to itself; the members of the official and clerical force should not be separated; the Department should have appropriate signs designating its location; it should be accessible, and its equipment first class. No assistant or clerk should be taken into the Trust Department whose aptitude and ability have not been investigated. The Trust Officer, and those who assist him, should be well paid, for their hours are long and their duties exacting.

4. In the ordinary course of affairs, it takes about five years to establish a Trust Department; that is to say, to put it on a fixed and paying basis. The experience may be likened unto that of a doctor or a lawyer in establishing a paying practice; success does not come overnight; and during this period of probation, the desire to secure business should not outweigh sound judgment and discrimination in the nature of the business received.

5. The Trust Department should not be a dumping place for undesirable transactions. One bad lobster, it is said, will spoil a carload. Where it is clear that the business offered is undesirable, it should be declined with that alacrity and firmness with which the Discount Committee of the Bank declines a loan which is not properly secured.

6. Our worldly possessions are but life holdings, and the grace with which we part with them at the end of life's journey shows human character in its least disguised form. Wills constitute the most important item which can come into a Trust Department. All the property in a community changes ownership once in about every twenty-five years, and most of it passes by will. Much of the other work of a Trust Department is of a red-ink nature. Wills may be important or unimportant; they may be helpful or detrimental, and even though a Bank has been named as executor, if it be ascertained that the emoluments are inadequate and that bitterness and family enmities must be incurred, the wiser plan is to resign and let some ambitious administrator take charge.

Many frugal-minded donors and testators are inclined to name several executors and trustees to act with a corporate executor or trustee. For all practical needs, one such is sufficient, but, in no event let the compensation of the corporate executor or trustee be reduced to less than one-half of the commissions allowed, for the responsibility and the laboring oar fall to the corporate executor.

7. A National Bank having established a Trust Department, the first duty of the directors and officers of the Bank should be to lodge their wills with the Department. It has been said that if a man has three true friends, he is rich, and this applies to a Trust Department; if the directors and officers will favor the Department with their wills, it is well on the road to success. It is not to be expected that the patrons of the Bank and the public at large will patronize an institution where the directors and officers fail to do so. The development of a Trust Department is a slow process. Fortunately, our friends do not die simultaneously. Death is a ridiculously easy thing, and it does occur; and it is by deaths that the Trust Department is enriched.

8. It has been suggested that National Banks are not qualified to handle trusts of long duration, by reason of the shortness of their corporate lives. This theory is absolutely without merit and without foundation, for National Banks can and do automatically renew their charters, and usually do so with more ease and less friction than do Trust Companies. In this connection, let me say that of far greater importance than the longevity of National Banks is the paramount protection afforded by the double liability of their stockholders. Whether or not it is a prudent procedure to give out this information by advertisement might well be weighed, in view of the alarm it might cause to stockholders who might not read understandingly.

9. The fiduciary field in the United States is an extensive one and has scarcely been encroached upon by those acting in corporate fiduciary capacities. The opportunity for National Banks is boundless. The reasons for giving preference to corporate fiduciaries are now almost axiomatic. All that has been written and all that can be written on the subject, upon which these reasons are based, come from financial responsibility, continued existence, financial judgment, accumulated experience and impartiality. All of the thousands of circulars, pamphlets and general literature which proceed from corporate executors can be traced back to these fundamental qualifications.

10. The welfare of the Trust Department and its growth, in its last analysis, rest upon the stability of the Bank and the personnel of its directors and officers. The strength of the Bank, its standing and integrity, are the chief advantages, and no amount of capital and deposits can possibly supply the prime factors of character and confidence.

11. The customers of a Bank, including its depositors and its borrowers, from time to time, seek counsel and assistance in their everyday business affairs, and it is but an extension of this relation that they should place their estates in the hands of the Bank for management after death.

12. Whether or not National Banks in towns and in the smaller cities will be enabled to successfuly avail themselves of the benefits of the new law is an untried problem, and one which only experience will demonstrate. Some Trust Companies have flourished under these conditions, but the great wealth acquired has chiefly come to those institutions which are located in metropolitan centers. My own opinion is that a National Bank situated in a county seat or in a city having a population of ten thousand inhabitants may accept the certificate from the Federal Reserve Board with reasonable assurance of success.

13. Let me say, with emphasis, that those who contemplate the establishment of a Trust Department should not assume the new relation unless there is a fixed determination to give it a fair trial, and to finance the enterprise for a considerable length of time. It is practically impossible for a corporate executor to discontinue the trust relation after it has been assumed, and in those states where a deposit is required to be made with the State Bank Commissioner to enable corporate executors to act without bond, the fund so deposited can rarely be recovered. The ramifications of the trust business are such that a termination of all of it is impracticable. So long as there is a trust of any kind open upon the books, the deposit must be held and cannot be lessened or withdrawn.

14. We are ushered into the world in a state of dumb amazement and go out of it in the same way, and most of our fortunes mechanically take their course. Less than ten per cent of people dying leave estates of over five thousand dollars in value. The attempt of the dead hand to guide the fortunes and destinies of those who follow is frequently attended with disaster, bitter hatred and a lack of love and reverence for those who have departed. Trusts of long duration rarely, if ever, work out perfectly. It is not given to us to see very far into the future. The stability of securities changes; wars come, and a thousand and one things may occur to thwart the benevolent intentions of the testator. Perhaps it is for our good that we cannot read the future, but if this foresight were given to testators, it is certain that many would change their plans and that many of those directions which we frequently find in wills would be left unwritten.

15. The advertising necessary and incident to a Trust Department, in my judgment, should always be of a dignified nature. The business of the Trust Department itself is of a serious and dignified nature. Pamphlets and brochures, if well

conceived and if penned by hands trained in the work, have their advantages, when properly distributed. Newspaper advertisements which point out the capital and surplus of the Bank and pointedly suggest the advantages offered by it serve to keep the name of the Bank before the world; but, for the most part, the paying business of a Trust Department, that part of it which brings the best returns, comes from the personal touch, by reason of acquaintanceship and of family connections. A man puts into his will his well-reflected intentions. The execution of the will is probably the most serious act of his life, and he no more selects from the pamphlet or the newspaper his executor than he does therefrom get his religion. It is said that ninety-one per cent of all American business is conducted through the mails. Letter-writing is useful and has become a finished art. Unusual expressions in letters or in advertising, so far as the Trust Department is concerned, should be avoided, but appropriate advertising through intelligent channels will accomplish great purposes and break down apparently impassable barriers.

16. Strictly to be avoided are designing persons who have some worthless scheme to exploit. Acting as trustee under a worthless bond issue or coal project, or mine or oil proposition, may bring undesirable results, and your name may unwittingly be dragged into advertising schemes which you did not contemplate. The closest scrutiny should be employed before deciding to act as trustee or agent in any undertaking, however glowing its prospects, or whatever the compensation offered. A failure to detect the ulterior design may bring irreparable loss and sorrowful reflection.

17. In conclusion, I wish to say that whether or not a Trust Department is a paying adjunct of a Bank depends largely on the individual case. It is possible to make it one of the very best sources of revenue to the Bank. Speaking personally of the Trust Department of the Bank with which I have the honor to be connected, I will add that in its first year of existence under the new law the return on a very liberal investment has far exceeded its most hopeful expectations.

I sincerely thank you for your attention, and extend to you, Mr. President, and to the members of this Association, my best wishes for your continued welfare.

Committee and Officers Report National Bank Section

Report of the President, Oliver J. Sands

Gentlemen of the National Bank Section:

In view of the very full and interesting program of this Section, and the fact that matters of general interest to bankers will be fully and ably discussed before the whole membership of the Association, we have concluded that much valuable time would be saved and repetition avoided if the President's address be omitted. It was decided, however, that the reports of the several officers be printed and given to the members in attendance at this Convention, or those to whom any questions may arise, will discuss the matter contained in these reports with a view of securing information, or making suggestions, looking towards improved and enlarged service upon the part of the Section.

We have been deeply sensible of the great honor conferred and keenly aware of the responsibilities assumed, in being placed at the head of the only national organization of the bankers operating under Federal charters. This Section came into being at a time when almost the entire world was in a state of war, and conditions have been far from normal throughout this country since the Section was organized. This was particularly true after our country entered the strife, and the past year has been one of such unusual conditions in the financial world, that we cannot help but feel that there have been many reasons why the administration of the affairs of the Section has not been all that some of the members might justly have expected.

Immediately after the last Convention the resignation of Mr. Thralls as Secretary of the Section was presented, he having been tendered an official position with the Discount Corporation of New York. The offer was of such a nature that it was impossible for us to present inducements sufficient to retain him, so we most reluctantly accepted his resignation. This was a great loss to the Section, as his unusual qualifications for the position and his experience in the office were of high value.

On January 1st, Major Fred. W. Hyde assumed the position of Secretary. We felt that the Section was most fortunate in securing the services of Major Hyde, and our opinion has been fully justified by the able service he has rendered thus far. A change in the active head of an organization such as ours creates a break to a more or less degree in plans, methods and continuity of work. In our case, however, on account of the entire willingness of Mr. Thralls to assist his successor, and owing to Major Hyde's experience as a former President of the Section, and his general qualifications, the work has progressed with the minimum of interruption.

The National Bank Section was organized on account of a recognized need upon the part of many National Bank members of the American Bankers Association of the necessity for an organization of the institutions chartered by the United States Government. These institutions, operating under Federal laws, and subject to strict Federal supervision and accountability, have many questions of primary interest to themseelves which are of only secondary interest, and sometimes not so much as that, to a large percentage of the members of the Association. The officers and committees of the Section from the beginning have had uppermost in their minds the one object—that of service to members. It has been their desire to have interesting programs at their Conventions, and they have succeeded in that, but they have realized that the few hundreds of the members at Conventions are inadequately representative of a membership of six thousand six hundred, and that to be really worth while the Section should be engaged continually in performing some kind of service which the members are not able to so well secure from any other source. The several committees appointed to perform specific work will make their separate reports to you, and we shall not undertake to more than say that the Chairman and members of your committees have been faithful in the performance of their several duties. Their work in most instances has hardly been started; they have been handicapped by the unusual conditions which have required so much extraordinary service upon the part of all loyal American Bankers. Were it a fitting time or place, or becoming in me, I should like to utter some encomiums to the bankers of the United States. One year is little time to carry through plans for improvements and reforms of laws, practices, methods, etc., but work has been undertaken which should result in great value to the National Banking interests of the country. Much remains to be undertaken which will be of benefit to the banking and commercial interests, and the work of the Section, we sincerely hope, will receive the hearty support of every banker.

From almost the beginning it was realized that in order to render much real service of the every-day routine kind, the kind that makes the maintenance of an office equipment and a corps of officials and clerks worth while, the office of the Section should be located in the city of Washington. The reasons for this are so obvious to all National bankers that it is unnecessary to repeat them. If there is any advantage in having our headquarters in any one centrally located city over another, except in Washington, those who are most familiar with the work of our Section have failed to discover it. Our repeated requests for authority from the Committees of the American Bankers Association to open our office in Washington have been granted to the extent of permitting us to conduct a so-called Service office in the city of Washington. This office is opened and in operation. The Secretary's report will give in detail the results of a few weeks' experience there. Our headquarters should be in Washington. We perform no service to our members which cannot be as well or better performed from our Washington office, and it is a useless expense of time and money for our offices to be divided. This Section will not become a part of a political organization if it is located in Washington any more than all the other National organizations now located in Washington are political. It must keep its members informed of all matters affecting their interests whether in Washington or elsewhere, but wholly on account of administration features it can be of greater service there than in any other location.

The more than 6,600 National Bank members contribute a large proportion of the total revenue of approximately $400,000 received by the American Bankers Association. The sum asked of the Association by this Section for the carrying on and developing an organization prepared and able to perform service of direct benefit and assistance to its members is $20,000. It is possible that after another year everything now required by banks in Washington can be undertaken by your Section officers, thus saving expense and securing a direct and efficient service under your own management and direction. We see no reason why the Section officers and employees should not perform any possible service in Washington which may be required of them by any member of the American Bankers Association, whether a member of this particular Section or not.

The American Bankers Association is today one of the greatest organizations in the world. It has been a power for good in the upbuilding of the financial, commercial, agricultural, and almost every other line of human endeavor. It has contributed to the welfare of every person engaged in the banking business. Its future sphere of usefulness is limited only by the amount of energy and interest devoted to it by its individual members. That we need an association of all banks there can now be no question. Its plan of organization is the result of years of labor and experience. It should continue to foster the work of its several classes of members through these Sections, permitting them to serve their own membership to the fullest possible extent, but exercising over them the corrective and restraining influence of a wise and devoted parent, thus avoiding duplication of effort and waste of money and energy. More frequent and regular meetings of the Administrative Committee of the Association should be held, and at these meetings the chairmen of the Sections should make full reports of their work. This is the plan under which our successful banks are operated, and it would be, we feel sure, of great value to the Association.

The President feels under personal obligations to the officers of the American Bankers Association, to the members of the Executive Committee, and Secretary of the Section, and to the chairmen of the several committees of the Sections for their

uniform spirit of helpfulness during the year of his service.

The coming year is one of great promise in the work of, by and for bankers, and in relinquishing the office of President of the National Bank Section, I do so with profound gratitude for the progress already made and high hopes for still greater accomplishment in the future, and pledge my continued best efforts to effect the realization of the plans for the growth and influence of the American Bankers Association and the National Bank Section.

Respectfully submitted,

OLIVER J. SANDS, President.

St. Louis, Mo., Sept. 29, 1919.

Report of the Executive Committee

Gentlemen of the National Bank Section:

Since the last annual Convention of the American Bankers Association the Executive Committee of the National Bank Section has met three times—twice in New York City and once at the Greenbrier, White Sulphur Springs, W. Va.

At the meeting in New York City, November 21, 1918, the following subjects received attention:

The resignation of Mr. Thralls, Secretary of the Section, was received and the qualifications of several persons suggested for the office were discussed. It was decided that the new Secretary should devote all his time to the work of the Section and not divide his services with the Clearing House Section.

Mr. A. F. Dawson, President of the First National Bank of Davenport, Iowa, was appointed a member of the Executive Committee, to fill the vacancy created by the death of Mr. Nelson N. Lampert, and made chairman of the Legislative Committee.

The attention of the committee was called by the Secretary to numerous letters and telegrams received from banks in all sections of the country, asking the officer to endeavor to have the Comptroller of the Currency modify his requirement in regard to reporting earned and unearned interest and discount. The committee authorized and directed the officers to write to the Comptroller and ask him to simplify his order.

The meeting in New York City, December 10, 1918, was held jointly with representatives of the Clearing House Section. It was decided that in the future each of the two Sections represented at the meeting should have a Secretary who would devote his services exclusively to his Section; and in pursuance of that policy Major Fred. W. Hyde was engaged to act as Secretary of the National Bank Section from January 1, 1919.

The chairman of the Executive Committee was appointed a special committee to interview the Comptroller of the Currency and supplement by verbal appeal the letter authorized to be written to the Comptroller in connection with the subject of earned and unearned interest and discount.

The officers of the Section were directed to prepare and submit to the Administrative Committee of the Association arguments in favor of the removal of the office of the National Bank Section from New York City to Washington, D. C.

The meeting at the Greenbrier, White Sulphur Springs, was held May 19, 1919. At that meeting reports from special committees of the Section were received, including:

1. Committee on Acceptances, Mr. Sands, Chairman.
2. Committee on State Taxation of National Banks, Mr. Cox, Chairman.
3. Committee on Forms, Mr. Pondrom, Chairman.
4. Committee on Post War Conditions, Mr. Head, Chairman.
5. Committee on Secret Assignment of Accounts, Mr. Gatling, Chairman.

These reports were freely discussed, received and ordered filed. The committees were authorized to continue their work, except the Committee on Post War Conditions, as the work of that committee has been taken over by the Committee on Commerce and Marine, of the American Bankers Association. Suitable resolutions of respect to the memory of Mr. Nelson N. Lampert, deceased, formerly a member of the Executive Committee, and Mr. Gustavus Warfield, Jr., deceased, formerly Vice-President of the Section for West Virginia, were adopted and spread upon the minutes of the meeting.

Mr. Sands, the President of the Section, was instructed to endeavor to secure from the Executive Council of the Association authority to establish in Washington, D. C., an office of the Section in charge of a competent representative. This authority was granted by the Executive Council and the officers of the Section were authorized to rent quarters in Washington and open the office as soon as possible.

Mr. Cox introduced the subject of Latin-American trade, which was discussed freely, and by resolution referred to the Committee on Commerce and Marine of the American Bankers Association, together with a request that said committee consider the establishment of a Bureau of Latin-American trade under the direction of the American Bankers Association, to assist in furthering trade relations with Central and South America, the service rendered by the Bureau to be available to all members of the Association.

The Executive Committee approved proposed changes in the By-laws of the American Bankers Association, granting authority to each of the Sections to consider and act on legislation affecting its members, without expense to the Association, when and in the event the Federal Legislative Committee of the Association is not authorized or declines to become active in behalf of or against such legislation.

In addition to the subjects set forth, other matters of minor importance, most of them dealing with administrative work of the officers of the Section, were considered and acted upon at the three meetings to the end that efficiency go hand in hand with the desire of your officers and your various committees to serve you.

Pursuant to authority granted by the Executive Council of the Association and in obedience to directions from the Executive Committee of the Section, a service office was opened in the Southern Building in Washington, D. C., in July, 1919. The Secretary of the Section was instructed to spend part of his time in Washington, employ a stenographer, organize his office and devote his efforts to making the new venture a source of real service to the members of the Section. Thus the aspiration born at Briercliff at the spring meeting of the Executive Council, in 1916, has become a reality.

Although the Washington office has been in operation less than three months, its strategical position in the Nation's Capital has enabled the Executive Committee and the officers of the Section to discover many opportunities for service to our members, and it is our belief that this office will soon become a source of very great practical benefit to the national banks of the country, which derive their powers from the Federal Government. The enactment of laws relating to their business and the interpretation of those laws by the Federal Reserve Board, the Comptroller of the Currency, and the Commissioner of Internal Reveenue, are of such vital interest to the members of our Section that we should have available at all times in Washington a trusted official who can gather reliable information and answer questions relating to these matters quickly and accurately.

Since the Convention of the Association last year, seven measures affecting banks directly and indirectly have been passed by Congress and are now in effect.

1. The Act of March 3, 1919, amending Sections 7, 10 and 11 of the Federal Reserve Act and Section 5172, Revised Statutes.
2. The Act of March 2, 1919, to amend the Liberty Bond Act and the War Finance Corporation Act, and for other purposes.
3. The Act of March 2, 1919, to provide relief where formal contracts with the United States Government have not been made in the manner required by law.
4. The Act of September 24, 1918, to supplement the second Liberty Loan Bond Act as amended, and for other purposes.
5. The Act of February 24, 1919, to provide revenue, and for other purposes.
6. The Act of September 26, 1918, to amend and re-enact Sections 4, 11, 16, 19 and 22 of the Federal Reserve Act, and Sections 5208 and 5209 of the Revised Statutes.
7. The Act of November 7, 1918, to provide for the consolidation of national banking associations.

The seven measures referred to were passed during the second session of the Sixty-fifth Congress, which ended March 4, 1919.

During the first session of the Sixty-sixth Congress a large number of bills, directly and indirectly affecting the business of banking, were introduced. These measures are being closely watched by Mr. Waldo Newcomer, Chairman of the Committee on Federal Legislation of the Association, and by Judge Paton, the general counsel, who will report their status in detail to the Convention. Therefore it is not necessary to revert to all of them here, but it may be of interest to know that two measures relating to our business have been passed by the Senate and one by the House of Representatives:

S. 2472, known as the Edge Bill, which amends the Federal Reserve Act and permits the formation of banking corporations to do a foreign business and encourage export trade, has been passed by the Senate.

S. 170, which amends the Federal Reserve Act and permits National banks, with a capital of $1,000,000 and over and that are located in cities having a population of 500,000 and more, to establish branches, has been passed by the Senate.

H. R. 7478, which amends Section 5200 of the U. S. Rev. Stat., and allows National banks to lend a greater amount to one individual, firm or corporation than existing law permits, has been passed by the House of Representatives.

Mr. Sands, the President of the Section, has had several conferences in Washington with the chairman of the Executive Committee and the Section Secretary, and he has been in communication frequently, through the medium of correspondence, with the other members of the Executive Committee. Throughout his administration of the office of President he has worked directly and through standing and special committees and the office of the Secretary to upbuild and strengthen the Section to the advantage of its members. His course has been an inspiration to the members of this committee and he commands our respect, our confidence and our esteem.

The National Bank Section is fortunate in having a Secretary so well qualified to handle successfully, not only the details of his office, but many diplomatic missions involving broad and compex matters relating to the work of the Section. Major Hyde has displayed rare tact and judgment. He is devoted to the interests of the Section, works tirelessly and conscientiously and strives constantly to broaden the power and influence of his office to the service of our members. It is a pleasure to us to pay this tribute of respect and appreciation to one whose qualities of mind and heart fit him so well for the place he occupies.

The program of the Section's activities for the next year should include: First, the development of the Washington office, and then, selected from a list of suggested activities, a few subjects which are of most vital importance to our members. One objective reached opens the road to another. Thus, step by step, progress is achieved.

In our quest for work to keep the Section organization busy until we meet again, let us fear not, if the trail should lead that way, to search our own minds and hearts. Perhaps the things we seek are already in our possession, perhaps the power we would have lies dormant in our keeping awaiting expression through the orderly process of friendly counsel and earnest cooperation, not only among ourselves, but with others. Let us remember that every right and privilege we enjoy is founded upon duty and obligation. The seed must be planted before

the harvest can be reaped. Thus, if each one of us is willing to indulge in a little introspection and seek to find the duty which society places upon him and discover the obligation which his membership in our great democracy imposes upon him, and when he discovers the truth, pursue a just course, even though it involve some measure of self-denial, the things of value which we seek and which we imagine are held in the keeping of others to be achieved by us only through strife, will come to us spontaneously.

H. H. McKee, *Chairman*,
Edward S. Brown,
E. Kirby Smith,
J. A. Pondrom,
N. P. Gatling,
A. F. Dawson,
J. Elwood Cox,
Oliver J. Sands,
W. W. Head.

St. Louis, Mo., Sept. 29, 1919.

Report of the Secretary, Fred W. Hyde

Gentlemen of the National Bank Section:

The most important year in the brief history of the National Bank Section is that of 1918-19, because the long cherished plan to open an office of the Section in Washington, D. C., has been carried into effect. Jerome Thralls, who had served as Secretary since the Section was organized, resigned December 31, 1918, and since January 1, 1919, the office has been filled by the present incumbent.

The past year has been one of progress and achievement. In the general office of the Association in New York the work of the Section has proceeded along approved lines. At Washington the Section's branch service office was opened the first of July in the Southern Building, which is located in the financial district, only one block from the United States Treasury. The space occupied is Room No. 1, on the street floor, close to the H Street entrance of the building. Here are on file volumes of information relating to Congress, the departments of the Federal Government, and the city of Washington, for the use of bankers. From the day the office was opened the volume of business has increased steadily; inquiries are answered, commissions undertaken, congressional bills and government publications obtained and forwarded and personal attention given to bankers who visit the Capital. The purpose is to make the office a source and means of prompt and reliable service to bankers. As this agency of the National Bank Section becomes better known the conveniences, facilities and helps which it affords will be recognized and taken advantage of to an extent greatly beyond the present record. There really is illimitable opportunity in this new undertaking to serve the National bankers of the United States from the country's Capital. The Section's horizon steadily widens. The range for the expansion of the duties and activities of our organization is, in fact, beyond our present comprehension.

The Executive Committee has held three meetings—two in New York and one at White Sulphur Springs, W. Va.

The sixteen activities adopted by the Executive Committee have been the rules of practice by the present incumbent throughout the year. They are:

1. Conduct a campaign for a 100 per cent membership of National banks in the American Bankers Association.
2. Co-operate with the Committee on Federal Legislation to the end that needed constructive legislation only shall be passed.
3. Make arrangements to render a greater amount of service to the members in connection with their transactions with the various departments of the Government at Washington.
4. Give attention to the operations of the so-called discount companies. Endeavor to have laws passed that will require public record to be made of all assigned accounts.
5. Make effort to get a National Bank Section organized within each State Bankers Association.
6. Define duties of State Vice-Presidents and organize them into a council to meet with the Executive and various other committeemen of the Section at the time of the Annual Convention and at such other times as may be deemed necessary.
7. Arrange for periodical communication with all members of the Section.
8. Assist in a campaign of education and publicity designed to inform the bankers relative to the new features of the Federal Reserve system covering particularly trade and bankers acceptances and foreign banking, so far as it relates to national banks.
9. Create a Committee on Legislation to include in its membership as its principal representative in each State the Vice-President of the Section for the State.
10. Arrange for the inclusion in the Federal Legislative Council of the Vice-Presidents of the American Bankers Association and the Vice-Presidents of the various Sections of the American Bankers Association in each State.
11. Assist in the preparation of up-to-date forms for the use of banks. Evolve and develop improved plans, methods and systems for the various departments of member banks.
12. Have a special committee appointed charged with the responsibility of studying conditions with the view of making suggestions to the Executive Committee of the Section that may be used in aiding the banks throughout the country to equip themselves so as to render the maximum of service during the reconstruction period.
13. Aid in every possible way to encourage the national movement to create new savers, to increase thrift and industry among the people throughout the country, to direct credit into essential channels of production and to mobilize the banking resources of the United States to the maximum. Also study the field of savings business and give the members of the Section advice and information as to how to build up this particular department of their business.
14. Accord all possible aid to the Treasury and various other departments of the Government in the nation's financial program and general war activities.
15. Impress upon the public, through newspaper publicity and otherwise, the thought that no individual should dispose of his Liberty Bond holdings, either in exchange for other securities or otherwise, without first consulting with his banker.
16. Maintain close relations with the Federal Reserve Board, the Comptroller of the Currency, the National Association of Credit Men, and other leading business organizations whose good-will and assistance are essential in the proper solution of the important problems that confront the bankers.

The correspondence from this office during the past year aggregated over 3,000 letters, in addition to upwards of 7,500 form letters and questionnaires, and several hundred newspapers were mailed.

As representative of the American Bankers Association, the Secretary has attended the Annual Conventions of bankers' associations in the following States: Mississippi, Arkansas, New York, Ohio, Minnesota, North Carolina and West Virginia. He also attended the annual conventions of the Credit Association of the Building Trades of New York, the American Acceptance Council, and the League for Industrial Rights; and the conference at Washington in which the Agricultural Commission of the American Bankers Association and representatives of Federal Government participated.

At the meeting of the Executive Committee at White Sulphur Springs, in May, a new Section symbol was adopted.

The membership of the Section has increased from 6,337, August 31, 1918, to 6,616 on August 31, 1919, a gain of 279 during the year. On August 31, 1919, there were 1,289 non-member national banks.

From the Comptroller's office it is learned that 210 charters were granted to national banks during the year ending August 31, 1919; that 268 banks received authority to increase their capital; five reduced their capital; that the net authorized increase in capital is $36,654,100; that the resources of national banks on June 30, 1919, were $20,799,550,000, or an increase of $2,960,048,000 over resources of June 29, 1918. There were two failures of national banks.

Up to and including August 25, 1919, the number of national banks that had been granted fiduciary powers by the Federal Reserve Board was 983. Of the State banks of the country, 1,099 had become members of the Federal Reserve system on that date; on the par list, July 15, 1919, there were 8,848 member and 12,071 non-member banks.

The necrology of the year included the names of Nelson Norman Lampert, of Chicago, who was a member of the Executive Committee, and Gustavus Warfield, Jr., of Elkins, W. Va., who was State Vice-President from West Virginia.

From August 31, 1918, to August 31, 1919, the expenses of this Section amounted to $10,796.63. As the appropriation was $10,750, the Section's deficit at the end of the fiscal year was $46.63.

In closing his report the Secretary makes grateful acknowledgment of the constant encouragement and assistance which he has received from the devoted officers and Executive Committee of the Section, and from his associates in the general office of the Association.

Respectfully submitted,
Fred. W. Hyde, Secretary.

St. Louis, Mo., Sept. 29, 1919.

Report of Committee on State Taxation of National Banks

To the Executive Committee of the National Bank Section:

The longer your special committee on State Taxation of National Banks studies the subject the more it is impressed with the importance thereof. States are jealous of their rights as commonwealths; the federal authorities feel it incumbent on them to maintain the supremacy of the nation over its units. To reconcile differences and bring about a state of affairs which will insure justice to all will require time, labor, patience and mutual conciliation.

It is assumed that every class of business, including banking, is willing to bear its share of the public burden. In some of the states bank stock is looked upon by local assessors and by the legislators as "good picking," and statutes deal heavily with the owners of the property, while in other states the bankers are satisfied that the taxes they pay are not disproportionate or excessive. Where bankers and holders of bank shares are by law forced to pay more than their proportion of taxes the revolt seeks to carry legislation to the other extreme, and individual bankers and associations of owners of bank shares endeavor to determine a basis of taxation which will not alone relieve them of the present excess but will give them advantages which will partially compensate for undue and unwarranted payments heretofore. There is danger that radical demands for relief on the part of bankers will defeat their worthy purpose. Banks ever have been regarded by tax assessors as legitimate objects of assault and if bank share owners in their efforts to escape injustice through federal legislation, proceed beyond proper bounds, the state law makers will discover means to offset their gains and even make extortionate exactions which will intensify instead of relieve the situation. Therefore it behooves National bankers to give thoughtful consideration to this subject, to proceed not hastily but with care and circumspection and always to keep in view the arrival at a perfect balance by which none shall be dissatisfied and all will have consciousness that they are doing their full share, and no more, in maintaining government and stabilizing our national ideals and institutions.

As this committee reported to the executive committee at the White Sulphur Springs meeting, we have carefully watched legislation, both state and national, and nowhere do we find a disposition to make radical changes in existing statutes relating to taxation as effecting national banking institutions, and we are confident that the watchfulness of legislative committees of both the American Bankers Association and of the bankers' associations of the several states should be in generous measure credited with the defeat of "strike" movements against the business of banking. It always is better to head off hostile attacks in their incipiency rather than to wait until the movement has gained dangerous momentum. As said in our mid-year report: "In states where laws now in effect levy upon banks injustly, the bankers through associated effort should protest with a vigor that will compel readjustment on an equitable basis; not only protect but take affirmative, positive action in the truly American way of political activity, beginning with the primary and continuing until the legislature has adjourned; opposing candidates for office who are unenlightened and unqualified for the task of law making, and those who have not given proof of character and ability. As bankers we have ourselves to blame if we permit the perpetuation or the continuance of abuses. The conservatism attached to our class of business and our disinclination to make our influence felt outside the walls of our banking houses are in part responsible for the election of law makers who are not fitted to meet the requirements of such exalted station.

"Warning should be taken of a situation that has some alarming phases. As one effect of the Great War, extravagance on the part of governing bodies, from Federal down, has run rife. It is ever a difficult thing to reduce expenditures; the tendency to raid the public crib is proverbial. To continue to spend on a war basis means increased taxation and the drift will be inevitably along the lines of least resistance. Other interests are awake and are not too proud to fight for their rights. Bankers cannot hold aloof from politics and yet expect to be treated with justice by legislators elected without their aid. We contend that to be a politician to the extent of active participation in the selection and election of men of integrity and ability, to public office, is the blessed birthright of an American, and to do less is to confess ourselves unworthy our glorious heritage."

We renew our expression of opinion that the matter of the state taxation of national banks is one that properly should be assigned to the state vice-presidents of the section. They could by conference and correspondence arrive at a country-wide understanding as to what constitutes fair and equitable treatment of national banks, and each in his own state urge upon the legislature the conclusions that had been reached. All or nearly all the state bankers' associations have legislative committees.

The matter of the taxation of bank shares is one which affects all classes of chartered banks, and the several states of the country are governed largely in their policy in respect to taxation by the Federal statutes which fix the basis for the taxation of the shares of national banks by the states. It is therefore quite evident that this important question is one in which we can all co-operate, and for that reason this committee strongly urges the appointment of Taxation Committees in each of the sections of the American Bankers Association and in each of the State Bankers Associations; and that these committees should all co-operate to the end of securing such reasonable amendments to the Federal laws which will fix a maximum rate at which money invested in bank shares can be taxed.

The present Act known as Section 5219 U. S. R. S. has been so confused by the many conflicting United States Court decisions during the past fifty years that it should be amended or re-enacted so as to prevent the states from taxing the shares of National banks upon a basis higher than other invested capital in the state. This will prevent discrimination and that is all that the investors of bank shares can hope to secure. Our belief and experience is that the holders of bank shares are amongst our most loyal citizens and they do not expect any discrimination favorable to them; they are willing and anxious to pay their full share of local, state and national taxation and should not be asked to pay more.

On careful analysis the investment in bank shares is no more profitable than that in any other corporation and when the double liability is considered and the fact that banks enjoy no special privilege, all citizens being privileged to organize banks, there is no reason why there should be any discrimination against the shares of banks.

The banks themselves are in no small degree responsible for the fact that they are discriminated against in taxation. There is too much unrestrained, intemperate advertising of the kind calculated to cause the public to feel that banks possess a sinecure and are prosperous beyond the bounds of fairness or public safety. Statements are often published showing a large percentage of capital stock issued to shareholders from earnings, and not infrequently published statements showing large percentage earned on capital stock, without making reference to surplus and undivided profits, the true source of the earnings, accumulated by denying shareholders reasonable dividends, and during a long period of years, extending back into the days when the possibilities to earn profits cannot be compared with present opportunities curtailed by legislation, keen competition, and economic conditions far different. If bankers would tell the whole truth, if they will make such boastful statements, they would shield the public from the error of false opinion, and establish themselves on a more ethical and practical basis of relations with the public and competitors.

The National banks of this country earn approximately 8% on the true value of their shares. Accordingly a bank with shares worth $200,000 and deposits of $1,000,000 earns about $16,000 per annum net. If the management of the bank is charged by its shareholders, interest on the value of the shares at the current rate charged by the bank, say 6%, it is patent that the shareholders contribute $12,000 to the earnings by virtue of their investment, which leaves $4,000 earnings only produced by $,000,000 of deposits. If the bankers themselves appreciated these facts, and would give them to the public, public opinion, which always wants to be fair would be very different.

Reports have been made to your committee from many states of the Union relative to acts of the legislatures during 1918-19, as affecting banks, and we have had the benefit of the information afforded by Judge Paton's summaries of legislation to the American Bankers Association, additional to the questionnaire that was sent by this committee earlier in the year to the secretaries of state bankers' associations. These sources of information produce proofs that very little legislation directly affecting national banks was attempted during the year just ended. It was shown that in a majority of the states national and state banks were taxed alike. In some states the State Chartered institutions pay a license for the authority and privilege of transacting business. In several states the legislatures were not in session this year. A few of the states have by law decreed that shares of bank stock shall be taxed the same as other like property is taxed, and from these states the assurance comes that bankers are making no complaint.

The committee appends the replies received from secretaries of state bankers' associations to its questionnaire issued in April of the present year, as evidence of its efforts to serve you adequately, and as a matter of record. It is anticipated that the report of Mr. Waldo Newcomer, Chairman of the committee on legislation of the American Bankers Association, will give a comprehensive review of the work of congress and the State Legislatures pertaining to the banking business during the past association year, including measures directly affecting national banks. In his summary of legislation Judge Paton directs attention to various legislative measures of interest to members of the National bank system. In Idaho Senate bill No. 63, amends the law as to the assessment of bank stock by providing that the assessment shall be in the same manner and upon the sane basis of actual value and uniformly with all other property assessed in the county in which such shares of capital stock are assessed. Senate bill No. 19 reorganized the state banking department. In Indiana an important tax law was one of the prominent pieces of legislation enacted by this year's assembly. In Iowa a bill was passed permitting banks to deduct the amount of government securities held for 60 days prior to January 1 from the assessed valuation of stock of the bank. In Kansas Senate bill No. 26, concerns assessment and taxation; provides for the assessment of the shares in National state and other banks and also in loan and trust companies organized under the laws of Kansas or the United States, to individual shareholders at the place where the bank is located. Under this law bank shares will be assessed on their book value. In Maine House bill No. 451, amends the law exempting certain public bonds from taxation by including the notes and other obligations of light and power districts and also including "notes and other obligations" as well as bonds of counties, municipalities, village corporations, light and power districts and water districts in the exemption. In Montana Chapter 51, providing for the classification of taxable property for the purpose of taxation and the percentage of the true and full value of each class which shall be taken and used as the basis for the imposition of the tax thereon. In Nebraska an amendment to Section 6343, revised statutes, prohibits banks, loan and trust or investment companies from deducting from the amount of capital stock, for purpose of assessment for taxation, the value of any United States government securities owned by them. In North Carolina provision has been made in the machinery act for the banks to pay all taxes, instead of the stockholders. In addition to the present deductions, in arriving at the value of the shares of stock, provision has been made that Liberty Bonds and Federal Farm Loan bonds can be deducted for taxation purposes up to 25% of capital, surplus and undivided profits. In Oregon Senate bill No. 108, provides that real estate taxed shall be deducted from the bank's capital, surplus and profits and the remainder taken as basis of valuation of shares subject to taxation.

In closing this report we desire to acknowledge the assistance given us by the secretaries of State Bankers Associations, Chairman Newcomer of the A. B. A. Federal Legislative Committee and Judge Thomas B. Paton, general counsel of the association. It is our belief that this section should continue to have a committee on State Taxation of national banks in order that results thus far achieved be not lost and to the end that the undertaking to unify state laws on this subject be prosecuted to a successful conclusion. In a large way the Association's committee on federal legislation considers and acts upon legislation relating to banking, but this section has an important duty to perform to National banks in collecting information of proposed laws in the 48 states which would affect institutions holding national charters, in giving warning of those measures which would be unfair or oppressive and in stimulating interest in such righteous legislation as will afford additional protection and increased opportunities for service and profit to national banks.

All of which is respectfully submitted,

J. Elwood Cox.

STATE BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Third Annual Meeting, Held in St. Louis, Sept. 29-30—Oct. 1, 1919

INDEX TO STATE BANK PROCEEDINGS

Model State Banking Laws

By George I. Skinner, Superintendent of Banks of the State of New York.

In his opening, Superintendent Skinner pointed out that while it would be impossible for human genius to devise a system of banking under which our banking institutions could be the perfect servants of business and commerce, which they should be in order to fully develop all the varied resources in the communities in which they are located, and at the same time absolutely protect the interests of depositors whose funds are placed by them at the disposal of our ship-builders, our manufacturers, merchants and farmers, every effort should be made to make banking laws as near perfect as is possible.

"Not only are conditions in different states so varied," said Superintendent Skinner, "that a statute that was almost perfectly adapted to the need of one state would not fully respond to the needs of another; but even in the same state conditions change from time to time. There is constant growth and development, and there must be constant amendments to our banking laws to meet changed conditions. It is, in my judgment, impossible to create one uniform, hide-bound banking law which will provide for the needs of all the different communities embraced in so wide a territory as the United States of America. Local laws can best meet local conditions.

"The provisions embodied in the banking laws of the various states are so manifold and various that it would be useless to attempt to discuss in the time allotted any but the most salient features. They may, however, be subdivided into two general classes—provisions designed to protect depositors, including provisions for supervision and restrictions upon the powers of banking institutions and those which confer such powers upon them as are deemed necessary and broaden their functions and usefulness and enable them to play their part in promoting commerce, manufacturing, mining, agriculture and the general business of the country, for banking is the foundation upon which the entire superstructure of the national life is erected.

"In a larger sense than ever before, the development of happiness and prosperity of the human race, the development of society and the preservation of civilization are dependent upon the extent to which our bankers meet the demands made upon them. The manner in which the wealth of the world is distributed among different classes of our population is becoming more and more important, and adequate protection must be afforded to those who are willing to perform their part of the manual as well as the mental labor of the world for the purpose of maintaining themselves and their families in comfort during old age and in sickness as well as in the days of their strength. Their savings as well as their muscles and their minds are employed in their world's business and the belief that the laborer and the capitalist—and every saver is a capitalist—should share in the results of their efforts and be assured of happy and peaceful lives under all ordinary conditions is a kind of socialism to which we can all subscribe.

"It seems to have been demonstrated in this country that supervision of banking institutions is desirable, although there is still much discussion as to the powers that should be conferred upon supervision officers.

"In my judgment, the desirability of supervision being admitted, the powers conferred upon the Commissioner or Superintendent of Banks should be very broad, and he should be given a very wide discretion.

"I have never known a time at which the exercise of discretion with reference to the creation of new banking institutions was so necessary as the present. Never before have so many men seemed to be desirous of engaging in the banking business, and were it not for the discretion given to the Superintendent of Banks there would also be, in my judgment, an undue extension of branch banking in the cities where it is authorized.

"There is one power conferred upon the Commissioner of Banks in some of the Western states that I really believe ought to be embodied in any model State Banking Law, especially a state which has mutual savings institutions, although it is a provision which, owing to conditions, is not fully effective, and must certainly add greatly to the discomfort of supervising officers. I refer to the power to fix the maximum rate of interest which a state banking institution may pay to depositors. In order to make this power as beneficial as possible, it would, of course, be necessary that the same power be conferred upon and exercised by the Comptroller of the Currency with reference to National Banks and just and harmonious action taken."

Superintendent Skinner then took up the question of providing for proper methods of examinations by supervisors of banking institutions, and discussed laws enacted to provide proper safeguards to depositors. He referred to capital requirements, double liability of stockholders, reserve requirements, limitations upon loans, the filing of sworn reports by officers of banking institutions, and various provisions with reference to bookkeeping and false entries. He pointed out that the requirements would necessarily vary in different states, and even in different localities in the same state.

"I am of the opinion," said Superintendent Skinner, "that state banking institutions should, within proper limitations, be permitted to make loans directly upon real estate and to accept real estate collateral. The strictly commercial institutions located in large cities would not, even if permitted, desire to make many loans of this character, but in the smaller places and within a restricted territory such loans can be safely made and form a much better investment for local institutions than some of the bonds which they are so frequently induced to buy in large quantities and which fluctuate so greatly in value, or certain grades of commercial paper the value of which is entirely unknown to the officers of the bank investing in it. Such investments also prevent the piling up of unused money at low rates of interest in the larger banks.

"While in New York State the needs of home-builders and of farmers are, to some extent, largely taken care of by institutions of a special character, such as our mutual savings banks and the savings and loan associations, state banking institutions, where they can with safety, should use the money deposited with them in the development of the communities in which they are located and the creation of a class of home-owners and the development of agriculture are of as much concern to the general public and to the institutions themselves as general business needs.

"I also believe that the provisions of our laws by which we permit larger loans when they are secured by collateral of well-known value, or are made upon strictly business paper than upon the note of an individual with an accommodation endorsement, recognize a very proper distinction.

"Recent proposed amendments to the National Banking Act indicate that the reasoning that long ago prevailed in New York State is impressing itself upon the minds of the Federal legislators. Our law also requires banking institutions, both stock and mutual, which receive general deposits to create from their earnings surplus or guaranty funds in addition to capital requirements for the future protection of the general public. The effect of the creation of such funds in New York institutions has been admirable, and an attempt is now being made in some states to employ this principle as the basis for a so-called Guaranty of Deposits. I dislike to introduce this subject at this time, but, while the guarantee of deposits exists in some states and the insertion of similar provisions in the Federal statute is being urged year after year, this subject cannot be wholly ignored in a discussion of model laws. We must be prepared, if opposed to the guarantee of deposits, to present unanswerable arguments against the proposition both in Congress and in our state legislatures.

"It may not be sufficient to demonstrate that the proposed procedure encourages reckless and improvident banking, and

that it penalizes well-conducted institutions for the benefit of those who patronize badly managed institutions. There is always a great deal of sympathy with the unfortunate depositors with failed institutions.

"An experiment of a similar character was tried in the State of New York some eighty years ago, when, in 1838, provision was made for so-called 'Safety Fund Banks.' That experiment was a failure, and it seems to me that the most effective argument thus far presented against any attempt to ally the government and the banks of the country in an attempt to guarantee deposits with banking institutions of any class is that such attempts would, in all human probability, ultimately result either in repudiation of the implied promises of the government or in the reimbursement of depositors by general taxation. The subject is too big and has too many phases to admit of our attempting a complete elucidation of the various problems presented at this time. They should, however, be receiving very careful and very complete consideration, for the banks, from their recent co-operation with the government for patriotic purposes, are being recognized more and more by the people generally as performing semi-public duties and assuming semi-public responsibilities."

Taking up the question of the extension of branch banking, Superintendent Skinner said:

"My own state is one of the states in which certain banking institutions are, under specified limitations and conditions authorized to open and maintain branch offices, and I have become an almost unwilling convert to the belief that the power to establish branch offices under certain restrictions and limitations should be given to banking institutions under such conditions as prevail with us. Those of you who live along the northern border are familiar with the history of branch banking in Canada, and I believe that experience in our state shows that in cities having a population of more than two hundred thousand, branch banking has justified itself by affording banking facilities in sections which could not otherwise be properly served, encouraging thrift among those who would not otherwise save and making available for the business of the country funds that might otherwise be hoarded. It is certainly better to have outlying sections of the large cities served by strong and solvent institutions through branch offices than by weak institutions which would necessarily be struggling for life, if they existed at all. The same reasoning would justify the establishment of branch offices in other municipalities within a limited territory, provided their establishment did not involve competition with small institutions or tend to create a monopoly in banking. In other words, I am inclined to the opinion that it would be for the public benefit if large institutions were authorized to establish branch offices at small places within twenty-five or fifty miles of the location of their main offices, provided that after the establishment of such branch offices there would be no competition with other institutions located in the same place. By this means banking facilities could be afforded to many small villages which are now without them, or in which independent institutions of adequate size and strength cannot be profitably maintained. It is evident, moreover, that if this country is to make the most of its opportunities in foreign trade and commerce, foreign branches of our institutions must be opened in order to afford the same support to our merchants and manufacturers and their customers as has been given to the merchants and manufacturers of European countries by their great international banks in the past. In this respect, as in some others, the bankers of New York have shown the way, and our statutes and practice have served as a model for Federal legislation as well as for the legislatures of other states.

"The ordinary powers of banks are so numerous and so universally granted in substantially the same terms that it is not necessary to enumerate them or comment upon them. It frequently occurs, however, that as the result of a change in general conditions or of special and local needs the exercise of new powers is desirable. If they are general in their nature and can be safely exercised by institutions receiving deposits from the general public, they can, like recent provisions with reference to acceptances, be promptly incorporated in the statutes relating to commercial banking institutions. If, however, they are of such a character or so much in the nature of an experiment that the deposits of the general public should not be put at risk in their exercise, different types of corporations can be readily created by state legislation, and only the funds of those who wish to adventure along these new lines put at risk in the new business.

"In my state we have no less than three different classes of corporations which have been created to relieve needy borrowers from the exactions of the loan sharks and, under somewhat different circumstances and conditions, render assistance to the worthy poor. It is needless to say men who know that the return must be proportionate to the risk that an investment in these corporations is made attractive, and that by one method or another the moral hazard is quite fully determined. In like manner when it became apparent that foreign trade and commerce presented great opportunities of which ordinary banks and trust companies could not avail themselves with the same safety to their depositors as before, investment companies with a minimum capital of two million dollars were authorized by our banking law to occupy the new field, but were prohibited from receiving general deposits locally. At the same time our banks and trust companies were authorized to invest in their shares. The capital stock of one of these corporations is held entirely by National banks, and I presume you have all noticed the recent efforts of the National government to promote and sustain foreign trade and commerce along somewhat similar lines. No system of department store banking that can be devised can so surely and so effectively meet such special needs.

"With initiative and intelligence, proper co-operation and organization, I believe that the future of banking in this country will be quite as largely in the hands of the men connected with state institutions as has been its past. You are the first to discern or foresee local needs and adapt your business to local or changed conditions. You can most readily impress your views on local legislatures. Large bodies are proverbially slow, and the Congress of the United States has so many important matters to consider that the special banking needs of Nevada or New York create comparatively little impression upon that body as a whole.

"In perfecting your systems and procuring proper local legislation, you will have at all times the support of your brethren of the National banks, unless the legislation is discriminatory in its character, and I am sure we all believe in constructive and not destructive legislation. In New York State, at least, it has been utterly impossible to create any general class jealousies, and in urging any proper legislation upon our state legislature for the benefit of state institutions and the development of the banking resources of the state through them, I have always relied confidently upon the support of the broad-minded men in control of our National banks.

"Before us are some of the most tremendous problems of all time. The labor question, the high cost of living, housing problems, production, transportation and distribution, all are clamoring for immediate solution. Behind them all is the question of money; the special instrument with the use of which you are so peculiarly familiar and in the distribution and employment of which you are so constantly and so continuously engaged. Consequently, the final solution of all these problems rests to a large degree with you, and your responsibilities are correspondingly great.

"I reiterate that the future of banking in this country, its prosperity, the happiness of its people, aye, the future history of civilization as it shall be written, is largely in your hands."

Bringing Up Capitalists

By Harvey A. Blodgett, President Harvey Blodgett Company, Saint Paul.

When your President invited me to fill a place on your program with a discussion of practical publicity plans for banks having membership in your Association, I gladly accepted the assignment; for I believe that financial publicity should pulse with the action of these unparalleled times; that it should rise to the national exigencies. And so I shall try to demonstrate in this presence how bank publicity properly devised, modernized, can have a marvelous influence in establishing sanity where reason is in danger of dethronement; how it may entwine the roots of thrift and of economy, and of straight thinking about the heart of the republic; and how it may be a greater factor in increasing the nation's resources in working capital and in efficient producers.

Today the nation stands in need of more capitalists, of small estate as well as large, that its financial reserves may be mobilized; and that the sane thought of the serious-minded, who have something at stake, who have an interest in industrial development, may prevail against the wild theories which are being propagandized without limit or restraint.

Not long ago our country demonstrated that it was possible to marshal, at short notice, an enormous army of capitalists, who, millions strong, worked and saved and invested. But this army sprang into being suddenly, and, the war over, is rapidly disbanding. The need of organized thrift remains; indeed it grows. The banks of the nation are logically the central thrift stations at which financial power is generated. The demand is for more, many more capitalists. Whence shall they come? The material is all about you. It has proved once its responsiveness. What better avenue of approach to these potential capitalists have the banks than through their publicity?

It ill becomes the bank publicist to assume, in times like these, that the highest mission of a bank's advertising is to press its claims for business from those who feel the need of a banking connection; or to demonstrate to the public such distinct advantages as it imagines it has over its neighbors in the way of superior facilities and commendable enterprise; or a degree of official integrity, by implication, rare among its competitors. I disagree emphatically with those who persist that a bank's advertising should be distinctly and selfishly its own, should mirror it to the public as in a class by itself. The bank

which adheres to this idea and talks only of itself will find scant response from the masses.

I, for one, prefer to assume that bank publicity has a higher calling. That, in the main, it should be devoted to the bringing up of more capitalists, to the encouragement of initiative and creativeness. It should be the antidote for the propaganda of radicalism, the cure for economic illiteracy. Why not?

And I am convinced that a bank, in adopting modernized publicity policies, such as I shall presently outline, will sacrifice not a whit in direct benefits and substantial results.

While the war was on the nation was at one in its willingness to sacrifice and work that we might win. Class differences were sunk in the common purpose. But no sooner had the curtain rung down on the battlefields of France than did this country become a battlefield of "words and phrases." As the months elapse the action of the drama becomes swifter and louder.

You gentlemen who live and move in an environment of culture are apt to fail to appreciate how those in humanity's less favored classes are influenced and dominated by the propaganda of radicalism. You read your daily papers and your soundly edited current magazines and assume, perhaps, that this safe propaganda predominates. Possibly you forget, too, that the abundant phrases and glittering promises of the demagogue sound sweet to a large proportion of the great mass of citizenship. Those who would extinguish capital and set license free, who would throttle initiative and shackle production; and those who would foist upon us daring experiments, find open ears right in your own communities.

The social unrest you read so much about isn't in distant communities; it is fomenting at your doors, and it is something with which you must reckon.

The condition of social unrest in England, admittedly worse than in this country, is incited by a class of propagandists aptly described by W. A. Appleton, president of the International Federation of Trade Unions. His eloquent words are well worth quoting because they contain a timely warning to America. These demagogues, says Mr. Appleton,

> "Have, in the main, to deal with an unthinking proletariat. They may enrich their promises with rhetoric's choicest ornaments; they may build not castles in Spain, but empires on formulæ. *They have no responsibility.* They usually suffer from moral obliquity and constructive paralysis. To demand rather than to provide is their metier. The consequences of these demands are either beyond their intelligence or without influence upon their consciences. They will cheerfully adopt and promulgate every panacea of the ancients or the moderns, and just as cheerfully discard and forget them. Whoever dies, they live; whoever fails, they are triumphant. It is no use analyzing intentions. A nation faced with strangulation can only deal with effects and the effects of the propaganda which these revolutionaries have fathered are culminating in disaster."

I quote this sane labor leader because similar insidious influences are at work in this country trying to destroy what the banks of the nation are helping to foster and construct. And I hope to develop in your minds the belief that you bankers, in your publicity, have an opportunity to combat the evil of this endless outpouring of destructive propaganda. For this propaganda is dulling the senses of the republic; it is undermining the purposes of men and women; it is nipping promising careers in the bud; it is interfering seriously with the successful bringing up of numberless capitalists whose contribution to the nation's resources in wealth and brain and effort are needed.

Almost everyone wants to be a capitalist. A customer with capital is the banker's delight. His interests are in common with the man who is trying to get ahead in the world. The more capitalists the banker can aid in bringing up, and the larger numbers he can shield from the insidious wiles of financial wolves, the more his institution and his community will be enriched. Therefore I often wonder why so many bankers are most attent upon the needs of those who have arrived.

"A capitalist," says Webster, "is one who has capital for investment; a person of large property which is or may be employed in business." Is not Webster a little old fashioned in his definition? Perhaps when he wrote it savings banks were not as popular as now; at least there were no Liberty Bond owners. If a modern Webster should revise this definition I believe he would extend it to every one who has a modest sum at interest.

Fred Stone's definition of a socialist is "one who has nothing and is willing to divide with everybody." The more capital one acquires the further his sympathies become removed from the aims of the agitator. The best panacea for social unrest is the treatment which makes people better off.

Give the laborer a living wage, so that he can have a margin over the cost of living, and then inspire him to save and you make a capitalist of him. Thus you help in a most practical way toward the solution of the labor problem.

"Production, not phrases," says the labor leader I have quoted "are needed in these crucial times of international unrest." And so while the industrial world turns its attention to the vital matter of increasing human production, why is it not logical for the financial world to concentrate on the task of producing more capitalists?

During the war we made pretty good headway in turning out capitalists but since the armistice the work has lagged, not being anybody's business in particular, and we may fairly conclude that, on the whole, the making of spendthrifts is gaining the upper hand.

If all the money waste resulting from inordinate desire for luxury, from misplaced confidence and stunted financial judgment could be recorded and appraised I fear it would force the conclusion that we are a nation of children trying to cut our eye teeth on the keys of Paradise.

War savings are fast falling into the coffers of the luxury vendor and the fake promoter.

By the time two billions or so of War Savings Stamps mature the majority of their owners will have masters' degrees in the art of spending. All their able and designing teachers will have to do is cash in.

The propaganda designed to separate people from their money greatly outmeasures the thrift propaganda, both in quality and quantity. It abates not. The one obvious necessity is to set up an organized thrift propaganda which will not be a repetition of platitudes; but which will match the masterful literature of the cohorts of unthrift.

Nowadays if a man has some half baked socialistic theories he wants to get out of his system into the fertile minds of the proletariat he mounts a soap box and quickly draws a sympathetic crowd. Then, to his heart's content and the delight of his audience he damns capitalists, employers, bankers and everybody else who is trying to do constructive work with brains and money. Ignorance champions causes which keep men poor. There never was a time when so many interests were offering panaceas for every social ill, or were suggesting so many untried programs of procedure.

Gentlemen, do you often see a man on the street corner preaching thrift to the unreached, or showing the uniled how to become capitalists?

Weigh at this moment the aggregate influence of the advertising of thirty thousand banks and ask yourselves how much real influence bank publicity, in the mass, has in competition with the propaganda of the leaders of unthrift, unrest and revolution.

Bank publicity should challenge ambition, should educate, inform, inspire, mold public thought. The plea "bank with us" should, in reasonable measure, give way to the inspiration to *"produce more, save more; become a capitalist."*

The best way to make a boy level headed, industrious, conscientious man is to give him a good bringing up. Stuff a boy with vicious literature and he becomes fed up with evil. The human mind, like the human body, thrives on the nourishment it receives.

Stuff an older boy's head with I. W. W. doctrine and you rear a bolshevist.

Imbue a young boy, or an older one for that matter, with success thought and you rear a capitalist.

Now, there is knowledge enough in the banks of the nation to show everybody how to become an honest-to-goodness capitalist. In none too many banks does this knowledge find outward expression in helpful propaganda, disseminated as publicity; but it is kept on tap and fed sparingly to the few who come with open mouths. One can but wonder why so many banks are keeping this priceless wisdom to themselves or bestowing it on the few, when the printed word offers such a simple medium for multiplying the numbers who may profit from it. And one wonders more when he reflects that almost every bank is expending sufficient funds in general publicity, often without concrete policies, to accomplish splendid results in educating and inspiring and bringing up potential capitalists.

The minority who succeed often get their education through hard knocks and needless setbacks. By grafting the "how to succeed" idea on individuals painful failures may be prevented and many a success hastened. If it is the proper business of the physician to prevent disease, and of the lawyer to steer his client clear of litigation why is it not the logical thing for a bank, through its publicity, to prevent failure rather than to indicate an overwhelming desire to minister mainly to the successful?

Now, I embrace the theory, without reservations, that the best way to scotch the evils of radical propaganda is to fill the public mind with constructive, self-helping propaganda. A person bent on winning success hasn't time to listen to demagogues. There is no room for destructive thought in a mind filled with constructive purpose. Feed ambition and you starve bolshevism. It is like the case of beneficent bacteria overpowering and eating up harmful bacteria.

How are we to apply all this reasoning to the publicity of banks? I imagine I hear some one ask "is all this theory, or is there a practical way to work it out?" One's position is, indeed weak, if he expounds theory and sidesteps formulae.

In a very recent address before financial advertisers I strongly recommended that a bank reduce its advertising policies to written words. You may discuss plans and methods orally, and on separate occasions, but such discussion should lead to an intelligently co-ordinated program. If you sit down and, with or without experienced counsel, consider your field, its needs, its opportunities; and then balance and weigh various plans for accomplishing your ends; and if out of this you crystallize definite, workable policies and reduce them to writing, you will have a finished policy which reckons with cause and effect; you will have a chart to go by; you will have a standard for every member of your organization to square his actions with; you will have set a high goal of achievement. And then, with your policy established you will find it comparatively easy to choose methods and materials to put it into action. Without definite, crystallized policies an advertiser is as a rudderless ship.

Perhaps this discussion can be of some real service if I conclude it with a suggested policy which may form the basis of one which may better reflect your individual needs. We will start it thus:

Publicity Policies of State Bank of Blankville

The following declaration of Publicity Policies of this Bank is not intended for the sole guidance of the person having its publicity in immediate charge. It is desired that every member

of this organization become familiar with these policies and interpret them in his or her daily contact with the public.

It shall be the purpose of the publicity of this bank to set high standards of individual effort, not only to its customers and prospective customers, but to its officers and employes as well. Therefore it is the desire of the management that each and every one of us read every piece of advertising matter issued, and then reflect its spirit and reedem its promises in the fullest measure.

Recognizing the fact that the results of publicity are cumulative rather than immediate; and that to gain large results requires time, this policy shall govern, not for a limited, but rather for an indefinite time. By adopting this policy the publicity of this year will bear fruit next year; and to the publicity of subsequent years will be added the cumulative benefits of all behind it.

It will not be the policy of our publicity to sing the bank's praises so much as to imbue the minds of customers and potential customers with the fundamentals of success. We believe we can gain more by telling the public what this Bank can do for folks than by the reiteration of what it *is*, and how zealously its staff co-operates. Our publicity should make all this self-evident. The best way to convince the public that this is a bank of genuine service is to visualize its service. The public will quickly make its own appraisal, judging as it will, by deeds rather than by self sung praises. We will rest our hopes for practical, substantial results on the belief that a bank which inspires, guides and helps the individual in his effort to reach a larger estate will be chosen, inevitably, by that individual as the scene of his operations.

It shall be the policy of this Bank to chart its advertising plans well in advance rather than to attempt single ventures as they are offered from time to time. In this manner all the publicity may be coordinated and its component parts devised with a view to furthering the general plan.

It being evident that a successful policy cannot be conceived without having clearly defined aims, it is determined that our publicity will have the following ends in view:

Part 1. The development of consistent, permanent thrift.

In doing our part in encouraging thrift we will not only increase our opportunities for profit and build for the future but will perform a great public service. For thrift and discontent do not abide in the same individual; and the demagogue draws his adherents from the ranks of the unthrifty and untaught.

In order to be in deed as well as in name a consistent exponent of the principles of thrift this Bank will construct its publicity program so as to give due attention to the following:

a. Dramatizing to the community at large the vital message of the blessings of thrift, in varied and interesting terms.

b. Furnishing depositors who now have savings accounts with constant inspiration, that the saving habit may be solidly established, and that their purposes may not waver.

c. Encouraging the Liberty Bond owner to persistently hold his bonds and to pyramid his investment by reinvesting the interest therefrom; inspiring the War Savings Stamp owner to continue his thrift, and to steadfastly retain his holdings.

d. Promoting the "Work and Save" idea, knowing that more production on the part of every individual will bring the happy solution of vexed national problems; and, also, promote the progress of potential capitalists.

e. Teaching the fundamental principles of safe investment. This Bank will make known, through its publicity, the willingness of its officers to counsel with those who wish advice upon investment matters. It will also lend every encouragement to the idea of saving here to acquire funds for permanent and safe investment.

f. Encouraging the adoption of the "home budget" as a practical means of promoting economy and reducing living costs. Also laying emphasis on the "pay as you go" idea and the avoidance of debt.

Part 2. The development of commercial business.

It will be our policy to make known to every depositor now on the bank's books all the ways in which we can serve him. We will not be satisfied to let the depositor discover his own need; but we will offer him constructive suggestions which will enlarge his understanding of financial methods and of this Bank's facilities. Our publicity for this department will, therefore, be directed along the following lines:

a. Making clear the advantages of a checking account and of establishing an acquaintance at this Bank.

b. Teaching borrowers and future borrowers the fundamentals of credit building; this not so much with a view to creating outlets for money as for the better purpose of helping men to so conduct their affairs that their responsibility will be enhanced. Credit is the stock in trade of this Bank. It is based upon invested capital. It should be used to increase production and profit. The man who qualifies as a credit risk governs his actions with high ideals. Therefore, in aiding men to develop credit this Bank will perform a useful service to the community.

c. Encouraging discussion of business projects with the bank's officers and an analysis by them of the motives and opportunities of those who are striving for success; by so doing mistaken business policies may be set aright and deserving plans may be helped to their fruition; thus initiative and creativeness will find deserved co-operation.

d. Aiding the farmer in joining his acres, his toil and his money with the facilities of this Bank for increasing his production and the rewards therefor; co-operating with the farmer and others in concentrating their indebtedness where it properly belongs—at the bank—and encouraging thereby cash buying and the use of discounts; also, bringing the farmer and the town into a closer bond of understanding.

e. Co-operating with the local merchant in his effort to stay the tide of competition of mail order houses.

The publicity of this Bank will be directed toward these objectives and in view of the necessary breadth of this program the greatest care will be exercised that every dollar of expenditure may be directed toward the futherance of these objects.

The advertising appropriation of this Bank for the ensuing twelve months will be $———.

Some of you will say that this is a very pretentious program. Others that I have omitted much. But gentlemen, when there is so much that needs to be done; and when there is so much that can be accomplished through a carefully devised publicity policy; and when the country is engulfed in a sea of propaganda seeking converts to ideas antagonistic to individual efficiency and to financial sanity, is it not strange that any bank will continue to spend its advertising appropriation for pointless publicity, uncontrolled by concrete policies?

"How," asks some one, "are such comprehensive publicity policies to be carried out?" The answer is, as I have said on other occasions, by turning your publicity into efficient haphazard, unrelated advertising ventures. In the last analysis it means making your publicity an intensive, intelligently devised system of community education for the purpose of bringing up capitalists.

State Bank Rights

By William Macferran, President State Savings Bank, Topeka, Kan.

Mr. Chairman and fellow bankers of the State Bankers Section: I fully appreciate the honor of being allotted a few moments time on this year's convention program.

Last August, on my way to a summer vacation in the White Mountains, I stopped in Chicago to see your chairman, Mr. Hazlewood, and after talking over a few business matters we drifted on to the Federal Reserve Bank, and I made the statement to him that so far as I knew the State Bankers of the United States collectively had never stated upon what conditions they would be willing to join the Federal Reserve Bank, and I told him what I thought would be satisfactory to our bank. He asked me whether I would make that statement to the State Bankers Section today. He named my subject. My remarks will be very brief and to the point.

Before stating my views, I want to make it clear that I am strongly in favor of the Federal Reserve Bank.

I believe it the best piece of financial legislation Congress ever passed. I also believe, just as strongly, that State Banks are quite as good as nationals, serving many communities better and therefore, believe they should be equally protected and preserved.

That should make it clear that I am not antagonistic to the Federal Reserve Bank, but I think its directors should not be antagonistic to State Banks; I also think the Comptroller should show more friendliness, instead of adhering to his methods of attacking them, which I most heartily condemn.

To your chairman, I said I did not think State Bankers could serve two masters. That has never been successfully done by anyone.

1. If it is desirable that State Banks become members of the Federal Reserve Bank, I believe our bank would apply at once and if accepted buy stock and make the necessary deposit of gold reserve, provided the regional bank could exercise no authority whatever over it up until the time when it should desire to borrow.

2. When that time comes, the Federal Reserve Bank should have the right of examination; with its authority limited to ascertaining whether it was living up to the Kansas State Laws and solvent.

3. If these two conditions were found to be satisfactory, and the bank had Government Bonds or acceptable paper, I think the rediscount should be granted.

4. If the bank was found disobeying the state laws under which it was organized, or was insolvent, it would then not be entitled to the loan.

5. In acting upon the application of a state bank for admission the Federal Reserve Board could examine and pass upon the banking laws of the state under which it was organized, and if they were found objectionable, not admit any banks from that state until the laws were corrected by the legislature.

6. If this was the extent to which the Federal Reserve Board could mix in state bank affairs, such banks would have but

one master and their independent existence not be endangered. To effect this, necessary changes in the law and board rulings might be made.

In making these suggestions, I can think of no possible loss that could come to the Federal Reserve Bank that cannot now come to it. There have been many national bank failures among its membership; but that does not mean losses to the Federal Reserve Bank. Undoubtedly there have been none, for the parent bank has both the stock and the reserve deposit for its protection, and, unless it would allow an overdraft, a loss is hardly among the possibilities.

The present difficulty in harmonizing the national and state banks with the Federal Reserve, might have been avoided if Congress had constructed the law to fit both, instead of considering the national banks alone, forgetting the 15,000 state institutions, with larger asset and just as sound and necessary to the development of the country.

Gentlemen, we want, at all hazards, to prevent the destruction of our magnificent state banking system. It has always been in the majority, both in numbers and assets, and has been in the forefront in the material development of the nation.

Let us aid the Federal Reserve Bank, all we possibly can, to finance the interests of this great country of ours, especially during its reconstruction period, but it should be done without injury to the State Banks, and I believe it can. Our Senators and Congressmen, certainly, will help us to this end.

Gentlemen, if allowing the banks in the state system to become members of their respective Federal Reserve Banks, upon the terms I have suggested, could be done without loss to the Federal Reserve Banks, I believe it would be beneficial to the financial interests of the nation to permit it, so that the Federal Reserve Banks might present a solid front and receive that cooperation which is so much needed at this time.

SAVINGS BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Eighteenth Annual Meeting, Held in St. Louis, Sept. 29-30-Oct, 1, 1919

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Municipal Credit and Its New Aspects

By Howard F. Beebe, Harris, Forbes & Co.

As nearly everyone consciously or unconsciously measures new developments by established conditions or standards, I can think of no better way to approach consideration of the subject in hand than to draw into comparison present conditions and tendencies with those of previous periods. Because of the many ramifications, particularly because of the great variation in the laws of the various states governing the creation of the public debt, there has been much divergence of opinion as to whether or not any standard can be set up which could even approximately gauge the safety of municipal bonds, under which heading we will place obligations of states, counties and other political sub-divisions which are, from a technical standpoint, not municipalities. We see evidence of attempts to do so in the various savings bank acts of the New England states and of New York and New Jersey, where a system of purely mutual savings banks have been in existence. A careful study of these acts will show, as most of us have appreciated, that they have been drawn with an idea of giving sufficient scope to the fiduciary institutions operating thereunder to invest their money and that the lines have been drawn in practically every case well inside of what everyone would at once recognize as the safety point.

Some two decades or more ago the theory was prevalent that a debt of a municipality which exceeded from five to seven per cent of the assessed valuations for taxation in the community (or a county which exceeded three or four per cent of the taxable values) had passed beyond the conservative line. Very little consideration was given as to how the money had been spent, as to whether it was anticipating future needs and really in the nature of economy, everything considered, whether the municipality had realizable assets of a sufficient amount to offset its relatively large outstanding indebtedness, and other factors which had a pertinent bearing on its actual financial position.

RECOGNITION OF SELF-SUSTAINING IMPROVEMENTS

As might be supposed, the first adjustment to correct this practice came through a recognition of the problems which a municipality faced in providing pure and ample water for the inhabitants, and there was written into the various savings bank acts an exclusion of this type of debt in prescribing limits of indebtedness beyond which a municipality should not go if its obligations were to remain eligible for the investment of the various funds under control. No consideration was given in the various acts of whether or not the assessable ratio to actual value was 20 per cent, as it was under constitutional and statutory provisions in some of the states, or whether it reached from 60 to 70 per cent, as was the estimated ratio in the older established Eastern municipalities; nor did the proportion of property represented by real estate—a fixed value, as compared with illusive, intangible personal property—receive attention. As a matter of fact, the limits had been placed at such obviously conservative points that it did not make very much difference, as affecting the surety of collecting the debt when it was due, what the money had been spent for or what the general policies of the officials were.

In allowing for the subtraction of water works indebtedness in arriving at "Net Debt," the framers of the various acts recognized in principle, the non-inclusion of such debt as is self-sustaining, i.e., through its operation produces a revenue sufficient to pay operating expenses and the cost of the money used in the purchase or construction of the works. If this principal is sound, and there is no reason to question that it is, within reasonable limits, it is important to consider it in relation to developments of recent years, for where practically the only type of public utility owned and operated by a municipality twenty-five years ago was its water works system, many municipalities have since that time constructed and operated electric light plants which are a logical development of the water works business, particularly in the smaller towns; public docks and in a small number of cases gas plants, markets, etc., which are operated on at least a self-sustaining basis. Is it, therefore, not proper to consider indebtedness contracted and outstanding in connection with the construction or purchase of such properties, as properly deductable along with water works debt, in order to get a more accurate understanding of the debt for which the taxable property of a community must pay?

STREET RAILWAY PROBLEM FROM THE MUNICIPAL STANDPOINT

The war has made the labor situation so acute and has so sharply advanced, temporarily if not permanently, the cost of labor as to have made the problem of street railway transportation one of the most important which the various communities have to face, and solve, in the immediate future; and, if, as some predict, and advocate, transportation should be afforded to the citizens of a community at a five-cent rate, and any excess in the cost of furnishing such service at that price should be made up by the community as a whole through taxation, we have arrived at one of the most important developments in municipal financing which has occurred in the history of this country. If, on the oher hand, it should develop that the street railways are to be municipally owned and operated and a charge for service made according to the cost of furnishing it, then the problem is considerably modified, but is still a most important consideration. By far the large majority of those people who are in a position to speak understandingly, and who have given voice to their opinion, have stated that the municipal operation of public utilities is not feasible. We are all well acquainted with the reasons which have been advanced, and there is no doubt that in a very large majority of cases operation under the control of municipal officials has been extravagant and generally short-sighted, and this has been particularly true of that type of utility which required the employment of a large number of persons, for not only have more persons been employed than a private corporation finds necessary under similar conditions, but the personnel, from the standpoint of efficiency, has been low. Whether a municipally owned and privately operated public utility would work out to the advantage of the citizens is a question on which there is much more divergence of opinion;

but the inharmony which has brown out of the relations between private operators under public ownership up to the present time, indicates that the contracts entered into have been lacking in flexibility to meet changing conditions, and something radically different will have to be devised.

The change in the constitution of the state of New York which permitted the city of New York to issue indebtedness for self-sustaining improvements, and which was to provide for the securing of sufficient funds to construct the Interborough subway system, is an indication of what we may expect from various other states if the tendency is continued to extend municipal activities along the lines discussed. It is apparent that a municipality with a gross indebtedness in proportion to taxable values of 10 per cent, one-half of which debt is represented by self-sustaining properties, is in a very sound position, for even though a substantial portion or all of such properties, through changing conditions, should no longer bring in sufficient revenue to be termed self-sustaining, an amount sufficient to cover the additional indebtedness could be raised through taxation without any great burden on the tax-payers. If, however, a municipality is to contract an indebtedness of 25 per cent, or even 50 per cent, which might easily come to pass under conditions which we could all imagine, and all of that indebtedness except 5 per cent was for self-sustaining properties, what assurances have we that changing conditions, mismanagement, poor business judgment, etc., might not throw an enormous burden back upon the property holder in the form of taxes.

It is in anticipation of such conditions that a representative body, such as this, should continue to give careful thought to the subject and voice their well considered opinion to legislators and public officials generally with whom they come in contact. The fact that there are existing constitutional or legislative provisions which would seem to keep the public debt within very modest bounds is no assurance that under stress of public clamor changes may not be made despite the protest of the more conservative citizens, which would open the door to actions that would be regretted afterwards.

QUASI MUNICIPAL DEBT AND ITS EFFECT ON CREDIT

Another tendency which needs to have careful consideration is that shown in a number of communities, to take on what may be termed, for want of a better name, "contingent" liabilities. Certain cities in the Northwest, not having leeway under constitutional and statutory limitations on their power to create indebtedness, have in recent years contracted indebtedness, payable solely out of earnings of the properties with which to extend those properties. Such indebtedness has been placed throughout the country, and in many cases has been purchased by investors who do not clearly understand the fundamental difference between that type of security and a municipal bond payable from taxes upon all the taxable property within the community. The result has been to somewhat lower the credit of the various cities because of the more liberal terms upon which the "special" debt has been marketed. A leading city of the South has outstanding certain bonds of the Belt Line Railway which are under certain remote conditions to be paid out of taxes, while a Southern state has issued large amounts of bonds for which they have limited their liability to the earnings of the property for which the indebtedness was created. While no one in a responsible position in a banking institution, accepting savings deposits, is likely to buy this class of security under any misapprehension, such securities in every case become confused in the public mind with the outstanding obligations of the usual type, and tend to some extent to lower the credit position of the issuing body, and to that extent at least the custodian of savings money is interested in this type of financing.

WHY MUNICIPALITIES MUST CONSIDER THE RAILROAD PROBLEM

The railroad problem is one which has had the thought of every serious-minded business man for some years past, and if the railroads are to be closely limited in the amount of revenue which they are to be allowed to earn, there is a serious question as to how ample terminal facilities will be provided in the future. There seems to be a generally accepted belief that up to the present time the problem has been to cover the country with sufficient lines to meet the needs of the various territories, and that the future will see a constantly increasingly density of traffic over those lines. Whenever we have had extraordinarily heavy freight traffic on the railroads we have at once been impressed with the lack of terminal facilities, and this being the case, how much more acute will these conditions be as time goes on. The thought has been offered to me by a man who has spent the greater part of his life as an engineer on railroad and steamship terminal properties, that in a comparatively short space of years these facilities are going to be wholly inadequate for even normal traffic conditions, and that the expense entailed in delays, labor, etc., in "freight jams" is going to be enormous. In his opinion one of the most unfortunate conditions which is growing out of the present railroad problem is that the acquisition of additional railroad terminal facilities is being delayed. He offers the further suggestion that in his opinion this situation will become so acute that the municipalities will themselves recognize it and will have to meet the condition by installing improvements of this type.

All of the foregoing is leading up to the statement that if such is the case we have in the more or less immediate future another problem for the municipalities to face, which will require the expenditure of large sums, although it is to be supposed that such properties would come under the head of "self-sustaining."

CO-EXTENSIVE AND OVERLAPPING DISTRICTS

Again referring to the days when a comparatively small amount of gross indebtedness was regarded as necessary to insure the best of credit to the municipality, would say that little or no consideration was given to districts co-extensive with or overlapping a given area, for the reason that such indebtedness, where it existed, was almost negligible in amount. However, with the tendency to spend largely increased amounts of money on educational facilities, and to create separate districts to accomplish some special type of public work, these items have mounted until they become a serious consideration. Some of the savings bank acts have recognized this fact by requiring that the indebtedness of all type, for which the assessed property is subject to a general tax, shall be used in determining the eligibility of the investment for funds under control.

The Municipal Committee of the Investment Bankers Association of America, of which I had the honor to be Chairman for several years, has several times given serious consideration to a standard form of financial statement which would display the indebtedness of the various districts along with the usual statement of the city itself, but nothing of a practicable nature could be worked out. One of the difficulties was to have statements made up as of any given date by the various district officials, for frequently the fiscal periods vary. With the advent of road building on an extensive scale, county indebtedness has increased to such an extent that frequently property in a city which lies within the county is called upon to bear considerable tax to meet the county indebtedness. It therefore follows that this item is one which needs consideration in arriving at a proper understanding of the whole problem. While special assessment debt, i.e., indebtedness for which the city at large is not liable—is not a part of the indebtedness of the municipality there is no question that where large amounts of such bonds are outstanding they have an effect upon the ability of the community to promptly collect general taxes. However, there seems to be no practical way to give more than very general consideration to such items.

REALIZABLE ASSETS

In giving a careful analysis to situations in the various communities throughout the country, I have from time to time been impressed with the fact that realizable assets, i.e., water works, lands, buildings, etc., of what might be termed a salable nature as contrasted with street improvements—are worthy of consideration in determining the financial position of a community. This is probably more noticeable in comparatively small communities than it is in the larger ones, for the ownership of such lands and buildings and similar properties as are necessary for the conduct of the community's affairs, permits of material reductions in the annual budget as compared with those communities which do not own such properties. I have, therefore, advocated where such information is available, that it be given along with the other facts. In an older settled community, it is also a "rule of thumb" by which to judge whether in the past moneys have been well and judiciously spent or not, and it is often the explanation as to why the municipality has what at first sight appears to be an indebtedness larger than normal.

ROAD IMPROVEMENTS

The day has gone by when anyone who has given more than a casual thought to the subject believes that improved hard surface roads are a form of extravagance engendered by the use of the pleasure automobile, for it is not only possible of demonstration by the actual figures which are obtainable from the Department of Agriculture at Washington that such roads are of economic value, but with the use of improved roads farmers and business men in the smaller municipalities have come to know by their own experience that such is the case. They know, too, without regard to the question of convenience, that before the advent of the improved roads they were confronted with a hauling cost at certain seasons of the year which practically prohibited marketing farm products at those times, whereas now such hauling can be done at a season of the year when they are not busy in their other branches of work. It is also clearly evident that it has made it possible for the profitable cultivation of land at greater distances from the railroad or local markets than was heretofore thought feasible. It has been clearly demonstrated that it is a very foolish policy to try to put down a large amount of mileage when a relatively small amount of funds are available for the work, for either the money is entirely wasted or the upkeep of inferior roads is so great as to much more than offset the smaller original cost. It is but natural, therefore, that the demand for good roads and the willingness to be taxed therefor has increased in recent years. Where the building of roads is kept within reasonable bounds, I have nothing but commendation for such movements. There is, however, a phase of the matter which requires thought and brings up the question as to whether or not in many cases counties and districts have not embarked upon road building programs which bring forth a serious doubt as to their wisdom. The theory of Federal and State Aid in the building of roads was at first thought a very sound one, but the system under which such aid is given in proportion to the amount spent by the local county or community has no doubt frequently resulted in the expenditure of amounts entirely beyond what should have been spent in any given period, and the installation of roads which, to say the least, could and should have waited for a later period. Not only is a road not self-sustaining, but when once installed there is the constant expense to keep it up so that the expenditure of more than a

reasonable amount in proportion to the value of the property which must be taxed to pay the debt, may justly be regarded as a cause for impairment of credit.

IMPROVEMENTS IN LAWS

While it is evident that the facts and conditions which should be considered in judging of the desirability and safety of municipal obligations have increased, there is one most important development which has tended in the other direction. I have in mind the laws of the various states governing the creation of municipal indebtedness, and providing for its payment. As I believe I have stated before when a municipality had a small percentage of indebtedness as compared with the value of the property in the community it was not a very serious matter as to whether or not proper provision was made for its payment in a reasonable period of time, but as the proportion of indebtedness to value increases, the piling up of indebtedness for which no proper provision for retirement is made becomes a serious matter.

A few of the states in the early days had laws which properly provided for the payment of bonded indebtedness, whereas I think the statement is now justified that but few of the states lack such constitutional and legislative provisions. In the past it was the first settled states, or those in the East, which were the most lax in regard to this matter, for the newer states as they were created provided in their constitutions and in their laws for a more scientific control of the finances of the political sub-divisions. In recent years, the tendency has been to correct this, and as is generally known, Massachusetts a few years ago put its financial house in order in a very commendable way. That state accepted the principle that bonds should not be issued for a longer period than the reasonable life of the improvement to be installed with the proceeds of the issue, and in fact carried that principle to the point where it is a serious question as to whether they have not in some instances loaded on to the present generation a debt which ought to be paid for by the succeeding generation which would derive equal benefit from the improvements installed. So long as financing is arranged on such a basis, without regard to whether the debt is to be retired by serial payment or an accumulated sinking fund in sufficient volume to pay off the entire debt at maturity, there will be a natural brake on municipal extravagances for the tax-payer will receive succeeding and unpleasant reminders in the form of tax bills for heavy amounts. In New Jersey some years ago after a very careful survey of the conditions which confronted the various communities in that state, laws were passed of a very commendable character, providing a proper control for the issuance of new indebtedness and the retirement thereof; and for the enforcement of the collection of moneys which should have been levied to take care of the then outstanding indebtedness. They carefully limit the life of new indebtedness to the probable life of the improvements, and where no proper provision had been made for the retirement of old indebtedness, require that under refunding operations the debt shall be retired within a reasonably short period of years.

It is to be regretted that many of the public officials were so short-sighted in seeking relief from present tax burdens as to force through a bill for what was generally termed emergency financing, but for which I can think of no more fitting term than "pass the buck" financing; and the very men who had done so much to clear up the situation stood idly by and, for political reasons, allowed a bill to be placed on the books which materially offsets the very advantages which were sought to be obtained by the previous legislation. As a consequence much financing which should have been done in a permanent way and on a scientifically correct basis has now passed through this act so that the indebtedness while outstanding does not have to be amortized and may be left for refunding at the end of the period, when the officials then in office will have to take up problems and burdens which are not properly theirs.

CLASSIFICATION OF PROPERTY FOR TAXATION

There is a well defined and laudable tendency toward recognizing that intangible personal property cannot be successfully and permanently placed on the assessment rolls to bear the same percentage of tax in proportion to its value as is imposed upon real property. For this very reason, however, I think there should accompany changes allowing for a classification of property in such a way that the character of the property determines the amount of tax which it should pay, which would limit the debt-making power to a percentage of the assessed valuation for taxation of real property. This follows the provision in the New York State Constitution. It is obvious, it seems to me, that where it may be proper to allow, we will say, a debt of 10% of the assessed valuations where all the property is taxable at a given advalorem rate, that it is not safe to allow the same percentage of indebtedness to be created against intangible personal property where the tax may be limited to 25 per cent or less of the rate which is imposed upon real property in the same community. At any rate intangible personal property has no fixed abode and may under changing conditions, particularly under more favorable tax terms in another state, be removed. Objectionable tax limits have in nearly every state been removed and even where limits upon the power to tax to pay indebtedness still exist, they are accompanied by other conditions which prevent the creation of indebtedness when a sufficient tax cannot be provided. For all practical purposes the holder of the securities is protected against one of the conditions which previously brought about the uncertainties and dissatisfaction with municipal securities as permanent investments.

For a long period, or to be exact, from the reconstruction following the Civil War, investors in state and municipal bonds have been comparatively free from loss, and this has no doubt largely contributed to a disposition to purchase such securities without the careful study which is usually expended before money is placed in other types of investments. Most of the thought is given to the question of price, that is, the income yield of a specific security as compared with other similar securities which are available at the time.

With the wider municipal activities requiring the expenditure of large amounts of public funds, it seems to me that it is desirable that the investor should acquaint himself more in detail with not only the past record and present financial position of the state or municipality, but that he should inform himself upon the probable future policies.

It is obviously impracticable for the private investor to protect himself by any independent investigation, and he will have to continue to place dependence upon the investment banker through whom the loan passes. My own house has always deemed it necessary to carefully inform itself upon the past record and future prospects of a community before recommending its securities, even where the usual investigations into the general financial and physical conditions have proven satisfactory, and it is known that the money loaned is to be spent for a needed and generally desired improvement. If sufficient knowledge is not in hand through previous experience with the same community, a representative is sent to gather the necessary information before a commitment is made.

While the investing public seems to be alive to the importance of the protection afforded by proper investment banking services in connection with other classes of securities, it seems to have disregarded it in the case of the highest grade of Municipal and Railroad bonds.

The Menace of Tax Exemption

By Kingman Nott Robins, Treasurer Associated Mortgage Investors, Rochester, N. Y.

Tax exemption is as old as our systems of taxation, but it is only within the last three or four years that the policy of tax exemption has become so great a menace to our institutions and our business fabric. We see that tax exemption as we have it today is not an academic problem in economics, but a practical matter of great and vital concern to everyone of us when we realize that it threatens:

1. The very existence of the best features of our taxation system, particularly the Income Tax; and
2. To give Government agencies such an advantage over private business in borrowing funds that this advantage alone is enough to make a Government monopoly of the Government instrumentality thus subsidized.

Only the single taxer and the State Socialist will face such an outcome without concern. All others, when they realize the facts, must join the ranks of those who are opposing all measures to continue and extend these exemptions.

GOVERNMENT MONOPOLY OF BANKING.

As bankers we have particular reason to bestir ourselves, for the reason that the menace of this tax exemption "craze" most directly concerns banking. Absorption of the banking functions of the country by the Government is, in the history of State Socialism, the most important first step in the general socialization of business, for with the control of the purse strings goes that other control which the State Socialist seeks. There is no more subtle and withal simple means of putting private enterprise in banking out of business than to create a Government banking instrumentality and give it the special privilege of freedom from all taxes. If the banker will figure out how much his bank would save if it were free from all taxes of any character, he will quickly see the force of this assertion. Tax exemption alone is enough to put the Government institution in such a favored position that it can eventually monopolize the field, even if less efficiently managed than its private competitors.

The first encroachment of Government on this basis of special privilege and subsidy in competition with private enterprise was in the field of farm mortgage banking, through the creation of the Federal Farm Loan banks. Their success in disposing of their bonds to the public at an interest rate about 1% below the going average rate on taxable mortgages is admittedly owing to the tax exempt feature, but it is enough to give the Government

agencies a monopoly of the field unless they are managed with hopeless inefficiency.

It is now proposed, in bills pending in Congress, to extend these subsidized Government agencies into the field of city mortgage banking, personal credit banking and export trade banking. The proposed Federal Home Loan banks, Personal Credit banks, and banks for financing the export business, would potentially occupy, with the existing Farm Loan banks, practically every banking field on a tax exempt basis. Monopolization by these Government agencies of the banking business of the country may not be the aim of the sponsors of these measures, but it is certainly a logical possibility, and the least that may be said is that these measures provide for a vast scheme of unfair competition for the present banking interests of the country.

There is space here only to suggest the dangers of this movement to the banking business. The other dangers, no less alarming, can also only be mentioned briefly.

NULLIFICATION OF THE INCOME TAX.

The nullification of the Income Tax is one of the most serious results of exempting securities from taxation, how serious we may judge from the fact that securities already outstanding or authorized, which are fully or partially tax exempt, aggregate nearly 30 billions, or 40% of the total national wealth, apart from real estate, in 1912. At the rate we are going in the creation of new non-taxable issues, how long will it be before the proportion of non-taxable personalty will not be 40%, but 50%, 60% and more, and the income tax on individuals rendered ineffective, except as derived from salaries and like earnings? After years of agitation to relieve real estate of a burden of taxation that was rapidly becoming unbearable, especially in the large centers, and after years of aggravation and inequity in the administration of a personal property tax of the old type, we have come to the income tax as the most equitable and fair and effective means of taxing in accordance with the "ability to pay." We already have a Federal income tax and income taxes in several of the States. Tomorrow we shall undoubtedly have them in the cities. They are the obvious solution of our problem of carrying our growing burden of taxation, for all the evidence points to permanently higher levels of public expenditure and taxes than before the war. The debt of the United States has grown 25 billions in a year, and the annual interest burden alone equal to the total revenue of the Government in the last pre-war year, and equal to 20% of the estimated annual increase in national wealth. This interest burden *plus* the amortization of the debt *plus* the rapidly growing public expenditures in connection with both new and old functions of government, forbid any material reduction in the rates of the Federal income tax. As for local taxation—State, county and city—the increase in revenue from taxation must be rapid to keep pace with a rate of growth in expenditure that is even greater now than in the decade 1902-1913, when the increase was 113.2%, as compared with a growth in national wealth for the same decade of only 75%.

It would be financial suicide to destroy the income tax revenue from securities, and put all the burden on service incomes and realty, in the face of such a situation, and yet that is exactly what we shall be doing if we do not at once remove all the tax exempt features of future issues of securities. There may be a constitutional question involved in the question of making taxable the issues of municipal and State governments, but no such question affects the issues of the Federal Government and its agencies. Canada saw her mistake in making her Victory Loan tax exempt, and her new loan is taxable. Ohio has seen the light, and made her municipal obligations taxable within her borders. How long will it take the other States and the Federal Government to apply common sense and simple arithmetic to their financial policies, and to realize that the making of any securities tax exempt robs them of far more revenue than can possibly be saved to them or their beneficiaries by exemption? The truth of this is well illustrated by Congressman McFadden of Pennsylvania, in his speech of June 16th last, when, in speaking of the operations of the Federal Farm Loan banks, he said:

> We will take the case of a farmer, an Iowa farmer, for in that State the average beneficiary of this Government charity owns property worth at least $15,000. This farmer has a loan at 6 per cent. from some private institution. He replaces it by a loan from the Federal farm-loan bank of 5½ per cent. He saves $5. The $1,000 that the farmer receives represents a bond bought by a millionaire investor. Being tax free, the entire $50 interest that the millionaire investor receives on this bond he puts in his pocket instead of giving $33.50 of it to the Government, as he would if it came from other security. In local taxes this $1,000 bond escapes at least $5 additional taxes. Here is the net result of this Government owned and operated bank scheme as at present run:
>
> *On a $1,000 loan.*

Farmer saves	$5.00
Multimillionaire makes	38.50
Federal Government loses income tax	33.50
Local government loses various taxes	5.00
American people pay	38.50
To give farmer	5.00
Costs American people	7.70
To give farmer	1.00

> (These computations were made when the revenue law of 1917 was in effect. Under the law of 1919 the cost would be greater.—W. E. H.)
>
> Never in the history of government has there been such an obnoxious and vicious example of taxing all the people for the benefit of the rich. Never has there been such a vicious and unjustifiable example of class legislation. If these farmers, owning, on an average, property worth more than $5,000, must be the objects of Government charity, then it would cost about one-eighth of the present plan to give them the money direct.

Mr. McFadden's calculation was based on the maximum surtaxes of the 1917 law. Experience shows the justification for using these maximum calculations in the fact that these tax exempt securities tend to concentrate in the hands of the heaviest taxpayers and are held by them for the express purpose of reducing their taxes in the higher brackets. The tables of comparative income on taxable and non-taxable bonds show that the large taxpayers get as much net income from a 5% tax free farm loan bond as from a taxable bond yielding from 17% to 22%. It is obvious by comparing these ratios of return with the difference in yield on taxable and non-taxable securities at the present market price, that the borrower on tax free securities does not gain what the taxpayer saves by buying them. Four-fifths, at least, of the taxpayer's saving in taxes is a net loss to the State and its beneficiaries, on the basis of these reasonable calculations.

THE HARDSHIP ON PRIVATE BORROWERS.

These comparisons of the relative returns to the investor on tax free and taxable securities bring us to another serious danger in the present situation. We have seen that a taxable security must pay 17% to 22% to the millionaire to warrant his purchase of it in preference to a tax free bond. Even the man with a taxable income of $50,000 to $100,000 must get from 8% to 14% on a taxable bond to retain as much net income as he would derive from a 5% tax free bond. In such a state of affairs, what is the corporation or individual who must borrow without the Government subsidy of tax exemption going to do? No staple business can continue to pay rates that will compete with these rates we have quoted as being necessary to interest the wealthy investor in taxable securities. Already we have the spectacle of the strongest companies in the country paying a gross rate of 8% for money, while the cross roads village borrows at 5%. Tax exempt municipal securities for 1919 will aggregate $600,000,000.

The tax exempt obligation of the frontier farmer commands a more favorable rate than the bonds of the United States Steel Company or the underlying utilities. The New York State Commission on Reconstruction has recommended that urban real estate mortgages to the amount of $40,000 in the hands of the holder be exempted in order to save the plight of borrowers in the cities and to relieve the housing situation. The president of the largest city mortgage company in the country testified that "Investors are running away from mortgages and will continue to do so, (because) Government bonds just issued paying 4¾% yield a larger (net) return than 5% and 5½% mortgages."

What is true of the unsubsidized borrower on real estate mortgages is not less true of other classes of borrowers. All private enterprise in the country is threatened, for the competition of tax exempt securities has only just begun to make itself felt, and must increase as refunding operations become necessary and the volume of tax exempt securities increases. Imagine the consequences, for example, if railway and public utility securities were to be sponsored by the Government, as is proposed in many quarters, and this vast volume of securities made tax exempt. On the other hand, how are these vital services to be financed, not only for present but future needs, if they must compete in the market with tax exempt securities?

THE EFFECT ON THE MARKET FOR TAXABLE SECURITIES.

The final danger to which we would call attention here is the effect of this growing volume of tax exempt securities on the market price of taxable securities. As the quantity of tax exempt securities increases they will naturally become cheaper through the operation of the law of supply and demand. At the same time, as the price of non-taxable securities falls, and the yield increases with the increase in the supply, these tax exempt securities must become increasingly attractive to the investor. There must consequently be a corresponding decrease in the salability of taxable securities and a fall in their price. This process, therefore, must inevitably depress the value of taxable securities now outstanding, with disastrous results to the holders. No investors will view this impending depreciation in taxable securities with more alarm than the officials of the savings banks.

We confront an impossible dilemma, fatal both to new enterprise and our present business fabric, unless an immediate halt is called on the issue of tax exempt securities, and outstanding issues retired as rapidly as possible.

This drastic solution of the problem seems so obviously necessary as to require no further support. Briefly summarizing the argument, we find that the exemption from tax of the securities of Government and Government agencies:

1. Tends to create a Governmental monopoly of the business of finance and banking.
2. Destroys the equitable working of our taxation systems, nullifying the Income Tax, and putting the burden on realty and those taxpayers least able to bear the burden.
3. Threatens to depreciate the value of outstanding taxable securities, and to make the financing of private business impossible, and
4. Thereby forces private business to seek Government aid, and
5. Consequently destroys private initiative in business, and
6. Thus progressively checks all national progress and forces the country backward rather than forward.

Every tax expert and economist in the country who has expressed himself on tax exemption has condemned it. It has no defenders on any pleas but those of opportunism or special interest. It is a disease of the economic system that began in a small way, unobserved by any but experts, but it has now reached the acute stage, where the surgeon's knife is required to save the patient. Opiates will only make the case worse. The patriotic citizen will operate without delay by supporting every measure to repeal existing tax exemption privileges, and by helping to defeat every project for new tax exempt issues.

Our Railroad Problem—How to Settle it Effectually in the Public Interest

By SAMUEL REA, President of the Pennsylvania Railroad Company.

It is a pleasure to address those in charge of the Savings Banks, for they have, through their guardianship and investment of the savings of our thrifty people, a substantial financial interest in the proper solution of the railroad question. I am convinced that the Savings Banks are the chief reliance of our people of small means who should not risk their savings, but should have them within convenient call at all times, and without hazard of diminution. I commend your faithfulness to the trust reposed in you by millions of our people, who deposit their savings, for you to protect their principal against loss, and in addition pay them reasonable interest. The investment of this money by you in safe and useful enterprises, which furnish employment and encourage business, has been an important factor in developing our Country and assisting its people to prosper.

Five months ago in this City, in addressing the United States Chamber of Commerce, I suggested a solution of the railroad problem. Since then the Senate and House Committees have had hearings and the benefit of about fifty or more plans on this subject. As a result I now hope we can soon close our talking season, by Congress adopting constructive railroad legislation that will re-create railroad credit. Today railroad credit is based not solely on railroad earnings but directly on the Treasury of the United States, which is bad for the nation's finances and business, and a burden which increases its taxation.

RAILWAY EXECUTIVES' PLAN.

To assist in the problem of restoring railroad credit the essence of the plan presented by the Association of Railway Executives, representing stock and other security holders and managers of roads earning about 93% of the operating revenues of the Country, was:

1. Terminate Federal control as soon as necessary legislation is enacted. The Interstate Commerce Commission to immediately adjust rates to restore the roads to a self-sustaining basis. Pending such adjustment the Federal Government to continue the compensation to carriers under the Federal Control Act.
2. Fund indebtedness to the Government arising out of transactions during Federal Control.
3. Exclusive Federal regulation of all rates, in order to terminate State controversies and confusing regulation, and enable the Interstate Commerce Commission and the suggested Transportation Board to squarely meet the entire responsibility of adequate revenues required to sustain railroad credit. The Executives did not recommend the abolition of State Commissions. They felt that the State Commissions would still have a very large and extensive field to cover in the regulation of purely local and intra-state utilities, such as gas, power and water companies, urban and interurban transit lines, etc. In addition they might be made of great help in the constitution and the workings of the Regional Commissions also recommended.
4. Establishment of a Department or Board of Transportation to look after the transportation needs and facilities of the country in general, so that new capital might be attracted for future additions and betterments and new equipment. The Board to make recommendations to the Interstate Commerce Commission as to rate increases and adjustments and as to the condition of railroad credit. The administrative functions of the Interstate Commerce Commission to be transferred to the Transportation Board.
5. The Interstate Commerce Commission to be charged with the determination of reasonable and adequate railroad rates, as well as railroad valuation and accounting. Regional Commissions to be appointed on which every State would be represented, thereby avoiding the inconvenience and expense of concentrating practically all transportation questions to Washington. The Interstate Commerce Commission to have power to fix minimum as well as maximum rates. The suspension power for final rate approval to be reduced from ten months to about 60 days. The pooling of cars and traffic and the joint use of facilities to be authorized subject to Governmental approval.
6. A wage board to be established for the prevention or adjustment of labor controversies, on which the public should be represented.
7. Exclusive Federal supervision of the issue of railroad securities and of all capital expenditures.
8. Broad powers of consolidation and merger of carriers to be conferred in order to eliminate unnecessary corporations. That Federal incorporation of State carriers be permitted if essential for the foregoing purposes.
9. Adequate rates to be made mandatory in order to sustain railroad credit and attract sufficient new capital. A statutory rule to be enacted by Congress requiring that railroad revenues shall be sufficient to pay operating expenses, including wages and taxes, and give a proper return on the value of property used for railroad purposes, and be sufficient to attract new capital to improve and expand the transportation service.

Judging by conditions—past, present and looking to the future—we believed the foregoing requirements to be essential for any rational plan of strengthening railroad credit.

DANGERS OF FIXING MAXIMUM RETURNS.

As a result of close contact with the railroad problem here and abroad and with the results of past experience of the National and State Governments with public works and railroads before us, we felt that Government ownership or a Government guarantee was not desirable for the railroads of the Country. In its last analysis a Government guarantee means Government operation, as, if the Government is to supply the funds, it must have a controlling force in expenditures for railroad operations. The situation today is practically that of a Government guarantee. Similarly, although we realized our plan was not perfect, we avoided fixing a maximum return to all the railroads on their property investment, and a division of profits by individual companies if they exceeded that maximum, believing that any attempt to confiscate surplus earnings of any individual company would surely eliminate initiative, restrict competition and injure credit. Interest rates are exceedingly high compared to the pre-war period, and with the capital necessities of the world far from satisfied, any suggested maximum like 6% would be too low for a period when the credit of the Government itself, if left free from Bank and Treasury support, is nearly 5%. The railroads have to raise about a billion dollars annually of new capital for improvements and equipment, as well as provide for maturing notes and securities, and may find 6% insufficient for several years. Further, the danger of maximum earnings may be illustrated by the experience of many of the street railways of the country and their franchises, where the five-cent maximum fare was regarded as providing a sufficient margin of profit to meet all conditions, but, when confronted with world-wide war conditions, the five cent fare proved totally inadequate compared to costs and taxes, so that public utility companies are as bad a problem for the country to adjust as the railroads. Many of us remember leases in which 60% or 70% of gross was considered an ample compensation to a lessee to operate a road, but the lessees in most cases were later compelled to buy up the stocks of such roads and cancel the leases, because 60% or 70% of gross proved insufficient to pay operating expenses, while the rent of 40% or 30% of the gross paid to the lessor, as earnings increased, became a bonanza.

From a long experience I distrust arbitrary maximum returns unless all other factors such as income, taxes, interest, etc., are likewise fixed, because we cannot foresee or control future business and financial conditions. I have more sympathy with specifying a minimum return as a guide to our commissions of what is an unreasonably low transportation rate and an unfair return on the investment, instead of relying on the courts to save the common carriers from confiscation. I would consider a return of 6% on the property investment a minimum return, especially now when money will cost the railroads even higher figures. Judging by past experience there did not seem to be the requisite authority or initiative in the commissions—Federal and State—to make rates that would produce a return of even 6% for a traffic district, or rate making group of railroads, except in years when the roads showed an unexpected expansion of business and when costs continued somewhat stationary, as in parts of the calendar years 1909 and 1916. I have been informed that a minimum would not be specified by Congress, unless it be an absurdly low return like 4%, upon which even the Government itself has not been able to borrow the moneys it required, and which would be absolutely too low to form a credit basis for the railroads. Well, neither a maximum nor a minimum is required, if Congress will take the responsibility of directing the Federal Commissions to enable the railroads to resume business on a self-sustaining credit basis, and attract the necessary additional capital for improvements to properly serve the public. The railroads cannot serve the public if they continue on the "bread line." They are a menace to prosperity, while if prosperous they pay high taxes, improve and expand their facilities, give employment and make the industries prosperous. In good years they should be allowed to earn well above any minimum, so that in lean years the public will not be asked to pay increased rates to offset large deficits.

CUMMINS' BILL.

Now in response to all the testimony on the railroad question, and the various plans suggested, and the serious condition of railroad credit, a tentative bill, Senate 2906, has been introduced by Senator Cummins to solve our problem. It is the first broad friendly legislative expression towards railroads in probably the last fifteen or more years. Therefore, I propose to briefly and, I trust, constructively, review some of its salient features that may interest Savings Banks' Executives, with the expectation that Senator Cummins will not consider the railroads and their owners ungrateful for the work he and his committee have tried to do for the country, but with the sincere hope that he and his associates will endeavor to correct some features of the bill, affecting the financial and investment aspect of the situation.

BENEFICIAL FEATURES—CUMMINS' BILL.

Omitting criticisms of phraseology and detail, I consider some of the benefits sought to be promoted by the proposed measure are:

1. Return of the railroads to private ownership.

2. Funding of indebtedness of the roads to the Government for capital expenditures made during Federal control—but certainly it ought to be for not less than ten years rather than five years, considering financial conditions generally, and the annual requirements for capital by the railroads, while, for general indebtedness, some security other than demand notes should be provided, otherwise credit will be imperiled rather than helped by such funding. This is equitable because the Government assumed control, and should leave the railroads in at least as sound physical and financial condition as when they were taken over, and capable of carrying on the transportation business of the Country. In the War period while the merchants, the industries, the farmers and others were protected by higher prices, and were given a basis on which to make profits consistent with the higher living costs, the railroads under Government Control were not placed in that position. Consequently, they should not be asked to pay the large capital expenditures of the War period without assistance from the Government to fund them for a long period and at low interest rates. These capital expenditures were made to assist in protecting the life of the Nation, and the roads should also have transportation rates sufficient to hereafter sustain them.

3. Exclusive Federal regulation of securities.

4. Reduction of rate suspension period from ten months to five months.

5. Creation of a Transportation Board charged with oversight of railroad physical conditions and administrative questions and general credit.

6. A more detailed definition of what elements shall be considered in deciding a reasonable rate.

7. Prevention of strikes that would interrupt interstate commerce.

8. Pooling of earnings and traffic.

9. Clothing the Interstate Commerce Commission with power to prescribe minimum as well as maximum rates.

OBJECTIONABLE FEATURES—CUMMINS' BILL.

Some of the objectionable features are:

1. The Interstate Commerce Commission is not given effective authority over State rates. Without this authority how can the Commission and the Transportation Board fully protect railroad credit?

2. The provisions as to making compensatory rates and permitting a return sufficient to maintain railroad credit and provide adequate facilities are not sufficiently definite and mandatory to produce that result.

3. Labor provisions are too diffuse to be effective.

4. The purposes for which voluntary consolidations can be made, are too restrictive in their scope and the provisions as to compulsory consolidations are fatal to railroad credit.

5. The commandeering of the so-called excess earnings of individual companies, and penalizing surplus earnings if used to provide better railroad facilities, is a decided blow to operating initiative and conservative financing.

6. Railroad valuation in its present form cannot be used for the various purposes proposed in the Bill, nor can it be completed to enable the Commission or the Carriers to promptly carry out the various provisions of this proposed law.

7. Confusion of authority for acquiring property and authorizing additions and betterments.

I will comment further on some of these objections.

RAILROAD VALUATION AND ITS USES.

The valuation found by the Interstate Commerce Commission, under the present law, is claimed by the Government to be a valuation only for rate making purposes, but this bill requires the same valuation to be used for rate making, capitalization, consolidation, and the measure of a fair return, or as a selling price of the property, and apparently the commission may change that valuation from time to time. To wait for the final valuation will cause great delay and any intention of its use for all of these purposes is bound to be disappointing. Therefore, rather than stop all progress in fixing reasonable rates, let the existing property investment be used pending final valuation, as it is the return on the property investment of a traffic district that is a guide to the commission in rate making, and not of single companies, and so far in those districts the return has been found too low for sound railroad credit.

AUTHORIZATION OF ADDITIONS AND BETTERMENTS AND ACQUISITION OF PROPERTY.

The bill provides that the right of eminent domain cannot be exercised without a certificate of the Transportation Board and the Interstate Commerce Commission for acquisition, construction, maintenance or operation purposes, or any authorized extension or addition thereto, but authority to proceed with any new construction is divided between the States and the Federal Commissions. The construction of a new line of railroad or extension must be authorized by the Transportation Board, while the latter Board is specifically excluded from authorizing the construction of side tracks, spurs, industrial, team or switching tracks located wholly within one State—for that the railroads must apply for State authority. The question of branches and terminals does not seem to be very accurately defined. This serious question is further tied up by the approval of the issuance of securities to carry out such work being solely under Federal authority. Therefore, I regard the provisions for carrying on improvement work and exercising eminent domain under such divided Federal and State authority as detrimental to business. Industries cannot defer the establishment or extension of their plants on such a divided and dilatory process to determine new branches, sidings, or station improvements. The entire responsibility for authorizing the acquisition of all additional right of way or terminal areas, as well as all new capital expenditure work, should at least be concentrated under one Board, just as the issuance of securities is to be solely under the Interstate Commerce Commission. When improvements are so authorized, no public benefit is secured by requiring the consent of any Governmental body to the exercise of the power of eminent domain. The requirement of such consent would mean delay and enhanced cost of property.

LABOR PROVISIONS—ARE THEY EFFECTIVE?

I have the following views on the labor provisions of the bill:

Note that they primarily concern not only the management and investors but the welfare of 1,900,000 employes and affect the payment of $2,800,000,000 in wages. The final decision on railroad wages is given to the Transportation Board. No qualifications are stated for the members of this important Board, which is to deal with the operating and administrative questions of all the railroads, including wages. Subordinate to this Board is a Committee on Wages and Working Conditions, consisting of eight members, four of whom shall be selected from the persons nominated by the organized railroad working crafts on each railroad to represent labor, and four from among the persons nominated by all the railroad corporations, and I suppose the Transportation Board is expected to represent the public. Four years is the term of office and $4,000 each the compensation of the members of the Committee on Wages and Working Conditions. Unless this Committee is expected to pass all disputes to the Transportation Board, surely that short term and that salary are insignificant compared to the magnitude of this responsibility, which has tested the ability of the President and the Director General, and the Railroad Managers. For that task the best railroad managers who understand social questions as well as operating questions are needed, and the labor members must be up to the same standard. Any suggestion as to standard wages that take no account of the varying living costs and conditions as between New York, Florida, California, Kansas and Maine is contrary to economic experience. No equitable plan for the avoidance of future disputes as to wages will be complete or protective against strikes, unless a sliding scale is adopted, whereby wages will be adjusted to living costs. Settlement of wages under pressure or as a compromise, is bound to produce dissatisfaction.

A further labor proviso is that on the Board of Directors of each carrier there shall be two labor directors and two Government directors after June 30, 1920. The two labor directors shall be selected from the classified employes and nominated by the employes. The two Government directors are to be appointed by the Transportation Board, and apparently whether satisfactory or unsatisfactory to each Corporation. On all Committees of the Corporations' Boards there shall be at least one labor director and one Government director. These labor and Government directors are to be compensated and their expenses paid by the Corporation for attending Board and Committee meetings. There is nothing to show whether they are to be on the two thousand or more railroad boards of the country, or only on the boards of the Operating carriers. Wages and working conditions are to be settled by the Committee on Wages and Working Conditions and by the Transportation Board in Washington so that no individual carrier corporation will have any responsibility for wages. Further, no carrier can prescribe the wages of its own employes independent of other railroads. Therefore, these labor and Government directors on the Board of Directors of every carrier corporation seem to be like the fifth wheel of a wagon. They have no prescribed responsibilities or qualifications, and nothing is said as to the responsibility of the Government for their votes. Looking for the results to be expected from the two Government directors, the bill does not permit railroad companies to make capital expenditures, to exercise the power of eminent domain, or to issue securities except upon Government approval. What useful service, therefore, will these two Government directors render? If these four directors, instead of sitting on the carrier's Board of Directors, could be elected one-half by the carrier and one-half by the employes and work as subordinates to the Committee on Wages and Working Conditions, they might give a touch of home rule to the labor question, and form a thread of a labor organization, starting from the local ground and ending with the Transportation Board, which might be of some benefit. This is a suggestion and not a solution of the railroad labor question, but indicates the necessity for careful revision. It would appear wiser to let the Transportation Board, which has final responsibility for wages and for governmental supervision of the railroads, direct how employees and corporations and the public shall be represented, and avoid prescribing elaborate machinery.

There is another labor provision, *i. e.*, an Employes' Advisory Council selected from each organized craft of railroad employes requesting representation, to administer a fund consisting of one-half of any excess earnings over a fair return, which any company guilty of that rare offense under a system of rates which must be reasonable and uniform, shall pay over to the Transportation Board. This duty might very easily be performed by the Committee on Wages and Working Conditions or the Transportation Board and dispense with this Advisory Council.

CONSOLIDATION OF ROADS SO AS TO CONSTITUTE COMPETITIVE RAILROAD SYSTEMS.

I am in favor of consolidation. The bill declares it is the policy of the United States to divide the railroads into not less than 20 nor more than 35 separate and distinct systems—this division to be a division in ownership and for operating purposes. Each of the systems is to be owned and operated by a distinct corporation and, where practicable, the existing routes and channels of trade and commerce are to be maintained. The systems are to be so arranged and equalized as far as practicable, that uniform transportation costs, uniform rates and the same rate of return on value may be earned.

The Transportation Board shall devise and adopt the system plans, but may thereafter change the same. The Inter-

state Commerce Commission must also approve them. The Government will have no financial responsibility for their formation either in the voluntary consolidation plans, or in those regional companies to be mandatorily formed after seven years by order of the Transportation Board. The arresting of the laws of gravitation appears to be as easy to accomplish as to arrange and maintain these ideal systems, considering the divergent traffic, physical, financial and other conditions of the various roads in even a single traffic district. If anything is calculated to stop consolidations, and make them impossible to finance, it is a railroad alignment of this arbitrary character. The existing systems have been formed under a competitive system and follow the lines of the natural traffic routes, and are feeders and extensions of the original trunk lines, and in that way became attached to them as Systems. Others might be formed gradually on similar lines, and as their organizations could be trained for the enlarged responsibilities.

The necessity for absorption, merger and consolidation of smaller corporations is apparent.

Analyzing the last complete Interstate Commerce Commission report for the year ending June 30, 1916, we find 1590 companies are divided into the following classes: Class I, 189 railroads; Class II, 276 railroads: Class III, 431 railroads: Switching and Terminal Companies, 227; Lessor Companies, 467. These 1590 companies do not include about 600 roads that are privately owned, or industrial lines not common carriers in the broad way, some of which report only to State Commissions.

The 189 first class roads, together with their lessor companies, earned 97.4% of the total operating revenues of the country. Now taking 162 of the chief operating companies which earned 94.6% of the total operating revenues of the country, we find that they already constitute 86 systems. But only 18 systems during the test period earned over 6% on their property investment, those systems being as follows: Bessemer & Lake Erie, Delaware & Hudson, Delaware, Lackawanna & Western, Elgin, Joliet & Eastern, Lehigh & New England, New York Central, Philadelphia & Reading, Atlantic Coast Line, Norfolk & Western, Alabama, New Orleans, Texas & Pacific Jct., Arizona & New Mexico, Bingham & Garfield, Chicago & Northwestern, Duluth & Iron Range, Duluth, Missabe & Northern, El Paso & Southwestern, Great Northern, and Union Pacific.

Therefore, until earnings are increased, it is hard to see the basis on which the Railroads can proceed with any wholesale plan of absorption or consolidation. The 86 systems existing can be reduced, not arbitrarily but as traffic and earnings justify. Indeed, as 23 systems already handle about 80% of the total operating revenues, there seems to be no necessity or benefit to be obtained from constituting, valuing and financing new systems arbitrarily put together. These 23 systems were: Baltimore & Ohio, Boston & Maine, Delaware, Lackawanna & Western, Erie, Lehigh Valley, New York Central, New York, New Haven & Hartford, Pennsylvania, Philadelphia & Reading, Atlantic Coast Line, Chesapeake & Ohio, Illinois Central, Norfolk & Western, Southern, Atchison, Topeka & Santa Fe, Chicago & Northwestern, Chicago, Milwaukee & St. Paul, Chicago, Rock Island & Pacific, Great Northern, Northern Pacific, St. Louis & San Francisco, Southern Pacific, and Union Pacific.

What the railroads need is not an arbitrary division of the Country into 20 nor more than 35 distinct and arbitrary systems formed by mandate of the Federal Government and the changing views of the various Boards or Commissions; nor any attempts to tie the weak and the strong together, in the hope that in some way or other the few strong railroads of the Country can support the weak lines, including lines that have thin traffic or should never have been constructed. The Railroads want laws that will permit the existing railway systems to absorb and eliminate the affiliated companies now owned, operated, leased or affiliated with their systems. Such further connecting roads may be added as may be required to round out these systems on a basis that would be approved by the Federal Commissions.

In the Pennsylvania System there are about 140 live companies, consisting of railroad companies, ferry companies, bridge companies, water companies and warehouse companies—all essential for transportation purposes. They are leased or operated, wholly owned, or owned in part by the Parent Company. Therefore, an absorption law to clear up the barriers in the existing charters and divergent State laws that prevent the absorption of such affiliated companies, to round out a single system and leave the name and securities of the Parent Companies unchanged, seems desirable. No such absorption of small companies by the large systems can proceed on any large scale without reasonable earnings to enable that course to be pursued, and thereafter leave the system in a strong position to do its financing on reasonable terms.

The big systems have absorbed many weak lines, and are now supporting other weak lines, and they have about reached the limit in that respect.

RATES TO BE REGULATED BY STATE AND FEDERAL AUTHORITY

At the conclusion of Federal Control the Bill states that rates are to remain in effect until changed by competent authority. This means State as well as Federal. You can see what a hopeless state of confusion will be caused by throwing all the States into rate regulation again. The carriers are to file new schedules of rates, fares and charges with the Commission within thirty days after Federal Control terminates the same to become effective four months after they have been filed. During this period of readjustment, but for not exceeding five months, the compensation under the Federal Control Act is to be guaranteed. During the calendar year 1917 it took about seventy-five cents out of every dollar to pay operating expenses and taxes, and now it is costing over ninety cents out of every dollar. Certainly for this period of reconstruction, affecting the entire Nation, the United States Government should readjust all rates—State and Interstate—to meet the transportation costs, and properly establish railroad credit, by exercising the same control over rates as was done during Federal Control. It is true that the Bill authorizes the Interstate Commerce Commission to co-operate with the State Commissions and remove any unreasonable discrimination against interstate and foreign commerce, but the Act specifically states that it does not amend or affect the existing State laws or powers in relation to taxation or the lawful police powers of the several States, including the power to make and regulate intrastate rates except as in the Act otherwise provided. It will, therefore, be seen that such reservations will produce extensive proceedings or controversies so as to delay justice to the carriers, or to other States that may be affected by the rates made in a single State. It also divides the responsibility as to the credit of the carriers. The declarations of policy and elements affecting reasonable rates should be made so mandatory that the Federal Commissions should have a positive duty to see that the rates, both State and Interstate, are adequate to protect that credit.

The Cummins Bill as it stands, gives us no definite or prompt assurance of adequate rates, nor does it get us away from conflicting State regulations. To make it a truly constructive measure it must be strengthened and amended in these fundamental particulars.

COMMANDEERING OF EARNINGS OVER A FAIR RETURN AND DANGERS OF PROHIBITING SURPLUS EARNINGS TO BE INVESTED IN THE PROPERTY

The provisions relative to commandeering and using for other Railroad Companies and for railroad employes the so-called excess earnings of individual companies will throw many railroad investments again into a condition of uncertainty, because a fair return is not prescribed or defined, and what may be a fair return for one company, and for one year, may at the lapse of the next year be reversed by the Commission, or be varied for other companies. There will be no incentive to any carrier to earn any money in excess of the payment of an ordinary dividend, not only because of the confiscation of the so-called excess earnings, but the further provision that any surplus earnings invested in the property cannot be capitalized or used as a basis for increased returns. Both provisions in substance will force all future additions, betterments and improvements to be provided from issue and sale of securities. Such provisions would terminate conservative financing, as under private ownership, the money for new improvements could be had only from the sale of bonds under these conditions, and at higher interest rates to accord with the risk of bad years. If this system is once established for the railroads, it will in time be applied to all public utility companies at the outset, and later to industrial and manufacturing concerns, because their products are just as essential for the daily life of the citizens as railroad transportation.

I desire to emphasize the fact that the conservative railroads which have successfully weathered the various panics, industrial and financial, here and in England, without wiping out or reducing their dividends, are those railroads which used their surplus over reasonable dividends to provide additional facilities and equipment for the public use, instead of selling stocks or securities for that purpose.

The Pennsylvania System is a fair example. Its property cost and marketable securities, not including holdings of securities of companies forming part of the system, exceeds the total outstanding securities in the hands of the public to the extent of over $500,000,000. If the Company instead of following that practice had distributed all its yearly surplus in dividends, and had sold securities for all additions and betterments to its property and equipment, it would now require $30,000,000. per annum of additional net income to pay its 6% dividends, or the Company's stock would have been reduced to a 4% dividend, and its bonds would have had to carry a much higher rate of interest because of weaker credit. It would have been impossible for it to have sold its stock on the market, and that would have been to the detriment of the Country and industry, as well as to the Company's security holders and owners.

The Company's surplus was not derived from excessive transportation charges. These charges have been materially below those authorized by its Charter. The freight charges especially were materially reduced from the beginning of operation, about seventy years ago, to within recent years, and almost ruinous competition among the various roads had a great effect in reducing these charges. The surplus for improving the Company's credit and property was obtained not only from moderate profits in the transportation business, but by paying low dividends on its stock for a long series of years, from selling its stock at premiums, and from profits realized on its investments. This surplus was invested in the property for the improvement of the same for the public use, when legitimately it might all have been disbursed in dividends to the stockholders.

This practice was also followed by other Companies without any regulation or legal requirements, and the public has benefited. What I object to is: (1st) the reprehensible feature that what a company earns under fair and uniform rates through good management and efficient transportation can be taken from it and given to others, thereby sapping the spirit

of initiative and competition, and (2nd) Federal regulation that ultimately will create a situation in which no surplus earnings over a fair return can exist, and that absolutely penalizes the railroads if they invest any surplus earnings in the property for the benefit of the public. If these provisions are allowed to stand, then the least I can ask is that an allowance of some surplus over a fair return in good years should be made mandatory, and not permissive, to assist in lean years. Otherwise in bad years, rates would have to be increased when the shippers could least afford to pay them.

If the Pennsylvania Railroad Company after paying its fair dividends is not to have a surplus to sustain the credit and operations of weak roads in its systems, then several hundred miles of railroads must stop operations and improvements, and communities must suffer.

The Pennsylvania System represents about 6.5% of the whole track mileage of the Country, about 13% of the ton mileage, 13.5% of the passenger mileage, and its track mileage is about one-half of that of Great Britain and Ireland, and it has invested for public use $1,800,000,000. in its road and equipment, approximately one-tenth of the whole railroad investment of this Country. It has been opened for traffic sixty-seven years, and during that time its management has observed a sane and conservative financial and operating policy, and dealt as generously with labor in wages and welfare funds to the extent the earnings permitted. I have the honor of having served the Company, with the exception of a few years, since 1871, and for over thirty years have been closely associated with the Executive Department, familiar with the construction of new lines and branches to serve the public and the financing, upbuilding and compacting of the System. Therefore, I can speak intelligently, and indeed feelingly, about the Company's policy and affairs. So far as public regulation is concerned, for the last ten years the Company has not been allowed sufficient revenues to earn 6% on the cost of its property and equipment except in 1909 and 1916. Yet so far as the management is concerned, long before there was any regulation of the railroads, as we now understand it. The Pennsylvania Railroad Company did not distribute all of its net income in dividends, but judiciously applied a substantial portion to promoting, helping and upbuilding its feeders and connecting lines, to eliminate grade crossings, and for other similar construction items. It was not alone in this policy. Other companies pursued the same course, and they could be depended upon to continue such policies under proper regulation, without injustice to the public. Then why must Congress now propose, as a future National policy, to confiscate their so-called surplus earnings and stop incentive, and on the other hand fail to definitely order reasonable rates that must produce a fair return upon which railroads can live and make progress?

THE PROBLEM AND THE REMEDY

The Railroad problem has not changed, nor is it shrouded in mystery. It is this: Railroad earnings and credit must be created sufficient to support the existing railroad investment and attract the additional capital the transportation business requires in the public interest. New capital cannot be commandeered. Therefore, adequate rates made under public approval, with opportunity for competition, initiative and incentive, is the effective remedy for the whole problem in my opinion. If adequate rates had been granted in the past decade, there would not have been a railroad problem. I desire to see the Cummins' Bill amended to definitely accomplish that result. If that mandate is not positively forthcoming as the result of new Congressional legislation, all the Boards and machinery created for regulatory purposes will be useless. Extreme care must be exercised to insure sound credit, and not theorize about it. If public regulation does not allow earnings sufficient to sustain railroad credit, and provide necessary transportation facilities, the public will be forced to regard regulation as a huge waste of money, time and effort, and demand a simplification of the situation, and start with a new slate, or drive straight for Government ownership with its train of higher costs, inefficiency, and political domination of the employes and of the industries depending on the railroads. National reconstruction cannot be accomplished while railroad investments and credit are left in an unsatisfactory condition. This should spur Congress, the Commissions, the investors, the employes, railroad management, and the public to work together for an equitable and prompt solution of this great problem. To that end the railroad executives are prepared to devote their whole time and attention, if the Congressional Committees so desire. Further delay is extremely dangerous to all concerned.

The Railroad Problem from the Viewpoint of the Securities Owners

By Luther M. Walter, Counsel National Association of Railroad Owners.

I would present to you for your earnest study and consideration some facts which are of great moment in the railroad and industrial life of the nation. We are just emerging from the stress of a great world war. The minds of our people have been occupied with consideration of problems connected with that war. The release of our four million young men from arms, and the turning of our industries from war time production to peace time production is proceeding with great rapidity. There are, however, many men who are dissatisfied with things as they are, and who are endeavoring in every way possible to overthrow existing institutions and our methods of doing business, and are seeking to substitute theories either imported from chaotic European society or created in the unbalanced minds of a few of our dissatisfied people.

The first and foremost problem is the settlement of the transportation question. What is to be done with our railroads?

For the time being I am one of general counsel of the National Association of Owners of Railroad Securities, and have been for several months past working upon the problem under the direction of the president of the association, Mr. S. Davies Warfield, of Baltimore, who has evolved a plan of regulation which has come to be generally known as the Warfield Plan, and to which I shall hereafter refer by that name.

The National Association of Owners of Railroad Securities is a voluntary organization made up of holders of railroad securities, both stocks and bonds, the latter predominating. Through its membership, directly and indirectly, by institutional and individual membership, the association now represents nearly nine billions of dollars in actual paid up membership of the outstanding nineteen billions of unduplicated railroad securities.

The largest single holders are the great life insurance companies, savings banks, universities and colleges, banks and individual investors. Approximately 30,000,000 people own the outstanding forty-six million life insurance policies; one-fourth of the investments made by these companies to protect the beneficiaries of their policy holders is in railroad securities. You gentlemen have paid to the great life insurance companies of the country your annual premiums on various forms of life insurance policies, believing that your estates, your dependents, will be better protected by that form of investment perhaps than many other kinds. The premiums you have paid have been invested by the life insurance companies to protect your beneficiaries in investments of many types. You can, therefore, easily see how important it is that our Government should exercise every care to protect the integrity of investments in railroad securities. The great savings banks are members of our association and they have some nine million depositors; their deposits have largely been invested in railroad securities. You therefore find that the great mass of our people are vitally interested in the integrity of railroad securities, and for them this association appeared before Congress and presented its views.

The purpose of this association is to secure from public authority such action as will protect the investments already made and make it possible for capital to be furnished to the railroads for future needs. The financial structure of all credit depends upon the results of legislation by this Congress upon the railroad question. We believe that capital invested in railroad properties is entitled to a fair return, that labor employed upon these properties is entitled to a just wage, and that the public which furnishes the money for wages, for other operating expenses and for return upon the capital invested, is entitled to efficient service at the lowest cost which will make such provision.

At the outset I desire you to understand that this association in its membership includes investors not alone in railroad properties, but in all of the industries, in properties of whatsoever kind throughout the United States. Plans have been submitted to Congress with the great force of organized railroad employees demanding the nationalization or socialization of railroad properties with a statement that this is but the entering wedge, and when the railroad properties be so disposed of there will be an advance all along the line in the great industries in an effort to take them from their present owners and nationalize them for the benefit of their employees. The press in the last few days has carried information that the United Mine Workers of America have indorsed and propose to throw all their influence in support of the Plumb plan, as well as for the nationalization of mines.

Briefly the plan presented by Mr. Plumb, with the express approval of all of the fourteen railroad organizations and of the American Federation of Labor, provides that the national Government shall purchase the railroads of the country at what he asserts is a fair value, viz., ten to twelve billions of dollars, although the investment, as shown by the books of the carriers, in the aggregate exceeds nineteen billion dollars, with outstanding unduplicated securities of approximately the same amount. From the freight rates and passenger rates collected from the public there will be set aside as a sinking fund one per cent. upon the amount of Government bonds outstanding to amortize the Government indebtedness, which it is asserted will occur within fifty years, after which time there will be no interest charge to pay upon these properties. At the time the Govern-

ment buys these properties, all of the employees and officials of the railways, from president down to water boy, would become members of a private corporation to which the Government would lease these railroad properties. The management would be vested in fifteen men, five appointed by the President of the United States, five selected by the classified employees of the railways, and five selected by the remaining officials, being generally men above the rank of dispatcher and superintendent. After wages and other operating expenses have been paid, as well as fixed charges, the private corporation would divide the net earnings equally with the Government. The half accruing to the private corporation would be divided between the classified employees and the managing officials, the latter receiving twice the rate of dividend accorded to the classified employees.

Such, briefly, is the Plumb plan. It is appallingly simple. The Government simply presents to the employees of the railways of the country all of the railway property in the United States, and compels shippers and traveling public to pay not only the cost of operation but to set aside annually a sufficient amount to retire the Government bonds which have been issued in payment for the railroads. Perhaps you gentlemen would better understand what this proposition means if you considered what it would mean if the United States Government were to buy all of the steel mills of the country, all the mines of the country, all of the great manufacturing industries, even the farms of the country, and turn them over to those who are now laboring within and upon them, without cost to those employees. Mr. Plumb proposes to try out this theory first upon the railroads. But I think he mistakes the temper of the American people and particularly of the American workingman, if he believes that they are willing to see the railroads of the country presented as a gift to the two million men who are now employed upon them, at the highest wage and with the best working conditions ever enjoyed by any set of employees in the world. Do you think there will ever be any money to divide between the employees and the Government? Will not wages and salaries always use up the total amount of earnings left after paying other operating expenses? With ten representatives of the management and employees of the railways on the board of managment, out of fifteen, how else could it be?

When members of the House Committee on Interstate Commerce asked Mr. Plumb and the heads of the organizations what they would do if Congress failed to adopt the Plumb plan, they stated they "would appeal to the protective measures of their organizations and would go to the people to elect a Congress and a President which would adopt the Plumb plan." You may therefore expect men to be nominated for Congress next year who will espouse the Plumb plan in order to secure political support. I think you might well say to your members in Congress to stand steadfast by the principles of our Government, the principles upon which our industries have grown to be the greatest in the world, and to be undisturbed by the clamor of an organized minority which supports a proposition it does not understand. When the sober, intelligent thought of our voters fully appreciates what the Plumb plan proposes, it will be rejected finally and overwhelmingly. I believe the members of Congress will stand steadfast, but it will be a source of encouragement to them to know that their people at home support them in the course they have adopted.

The shippers of this country are the owners of producing and manufacturing plants. Their investments in farms, mills, mines, factories, represent the capital of the United States, and have given and are giving employment to millions of our workmen. Their success, their ability to continue operations measures the ability and opportunities of all our working people. With labor the best paid, best clothed, best housed, best educated, best entertained, it has ever been in the entire history of the world, you have little need for concern at any threats which may be presented in an effort to compel Congress to abandon its fixed principles in perfecting legislation.

The National Association of Owners of Railroad Securities has presented a bill which embodies and effectuates the views of that association. Before beginning a discussion of our bill, I desire briefly to comment upon certain facts and principles which are undeniable and controlling. The President took possession and assumed control of the railroad transportation systems of this country in the closing days of 1917 solely for war purposes. The war having ended, the President has announced his intention to return these properties to their owners on December 31st next. The results of operation by the Railroad Administration show a financial loss to the Government during the calendar year 1918 of about $250,000,000 and during the first six months of 1919 of approximately $300,000,000. This loss in all probability will continue, so that by the end of 1919 it will probably be found that the aggregate financial cost to the Government in operating our raidroad systems will approximate one billion dollars. This loss the Government cannot possibly recover. The service given the public has been less efficient and more expensive. I believe the public is cured of any possible desire it may have had for Government ownership. The return of the railroads to their owners must be accomplished with the least possible disturbance to financial and operating conditions.

The total rental which the Government is to pay for the use of the railroads is the average net income for each railroad under Federal control during the three year period ending June 30, 1917 and aggregates $930,000,000. During the first six months of 1919 the Railroad Administration earned net only 39.8% of the rental which it is compelled to pay. During the first six months of 1918 the net earning was only 38.4% of the rental. There is, therefore, only 1.4% increase in the earnings for the first six months of this year as compared with the first six months of 1918. Class 1 railroads of the United States are those having annual gross revenues of more than one million dollars. They comprise 97% of the total railroad mileage and handle 97% of the total railroad business of the United States. During the first seven months of 1919 the net operating income of Class 1 railroads approximated $233,000,000, as against $288,000,000 for the first six months of 1918; during 1919 railroad rates were about 25% on freight traffic and 50% on passenger traffic greater than in the first half of 1918. The Director-General earned net $54,000,000 less during the first seven months of 1919 than was earned in the first seven months of 1918, operating expenses having increased 16.6% while operating revenues increased only 10 per cent. The number of loaded car miles, loading per car and number of loaded cars in a train, was less during the first seven months of 1919 than during the same period of 1918. In other words, efficiency of operation was less during 1919 than for a comparable period in 1918. During the first six months of 1919 the Baltimore & Ohio Railroad failed by $4,000 000 to earn its operating expenses.

The Director-General is now considering demands for increases in wages of more than $800,000,000 annually. Without any further increase in wages, and with a continuance of the present rates and operating expenses, many of the railroads would be unable to pay their out-of-pocket operating expenses if their properties were returned to them for operation. It is, therefore, urgently necessary that Congress legislate for the protection of these properties. The President has said that he will return them on December 31st of this year.

Many of the plans presented to Congress and yet to be presented call for the adoption of new and untried experiments destructive to corporate organizations, requiring the creation of new and larger corporations with forced mergers of hitherto independent competing railroads, all of which requires indefinite delay. No other plan, complete in itself, for railroad legislation has yet been presented to Congress which does not require great delay. Whatever is done should be done quickly. The prime difficulty is a financial one. Revenues of the carriers must produce ample funds to pay operating expenses and a reasonable return upon the fair value of the property devoted to the public use.

The keystone of the Warfield Plan is a Congressional direction to the Interstate Commerce Commission that it shall make freight and passenger rates sufficient to pay operating expenses, maintain the properties, and give not less than a 6% return upon the aggregate fair value of the property devoted to transportation in each of the principal traffic territories. The chief difficulty in the past has been the impossibility of adjusting rates so that the great bulk of the railroads of the country could earn sufficient to operate and maintain their individual properties without at the same time furnishing excessive earnings to a few great carriers. Under the Warfield plan there is no direction to the Commission to adjust rates so that each carrier will have net earnings of 6%. All that Congress is asked to do is to say to the Interstate Commerce Commission: "Prescribe rates which will keep the earnings of the carriers up to a level which, treating all the railroads of the country as a single system, produces 6% upon the combined investment of all the railroads." Some of the railroads will earn more than 6% others will earn 2%, 4% or 6%. Each carrier will be free to earn as much of the revenue which is produced by this level of rates as its management can secure.

It will be a year or a few years until the fair value of the individual carriers' properties is determined. Pending such determination as a temporary base we suggest the combined property investment accounts of the carriers. Since July 1, 1907, these accounts have been kept in accordance with accounting requirements of the Commission. At the end of the fiscal year ending June 30, 1907, the aggregate property investment account in road and equipment of the carriers was $13,000,000,000; on December 31, 1917, the total investment in road and equipment had reached more than $19,000,000,000. It will thus be apparent that since the date the Commission prescribed rules for keeping these accounts, nearly 50% has been added to the accounts as they existed in 1907 and that addition was in cash. The Interstate Commerce Commission itself has in several cases used the investment account for the very purpose for which we are here suggesting its use, viz., to determine the sufficiency of the railway operating income of the carriers. In the opinion of the Interstate Commerce Commisison in the *Five Per Cent. Case*, divided July 29, 1914, the Commission had before it on its own investigation a proceeding of the inquiry presenting two questions:

1. Do the present rates of transportation yield to common carriers by railroad operating in Official Classification Territory adequate revenues?
2. If not, what genetal course may carriers pursue to meet the situation?

The opinion in that case will be found in Vol. 31, Interstate Commerce Commission Reports, page 351.

The Interstate Commerce Commission in that case carefully reviewed all the facts and reached the conclusion that the only available basis on which it could determine whether the net operating income of the carriers was sufficient was the property investment accounts of the carriers. The Commission pointed out that it was just beginning the valuation of the railway properties and that it would be several years before that work was finished. It reached the conclusion that the practical necessity of the situation would not permit it to defer action until such a valuation had been completed. The Commission adopted the property investment accounts of the carriers and reached the conclusion that since the net operating income had been on the average, during the period from 1900 to 1914 only 5.64% on the combined property investment account, the carriers were entitled to an increase in revenue. Just as the Commission was confronted with an emergency and was compelled to accept the property investment account of the carriers as the basis, just so today Congress is confronted with an emergency in railroad finance and operation and should accept the property investment account as the basis. There is nothing else it can accept.

Having demonstrated the correctness, as I believe, of the property investment account as the basis, it becomes necessary to discuss the facts in support of 6% as a proper rate of return. In the Federal Reserve Act Congress itself fixed 6% as the rate of dividend to be paid upon the capital invested. The Supreme Court of the United States, in its last term, held in the Lincoln Gas case, that 6% was the minimum return consonant with the provisions of the Federal Constitution forbidding the taking of property without just compensation. In your every day walks of life you gentlemen know that 6% is the minimum rate of return which Congress should require upon railway investment. That is the minimum which is current in your every day dealings. There can certainly be no criticism in fixing 6% as the rate of return.

We come now to the next most important phase of the Warfield plan, viz., the regulation of earnings in excess of 6% upon the property actually devoted to the public use. We have called your attention to the fact that one of the great difficulties has been the adjustment of the rate structure so that the great bulk of the roads would have sufficient revenue without at the same time giving excessive earnings to the stronger roads. The weak and the strong roads operate in the same territory. The rate which is applicable on one must be applicable upon the other, else the road with the lower rate would carry all the tonnage, and the road with the higher rate would find itself without tonnage. Having in mind the fundamental, long established rule that an investment in a public utility such as a railroad is entitled only to a fair return, there can be no constitutional inhibition upon Congress fixing a maximum return. There should, however, be accorded to a carrier a portion of the earnings in excess of the maximum reasonable return, so that the incentive to economy and efficiency in operation should not be lost. We believe that one-third of the excess over 6% is sufficient to encourage incentive and initiative in operation; that the carrier will be anxious to make the additional dollar in order that it may have the 33 1-3 cents for its own treasury. The other two-thirds of the excess should be divided equally between labor and the public which has paid the money.

Thus we have what we regard as the ideal relation between capital, which has made the investment; labor, which has performed the service, and the public, which has paid labor and capital for its services. The application of this principle will not reduce the usual and customary dividends of the carriers. Had the system been in effect during the test period of three years ending June 30, 1917, there would have been, on all the railroads of the United States, combined excess earnings of $125,000,000. The corporations that earned in excess of 6% would have received one-third, $42,000,000; there would have been left to divide between labor and the public some $84,000,000. During that three year period, had the Warfield plan been in effect every customary dividend could have been paid. The only effect would have been to reduce the corporate surplus of carriers to whose earnings the plan applied. The result of the Warfield plan on a few of the great railroads of the country, if that plan had been in effect during the three years ending June 30, 1917, is shown in the following figures:

Railroad.	Increase in net operating income over 3-year average.
Pennsylvania R. R.	$6,201,768
Southern Pacific System	6,310,177
Baltimore & Ohio	4,060,325
Chicago, Milwaukee & St. Paul	4,859,065
Chicago, Rock Island & Pacific	3,582,112
Missouri Pacific	3,426,438
New York Central	1,504,677
Atchison, Topeka & Santa Fe	1,471,167
Lehigh Valley	1,285,913
Chesapeake & Ohio	1,143,452
Chicago & Northwestern	1,079,773
Atlantic Coast Line	679,461
Central of Georgia	431,804
Northern Pacific	347,457

In addition to the increased net operating income shown above these roads would have contributed $21,531,376 to the fund provided by the Plan through the regulation of excess earnings.

The following are illustrative instances of roads which would contribute a portion of their excess earnings for divisions under the Plan, showing their unimpaired ability to pay customary dividends and to accumulate substantial surpluses:

Railroad.	Surplus left under the Plan after paying customary dividends.
Chicago, Burlington & Quincy	$17,262,812
Delaware, Lackawanna & Western	3,883,566
Delaware & Hudson	1,627,453
Norfolk & Western	5,634,776
Union Pacific System	13,471,855
	$41,880,462

In addition to the surpluses indicated above these roads would, under the Plan, have contributed $22,479,158 to the excess earnings fund, still leaving them $41,880,462 surplus. This sufficiently answers the charge of confiscation.

One hundred and nine railroads which would not earn six per cent (their average being 4.61 per cent) under the operation of the Plan would nevertheless have received $57,894,673 net operating income more than their average for the three-year period. These 109 railroads constitute the so-called less favorably situated roads. They are the roads operating a majority of the mileage of the United States whose necessity for additional revenue makes obligatory a rate level higher than required for the more favorably situated roads. It is obvious that the former can never secure this relief without regulation of excess earnings of those carriers whose surpluses would be largely increased.

It is equally obvious that regulation of excess earnings will in no respect impair the credit or financial status of these other roads whose excess earnings would be regulated.

The great purpose and the practical effect of the Warfield Plan in the two phases which we have just discussed would be to stabilize railroad credit. Members of our Association, constituting the large investors as well as the small, have assured us that with this system in effect the railroads of the country will be able to secure all the capital which they may need to expend and develop their properties and to give to the public the service to which it is entitled.

Three weeks ago Mr. Warfield, as President of the Association, presented to the Congress a memorial signed by many of the institutions represented by you gentlemen here today, expressing profound concern lest remedial legislation by Congress should fail to reach the heart of the railroad problem. In that memorial Congress it was urged to fix the minimum return to the railroads in the aggregate at six per cent. That memorial expressed to the Congress the firm conviction that a reasonable proportion of the earnings beyond the primary return of six per cent should be retained by the Railroad earning it as an incentive to efficiency and improvement in service, the balance to be disposed of in the public interest. Congress at the same time would thus provide against the retention of excessive earnings by the more favorably situated roads. The memorial was signed by industries and investing institutions representing twenty-seven billion of the outstanding forty-seven billion of the total investing resources of the United States, exclusive of international banking houses, private banking houses and private banks, investment banks and brokers and traders in securities; thus fifty-seven per cent of the total investing resources signed that memorial. The signatures included the great savings banks, life insurance companies, fire, marine and surety companies, national and state banks and trust companies. In fifty-six of the largest cities of the country the signers of the memorial represented resources of nineteen billion out of the total of twenty-seven billion, or seventy per cent of the total investing resources of those fifty-six cities.

Approximately five thousand institutions have signed the memorial; through fiduciary institutions, such as estates and individual investors have signed to the number of more than eight thousand. Business organizations, such as boards of trade, chambers of commerce and business firms have signed to the number of more than sixteen hundred. The savings banks signing this memorial have depositors numbering more than five and a half million of the nine million total depositors in the mutual savings banks of the country. The number of policy holders represented by the life insurance companies in unduplicated policies signing the memorial is twenty-three million of the thirty-three million outstanding unduplicating life insurance policies. The signers of the memorial are located in nearly twenty-five hundred cities, towns and communities of the United States. Congress probably has never had presented to it a more important representation from the investing public of the United States. It is possible that the Congress will not heed this practical and reasonable request for the preservation of railway credit of the United States?

The Senate Committee on Interstate Commerce during the months of January and February held hearings at which all of the interests of the United States concerned with the railway problem presented their views. A sub-committee of five, composed of Senators Cummins, Poindexter, Kellogg, Pomerene and Robinson, after several months of earnest consideration, reported to the full Committee of the Senate a bill known as Senate Bill 2906, and the full committee has for several weeks been considering that bill as the basis for its report to the Senate for its consideration. That report probably will be made within ten days or two weeks.

The Cummins Bill has adopted many of the features of the Warfield Plan, but as to the two matters which I have just discussed, viz., fixing the minimum return upon the investment and recapture of excess earnings, it has not followed the Warfield Plan in its entirety. The Cummins Bill requires the Interstate Commerce Commission to fix the value of the railway properties for rate-making purposes in the various rate-making groups and also requires the Commission to fix the rate of return to be allowed upon the value as so determined. The Commission would then fix the level of rates which will produce the return which it has found proper. We believe that Congress is the body which should fix the minimum return upon railway investment. That is a question of policy and should not be delegated to the Interstate Commerce Commission, an administrative tribunal. At least some of the members of the Interstate Commerce Commission believe that Congress should fix the policy and definitely name the rate of return in the act so that the Commission may be controlled thereby in the performance of its duties. Furthermore, the Commission cannot fix the valuations of railway properties short of a term of years. It is, therefore, impracticable to expect the Commission to determine the value for rate-making purposes more rapidly than it is now determining the value of these properties. For current rate adjustments the Commission cannot hope to make valuations and for that reason it is absolutely necessary that pending some conclusive valuation the Congress establish a measure of protection. The only available standard or measure is the property investment account. The Cummins Bill undoubtedly should be amended to provide that, pending these final valuations, the Commission may use the aggregate property investment account in each rate district upon which to lease the minimum rate level which experience has shown to be necessary to sustain transportation, making due provision, of course, that such use of the property investment account shall not be held to establish the cost or present value of railway property. Such an amendment would provide a definite measure for the Commission to use, pending valuations.

It is as equally indispensable that Congress instruct the Commission not to depress rate levels below six per cent as a minimum, because we believe that is the irreducible level. Section 6 of the Cummins Bill leaves to the Commission the absolute determination of a fair rate level, subject only to the constitutional inhibition against confiscation. This section ought to be amended so as to provide a six per cent ratio in lieu of the following ratios found by the Commission in the *Fifteen Per Cent Case* not to constitute a proper rate of return. The figures for class 1 carriers are:

Ratio of operating income to investment.

	Pct.		Pct.
1917	5.81	1912	5.30
1916	6.40	1911	5.07
1915	5.24	1910	5.51
1914	4.09	1909	5.85
1913	4.62	1908	4.94

Further the recapture clause of Section 6 of the Cummins Bill is objectionable in that it fails to prescribe what is prima facie a fair return and forces controversy in the courts over the right to any part of the earnings, whether over or under six per cent. A definite minimum return should be protected against recapture in any event. The Commission should be admonished that it must not take away earnings so as to reduce any carriers return below six per cent upon the value of its property, plus fair reserves to be determined by the Commission and a fair proportion of its excess earnings to furnish incentive and efficiency and economy. The determination of that base limit involves an exercise of legislative discretion. It is entirely safe and legal to permit the Commission to determine the question of reserves applicable to all carriers or to each individual corporation. It would also be safe to permit the Commission to determine from time to time what uniform percentage, if any, in excess of one-third of their excess earnings should be retained by any particular carrier. We believe that one-third is the minimum amount of such excess which the road producing it should be permitted to retain, in addition to any reserves permitted by the Commission. The Cummins Bill now requires a carrier to pay back all of its earnings in excess of a fair return upon the value of its property; such a policy is not helpful. The carrier feeling that it had earned six per cent upon its property would take care that there was no net in excess thereof if it had to give up all of that net. The Act must provide that the carrier may retain a portion of the excess earnings; certainly that should not be less than one-third and it may be that it ought to be greater than one-third, in order that the corporation will be constantly pulling on the traces, operating economically and efficiently.

In another respect the Cummins Bill contains a provision which we regard as highly destructive of railway credit and that is compulsory consolidation within seven years of all of the railway properties of the country into not less than twenty nor more than thirty-five corporations. We believe in consolidation which may be in the public interest and we are willing to leave to the Interstate Commerce Commission the determination of what is in the public interest; but we are opposed to the surrender of the securities now outstanding issued by some two thousand odd corporations, and to have in their stead securities issued by twenty to thirty-five corporations which the Cummins Bill provides for.

There is one feature of the Cummins Bill which is most important and which I think you will heartily approve; that is the provision dealing with wage disputes. Briefly, the Bill creates a Government tribunal for the settlement of all disputes between the employes of railway companies and the companies themselves, including fixing of wages and conditions of labor. The members of the Senate Committee, perhaps somewhat reluctantly, have reached the conclusion that it is necessary that the Government shall ultimately fix the wages of railway employes. There is no other way possible to handle the present situation. Transportation is a governmental function or at least closely allied to Governmental functions. It is, therefore, impossible to contemplate continuing the disturbing controversies between the Railway companies and their employes. To handle this situation the Bill creates a Committee of Wages and Working Conditions, composed of eight members, four of whom represent labor and four of whom represent the railroad corporations. The members are appointed for a term of four years; four are recommended by the employes themselves and four by the railroad corporations. The Bill makes it the duty of the Committee of Wages and Working Conditions to consider all complaints submitted by representatives or employes or of the carriers and to make decisions by majority vote as promptly as practicable. The decision of this Committee when finally reached is intended to be binding and conclusive everywhere. The Bill lays down definitions by which the Committee is to be governed. Wages are required to be just and reasonable and in determining the fairness, justness and reasonableness of wages and salaries the Board must take into consideration, among other relative circumstances, the scale of wages for similar kinds of work in other industries, the relation between wages and the cost of living, the hazards of the employment, training and skill required, the degree of responsibility and the character and regularity of the employment. The Bill further carries a provision making it unlawful for two or more persons to enter into any combination or agreement to hinder, restrain or prevent the movement of traffic in interstate commerce, and attaches a jail sentence not exceeding six months. The prohibition is intended to make unlawful both lock-outs and strikes. The individual employe is free to leave the service of the carrier whenever he sees fit; the purpose of the Bill is to prevent combinations of employes which would result in a general suspension of transportation.

We have reached that stage of development and civilization in our country in which the lives and welfare and the health of all the people of the country depend upon the continuous, constant and regular interchange of commodities between communities and persons. There are populous communities in which interrupted transportation for two or three weeks would change a condition of plenty to a condition of starvation. In certain seasons of the year interruption of transportation for two or three weeks would change comfortable warmth to freezing cold. Modern life is so complex and transportation is so essential, that it must be carried on without obstruction. The threat of Mr. Jewell of the American Federation of Labor when the carmen's strike occurred a few weeks ago that he would tie up transportation so tight that cars could not be moved, and the threat of revolution uttered by spokesmen of the railway employes before the Committees of Congress, has brought home to the members of the Committees of Congress that one of the supreme duties confronting them at this time is to make it impossible for arbitrary and uncontrolled power to paralyze the transportation agencies of the country without bringing down upon the guilty party punishment of the law and certainty in paying the penalty for such violations. There has been too much temporizing, too much coddling, in the last two or three years in the treatment of organized labor. What labor is entitled to have, the law should assure it. But the public weal is supreme so long as our present system of government continues and no labor official is without responsibility to the law.

I pass briefly now to other phases of the Warfield Plan. Increased duties and greater responsibilities in large volume fall upon the Interstate Commerce Commission. We therefore suggest the creation of six regional commissions composed of three members each. The regional commission under the general supervision and instructions of the Interstate Commerce Commission will enforce the Act to Regulate Commerce, will have jurisdiction of rates wholly within their respective territories and in co-operation with the State commissions will function just as the Interstate Commerce Commission. The Interstate Commerce Commission, however, will see to it that the level of rates in each of the territories bears a proper relation to other territories. Labor questions will be submitted to the regional commission locally in touch with conditions.

The Warfield Plan contemplates a continuation of the present rate committees composed equally of representatives of both railroads and shippers to primarily consider and pass upon all changes in rates requested by either railroads or shippers and before being filed with the Regional Commission or the Interstate Commerce Commission as provided in the Plan.

Control of the issue of securities of all carriers engaged in interstate commerce would be vested in the Federal authority.

And lastly, the Warfield Plan would create a corporation operated without profit to the railroads and under Federal control, directed by seventeen trustees composed of the nine Interstate Commerce Commissioners and eight railroad men, to finance in the present emergency such equipment as may be purchased by it from the Railroad Administration allocated to the railroads and to furnish immediate means for assisting in financing the return of the roads, the corporation to be continued as a permanent means for mobilizing and purchasing equipment to be leased to the roads, this corporation to have control of the excess earnings reduction fund. This corporation would furnish at all times a trained and efficient means for immediate mobilization of the railroads for war purposes without additional legislation.

The Association is opposed to compulsory Federal incorporation of railroads, to the provision for a new cabinet officer to be known as the Secretary of Transportation, or of any bureau which should have any supervision over the Interstate Commerce Commission. We believe the Interstate Commerce Commission should be charged with the duty of providing revenues and supervising expenditures. We are opposed to the creation of new and larger regional companies, believing that the natural methods of combination under the supervision of the Commission, and with the incentive to such merger the Warfield Plan will afford to the public the most satisfactory transportation service.

A transportation conference, lasting over many months, called by the United States Chamber of Commerce, carefully considered all of the plans for the solution of the railroad problem. It adopted in its entirety the rule for rate making devised by the National Association of Owners of Railroad Securities. It evolved, however, a different method for recapturing excess earnings.

Many state banking associations, manufacturing organizations and shippers have endorsed the fundamentals of the Warfield Plan. We believe it affords a just and efficient method for quickly transferring these railroad properties from Governmental to private control. It may be that the billion dollars which the Government loses in the experiment of Government operation will not wholly be a useless expense, if it prevents our people from launching upon an experiment in Government ownership.

The railroads of our country, in their development, and in the aid which they have afforded to our producers, manufacturers and consumers, under private ownership attained the highest degree of efficiency in service. Our people long for the return to that private operation. I confidently believe that our people will return to the sober and accustomed ways of peace and without adopting new untried theories which would destroy individual initiative and efficiency. The spirit of our institutions as created and developed through 140 years of our national existence must be maintained during the period of reconstruction following the war. You men have your part to play in bringing that reconstruction about. If you believe in the principles which the Warfield Plan undertakes to effectuate, can you not give it your whole-hearted support.

LUTHER M. WALTER.

Letter from National Association of Owners of Railroad Securities

Mr. Victor A. Lerner, President,
and Members of the Savings Banks Section,
American Bankers' Association, St. Louis, Missouri.

GENTLEMEN:

In view of the approaching crisis in railroad legislation, I am taking the liberty of asking that you will permit me to take part, at least, of Mr. Walter's time before your Section, in order to advise you of recent developments in respect to this subject. On September 25th, Commissioner Edgar E. Clark, of the Interstate Commerce Commission, in testifying before the House Committee on Interstate Commerce, discussed the subject of rate making in respect to a minimum and maximum and the measure of value upon which such return to the railroads should be computed, and gave the most important detailed information in respect to these questions yet given before either House of Congress or brought out during the discussion of railroad regulatory measures. It is largely because of the position taken by Commissioner Clark, which we feel substantiates the position taken by our Association from the first, that I am induced to communicate with you in relation thereto.

Since many of the members of your Section are members of the National Association of owners of Railroad Securities and as such have doubtless followed events, it is hardly necessary to review the details of the progress of this legislation.

Rather than reintroduce in the Senate the Bill the Association presented in the Senate the last session, we have preferred suggesting amendments to the Cummins Bill, recognizing that the passage of this Bill with such amendments as may be made thereto, will likely be the action of the Senate. A revised draft of our Bill has been presented to the committees on Interstate Commerce of both Houses of Congress for the information of the members of these two committees. If it should be considered helpful to later introduce this Bill in either House of Congress it can be done.

Railroad legislation—the most important ever considered by the Congress dealing with domestic affairs—is about to be reported, at last to the Senate. The campaign that has been conducted by those variously interested has developed two avenues by which this legislation is being approached:

One, on reactionary lines,—that is, to hand the railroads back to their owners with legislation which Commissioner Clark in his testimony, above referred to, shows would contain a measure of rate-making no more definite than under the present law.

The other, embodying a fixed minimum percentage return on railroad property devoted to the public use as a regulatory necessity to protect the credit of the railroads and enable them to perform service.

Mr. Sanders, of Indiana, a member of the House Committee, interrogated Commissioner Clark at the hearing in respect to these matters as follows (taken from the record):

Mr. Sanders of Indiana: Under the present law there is not any standard except what is fixed by the administrative body.

Mr. Clark: The only standard is the rule of law laid down in the Act to Regulate Commerce, that all rates and charges shall be reasonable and just.

Mr. Sanders of Indiana: And, of course, there are constitutional qualifications; but above the point of confiscation, except for the rule that they must be reasonable and non-discriminatory, there is no definite rate-making standard under the present law.

Mr. Clark: None.

Mr. Sanders of Indiana: Do you think there should be a standard fixed by Congress, as a matter of public policy?

Mr. Clark: *I think in the light of recent events and present conditions, it would be a desirable thing.*

Mr. Sanders of Indiana: I think this question of rate-making is perhaps the most important question connected with the proposed railroad legislation, and there are three proposed plans:

One is to leave the question of rate-making as it now is, by which the Interstate Commerce Commission determines what amount of return, above the constitutional minimum, should be granted. That would be practically the provisions of the Esch Bill, with perhaps one or two specific items mentioned, which they must consider * * * the cost of operation and the cost of labor.

The other plan of rate-making, I think is covered by the Railway Executives' plan and maybe some other suggestions along the same line, and is that we ought to have a statutory rule of rate-making, and that it ought to specify what shall be included in determining the rate, and the amount should not be fixed, and that an administrative board should be created to be governed by that standard, and then the administrative board would prepare the budget and submit it to the Interstate Commerce Commission. That is perhaps a more definite rule of rate-making than we have at present.

Then the third plan is what is known as the Warfield Plan, which, in general, is the plan to have a definite rule, which is the policy determined upon by Congress—a definite rule of rate-making for certain rate-making groups, and have the standard of a fair, aggregate return on that group.

Now, of the three plans, which one do you think is best?

Mr. Clark: *Well, having in mind the experiences of the last two or three years, and the conditions that exist today, in choosing between the three plans, if obliged to choose, personally, I would choose the third that you have mentioned.*

The first plan, Mr. Sanders, lays down the rule, as I have said, that all rates shall be just and reasonable. Of course, that means that they shall be just to the carrier and reasonable to the one that pays them. The question of what constitutes just and reasonable returns to the carrier is left for the administrative tribunal to decide, insofar as it could determine rates on that basis. Some people come before us and argue that three per cent is liberal enough. Others say that it ought to be more, six or seven or eight per cent. *Now, in the light of all the circumstances, what is a reasonable standard of return for these public service utilities* that are subject to governmental regulation at the hands of Congress and through an administrative tribunal to which Congress delegates its powers? *I think that it would be simpler, I think it would avoid endless controversies, it would put an end to interminable discussion and argument, if the law laid down the standard which was recognized as reasonable, just as the law lays down the standard of the interest rates in the various States.*

Mr. Denison, of Illinois, another member of the House Committee, asked the following questions of Mr. Clark (taken from the record):

Mr. Denison: I would like to ask you a question, Mr. Clark, along the same line. I had in mind to ask you the question in view of the statement which you made this morning, and which, for accuracy, I had transcribed. You stated:

"It is in the public interest that the carriers should be permitted to earn reasonable returns upon the value of the property they devote to the public use. The question of what shall be the maximum or the minimum limit of those returns is one of public policy and not of administration."

I wish you would explain, if you can briefly, what you had in mind in the statement, "That the question of what shall be the maximum or the minimum limit of those returns is one of public policy and not of administration."

Mr. Clark: What I had in mind was, in substance, what I have just stated in answer to Mr. Sanders' question, that if there is to be a standard, it ought to be fixed by the legislature and not left to an administrative tribunal because the standard fixed by the legislature would control the tribunal. It would control all the parties and be the same thing for all carriers, and for all shippers. Whereas, if left to the administrative tribunal to determine what the standard should be, it might vary from year to year; it might vary as to different sections, and it would be a difficult matter to plain satisfactorily all of its considerations which led to a conclusion different in one instance from another as to what the standard should be. So I had in mind that the question would be greatly simplified for everybody and that endless controversies would be averted and contention be brought to a conclusion, if Congress were to lay down in the act, as a rule of law for the administrative tribunal, the standard by which it is to measure the determination of reasonable and just rates.

M. Denison: I would like to get your judgment, if you do not mind expressing it, on the question as to whether or not you think it would be the better policy *for the Congress itself to undertake in legislation to fix the standard, definitely,* or whether it would be better policy for us to try to determine the policy through another governmental agency, not the Interstate Commerce Commission.

Mr. Clark: *My judgment is that it would be better for the legislature to do it directly. To undertake to do that through another agency would be to inject that same human element;* nobody knows who that agency may be or what their views and ideas may be, and if they had reached a conclusion entirely satisfactory to them it would not be binding upon the commission that makes the rates.

There is a possibility, if not a strong probability, of differences of opinion between them, and so the differences of opinion and the controversies over them would continue indefinitely. If the legislature lays it down itself, directly, there is a rule that governs us all, so long as it stands. The Congress can change it at any time, when, in the light of experiences, a change seems desirable or justified.

Mr. Denison: In addition to the plans suggested by Mr. Sanders in his question of a moment ago, I think there has been another one submitted, although it may be said to be included in the second (Railway Executive Plan) which he enumerated, and I want to read this to you and then ask you a question with regard to it. It provides that the rates of transportation shall at all times be just and reasonable and for changing them or modifying them from time to time in the manner provided in the Act to Regulate Commerce, as amended, and in viewing them from the standpoint of their effect in producing revenue in any rate-making group, as a whole, the Commission shall take into consideration the interest of the public, the shippers, the wages of labor, the cost of maintenance, and operation, including taxes, a fair return upon the value of the property in the group used for or held for the service of transportation, the requirements for additional capital in order to enable the carriers to adequately perform their duties to the public and the conditions under which the same can be secured; and for the purpose aforesaid the Commission shall, from time to time, determine the value of the property in each district and so lower or advance the rates of transportation, as nearly as may be to provide said fair return as herein provided.

Do you consider that that rule of rate-making determines the question of policy or still leaves it to the Interstate Commerce Commission.

Mr. Clark: *I think that insofar as the underlying policy and rule is concerned, it would not change the present situation.*

Mr. Denison: So that that rule of rate-making *would not change the present system materially, would it?*

Mr. Clark: *No; it would not change it in substance, because all of those things are considered now.*

Mr. Denison: That is the next question I was going to ask you, *whether or not those things are considered by the Commission at the present time?*

Mr. Clark: *They are,*

Mr. Denison: Now, I have just one more question on that point, and to my mind this goes right to the meat of some of the important questions. Do you think it advisable to have another governmental agency to consider the general railroad problem of the entire country, their condition of credit, their needs, and to act in an advisory capacity to the Interstate Commerce Commission for the purpose of aiding the Commission in fixing rates.

Mr. Clark: No; candidly, I do not, because I think if the Commission is expected to be influenced by that information, collated in the way you suggest, or if Congress wants that done, it would be better to have the Commission do it through its own agencies; or, if the Congress wants it done independently, to appoint a board to gather that information and report it to Congress. I think that there would be probability, if not certainty, of disagreement between that board and the Commission after a time, which I do not think would inure to the public good, and it would not clarify this situation any to have two tribunals of that kind disagreeing as a result of their studies and experience.

Mr. Denison: That is all, Mr. Chairman.

In discussing a measure upon which the Commission could compute the return rates to the railroads grouped in territories as stated by Mr. Clark, Mr. Sanders interrogated Mr. Clark as follows:

Mr. Sanders of Indiana: Then you would really base it upon a fair, *aggregate* return?

Mr. Clark: I think that is the only way a standard could be applied.

Mr. Sanders of Indiana: Now, following that just a little further, when we undertake to fix a definite standard for rate making, or a definite rule of rate making, and we speak of a fair return, immediately the question comes up, What is to be the basis for the return? I presume it would ultimately be the property value.

Mr. Clark: I should think so.

Mr. Sanders of Indiana: *It would take some time to arrive at the proper value of our railroads.*

Mr. Clark: *It will.*

Mr. Sanders of Indiana: In the meantime, what would you think of the proposition of having the railway investment accounts as the standard, subject, of course, to review by the Commission of those railway investment accounts, so that they might eliminate any items that they thought were not proper?

Mr. Clark: *I am not able to suggest any better, available standard.*

Later in his testimony Commissioner Clark stated that excess earnings above a reasonable return should in part, at least, be divided with employes of the roads.

The ground has been so thoroughly covered by Mr. Clark in the above

quotations that it would be superfluous to go further than call your attention to the fact that the points covered are the fundamentals of the plan of this Association in respect to the return and regulation of the railroads. The position taken by Mr. Clark is identical with that of the Association from the time its representatives appeared before the Senate Committee in January and February last when the Plan of the Association was presented.

The railroads owe millions of dollars to the Government in addition to large sums of money which will be required in their rehabilitation when returned. Mr. Clark's position must be in recognition of the financial needs of the railroads to enable them to give adequate service, and it can be well understood why a member of the Interstate Commerce Commission should say that it is for the legislative department of the Government to give to the administrative department (the Interstate Commerce Commission) its directions as to what is the policy of the Government in respect to the life and death of these properties.

We have maintained that much of the criticism leveled against the Interstate Commerce Commission has been unjust. We have contended that the law under which the Commission has been compelled to operate in the regulation of the railroads is deficient when this serious responsibility has been placed upon this body without some expression on the part of Congress as to what constitutes "adequate," "reasonable" and "fair" rates of return. Where the Commission is compelled to draw its conclusions from the result of rates it makes, and especially in these days of reconstruction, some guide is essential, not only for the protection of the railroads but equally so for the shippers and the public. We have stated that we believed the Commission would desire some expression on these points on the part of Congress.

In the questions of both Mr. Sanders and Mr. Denison, they were specific in that they sought to establish, through a member of the Commission, whether the legislation proposed would be complete and produce satisfactory results were there not written in the Act a definite rule for ratemaking free from the generalities contained in the existing law. The various proposals made to Congress were enumerated, with the result that Mr. Clark unhesitatingly stated that he believed, "in the light of recent events and present conditions it would be a desirable thing" for Congress in the legislation now pending to prescribe a definite minimum rate of return to guide the Commission in the most critical period in the life of the transportation system of the country. On the results presently to be experienced, regulation by Commission is to stand or fall, and if it does fall nothing else is left to the railroads but ownership by the Government.

The great majority of the railroads of the country cannot be rehabilitated and perform service in the public interest unless provision, by definite measure, is made that rate shall be adjusted which will enable this great majority of roads to perform service; incident to this, earnings in excess of a reasonable return would result to a few more favorably situated carriers. The excess earnings would not result from efficiency or from the necessities of the latter. None of this excess would go to other railroads as has been stated, but would be used for general transportation purposes.

The result of Commissioner Clark's testimony is in full recognition of the fact that rates made to enable the great majority of the railroads to give service and live would allow earnings to a few railroads more favorably situated than the majority to which the former would clearly not be entitled. These earnings would be the result of rates which would not be "reasonable" in the case of these few railroads, but be "reasonable" and *essential* in the case of the majority. A few railroads in their desire to secure earnings under such conditions and to get in excess of their share of reasonable requirements should not oppose legislation necessary to maintain the transportation systems, as a whole.

The effort to show that such procedure is unconstitutional is the method usually employed to defeat legislation by those who do not want it. Opinions given based on tentative Section 6 of the original Cummins Bill would not apply to such regulatory provisions in covering this situation as would necessarily become part of the Act.

It is to be hoped that where there has been opposition to the inclusion in an act of a definite minimum percentage return, which has come from the representatives of these few more favorably situated railroads in their desire to retain more than is reasonably theirs, it will cease. Such opposition is indefensible, not alone because it evidences a determination not to recognize the necessities of the great majority of roads, but because this legislation would stabilize credit and securities as would be of benefit to all the railroads and to the country.

The owners of the securities of the railroads have given abundant evidence of their views and desires on this subject in the Memorial recently presented to Congress signed by officials of investing institutions and others representing $27,500,000,000 (60% of the total financial resources of the country, and 80% of the funds available for investment in railroad securities; also signed by thousands of business men.

The situation is of supreme importance to the Savings Banks which own some $857,000,000 railroad securities, adequate legislation for the protection of which concerns you very greatly. Not only are you and your millions of depositors concerned, but all investing institutions, individual investors and others, including holders of life insurance policies, who rely upon the stability and the return from these securities, are also concerned.

This letter does not deal with other questions involved in pending railroad legislation, such as enforced consolidation of existing railroad companies into some thirty-five larger companies. This would entail years of uncertainty and contraction of competitive service and facilities. We favor permissive consolidation under the supervision of the Interstate Commerce Commission.

In rate matters our position has been that the Commission should not be superseded by, or subjected to, the decision of a newly appointed board in respect to rates or the return therefrom. This would only mean that another and inexperienced regulatory body is to define a policy the responsibility for which we feel properly belongs to Congress. We believe that Congress should, by act, announce a policy to govern the Commission and specify the minimum percentage return on railroad investments in the aggregate, below which Congress ascertains transportation as a whole, cannot be furnished. Commissioner Clark has stated that this "would be a desirable thing," and there can be no difference of opinion on the fact that it becomes especially necessary during the reconstruction period. Congress can change this policy as it develops the necessities of the public and the financial requirements of the railroads. With the Association's position on these and other questions involved you are doubtless familiar.

I regret not being at the Convention as intended, as a member of the Executive Committee of the Trust Company Section.

Very truly yours,

(Signed) S. DAVIES WARFIELD,

President, National Association of Owners of Railroad Securities.

Dated at Baltimore, September 27, 1919.

Dislocation of Foreign Exchanges

By GEORGE E. ROBERTS, Vice President of The National City Bank of New York,

We don't appreciate ordinarily how dependent society is upon the organization that has been developed in industry and throughout the business world, the division of labor, the coordination of industry, the services of banking and credit, currency and transportation. They are not appreciated until they are lost and in Europe this organization has been demoralized until almost a state of chaos has resulted.

In this country we are far better off. The war has touched us lightly; we have prospered through it and in spite of it. We are a richer people than when the war began, with greater productive capacity. Our wealth and productive capacity are from one-third to one-half that of the whole world. Our capacity for making steel and labor-saving machinery and industrial equipment of all kinds is equal to that of all the rest of the world combined. Furthermore, our resources in the raw materials of industry and equipment for producing them are greater than those of any other country. We produce more copper and cotton than all the rest of the world, and Europe produces but little of either.

Now that is a bird's-eye view of the relation in which we stand to Europe industrially in this greatest of emergencies. We have what she needs to restore her industries. Nowhere else can it be had so quickly and it is needed quickly. Furthermore, we have the financial ability to give relief. We were a debtor nation before the war; we came out of it a creditor nation. We have bought back the American securities that were held in Europe at very low prices, by selling them war materials and foodstuffs at very high prices, and they are heavily in debt to us besides. And the very fact that they sold back our securities during the war makes them more helpless now. They are without quick assets that are available in this market. They have few goods to sell, for they have not been making goods. Their industries are prostrate, their machinery in many instances broken or scattered, their factories without raw materials, their railroads crippled, their people short of clothing and food. We tell them they must get to work. Of course they must get to work, but it is slow getting to work without either tools or credit. And yet Europe, desperate as her situation is, is not unworthy of credit. The soil of Europe, the natural resources of Europe, the industrial properties and fixed wealth of Europe, and lastly, and greatest of all, the population of Europe—to sum it all up, the wealth-producing powers of Europe are abundant assets. They have great debts, it's true, but excepting what they owe use they hold the debts themselves, so that they count as assets as well as liabilities. The people of Europe are an industrious and skillful population. They are a wealth-producing, thrifty people. They are good for a grubstake. They will work their way out if they have a chance, and meet their obligations. The fact that they cannot pay cash on the nail does not prove that they are bankrupt or unworthy of credit. The situation is that they have little wealth in transportable form, which they can ship across the ocean in exchange for what they need. They can't ship their houses or mills or lands or coal mines or railroads, but they can send securities based on these things and pledge the income from them.

There are only three ways in which international payments can be made: first, in the commodities of trade, but we know that Europe is unable to pay in these; she needs rather to import them. Second, in gold, the money of international settlements, but we know that they have no gold that they can afford to spare. We have just received $158,000,000 in gold from Germany in payment for food. That must have been nearly one-half of all she had, and I am sorry some other means of settlement was not found. For we don't need that gold; we have too much now and Germany does need it. She needs it as the basis of credit and her industrial life, and while Germany and the United States have been enemies in war, now that Germany has signed the Treaty of Peace, I believe we are interested in the restoration of stable and normal conditions there. We don't want gold from anywhere; it will merely inflate our credits and prices still further, and we have inflation enough. And the third means of payment is by promises to pay in the future, and this is the only way in which our export trade to Europe can go on.

Before we entered the war we received over a billion dollars in gold from Europe, but after we entered our Government began to make loans to the allied governments to furnish them the means of making purchases here. The Act of Congress authorizing those loans set the limit at $10,000,000,000, and something over $9,600,000,000 have been made. Over $2,000,000,000 have been made since the armistice was signed. Those loans have supplied the means by which the great exports from this country to Europe for the last two years have been paid. But the power to make these loans is nearly exhausted, and when it is exhausted, some other means of supplying credit must be found or our exports will fall off. In recent months all of the allied governments have abandoned their efforts to stabilize exchange rates in the open market, and as a result they have all declined heavily, and the decline increases the cost of American goods. The discount on the pound sterling is 15 per cent., on the French franc over 40 per cent., on Italian money over 50 per cent. We think prices are high in this country, but how can the French people pay them, and pay the high transportation charges and 40 per cent. on top for exchange? Italy produces no coal, or oil, or steel, or cotton; how can she run her indus-

tries without them and how can she buy them at such cost. Coal is sold at over $100 per ton in Italy, and little to be had. Before the war both Italy and France imported coal from Great Britain, but British production has declined until there is little to spare. America is the only resource. Cotton mills in Italy, in France, Belgium, Germany, Poland and Bohemia are idle today, and the operatives are idle and supported by unemployment doles, because they cannot finance cotton purchases in America; and our stock of cotton is the largest for years, and far beyond the capacity of our own mills to work up, and the production of cloths has been curtailed for five years. A financial commission has been in this country for months from Czecho-Slovakia, trying to borrow at least $25,000,000 or $30,000,000, all to be expended for cotton and other raw materials. They have been able to get $5,000,000. There are commissions or representatives here from every country on the Continent, seeking accommodations of that kind, and I don't believe any man can hear their pathetic pleas without wishing that every citizen of rich and prosperous America could hear them.

And we are interested in selling these products. I know there are people who argue that it would be better to have our exports fall off, for then prices would fall, but there is another side to that. I think it is desirable that prices should fall, but I think the best way to accomplish it is by getting people back to work all over the world and increasing production. That will be a gradual process, and industry will have time to keep adjusted to it. It isn't going to reduce the price of cotton cloth anywhere to keep the cotton mills of Europe closed; nor is it going to help industrial conditions in this country to have our exports reduced so suddenly that our markets will be congested with products and wage-earners thrown out of employment. We have expanded and stimulated our industries on the strength of the export trade, and we cannot lose it suddenly without feeling the loss. I believe that every consideration favors our cooperation in the effort to bring the world back to normal, and the very fact that our cooperation means so much puts a great responsibility upon us. The hope of the world is fixed upon America, and we will not disappoint it if our people understand the need.

Absorption of Foreign Securities

By Samuel H. Beach, of Rome, N. Y., President The Savings Banks Association of the State of New York

In order to look at this question of the Absorption of Foreign Securities from a proper viewpoint we must first get clearly established in our minds the answer to the question "What is money?"

If a man were shipwrecked and cast upon an uninhabited island and the wave which bore him ashore also threw up beside him a chest filled with bundles of Bank of England notes or packages galore of our own twenty dollar yellowbacks, his first exclamation would be "Oh! If I could only exchange the whole of this worthless stuff for an axe and a few matches" and the limitations and the definition of money would dawn on him, probably for the first time, right then and there.

Money is the medium of exchange. Whatever performs this function—does this work—is money no matter how it came to be a medium in the first place or why it continues to be a medium.

Iron, copper, tin and lead have all at different times and places served as money. The North American Indian managed to get along by utilizing the much despised clam. Clams furnished the raw material for wampum and wampum was good money, because in the Indian's eyes it was valuable for ornament and it took many hours of hard hand labor to convert a clam shell into a wampum bead. "The Pilgrim Fathers took it for fire-water and gave it in exchange for furs." In fact everything went along swimmingly until a Connecticut Yankee demonetized the hard shell clam, once and for all, by turning out wampum by machinery and thereby knocked the value out of the hand made article over night.

While such disaster did not overtake all the substances and metals which were used as money, still each one of them in turn was found to have certain disadvantages and limitations, until by process of elimination gold has come to be the standard money of the chief civilized nations of the earth.

It is the common consensus of opinion that a gold dollar is worth a dollar because it takes a dollar's worth of labor to produce a dollar's worth of gold.

Because it is intrinsic, the value of a gold dollar does not depend upon the words or pictures stamped in bold relief upon its two sides. Its value consists of the grains of gold in it. Melt it and the little globule of metal will still be worth 100 cents.

In normal times the gold supply of the world increases at the rate of a million and a half dollars a day. That is to say, every twenty-four hours for 365 days in the year $1,500,000 worth of gold is dug from the earth and added to the visible supply. It is a matter of fact that prior to the world war, the increase in the quantity of gold just about kept pace with the world's added requirements.

We now have especially good reason to believe that gold for many years to come will be continued as the standard of value; because it forms the recognized base upon which the great superstructure of credits, both national and commercial, is reared.

But while the world's visible supply of gold has increased a little since the war started in 1914, credits have pyramided one upon the other until the structure has become top-heavy. In fact, some of the nations have so small a gold base in proportion to their towering obligations that their credit structures have become veritable leaning towers of Pisa, and only by the exercise of the greatest care, the utmost vigilance and the highest type of statesmanship can these leaning towers be again brought to an upright position.

For a great many years the United States was a debtor nation. It was a new country. The development of its vast natural resources called for money in huge blocks. Our people, busy in building industrial cities, developing many acred farms and in fairly gridironing our broad land with railroads, had not yet accumulated by saving, anything like a sufficient sum to finance these great undertakings; and a large proportion of the obligations which our rapid development required us to issue —government bonds, industrial bonds, municipal and railroad bonds—were purchased, and held abroad for investment, by people who had accumulated wealth in the older nations of Europe.

When the great storm cloud of war burst in August five years ago, and the people of the European nations found themselves called upon to purchase at once bonds issued by their respective governments to obtain money for the prosecution of the war, vast blocks of European held American securities were immediately sold and were very largely absorbed by American investors.

Had England and France and Russia been prepared for war, or had these countries been possessed of sufficient natural resources or adequate manufacturing facilities to be self dependent, this sudden throwing upon the American market of several billion dollars worth of securities, would have made a serious drain upon our gold supply; but so great and so sudden and so dire was their need for all kinds of munitions of war, that they turned to the United States with appealing, outstretched hands each nation competing with all the others in the prices they offered us for quick production and early delivery.

During the years of 1915, 1916 and 1917, so insistent was this demand and so steady the flow and so large the volume of the tide of money coming our way that we not only absorbed three billions or more of our foreign held securities but that the same time added over 65 per cent. to this nation's supply of gold or, to be exact, the increase amounted to one billion two hundred millions of dollars; and the close of the war found us no longer a debtor nation but a creditor nation with the annual balance of trade by a wide margin in our favor.

The writer on the subject of Exchange in the Encyclopedia Britannica calmly states that "the par value of an English pound is $4.86⅔ in American money, and owing to the cost of transporting gold the New York cable exchange varies from $4.84 to $4.89½; at the former point gold leaves London for New York and at the latter point gold comes to England."

The writer of that article never dreamed that cable exchange on a pound sterling would ever drop to $4.12 and still no gold leaves London, for he probably, in common with everybody else, never even conceived of England having such great obligations that she would have to debate the question and finally choose whether to meet the call of her colonies for gold and thus automatically stop her merchants from trading in the United States owing to a prohibitive rate of exchange, or to send gold enough to the United States to bring the exchange to par and thereby cause her colonies and dependent countries to suffer. But that is the condition today in England and in a proportionate degree the same conditions obtain in France, for on the same day that the exchange on an English pound dropped to $4.12 the cable exchange on a franc, with a par value of 19 3-10 cents, dropped to 12 1-10 cents and the Italian lira, normally worth the same as the franc, dropped to 10 1-10 cents.

It is the most natural thing in the world for all of these nations to endeavor to increase their great debt to us as little as possible by buying here only such things as they can not obtain of their colonies or from such nations as now owe them money; and if we are to continue to find a ready market with the great nations which were our former creditors but which now stand deeply in our debt, we must necessarily establish a credit for them here by purchasing liberally of such bond obligations as they may severally offer.

But when I say *we* must purchase these bonds I mean they must be bought by our great manufacturing corporations, by private investors of large means, by commercial banks and trust companies, by the growers of cereals, the raisers of beef and pork, the dealers in hides, and the producers of cotton, because all of these persons and corporations will directly profit by the increase in trade which would naturally follow such bond absorption.

I do *not* mean that I favor the altering of the laws so that deposits in savings banks, and other trust funds, may be thus invested.

The events of the last five years have clearly demonstrated that the bonds issued by a sovereign nation, or a great municipality, are as subject to fluctuation, though to a lesser degree, as are those issued by an industrial or railroad corporation. When in April, 1918, Von Hindenburg's seemingly invincible legions were threatening the channel ports and a long-distance gun was actually shelling the City of Paris, Anglo-French 5 per cent. bonds were selling at 90, and City of Paris bonds could be bought to yield 14 per cent. The people who bought these bonds at that time and at those seemingly ridiculously low prices did so on account of the yield, but they nevertheless took a chance; for had Ludendorff and Hindenburg been successful the Anglo-French bonds would have been subordinated to indemnity bonds imposed by Germany and the wonderful City of Paris, her architecture, her art, her streets, her homes and *everything which gave value to her bonds*, might have been shattered beyond repair or the entire city left merely a series of shell holes.

Taking all these things into consideration I can not bring myself to believe that it should ever be made legal for trust funds to be invested in securities over which we have absolutely no control and which are out of the jurisdiction of our own courts.

Amortization From the Economic Standpoint

By RALPH INGALLS, Director of Research Bankers Statistics Corporation

The agitation for amortizing real estate loans was started by the committee appointed for that purpose by the American Bankers Association upon request of its ex-president, Myron T. Herrick, at its annual convention in New Orleans in 1911. The committee also started the ill-starred rural credits movement that went wild from being misunderstood and not generally supported by bankers. Last spring, or eight years afterwards, the Association resumed the agitation, and through the Savings Bank Section appointed another amortization committee. I have had the honor to work in Europe and at home for both committees.

If the Association had never paused—if during all these years it had been doing what Pulleyn and Harrison have now finally got it to do—there might not have been a federal farm loan act, nor a North Dakota public bank, nor laws in Maine and Oklahoma for lending school and public funds in risky ways, nor constitutional amendments adopted or proposed in North Dakota, California, Kansas, Missouri, and Texas for using the cash and credit of the state for farm mortgaging. The Association's members have the means, if they will, to do all that is possible for the government itself to do in relieving the heavy shortage of dwellings and of small improved farms. About as bad a thing as there is for bankers is to start a good idea and let it drift.

SOCIALISTIC TENDENCIES

The constitution of nearly every state has a clause restricting to public and general uses any funds raised by taxation or upon the state's credit. These clauses were inserted as the result of the extravagance, favoritism, and failures of public banks and subsidized development, colonization, canal, and railway projects in the early part of the past century. The federal constitution has a similar clause. Nevertheless, taxing and appropriation powers are now being exercised again to give special favors to sections, localities, and classes. Furthermore, the nationalization of banking and of the land—the socialists' first aim—has made remarkable headway.

The postal savings banks are purely governmental. The federal reserve system is dominated by the government, and its notes are the government's obligations. These, however, do not grant long-term amortizable real estate loans. They are mentioned simply to show that they are stamped by the same doctrine that characterized the U. S. Housing Corporation, the federal farm loan system, and the U. S. reclamation service. These three institutions were created especially to embark the government in the real estate and long-term credit business; and having achieved this almost without a protest, they have naturally become the chief precedents for having the government compete with any private person or concern that has a dwelling or a farm for sale or rent, or a dollar to lend on such property. This new plan is concealed under misleading colors, as was also the case with other radical plans already accomplished.

THE U. S. HOUSING CORPORATION

The U. S. Housing Corporation was chartered only three and one-half months before the armistice was signed, and it could have stopped expenditures then at perhaps $20,000,000. But it has spent or allocated all of $110,000,000 appropriated for it. The 6,000 houses which it owns were finished, contrary to the law's intent, after it knew that they would not be occupied by government employees. They are being rented or sold to anybody. The length of the leases and the terms of the sales show no intention whatever of closing up affairs. Moreover, Congress has given the corporation $2,068,970 for current expenses, and prescribed no time for the dissolution ordered.

So the corporation seems to have come to stay in the long-term mortgage business, at least in the District of Columbia and the 23 states where it operates. It may acquire by condemnation any property it desires. It buys, builds, rents, and sells without thought of profit, as shown by the fact that its assets cost $28,000,000 more than they are worth, while its expenses are $2,922,273 against $3,279,785 gross income a year. This leaves barely one-third of 1 per cent of the capital for net earnings, in spite of there being no taxes or interest paid on money received. The wear and tear of properties will cause heavy deficits by next year. Privileges make the corporation a rival too formidable for private builders. But its wastefulness will perhaps prevent it from getting many more appropriations; and it can't use the government's credit.

THE FEDERAL BUILDING LOAN BILL

Foiled in this attempt to have the government supply the one million new dwellings said to be needed each year, Secretary of Labor Wilson and other socialists hope to effect the same thing through the federal building loan bill recently introduced in Congress by Hon. John J. Nolan. This bill is a scheme to federalize the building and loan associations and to subject their officers and other persons dealing with them to the jurisdiction of the U. S. courts; also to compel the secretary of the treasury to give these associations free advertisement and enable him to find funds for them at the rate of 5 per cent or less for interest. The government is to pay overhead expenses and become involved in the risks; and yet it is to have no public appraisers to select its security and protect it from loss.

If the bill be passed, the secretary of the treasury will have a new bureau through which he may charter as many federal building loan banks as he pleases. He must begin with eleven, each with an exclusive district and a registrar paid by the government. Only building and loan associations formed under state laws may be stockholders or borrowers. As you may know, the assets of these associations vary with the laws and comprise not only mortgages but also personal and short-term paper; and all this represents invested money that in every state is withdrawable. In other words the associations are savings institutions, and so should not use their credit.

Nevertheless, the Nolan bill provides that the associations in a federal building loan bank's district may invest one-tenth of their assets in its double-liability shares, that they may borrow from it until their indebtedness equals 60 per cent of their mortgage assets, and that they may be required to guarantee all mortgages given as collateral. Thus, if the state laws are changed to permit this, building and loan associations could pyramid on their credit, contract liabilities greater than their assets, subordinate the rights of their own members to those of outside creditors, and make themselves dangerous indeed for savings.

ENDANGERS BUILDING AND LOAN ASSOCIATIONS

In the United States there are 7,484 building and loan associations with 4,011,401 members and $1,898,344,346 of assets—the greatest saving system exclusively managed, financed, and used by members in the world, and standing unrivaled for soundness and service. The outcry against the destructive designs on this magnificent system ought to be nation wide. But good judgment has been warped by the promise of cheap loans and tax exemptions. If these huge assets could be handed over as collateral to the Nolan banks, they would all be exempted from national, state, municipal, and local taxes. Then tax-exempted bonds could be issued up to 80 per cent of 75 per cent of the mortgages of $5,000 or less on dwelling-house properties. Or, if the banks did not care to segregate the mortgages, they could use the entire assets as collateral for tax-exempted short-term paper issued to raise money for temporary advances.

The only limit as to size of advances is the requirement that no association can invest more than one-tenth of its assets in the bank's shares, or receive funds from it in excess of 20 times such share holdings, or become indebted beyond the extent mentioned above. The repayment might be set for any long term, provided a little be paid back semiannually. The interest maximum is 4¼ plus ½ per cent commissions. As you know, usury is not forbidden anywhere to building and loan associations. So they could reloan these advances at any interest rate and on any security or for any purpose legal under state laws.

The bonanza would yield 12 to 15 per cent dividends while it lasted. But a crash would surely come some day. The bill covers farm as well as city real estate, and its tax-exempted and highly privileged bonds are intended for both alike. So since the loans may equal 70 per cent of mortgaged property and run for any short or long term, it threatens serious interference with the federal farm loan system, which lends only up to one-half the land's value plus one-fifth the value of improvements and for periods fixed by statute, and also presents other grave problems.

BAD EFFECTS OF THE FEDERAL FARM LOAN ACT

The federal farm loan act, like the Nolan bill, promised to do unqualified good without burdening the government. However, the system got from the treasury department $8,892,130 without interest for capital stock, $8,150,000 of 2 per cent deposits, $5,000,000 without interest to lend without security to distressed borrowers, $149,775,000 for buying its own 4 and 4½ per cent bonds, and $943,440 donated for overhead expenses—a total of $172,760,570 at a time when the government's own obligations were yielding 5 per cent. In addition it received large subsidies in the form of free mails and advertisements at public expense. The system has issued $321,255,000 of tax-exempted bonds and is adding millions to them every month, to the great impairment of the government's credit.

The enhancement of farm values, caused by this easy money, has brought on the greatest land speculation in history. Thus the federal farm loan system has made agricultural development and operation more expensive, and is a factor in the high cost of living. Like causes have the same effects. So the federal building loan bill is backed by the weakest of arguments, but it will be hard to defeat. The radicals who are

seeking to put banking and the real estate business under the government's control are responsible also for the national soldier settlement bill introduced in congress by F. W. Mondell. This would duplicate the work of both the federal farm loan system and the federal building loan bill.

THE NATIONAL SOLDIER SETTLEMENT BILL

The Mondell bill provides that the government shall lay out town sites and prepare farms adjacent to the sites or anywhere. The land is to be acquired by condemnation or voluntary sale. The government is to erect the buildings, put in the improvements, equipment, and fixtures, and supply heat, light, power, transportation, and marketing facilities. The furnished homes and the ready-made farms, with first crops put in, would of course be salable under the general land laws to any citizen. The government will assume all the risks of the development, since the properties when improved are to be sold, not at what they cost but at what they may bring. The sales will be on a 40-year annually reducible mortgage.

Five per cent of the purchase price must be paid down on a farm, but no cash payment will be required on an urban home. If a farm settler be an ex-soldier, the government will give him a 10-year loan of $1,500 for improvements and a 5-year loan for $1,200 for live stock or equipment. The cash sums of 25 per cent of the improvements or live stock, 60 per cent of the equipment and 5 per cent of the farm are to be supplied by the government as wages at not less than $4.00 a day to settlers working on the projects. The government will charge only 4 per cent interest a year, and in case of ex-soldiers will grant extra loans and condone defaults during hard times.

SAVING THE U. S. RECLAMATION SERVICE

The scheme is a soldier measure only on its face. The real object is to enlarge the functions of the U. S. reclamation service and extend its scope over the entire country—thus realizing one of the most cherished ambitions of the socialists. This done, the managers would also be bettetr able to hide the troubles of this almost bankrupt concern and to appeal for funds to keep it alive. At present the service is financed by the sale of public land in 17 states, royalties from potassium deposits and the free use of timber and stone on the public domain, the sale of town-site lots and power earnings on irrigation projects, repayments of settlers and water users, and various minor accruals. The total from these sources is $141,690,917.52.

The gross expenditures for reclamation, including general expenses, is $150,579,437.29—showing an $8,888,519.77 deficit. On account of this $7,500,000 was recently appropriated by congress. The assets are booked at $180,595,336.64. They include deferred operation and maintenance charges, unaccrued construction charges, and estimated unearned value of construction work, to offset liabilities of the same amount. The service undertook to reclaim 3,081,480 acres, has reclaimed 1,502,468 acres, and actually irrigates 1,026,663 acres. But of these only 966,784 acres are cropped, while 186,927 acres are damaged by seepage or alkali.

THE SERVICE'S HEAVY LIABILITIES

This means that the government's liabilities average $58.65 for every acre undertaken to be reclaimed, or $120.19 for every irrigable acre, or $215.60 for every undamaged acre actually irrigated, or $186.80 for every cropped acre; or $2,888 for each of the 62,477 farms promised, or $7,154 for each of the 25,244 farms occupied. The reclamation costs are additional to the purchase price of the land. Only 51.5 per cent of the land belonged to the nation, states, and Indians. The remaining 48.5 per cent was owned privately and sold, in alleged instances, as high as $200 and $500 an acre. Thus the government plays into the hands of speculators, and is encouraging absentee landlordism.

The purchase price is generally paid spot cash or else secured by short-term mortgage. The federal farm loan board, however, is studying out ways for the government to make 36-year loans subordinate to reclamation costs assumed by settlers. These costs were originally to be repaid in ten annual instalments; but in hope of avoiding defaults they have been divided into 20 annual instalments. Nevertheless, although the settlers are not charged any interest, they paid back in 1918 only $851,290.26. On a 20-year basis they ought to have repaid $2,603,785.

The fact is, on some of the projects the settlers are resisting payment; on other projects they complain of expensive management and defective construction; and on all projects many settlers are feeling that the government should entirely relinquish its claims and treat them as free homesteaders. In spite of much paid publicity through movie pictures, newspapers, magazines, and lecturers, the government has been able to settle less than one acre of every two acres watered. Settlers now on the projects are not only grumbling over their outstanding obligations, but are also worrying over the seepage and alkali that have already damaged an acreage equal to one-fifth of all used land.

AFFAIRS IN BAD SHAPE

Mr. A. P. Davis, director of the service, announces that all the large projects must be drained, and yet he admits that nobody can tell what a drainage system will cost or do until after it has been put in. Supplemental contracts for this would render the present burdens of the settlers unbearable. So the probabilities are the government will pay for the drainage, just as it is now spending for maintenance and repairs large sums that can never be recovered from settlers. The unaccrued construction charges amount to $52,172,881.97. This with equipment is all the service has of income producing resources against its expenditures, now amounting at 3 per cent compound interest to $192,872,973.

Among the resources are a monthly bulletin, published at public expense to create sentiment for government ownership, and plants for heat, light, power, and transportation. About 343,139 people living in 162 towns are thus accommodated. But just as the farm settlers pay no interest, so this non-rural population is obliged to pay only the cost price. Uncle Sam is not expected to make money; and he doesn't. The cost of maintenance and operation is $1,275,084.54, while the revenue is only $330,846.31. All construction work now has ceased. But quite evidently this is not entirely due, as explained by the service, to the high cost of labor and material. Long-standing financial difficulties may be assigned as the chief cause.

The service, hidden in the mountains and arid regions and unknown to but a few voters, has, like every other unsupervised bureau, acted pretty much as it pleased and embarked on costly socialistic ventures undreamt of at the start. Conditions were misjudged, estimates calculated too low, and operations carried on without restraint by any outside audit of accounts. All this led to the development of land in advance of the need for it and to the accumulation of useless assets and liabilities. The service, judged by its record, is not the proper agent for the more daring plans proposed by the national soldier settlement bill.

GOVERNMENT VS. PRIVATE ENTERPRISE

Yet California, Maine, Missouri, Montana, Nevada, Oregon, South Dakota, and Utah have enacted laws to enable private tracts to be condemned for the enlarged service's schemes. New York and other states in the East as well as in the West are falling in line; and the nationalization of the land is at hand. Some of the states authorize also the condemnation of private property and the use of public funds and bonds. A suit will soon be brought to abolish the existing land bank of New York, on the grounds that it was erected by special act contrary to the constitution. A suit is pending to test the constitutionality of the federal farm loan act. With these concerns knocked out, all the new legislation would perhaps be nullified. But the raicals are too zealous to await court decisions.

The best way, in my opinion, to meet the situation, is for banks—especially savings banks—to use their funds more largely in the locality of source, and give more attention to household economics and farm and home problems. Lending on small property, particularly up to 80 or 70 per cent of its value (as may be required) presents some risk, of course. But this would become negligible, if a bank could itself improve the farm or build the dwellings, and then retain strict control through clauses in the mortgage and have the loan amortized semi-annually or quarterly. In Europe the business thus conducted is so safe that even second-mortgage companies operate successfully in advancing to borrowers the cash they must pay on the purchase price.

BEST AMORTIZATION METHOD

Amortization is the gradual reduction of a loan by periodic and equal payments that include no interest and part of the principal. The advantages to the lender are that it offsets depreciation of property values, constantly widens the margin of security, and permits a gain by compounding interest on money invested. The advantages to the borrower are that it enforces thrift, makes savings available for extinguishing debts, and renders foreclosure improbable. In one method of amortization the repayments are, as soon as they are received, applied to reduce the borrower's loan. In another method the repayments are placed in a sinking fund; and when the borrower's account in this equals the loan, his debt is canceled.

Under the sinking-fund method the borrower may make payments of any sums as often as he pleases in addition to obligatory dues. He may also be allowed to stop payment and even to withdraw his credits in the fund. All this is possible because, differently from under the first method, the lender's mortgage claim stays intact for the face amount until the borrower's payments at interest balance his debt. So the sinking-fund method is the best for the borrower, since under it during hard times payments may be suspended and leniency shown without impairing the lender's lien against the mortgaged property.

In building and loan associations the borrower makes payments, not on the mortgage but on shares. Hence these associations use the sinking-fund method—but not with all its privileges. Savings banks, however, could use this method in its entirety by opening up a deposit account with the borrower. The only difficulty would be to maintain the interest rates in the account and on the mortgage at a parity. But the trouble from this as well as all the bother and cost of details in helping customers to acquire dwellings and small farms would be compensated by the increase of general business and the better standing of the banks, resulting from their activity in important affairs of their communities.

Long Term Mortgages

By George Woodruff, President, First National Bank, Joliet, Ill.

Long term bonds, purchased by the American people, have made possible the building of railroads, the development of public utilities, the creation of manufacturing plants and the improvement of almost every form of industry—excepting the farm, upon which every man, woman and child in the country depends for daily bread. In America, the farm, representing a fixed investment and producing only a limited annual income, has been financed by short time mortgage notes, practically all of which came due in so short a period of time as to make it entirely impossible for the farmer to pay off the debt at maturity out of the income from the land.

Some years ago a campaign of education was carried on looking toward the establishment of farm mortgage banks to loan money on farms on the long time amortization principle. As a result of this campaign, the Federal Farm Loan System came into existence, and has already made it possible for many farmers to finance their land on the long term basis, which is required by the nature of the farmer's business.

It is gratifying to note that another step forward has now been taken and a new campaign of education has been carried on by the American Bankers Association, looking toward the adoption of the principle of long term farm financing by all institutions interested in farm loans, and suggesting the adoption of amortization principles in the making of many city real estate loans as well.

An amortization loan is usually made in America for from ten to thirty years, and the borrower is required to make semi-annual payments all of which are equal in amount and each of which represents the interest due and also a payment on the principal.

As the loan is reduced the interest constantly becomes less and as the semi-annual payments are always the same, the amount left over after payment of interest constantly becomes greater, and these constantly increasing amounts are used to apply on the principal and entirely discharge the debt at the end of the term for which the loan was made to run. As the loan never has to be renewed but continues to run until the semi-annual payments have cleared the property of debt, the borrower is never compelled to pay any renewal commissions, never has to go to the expense of bringing down his abstract or having it examined every few years as at present, and is relieved of anxiety lest he fail to meet the mortgage when due and consequently lose the property.

This campaign on the part of the American Bankers Association in favor of amortization principles in loaning money is a most commendable activity, and will doubtless result in a quite general adoption of the amortization principle by institutions loaning on real estate for their own investment, but unfortunately institutions, mortgage dealers, and loan brokers expecting to resell mortgage loans will find it inconvenient to adopt the amortization form, because the average investor will not bother with the small and constantly changing semi-annual payments on the principal. Consequently the American Bankers Association might perhaps consider some slightly different form of long term mortgage that could be adopted by those dealers interested in the resale of the mortgages which they negotiate. Such a form of mortgage, making it possible for the borrower to get long term credit, even when dealing with the average mortgage broker, might be found in the long term serial loan which would be in many respects similar to the long term amortization loan used by institutions when investing for their own account.

Under a serial loan a borrower agrees to pay off a small fixed amount of principal semi-annually and as the semi-annual interest constantly becomes less, the payments which he makes representing interest and partial payments, constantly becoming smaller instead of always remaining the same, as under an amortization loan.

In case of an amortization loan the borrower signs but one note and the amortization payments, constantly changing in amount are endorsed on the back of this note. Under the serial plan the same arrangement can be adopted and the serial payments, which will always be the same, can be endorsed on the back of the note. However, in the case of good sized loans it would probably often be desirable to have the borrower sign a separate note for each semi-annual payment, as each payment would be for the same amount, and these notes of various maturities could be sold to various investors, for the average investor is glad to buy a note which represents part of a loan and which matures at a stated time, while he will not buy an amortization note which is paid off in unequal payments, a little at a time.

Under this plan the mortgage dealer is able to supply small denominations which are always in demand and he also has notes of both short and long maturities and can furnish an investor whatever maturity is desired. The profits of the mortgage dealer would be represented by a cash commission of by "split interest" coupons, or by second mortgage commission notes, all three of which systems are now in use generally in the United States.

The principle of making long term real estate mortgages subject to small regular payments has been a success in other countries for over one hundred and fifty years, and to those who are interested in the improvement of American mortgage conditions it has seemed that there exist no good reasons why the farmer and real estate owner in the United States should not enjoy just as great financial advantages as a peasant in France or Italy or any other of the great nations.

Committee and Officers' Reports—Savings Bank Section

The Social Value of Savings—Annual Address of President Victor A. Lersner

New data as to the amount and distribution of savings, the number of savings depositors, and the relation of savings deposits to the bank resources of the country, were presented by Victor A. Lersner, Comptroller of the Williamsburgh Savings Bank of Brooklyn, in his address as president of the Savings Bank Section of the American Bankers Association, at the 18th Annual Meeting in St. Louis.

After noting that the largest amounts of securities absorbed by investors in this country in any year previous to the war, amounted to $2,186,000,000 and that the annual amount to be absorbed for many years to come is estimated at six billion dollars of domestic securities alone. Mr. Lersner spoke in part as follows:

"America is a nation of capitalists. The country's tremendous wealth is held largely by the so-called masses. Relatively little is owned by the wealthy classes.

"There are over 35,000,000 savings and commercial bank depositors, after allowing for duplications, and there are over 35,000,000 policy holders in life insurance companies. The 27,000,000 savings depositors are, with few exceptions, the people of small means on whom the nation can depend to maintain its institutions; the people who absorbed in large measure the war issues of government securities and, be it noted, are keeping them.

"The 27,000,00 savings depositors own $10,573,971,000 of savings. This capital has built our railroads, our municipalities, our homes, our roads, and our industries. This vast number of depositors receives annually about $400,000,000 of interest from the banks, on an average of about $14.67 for each depositor.

"From January 1, 1914, to January 1, 1919, the increase in savings deposits of the 16,500 state banks was 59.47 per cent.; of the 625 mutual savings banks it was 12.96 per cent.; of the 1,200 stock savings banks it was 33.04 per cent.; of the 1,650 trust companies it was 24.32 per cent.; of the 7,800 national banks it was 118.36 per cent.; and the increase for all banks amounted to 46.96 per cent. The tremendous increase in savings deposits in national banks is accounted for by the great number of national banks which installed savings departments since 1910.

"The ratio of savings deposits to total resources of the banks in the aggregate has hardly varied, for in 1914 such ratio was 26.87 per cent. and in 1919 it was 26.31 per cent. Nor has the basic strength of the banking system as determined by the ratio of the combined capital, surplus and undivided profits to total resources materially changed since 1914, for then such ratio amounted to 16.41 per cent, and in 1919 it amounted to 12.47 per cent. This may be an entirely new aspect of the fundamental strength of American banking, but it is the natural point of view of the savings bankers who provides a large bulk of the capital for the extensions of commercial credits."

The amount of bank funds, largely savings deposits, invested in railroad bonds approximate $1,700,000,000.

"As savings bankers," said Mr. Lersner, "it is our part to secure closer contact with the great masses of people to make

them our friends; to render every possible service, to be on the alert to remedy local social ills, through the teaching of better management in private affairs, to urge greater production and systematic and habitual saving, thereby making the efforts of the self-seeking social agitator barren of results."

Report of Committee on Amortization of Mortgage Loans

The extent to which the amortization principle may be applied to mortgage loans by savings banks, savings departments, and insurance companies, was presented to the National Conference of Savings Bankers in a printed report signed by John J. Pulleyn, president of the Emigrant Industrial Savings Bank of New York, and Mr. Milton Harrison, former secretary of the Section, and now executive manager of the Savings Banks Association of the State of New York, chairman and secretary, respectively, of a special committee on Amortization of Mortgage Loans, of which the other national members were:

Peter J. Slach, Treasurer Broadway Savings & Trust Co., Cleveland, O.
B. F. Saul, Vice-President, American Security & Trust Co., Washington, D. C.
H. P. Beckwith, President, Northern Savings Bank, Fargo, N. D.
Wm. A. Nelson, President, The Savings Bank of Ansonia, Ansonia, Conn.

After reviewing the work of the year and quoting special communications from a large number of mortgage experts, the Committee makes the following recommendations for savings bank practice:

"1. Amendment of state laws so as to empower savings banks to make long-term loans, if amortizable, up to 70 per cent of the value of the property.

"2. Amendment of state laws so as to empower savings banks to invest in shares and mortgage debentures of companies or associations formed exclusively for making amortizable loans, not exceeding 70 per cent of the value of the mortgaged property, for the purpose of helping heads of families to acquire or improve small farms or homes in the bank's locality.

"3. The opening up by each savings bank of a department of farms and homes—such department to give especial attention to the building by the bank of sanitary dwellings and to the buying and improving by the bank of small farms in its locality for sale on long-term mortgage.

"4. Amendment of state laws so as to empower savings banks to guarantee such mortgages but only to other savings banks in the same state.

"5. A closer business relation among savings banks, especially through introduction of the practice by larger banks of buying such mortgages from smaller banks.

"6. The continuation of the patriotic and intelligent endeavor, so intense and effective during the war, of savings bank officials and employees and the bending of their energies now to increase agricultural production and to improve housing conditions, through their departments of farms and homes and by encouraging public-spirited citizens of their localities to assist in the work by forming companies or associations to take second mortgages on such property, in accord with practices prevailing abroad.

"7. Constant study with a view to preparing definite plans, and would earnestly suggest that the campaign of the past year be continued by the new committee.

"8. Publication by the committee of a book, to include a description of the mortgage loan and methods and tables for amortization.

"9. Continuation of the state committees, the holding of at least two meetings of each state committee during next year, and a meeting of the chairmen of state committees at the convention of the American Bankers Association in 1920."

Need of Care in Making Mortgage Loans

Safety rather than yield was emphasized as the cardinal principle governing the investment of reserve funds held by savings bankers and life insurance companies as trustees for their depositors and policy holders, at the National Conference of Savings Bankers held in connection with the Annual Meeting of the American Bankers Association. Raymond R. Frazier, president of the Washington Mutual Savings Bank of Seattle, presided as chairman of the Conference Committee.

Mr. John J. Pulleyn, president of the Emigrant Industrial Savings Bank of New York, presented his report as chairman of the Savings Bank Section's Committee on Amortization of Mortgage Loans.

Mr. H. E. Boynton, treasurer of the Portsmouth Savings Bank of Portsmouth, N. H., discussed the principle of amortization as based on the experience of his bank. He called attention to the great fluctuation which may always be expected in real estate values, the necessity for savings banks to be provided with a constant inflow of ready money to meet the loan requirements of the community, and the discouragement to saving for a borrower who is confronted with a bulk payment which he knows that he cannot meet. Mr. Boynton said in part:

"Under the old system of term mortgages the funds of savings banks become tied up to the limit of safety in that class of investment and thereafter their usefulness in that regard is limited to the funds becoming available through maturities, and it is well recognized that the old tendency was to reinvest maturing funds in as few and as long term investments as prudence dictated.

"Consequently the many small borrowers would be overlooked to the advantage of the few large borrowers and the original conception of the mortgage, the 'dead hand' become realized.

"With the 'partial payment' plan of amortization the savings bank, on the other hand, has a constant flow of money coming in for reinvestment and a dollar has its power of serving the community purposes multiplied many times, is enabled to help acquire more homes, start more businesses by reappearing so many more times for service, help to create the atmosphere of prosperity so highly desirable in all communities and, at the same time, ease the banks' position and earn just as much as ever before.

"Out of 650 savings banks, trust companies and insurance companies, inquired of, only about 18 per cent. failed to favor this form of self-liquidating mortgage."

Mr. Osgood E. Fifield of Springfield, Mass., superintendent of loans for the Massachusetts Mutual Life Insurance Company, gave an exhaustive discussion of the principles for assuring stability of mortgage securities. He called attention to the many points which the insurance companies have in common with bankers, and the value of comparing notes. He, too, affirmed that the rate of interest is secondary to security in importance.

"In the stress of recent financial disturbances," said Mr. Fifield, "real estate mortgage loans have again demonstrated their safety and stability to discerning investors. Real estate is about the only form of wealth that endures. It is the basis of our material wealth and prosperity; but even so it has no fixed value. It affords opportunity for great speculation, with success to some and ruin to many. Other classes and forms of investment come and go with the passing years, affording to capital a high death rate. Not all real estate mortgage loans are good. Many mortgages are placed on undesirable security. Here is where knowledge and judgment are valuable, for mistakes may surely become costly.

"We can all agree that it is a very easy matter to lend money, for there are always plenty of borrowers, but the very essential and most difficult question is that of selecting the good and staple security. This surely is a great problem. It is the rock on which many a fortune, a good business or a prosperous bank has met misfortune or complete ruin. It is never a good policy to loan to a man who has a reputation for speculation and for creating debts and avoiding payment of them, no matter how good the security may be; such loans are very apt to lead to trouble. It is also unwise to over-loan on security merely because the property at the time is owned by a man who is considered wealthy. Life is uncertain and fortunes fade."

Mr. Fifield then pointed out wherein the rules as to farm loans differ from city loans. As to farm loans, he referred to the present increase in land values, the prosperity of the farmers, and the new supply of funds through the operation of the Federal Land Bank.

As to loans on city property, he outlined the points for appraisers and urged conservatism. Special mention was made of various types of city property such as that for retail business, for wholesale and jobbing purposes, that located in transitory sections, as well as that at transfer points. Apartment houses and rows of single or two-family houses were said to require special consideration. Other types of loans were those on vacant property, manufacturing establishments, as well as on detached residences.

Mr. George Woodruff, president of the Woodruff Trust Company of Joliet, Mr. Ralph Ingalls, Director of Research of the Bankers Statistics Corporation of New York, were among the other speakers. Their addresses will be found on a preceding page.

New officers were elected as follows:

Officers of Savings Bank Section

President: S. Fred Strong, Treasurer Connecticut Savings Bank, New Haven, Conn.

Vice President, W. A. Sadd, President Chattanooga Savings Bank, Chattanooga, Tenn.

Executive Committee: term 1919-1920, to fill vacancy, Wm. E. Knox, comptroller, Bowery Savings Bank, New York City; term 1919-1922, M. A. Traylor, Pres., First Trust & Savings Bank, Chicago, Ill. Louis Betz, Treasurer, State Savings Bank, St. Paul, Minn. W. D. Longyear, Vice-President, Security Trust & Savings Bank, Los Angeles, Cal.

Secretary L. D. Woodworth, New York.

TRUST COMPANY SECTION

AMERICAN BANKERS' ASSOCIATION

Twenty-Fourth Annual Meeting, Held at St. Louis, September 29-30, 1919

INDEX TO TRUST COMPANY PROCEEDINGS

Some Duties of the Modern Banker in the Existing Unrest

By HAL H. SMITH, Director of the Union Trust Company, Detroit, Mich.

Mr. Chairman and Gentlemen of the Trust Company Section:—

I did not accept the invitation of the Program Committee with the idea that I should attempt to deliver an instructive address to this meeting. What I thought was that it might not be improper to come here and make an inquiry. I wanted to ask where the trust companies and bankers intend to stand on this old issue, but new fight, with the forces of socialism and anarchy.

You are already thinking that this is a curious inquiry—that, of course, the banks are opposed to socialism and anarchy—but that hardly answers the question. What do the banks intend to do with the employer and customer of theirs who is face to face with a strike? What do they intend to do this week with plants all through the country whose raw material is curtailed by the steel strike, and who will need funds to carry them until that strike is over? Will they be financed to the limit, or will their quick assets be scrutinized with the meticulous care of the so-called conservative banker? Will you translate your confirmed opposition to socialism and strikes into something of definite value to the nation, or will you make, as money generally does, an orderly retreat in the face of battle on the theory that your first duty is to your trusts and your depositors? Do you propose to stand to the aid of every employer who now needs assistance, who resists unjust labor demands, or will you gently but firmly withdraw his credit as his strike wears on to its end? Are you going to continue to support as a popular charity every plausible scheme to better somebody's condition by the conversion of somebody else's property, or are you going to employ every dollar of your resources, your customers' resources and your depositors' resources, that it is within your power to employ, to defend the doctrine that private property is entitled to the protection of the law, and that an honest day's wage demands an honest day's work?

In a word, I thought it might not be out of place to inquire here whether, in this fight against the unjust demands of the labor union and the Bolshevist, you intend to take your place as patriotic business men in the trenches, or whether you will find it convenient to remain at home and await the draft and conscription? I make that inquiry because the time has come when something of banking institutions is needed in the defense of the nation's industries, and because the business men of the country from now on will want to know whether their banks are their fair weather friends or their steadfast defenders.

The issues between the closed shop and the employer, and between the Bolshevist and all the rest of society, are not the issues of the economist and the employer alone; they are the issues of the bankers as well. The theory of the highest wage for the least work is hardly the theory of thrift. It is not the theory of orderly honest saving, and in the long run it runs counter to every principle upon which is founded the whole system of banking.

The doctrine that private property shall end is not the doctrine of a trust company. A trust is perhaps the highest expression of the theory of private property. A testamentary trust projects the will of the testator into the future and makes it effective on his property years beyond his death. It finds agents so loyal to the theory of the sacredness of the property that has resulted from a man's lifetime of effort that they will carry out faithfully—that is the pride of the trust company—that they will carry out faithfully the intention of the creator of the trust long after his power to direct them or punish them has gone. The trust is the apotheosis of the theory of private property.

Where then should the trust company and bank stand when the very institution of private property is attacked?

Do not think that it is not attacked by the trade union. In principle, perhaps, the trade union has not been against it. Originally the union demanded the right to organize solely in order to compel the payment of a better wage and to improve the working conditions of its members. So far that is a recognition of the sacredness of private property. It only demands what is conceived to be a just proportion of the earnings of that property. But for years these trade unions have fought their battles and in time have grown in strength and power. Now, drunk with a political power but recently accorded to them, and swollen with a political prestige

created by a new and surprising deference upon the part of those who rule the nation, they have advanced from their demands for a part of the earnings of the industry in return for their labor, to a demand for a participation in the control of the industry without an ownership therein or participation in the risks of that ownership. They seek now to take over a part of the function of the ownership of private property without joining in the responsibility of that ownership. That is an attack at the very theory of private property since that theory confines to the owner alone the right of control over his property so long as that control does not run counter to the public good.

This demand for a part control, without a part ownership, is the open demand of the union. They make, however, a more insidious threat at the whole theory upon which our civilization rests when they persistently preach the doctrine of the highest wage for the least possible work. Civilization was not built upon that theory; savings do not grow upon that doctrine; the accumulated wealth of the centuries never developed upon that principle. Every atom of civilization that we now possess rests upon the principle of unstinted labor. If achievement for the sake of achievement—not for the sake of reward—were eliminated from the history of the world, there would today be but little civilization. Private property, which is the saving of prior labor and effort, could not have come into being upon a decreasing margin of labor. It arises only when there is an increasing margin of labor over necessities. It grows and multiplies when we offer the greatest amount of labor in return for a complete and just compensation.

I distinguish between the trade union and the Bolshevist. They are in theory radical opposites. The Bolshevist will never become a trade unionist. But though they are in theory as far apart as the two poles, the trade union man turns easily into a Bolshevist. The trade unionist rebels against the methods of the capitalistic system. The Bolshevist rebels against the whole system, principles and all. The trade unionist, not understanding the theory of his opposition, slips easily into open revolt against all society. But the Bolshevist, who desires to wipe out all property, to nationalize, as he says, every industry, to destroy money and savings and the whole theory of our present civilization root and branch—he detests the unionist more than he detests the apostle of capital. The latter is his more or less respected enemy; the union which compromises with capital in return for an increase in wages, is a traitor to the cause of the proletariat. Where then the union fights with capital and is gradually driven by the logic of its position into a revolt against all private property, the Bolshevist at once and openly declares his eternal hostility to every form of property segregated to any individual who may have earned it by industry, by integrity or the employment of a superior intelligence in the work of mankind. Private property, he says, is theft. The modern unionist and the Bolshevist agree in one thing. They are both determined upon the loot of capital; but the Bolshevist sees in the end a triumph over both capital and labor, and a complete annihilation not only of capital and interest but of all savings and all wages. He dangles before the needy and unfortunate the greater prize; and his doctrine, supported by the maudlin sympathy of the parlor socialist makes the more rapid progress.

Can it be that there is any truth in this theory, developed years ago but now for the first time exploited by action; that the institution of private property is a crime against mankind? The whole Christian civilization rests upon it. The teaching of Christ repected it and the virtues he preached grew out of it. The whole conception of life is embraced in it. It is a familiar fashion to talk of the sacredness of life as compared with the sacredness of property and to condemn those who, as the popular phrase runs, exploit the man for the sake of the dollar; but how can you separate man from the property that surrounds him? It is a part of his very life. What would that life mean if today there were destroyed every vestige of that property that has been the result of the effort of our forefathers? Private property is the fruition of life. It is the expression of life. All the life that is in the land, in the brain, in the heart finds its finest development, its highest expression in the creation of new property. The glorious words of the poets, the wisdom of the sages, the inspiration of the prophets, they are no more than spurs to the development of mankind. The reason that they are glorious and wise and inspired is that they are ultimately translated into some concrete agency for the betterment of life; ultimately transformed into a home or a tool that shall lift the individual higher toward divinity. But this is like carrying coals to Newcastle to defend the institution of private property before those who, as I said a while ago, spend their lives in the care of that property and daily demonstrate their complete belief in the sacredness of that institution by the faithfulness with which they discharge their trusts.

What then will the trust company do? Where will it stand in this first great battle? Will it whisper, "hush, hush" to the employer who defies the demands of those who seek to appropriate his property. Will it, like the coward that money generally is, leave that employer to struggle alone against these forces of envy and disorder? Or will it by its money and influence, by every means in its power, preach the eternal justice of the system which protects honest wages in the hands of honest industry, and concedes to honest capital the just reward of its employment.

How can the bank if we may attempt to be specific—how can the bank and the trust company employ its resources in this struggle? It can employ its resources to defend the existing institutions, not their evils, not their wrongs, but the fundamental justice upon which they rest and their virtues; thrift, integrity and industry. These are all bound up in their very existence with the theory of our Christian institutions. It is no small task to protect them. Thrift, in many of our communities, seems to have been forgotten and abandoned. Economy has been lost. A mad program of inflation and extravagance is everywhere in progress. Let not the banks be carried away with this flood. The bank which countenances the inflated capitalization, the dishonest promoter, the purchaser beyond his means, the workman that keeps no savings,—that bank is surely not defending the institution upon which it rests nor the virtues which are needed to maintain the solvency of the individual and the solvency of a nation—not only the solvency of the nation, but the very nation's existence. Do you not see some connection between the thrift of the French peasant and the stupendous courage with which he withstood the German invader? Would you again find the same high principles in the individual American if you do not somewhere check the extraordinary wave of extravagance that is now corrupting the foundations of our society?

But I have said that the bank should defend the institution of private property. It needs to do more than that. It needs to comfort and to assist its allies—the manufacturer and the businessman and the employer. For their battle is its battle, and their failure is its failure; their destruction is the destruction of its savings, its trusts, its deposits and its earnings. That help must not be confined to the advice with which our banker friends have been so free in the past. Criticisms of balance sheets have their place; counsel as to cur-

tailment of purchases has its value, but the battalion on its way to the attack wants no new plans delivered to it; no new program suggested. It wants a soldier marching with it; a new comrade that forgets past offences and goes into battle as steadfast and joyous as an American in the Argonne forest.

But why should the bank wait for a chance to help the employer and the manufacturer? Why should it not at once advance to the attack to actively fight for its own principles and its own life? Why should it wait before it employs all its resources in this struggle? The banks have opportunities to join in the battle. There must be some bank that houses the funds of the American Federation of Labor out of which the attack on the Steel Corporation is financed. I have no knowledge where that bank is, but I am firm in the belief that the officers of that bank condemn the strikers as loudly as any of us and yet they issue to them certificates of deposit. Who finances the individuals that make this contest and carefully keeps for them their investments and savings while they go forth to riot and disorder? Is the lust for deposits and more business and profits so great that the banks somewhere must finance the very forces of the enemy? They might as well keep in store the enemy's guns and dynamite.

This is not time for the old conservative banker who earned that name by sacrificing everything to his profit and loss account. This is the time for a new and audacious banker who looks beyond the daily balance sheet to the fundamentals of life. Who is prepared for sacrifice as are the employers and manufacturers who may lose their industrial existence in the defense of the principle of free employment.

It was heartrending to read Mr. Morgan's message to Judge Gary demonstrating that one house, at least, approved his stand. How much more heartening it would be if other banks could recognize that the strike at the Steel Corporation is a blow at every bank, and could pledge to it their support and could declare that wherever they saw the proposal for the closed shop appearing they would immediately attempt to destroy it.

This active battle is a battle of propaganda, a struggle to educate the public, the employer and the workmen. It is a struggle to ameliorate all the unfortunate conditions in the life of any worker in industry. I have nowhere excused any employer who denies to the employe the highest wage for honest labor. That employer is as false to his institution as is the labor which fights him. Labor has the excuse that it seeks to redress an injury; that false employer has no excuse whatever. He may store up immediate profits, but he will eventually bring destruction to himself and his industry. At him the bankers should strike as surely and certainly as they strike against any enemy. Too often the bank increases the loan to one who pays too low wages and decreases the loan to one who pays high wages forgetting that the real fundamental factors of credit are behind the balance sheet.

This contest of education and propaganda must go steadily on. We must convert the wage earner into the capitalist so that we can give him a part in the control of industry and make him in reality a partner. He can in any event be a partner in many respects; in the control of his labor conditions, in the control of his living conditions, in the discussion of questions of co-operation and conciliation. But only when he has acquired by his thrift a part ownership in the property, and he must always have that opportunity, should he rise to a full participation in its benefits and become a full partner in the enterprise. Upon no other fundamental than upon the doctrine of part ownership can ever be built any division to the laborer beyond that of his regular wages for his regular day's work.

You say this plan of battle means a long road and a hard one, and that there is little help in it to meet the immediate problems and difficulties of the day. That may be true. But we are well on that road today and whether we will or not must follow it. This is no new world as some have said. The war has not changed mankind or the fundamental rules of life. The old evils remain unchanged and the old virtues. There is now no new panacea for all the wrongs.

We cannot hope at once to destroy the envy, all the jealousy, cupidity and greed in industrial life. We can only steadily set our face toward the final goal and continually struggle to lift out of penury and want and suffering every individual human being, not by charity, not by destruction of the savings of others, not by a nationalization of the accumulation of centuries of efforts, but by the continual development of individual character and individual ability. Equality of property, equality of success, that can never be. Bolshevism may today destroy all inequality, but tomorrow, individual effort will have built it up again. Equality of opportunity, that can be. It should be the goal of our civilization. When that is accomplished, then individual minds and individual souls shall for the first time find their finest flower. Nationalism for the nation; individualism for the individual; the fullest opportunity for each single life to develop and to grow, these must continue to be the final end of our existence. Always must those who walk in the valley struggle up to those who walk the heights. But they must not in that struggle destroy their fellows. They must advance all together. When the least among us shall have been made a king, then shall the greatest have justified their lives.

In this old-age struggle let the banks and trust companies write down their names as volunteers and take up their weapon to fight the battles of the old property, the old religion, the old ambitions, the old hopes, the old virtues. There are no others.

Community Foundations and Trusts—Their Development

By F. H. Goff, President, Cleveland Trust Company

The war has demonstrated, if demonstration were needed, the superiority of large over small units in industry, trade, transportation and finance. It would have been impossible to have equipped our army had we been dependent upon the rolling mills, furnaces, and machine shops of a half century ago. Had the gold reserves been held in the vaults of twenty-five or thirty thousand institutions as they were prior to the creation of the Federal Reserve Banks, it would have been impossible to have extended the large credits to our Allies or to have financed the war on the scale we did. It was found necessary to the successful prosecution of the war to place our railway systems, extensive and well-managed as they were, under unified control. The war has taught us how large units make for economy and efficiency and permit of the carrying on of business and the doing of things on a scale otherwise impossible.

Mr. Rockefeller has displayed, in the creation of his charitable trusts the genius and ability for which he is noted in business. His investments in charity as in business are made to secure the maximum of return. The character of work thus far done by the Foundation created by him, which is the largest and perhaps the best conceived of any charitable trust, makes it seem possible that better results and greater efficiency could be secured if the management and control of the property dedicated to charitable use in each community could be centralized in one or at most a few governing bodies.

If Mr. Rockefeller had not believed in the value of large units for handling charitable gifts, he would have created, let me assume, a thousand separate, independent trusts of One Hundred Thousand Dollars each, instead of one trust of One Hundred Million Dollars. The multitude of smaller trusts, could have distributed alms as well, perhaps better, than the large trust he did create, but it would have been impossible for them to do the constructive work the Rockefeller Foundation has done. If we consider the generous contributions made by it to every war activity and the important aid rendered by it in dealing with tuberculosis in France, typhus fever in Serbia and hunger in Poland and Belgium, and contrast it with the service that could have been rendered by a multitude of smaller trusts having in the aggregate the same amount of funds at their disposal, the advantage of large units in charity will seem relatively as great as the advantage of large units in industry. And the advantage would be immeasurably greater if we were to conceive of the multitude of small trusts being created by different individuals, for the most part unhappily lacking the genius of Mr. Rockefeller in planning charitable trusts to endure for all time.

Mr. Rockefeller's gift, you will remember, was made broadly and unrestrictedly to promote the well-being of mankind. Recognizing his inability to foresee the needs of mankind in future ages, he imposed no restriction and made no suggestion as to how either interest or principal should be used. The trustees were left unhampered to use of either for the needs of war in times of war and under the broadest possible powers for the service of humanity in times of peace. He must have recognized that it is an important function of endowments to make possible experiments in benevolence and to make known to governments how they can better serve mankind; he must have known that it has been the privilege of charity for ages to pioneer the way in education, in caring for the sick, the needy, the blind and the helpless; in teaching the health-giving possibilities of playgrounds and bathhouses and the elevating influences of music and art. He must have believed that in the future, as in the past, the public will note the trails blazed by charitable effort and that governments will not only continue to care for the sick and helpless, to maintain institutions to teach the blind and the dumb, to provide education and recreation through music and art, but that they will, in the future as in the past, assume responsibility for doing the things which charity demonstrates to be worth while. He must have recognized that as this is done, his charitable trust would be freed to take up the solution of new problems, the nature of which he could not foresee.

Let me assume, to further illustrate my thought, that one thousand charitable trusts of One Hundred Thousand Dollars each, were to be created in this City of St. Louis today by One Thousand different donors. Many would be unalterably dedicated to providing for the carrying on for all time of some work in which the donors have been interested in their lifetime, quite regardless of whether it would have the possibilities of enduring usefulness. Unquestionably, those who were charitably inclined in Panama twenty-five years ago, would have desired to have dedicated their gifts to establishing and maintaining hospitals for the cure of yellow fever, in ignorance of the fact that the real need was to provide funds with which to drain the swamps and sprinkle the marshes with oil. Some of the gifts, perhaps, would have been dedicated to the propagation for all time of some form of religious faith, unmindful of the fact that the trend of the times is to wipe out denominational lines. It was only in the middle of the last century that a foundataion was created in England to propagate the sacred writings of Joanna Southcote who founded a religious faith based on the belief that she was to give birth to the Messiah. Her fanaticism procured for her a numerous following which withered away when she died childless.

Some of my assumed donors, seeking perhaps divine favor and the remission of sins, would have endowed ecclesiastical institutions in a way to paralyze the efforts they desired to promote. It may be recalled that David Hume advocated the endowment of the Christian Church as the surest means of benumbing her. For centuries it was regarded as an act of piety to create a foundation to build an almshouse or to provide for the giving of alms to the poor of a parish. We now know that both tend to increase the evil sought to be corrected. Foundling Hospitals used to be a favorite object of Foundations, but they were found to have a demoralizing influence upon the population by removing the first penalty of fallen virtue. There are undoubtedly many who would create foundations on as narrow lines as did Bryan Mullanphy of this city, who in 1851 left a substantial portion of his fortune to aid his compatriots in journeying across what was then the "Great American Desert."

Some would undoubtedly have endowed schools, unmindful of the fact that a Commission on Popular Education in England in 1860 found that the influence of endowments on education, almost without exception, had been unfavorable; that the inefficiency, languor and inadequacy of results to expenditure called for the intervention of Parliament. The Dean of Carlisle, testifying before this Commission, said that the endowments

of schools for the working classes had proven to be an unmitigated evil. Some schools were found to be badly conducted—others ill conceived. A school founded by Robert Pursglove, then Bishop of Hull, in 1560, will illustrate the conceit sometimes shown by early founders. His scholars were to range from those who could not speak plainly to those who could read Horace and Cicero. The school was divided into four forms and the studies of each form were prescribed with the minutest detail. The subjects of instruction were reading, writing, Latin grammar and composition and certain specified Latin authors. This was the whole curriculum and it was to be unalterable for all time.

Some of my assumed donors might have displayed the eccentricity and vanity of Thomas Nash who bequeathed Fifty Pounds per annum in trust to the bell-ringers of Abbey Church, Bath, on condition that they ring the whole peal of bells with clappers muffled from eight o'clock in the morning to eight o'clock in the evening on the 14th day of May each year, that being the anniversary of his wedding, and that on the anniversary of his death each year, they ring merry, mirthful peals with unmuffled clappers, during the same hours, in joyful commemoration of his happy release from domestic tyranny.

I have no doubt that some will think the dangers of creating the sort of trusts I have been describing is more fanciful than real, but experience leads me to think otherwise. A large trust was recently created in my home city which provided for the use of income for all time for certain charitable institutions in designated amounts, regardless of whether they worthily and efficiently operated. Another large trust provided for the distribution of income among certain hospitals in proportion to the number of patients cared for without regard to the character or cost of service. An audit made last year disclosed that one of the hospitals was operating at a per patient cost of about $1.60 per day, while at another the per patient cost was $4.50. Another trust created about six years ago provided that after the death of certain individual beneficiaries, the income of a very large estate shall be devoted for all time to the beautifying of a cemetery.

The evils resulting from restricted trusts became such a menace in England that Parliament created a commission to investigate them. It found that there were many foundations which were working physical and moral injury to the communities they were created to serve. Many were found to be in need of revision because the purpose for which they were created had ceased to exist or been found to be unwise or harmful. The result of the investigation led some to urge that the government exercise control and supervision of the creation of charitable trusts.

I hope I have not spent too much time in urging that charitable trusts be created broad and flexible enough to permit of unrestricted use if the purpose designated by the donor ultimately becomes unwise or obsolete. Coupled with the power to give should be the power to withhold, for the evil of the "Dead Hand," though ages old, cannot be avoided. There is a giving that neither blesses them that give nor those that receive, and I hope the time will soon come, when the law will recognize that property belongs to the living and not the dead to the extent of forbidding the appropriating of wealth unalterably to a narrowly conceived public use.

To the extent that trusts are presently created for the good of humanity, or made ultimately available for such use if dedicated to special purpose at the outset it would make for greater efficiency and economy, for better security and abler management if the property constituting such trusts in every community, whatever its geographical boundaries might be, whether town, city, county or state, were held and administered as though constituting a single trust, with power to designate the use of income lodged in a competent and representative committee or board of trustees.

The purpose of the community trusts thus far created, so far as I know them, is to provide such administration and control. They might be defined as charitable trusts created and managed by the members of a community for the benefit of the community. They permit of the use of income, and principal under certain conditions, for every charitable and educational purpose which makes for the advancement of mankind, regardless of race, color or creed. For the most part they provide that the trustee shall respect and be governed by any particular wishes that may be expressed by the donor as to use to be made of the property given by him, but only in so far as the purpose indicated shall seem to the trustee under conditions as they may hereafter exist, wise and most widely beneficial, absolute discretion being vested in the trustee to determine with respect thereto.

Quite as important as the scope or breadth of purpose of a charitable trust, whether created by a community or an individual, is the need of providing for an able and responsible management of the property constituting the trust. It is equally important that the power to dispose of income should be lodged in those who are interested in welfare work and have a knowledge of the civic, educational and moral needs of the community. It is desirable that their term of office be for a limited period that they may be answerable, as upon a recall, should they be candidates for reappointment, if they have been neglectful of their duties or lacking in vision.

The founders of community trusts and the public, who are the real beneficiaries, are concerned that the trusts be administered with ability, fidelity and zeal. It is desirable for their protection that the accounts of the trustee and the committee on distribution be audited annually by competent, disinterested, public accountants, whose reports should be made public. To further lessen the danger of mal-administration and fraud, the books and records of the committee and trustee should be open to inspection by the Attorney General of the state or the law officer of a municipality.

Provision has been made in all the community trusts thus far created, so far as I know them, for the protection and safeguards I have indicated. The power of visitation is conferred. One or more responsible corporate trustees are designated to manage and control the trust estate. Unrestricted power to distribute income and under certain conditions a portion of the principal, is delegated to a non-sectarian, non-political committee of five or more members who are experienced in welfare work, some appointed by the trustee, others by public officials.

The following is a list of the community trusts which have been established since January 1st, 1914:

Place.	Trustee.	Date Established.
1. The Cleveland Foundation	The Cleveland Trust Co.	Jan. 2, 1914
2. St. Louis Community Trust	St. Louis Union Trust Co.	Jan. 21, 1915
3. Spokane Foundation	Union Trust & Savings Bank	Mch. 23, 1915
4. Chicago Community Trust	Harris Trust & Savings Bank	May 12, 1915
5. Milwaukee Foundation	Wisconsin Trust Co.	May 24, 1915
6. Los Angeles Community Trust	Security Trust & Savings Bank	June 1, 1915
7. Attleboro Foundation	Attleboro Trust Co.	June 15, 1915
8. Minneapolis Foundation	Minneapolis Trust Co.	June 25, 1915
9. Permanent Charity Fund	Boston Safe Deposit & Trust Co.	Sept. 7, 1915
10. Houston Foundation	City of Houston, Texas.	Oct. 5, 1915
11. Detroit Community Trust	Detroit Trust Co.	Dec. 7, 1915

Place.	Trustee.	Date Established.
12. Seattle Foundation	Seattle Trust Co.	Dec. 20, 1915
13. Sioux City Common Fund	Farmers Loan & Trust Co.	Dec. 28, 1915
14. Indianapolis Foundation	Fletcher Savings & Trust Co. Indiana Trust Co. Union Trust Co.	Jan. 5, 1916
15. Louisville Foundation	Louisville Trust Co.	May 10, 1916
16. Rhode Island Foundation	Rhode Island Hospital Trust Co.	June 13, 1916
17. Hawaiian Foundation	Hawaiian Trust Co.	Dec. 29, 1916
18. New Orleans Community Trust	Interstate Trust & Banking Co.	June 13, 1918
19. Philadelphia Foundation	Fidelity Trust Co.	Dec. 20, 1918
20. Pittsburgh Community Foundation	Commonwealth Trust Co.	Aug. 22, 1919

The trustees of the community trusts thus far created, recognizing that the living prefer to dispense their charity during their life time and that gifts to charity for the most part are made at death, have properly directed their efforts to seeking contributions under wills and living trust agreements. Undoubtedly some bequests, especially where the donors are childless, will become available at the death of the donors but for the most part bequests will not become available until the death of wife and children and sometimes not until the death of grandchildren.

A booklet describing the St. Louis Community Trust well says that "the Community Trust can afford to wait; it is for all time; it has no pressing demands; it can gather up bequests and donations as and when donors desire to give them and translate them into practical, helpful assistance for that portion of the community which at the moment stands most in need of help." Time will be required to determine the value and usefulness of community trusts. I am hopeful they will be found helpful in avoiding the evil effects of the "Dead Hand" and in stimulating and safeguarding gifts to charity.

Most lawyers have contributed their share to creating charitable trusts restricted to definite and unalterable uses. My experience as a lawyer and trust officer in dealing with prospective founders of charitable trusts has led me to believe that they seldom have definite ideas as to the purpose to which they would dedicate their wealth. They seek the advice of trust officers and counsel, who, unfortunately, sometimes are lacking in experience and vision which would enable them to be most helpful. To wisely plan a trust intended to serve an unalterable purpose for all time necessitates the founder seeking out an evil to be corrected and the remedy to be employed. Then means must be devised to secure independent and effective application of his gift for all time to the purpose designated and the withering effect of neglect, waste and fraud must be guarded against and means devised to provide proper stimulus for those who are to administer the trust, for the zeal of the founder can not be bequeathed with his wealth. These problems require time, patient study, a trained mind and political wisdom and the hurry and bustle of the banking room and the law office are sometimes ill-adapted to their solution.

It will make for the convenience not only of donors but of corporate trustees if a general plan for handling charitable trusts in each community, whether they be large or small, can be finally worked out on lines that are so broad and flexible and so effective as to safe-guard every interest and serve every need. It is not improbable that trust companies in time will be regarded as inadequately equipped to serve the benevolently disposed unless they have some well-conceived plan available for general use.

Personally, I believe that institutions, as individuals, owe a duty to serve the communities in which they exist. Trust companies, as I view it, are charged with the responsibility of being helpful in gathering up for the use of the communities they serve the wealth that goes to waste. To serve in this way, without taint of self-seeking (by which I would not wish to be understood to mean without compensation, for gratuitous service soon becomes synonymous with poor service) introduces an elevating and spiritualizing influence in an organization which makes for higher ideals, and the highest ideals are needed in an institution that aims to serve the living and the dead.

There are many in every community who feel a sense of regret that the effort they have been compelled to make to establish themselves in life has consumed too much of their time and energy. They desire to give their children every opportunity and advantage their means can provide which will make for useful and respected citizenship. Many will be found who agree with Mr. Rockefeller that money that comes without effort is seldom a benefit and with Mr. Carnegie that we are trustees in a very real sense of the wealth we possess. There are many who fear to unduly enrich their children or to make them the prey of the fortune-hunter or the cunning and unscrupulous promoter. To make it impossible for them to come to want and become dependents in their old age, men of wealth are increasingly trusteeing all or some portion of their property so as to permit of the use of income and if need be, all of the principal, in providing for the comforts and enjoyments of their family. Often such disposition results in a portion of the estate being left unconsumed. This residuum, even in estates of moderate size, can frequently be secured for community use after the death of individual beneficiaries, for people of limited means share with men of wealth the desire that the world may be the better for their having lived. They welcome finding a way in which some portion of their estate may be used in helping to make better, stronger, purer men and women. I am hopeful that in these days of social unrest, when the accumulation of large fortunes is often decried, if it be known that a generous portion of the wealth one accumulates is ultimately to be devoted to community use, it may be deemed honorable, even in the eyes of the professional critic, for men, who prefer struggle and achievement to idleness and leisure, to continue the pursuit of wealth.

The High Cost of Exchange

By Festus J. Wade, President Mercantile Trust Company of St. Louis.

Mr. President, and Gentlemen of the Convention: First let me extend to you a most hearty welcome to this little old town. Secondly let me suggest to you a thought that ought to be carried through in the deliberations of the convention, one which I know is dear to all our hearts and has yet been unsolved. And that is the popular, or rather unpopular situation in regard to the cost of living. We attribute that situation to a great many causes; some of us will say it is owing to the high cost we are paying labor; others will claim that it is a natural unrest after the war; others will claim that because we have become so suddenly rich as a nation that we have forgotten our duty to the world. My own opinion is—and that is what I would like to have you consider in your deliberations—that the fundamental cause of the high cost of living that prevails throughout the world is largely, and very largely, due to the state of foreign exchange market in America. You will hear at times men express themselves with pride and joy at the wealth and strength, financially particularly, of the United States of America. They will point with pride to our great hoard of gold, but they have forgotten that that must be discontinued or we will find what the high cost of living means in this country, by a recession of business. Formerly, when a commodity was sold or exported to Europe, there were only two differentials between the cost of that raw material in America and Europe. One was the cost of Transportation to and from Europe—to Europe and back again after it was manufactured; and, secondly, the cost of the exchange, interest charge. What happens now? Why is it that continental Europe is rioting? Why is it occurrences over there aren't just as they are here? It is because if a Frenchman wants to buy a bale of cotton in America to export, manufacture and ship back here, he must pay fifty per cent more for that bale of cotton than the American manufacturer pays. You say that is our benefit: Yes, true, it is our benefit. But it is a differential that they cannot stand, and they are our best customers. Take the high cost of cereals—wheat, for instance: While we all complain and say that we are paying too much for the products of the earth that we are purchasing in this country, yet again through the operation of exchange in Germany and in Italy and in France, that same bushel of wheat costs them $3.00 as against our $2.20. Take your gold situation: I remember the breaking out of the war between European nations, before we went into it, in the early days, we were all very much disturbed because gold was flowing in Europe. And we emptied the coffers of our banking institutions and sent the magnificent sum of one hundred million dollars to New York to stem the tide. Now, that more than three billion five hundred millions of gold holds in the treasury of the Federal Reserve Bank systems of this country is infinitely a greater menace, in my judgment, than was the lack of the gold in the panic of 1907, 1893, or the early panic in 1914. What will happen if we continue to gather all the gold in the world within our borders? When the only known exchange in the settlement of balances between nations is gold? They haven't the gold; it is manifest they cannot settle in that medium of exchange. And unless you awaken to the situation that we are now confronted with, we may find another medium of exchange, and our great hoard of gold will not look so valuable as it does now. Another cause of the unrest over the world is the fact that all of those European nations know they are laboring under a most staggering debt. They owe us sums so great that no man can figure it now without taking his pencil out and jotting off the decimals. And on top of that they know that they owe us, this great, rich nation, ten billions of dollars on demand. What is the remedy? Lord! If I only knew, gentlemen, I would be the happiest man in America to give it to you. But I will make just a few random suggestions that I have in mind.

If I had my way, I would say to Europe, "The money you owe us you can pay back in installments for fifty years," because, in the last analysis, I don't think they owe us a dollar; they saved civilization for the world while we waited. (Applause). If I had the power, I would take a billion dollars or a billion and a half of the gold that is lying idle in the vaults of the Federal Reserve banks and treasury of this country, and I would lend it to Europe; I would lend it to the great countries of Europe; I would encourage all of Europe, even Germany—to go back to industrial activities, to industrial life, to the end that they might be rehabilitated and to the end that we may continue to conduct business with them.

I was one of those in the heat of passion on the days that the war was on, and I almost took an oath I never would buy anything made in Germany. But look what a foolish, childish notion that is. They must pay for the horrible damages they have committed, and we must give them the means to work with in order to be able to pay. Failing in that, we have fooled ourselves. Just think, gentlemen, what is the value of the gold that we have locked up? We point with pride that under the Federal Reserve system of our United States all our notes have 50, 60, and 75 per cent reserve. Again, if I had my way I would put that reserve to forty per cent; nay, down to 35 per cent, nay, down to 30 per cent, in order that the commerce of the world might start up again. And the Trust Company officials represented here, particularly your Executive Committee, should take up that problem, should find a solution for it, or at least make a constructive suggestion to the powers that be in Washington, to the end that our commerce may continue in prosperity as it is at present.

Committee and Officers' Reports — Trust Company Section

Address of President John H. Platten

Twenty-three years ago this month, to be exact on Tuesday, September 22, 1896, a meeting was held by representatives of Trust Companies attending the American Bankers Association Convention then in session at the Planters Hotel in this city. This meeting had as its object the consideration of some plan for organizing a Trust Company Section of the Association, pursuant to an invitation which had been sent out from St. Louis on the 9th day of that month by Mr. Breckinridge Jones, then Second Vice President of the Mississippi Valley Trust Company, and now its honored President, and signed by about thirty of the leading Trust Company officials of the United States. This preliminary meeting was called to order by Mr. Jones, and Mr. Henry M. Dechert, President of the Commonwealth Title Insurance and Trust Company of Philadelphia, acted as Secretary.

Two days later the gentlemen in attendance proceeded to effect an organization and adopt By-Laws, unanimously selecting Mr. Dechert as Chairman, and Mr. Anton G. Hodenpyl, then Secretary of the Michigan Trust Company of Grand Rapids, as Secretary of the new Section.

One year later the first annual meeting of the Section was held in Detroit, and the Chairman, Mr. Dechert, in his remarks to the assembled Trust Company representatives, stated in part:

"The Trust Companies of the United States represent a very large share of the industry and wealth of the country. An incomplete statement shows that they have a total capital and surplus of $224,606,000. The scope of our Trust Company Section will enlarge with each year and we who have been at its beginning may reasonably hope that our labors will be rewarded by further success and by strengthening the Trust Companies in caring for and promoting the interests of their customers and clients and the prosperity of our country."

The first Annual Meeting was held in 1897, the year before our war with Spain, and since that time what a vast deal of water has run over the dam, and how steadily have the Trust Companies of the United States forged ahead during the intervening years!

After ten years the resources increased over Three Billions of Dollars. In another ten years, or to 1918, they further increased Five and one-half Billions, and now, I am happy to report that we are able to give you the advance figures of the total resources of the Trust Companies of this country as of June 30th, 1919, which show the magnificant total of Eleven Billions, One Hundred and Fifty Millions, or One and three-quarters Billion greater than a year ago.

Such a record of continuous and healthy growth in volume and material resources—in public esteem and in opportunities for usefulness to their respective communities, and to the country at large, is truly phenomenal. All the more does it compel our interest and admiration when we consider the keen competition which exists today, brought about by the granting of fiduciary powers to other financial institutions.

That there will be a greater demand for the utilization of these particular functions cannot be doubted, but I believe that in all this wider activity of competitive conditions, present and prospective, Trust Companies, created as they were for the specific purpose of caring for this class of business, will develop far beyond our present expectations, because of their particular qualifications — collective experience — and uniformly high standard found in their management, fitting them for the specific task of safeguarding and protecting the vital interest of the individual as well as the corporation. We must, however, bear in mind at all times that the element of SERVICE is the principal factor. Educational publicity is of undoubted value, but satisfied customers are the best possible business builders for the institutions we represent.

Permit me at this point to say that nothing in the past history of the Trust Companies of the country reflects more lustre upon the intelligence and sterling patriotism of their management than the manner in which they responded to the heavy demands made upon them as the result of our country's participation in the War. Not only did they contribute enormously of their own resources, directly and indirectly toward the success of the five great Liberty Loans, but the influence exerted upon their clients and customers to the same end was of vast assistance to the Government. Furthermore their whole-hearted encouragement of the policy of thrift, which the Government's War Savings Stamp campaign was designed to promote, has afforded additional evidence of their desire not only to successfully uphold the nation's financial integrity throughout the War, but to inculcate correct economic principles in the minds of the growing generation.

Right here allow me to refer to the growth and development of the Community Trust idea and to point out that the Trust Companies of the United States have it within their power, working strictly along the lines of their legitimate business activities, to become a most important factor in advancing the social welfare of the nation.

Of great importance to State Chartered Institutions was the creation of the office of Second Vice-President at the Chicago Convention and the election to that office of a member of our Executive Committee—Mr. John S. Drum, President of the Savings Union Bank and Trust Company of San Francisco—and by a further amendment of the Constitution there was accorded to State Chartered Institutions for the first time in the history of the American Bankers Association, representation of the Presidents of the various Sections upon the Administrative Committee. As a result of this policy a broader interest and closer co-operation has been evidenced in the work of the Association.

Two important amendments to the Constitution, recommended by the Administrative Committee and, in turn, approved by the Executive Council at their Spring meeting for submission to the Convention, are

(1) To add to the Federal Legislative Council and the State Legislative Council, in addition to their present membership, the State Vice Presidents of the Association and the First Vice Presidents and State Vice Presidents of the Trust Company, Savings Bank, National Bank, State Bank and Clearing House Sections, and

(2) To permit any section to take independent action in any legislative matter in cases where the diversity of interest or opinion may make it impossible for the Association as a whole to advocate such legislation through its duly constituted machinery.

The adoption of these two amendments will, it is believed, remove in large part the necessity for the continuance of the United States Council of State Banking Associations, which, because of the inability of the State Chartered Institutions to act independently on legislative matters, was organized in this city two years ago. Anticipating favorable action on the latter amendment and to provide the necessary machinery, a Joint Conference Committee was created, consisting of nine members —three representative of the Trust Company Section, three from the State Banking, and three from the Savings Bank Section.

The agitation for the removal of the general offices from New York City to Washington, and now possibly elsewhere, crystallized about the first of the year in a referendum vote by the Executive Council, which vote favored Washington. Later, active opposition developed, principally on the part of the State Chartered Institutions, which led the Administrative Committee to recommend to the Council at the Spring meeting that action on the matter be deferred and that the whole question be referred to the convention for final determination. Without here going into the many reasons why the general offices should not be removed from the financial center of this country, and following the decided position taken by our Executive Committee, as set forth in the February resolution my earnest recommendation is that action be taken today which will leave no doubt in the minds of the delegates present at the Convention that the Trust Company Section is opposed to any change in the location of headquarters.

As for the work of the Trust Company Section during the past twelve months, the reports of the various committees and the Secretary will have revealed to you in detail the wide-scope of the service performed, and it is a pleasure and a privilege for your President to testify to the staunch support and active co-operation of the Executive Committee, and all officers through whose agency the work has been carried on.

The Banquet of the Trust Companies of the United States, which has for eight years been an annual occurrence, was not held in 1918 because of war conditions. It may not be amiss to record the fact that the Banquet, held last February, a very successful affair, was the largest in point of attendance in the history of these midwinter gatherings, over one thousand guests being present. In another respect, too, it may prove that the last banquet will have been a memorable one, July 1st, 1919, having separated the old order from the new.

The general problems confronting the country today are many and varied, demanding clear thinking and the exercise of the soundest judgment and the most intelligent co-operation on the part of every Trust Company man, not only as a citizen, but as a guardian of the funds of others. Any one of them might be dwelt upon at great length. I hesitate to take up even a moment of your time on these matters because you are familiar with them, and yet on an occasion such as this, it is only proper and appropriate to refer to the two overshadowing questions of domestic importance, namely, the RAILROADS and the GENERAL LABOR SITUATION.

As to the RAILROAD PROBLEM—we are all very deeply concerned in the welfare of our railroads. Could we but have a solution of this great question it would go a long way towards solving many of our other troubles.

We all recognize the fact that the transportation system of the United States as a whole has at the present time practically no reserve capacity. In fat years it will be taxed to the utmost to handle our domestic and export requirements. We also realize that because of Federal and State regulation the railroad business has lost much of the attraction which heretofore gathered into its service and developed some of the ablest men of our time. Any solution of the Railroad problem must offer

both adequate facilities for our future needs and a career for ambitious men with a fitting reward for efficiency. To accomplish these indispensable objects it is absolutely essential that railroad credit be restored and railroad securities again be made a premier investment. While some of the country's greatest thinkers have devoted long study to the question, no proposal yet made has met with general acceptance.

When the Warfield Plan, which is recognized as embodying many excellent features, was first advanced, endorsement was given to it by the Executive Committee of the Trust Company Section. Many other plans have been advanced—all have been studied and analyzed, and a more intensive examination has developed that they likewise contain excellent features. Any one of these plans might likewise be discussed at great length and much might be said upon all important question. I refrain, however, beyond expressing the belief that out of the confusion some solution, embodying all the advantageous features of the various plans advanced, will finally emerge, which will, no doubt, insure to the owners control and management and recognized, in a liberal spirit, the rights of the traveling and business public, and the legitimate claims of employes of their properties under reasonable Governmental regulation whose co-operation is necessary for the successful operation of the railroads.

Let us now briefly consider the LABOR SITUATION. I personally hold no brief for profiteers, for employers who pay less than a living wage, or for the reprehensible methods which have come to be identified with the sweatshop. On the other hand, labor must realize sooner or later that there is no mystery, no secrecy, in the ways and means by which men accumulate competencies. No set of laws, no system of taxation, no distribution or redistribution of wealth or income, can make a people prosperous. Each and all must work and each man is rewarded according to his contribution to society. "In the sweat of his face shall he eat bread." This is as true today as when it was first spoken more than two thousand years ago and it is one of those fundamental truths which do not change with the passage of time and the alteration of economic conditions.

The high cost of living can best be combatted by increased production—under-production causes real privation to the masses whose purchasing power is limited.

Many find it difficult to answer the question which is being asked by thinking people all over the world today: "Why is it that with billions of capital literally wiped out of existence by the destructive processes of war, and ten millions of producers in their graves, a large part of the world is today spending money more lavishly than ever before on non-essentials—especially in America." The answer is a simple one: "The habit of spending" has been formed and to gratify it without stint we are, without realizing this fact, borrowing from the accumulated capital of civilization and dissipating resources which ordinarily would have been held in trust, as it were, and laid aside for the next generation. It may, therefore, be said in a very real sense that it is posterity which, after all, is going to pay a large share of the bill for our present day extravagances.

All of these considerations are intimately connected with the relations existing between capital and labor and between employer and employe. In order to reconcile interests which in the past have been only too often in conflict, as one writer has said, "business must be clothed with a spirit of accommodations and any element opposed to a meeting of minds has no place in the present or future of this country." Cordial co-operation between employer and employe is more than ever essential, production should govern wages and "political wage-making" be discouraged as a dangerous precedent. Only by these means shall we be able to steer a safe and happy middle course.

It is significant, as a prominent New York banker stated a few days ago, that "for the first time in the history of our country economic problems are at present more interesting to the public than politics," and while appreciating that we are confronted with a disturbing condition of affairs, with problems pressing upon us which have never been so vast, so numerous, so complex, yet having faith in this nation's ability to overcome great obstacles, I am confident we shall be able to meet and pass them successfully. At any rate, we must go forward with unshakeable optimism, with shoulders square and heads high. America, with her huge resources and wonderful industrial organization, has the opportunity for constructive service of the highest order. The War has set new standards for the future and has shown us all what co-operation and the bending of the energies of all to the performance of a single task, will accomplish even in the face of persistent and determined opposition. What we need most of all is WORK—MORE WORK—THRIFT—and WHOLE-HEARTED CO-OPERATION. In the words of Kipling:

"It ain't the guns nor armament;
Nor the funds that they can pay,
But the close co-operation
That makes them win the day.
It ain't the individuals,
Nor the army as a whole,
But the everlastin' teamwork
Of every bloomin' soul."

Report of the Executive Committee, E. D. Hulbert, Chairman

Since the twenty-third Annual Meeting of the Section, the Executive Committee has held six meetings.

At the first meeting, which was held at the Congress Hotel, Chicago, Illinois, September 24, 1918, your present Chairman and Secretary were elected.

The second meeting was held on December 11, 1918, at the office of the Association in New York City. Aside from items of routine business, the Committee discussed the matter of a change in the form of the Annual Proceedings, after which it adopted the following resolution:

Resolved, That it is the sense of this Committee that the Annual Proceedings of the Trust Company Section, beginning with the 1919 Convention should be published in separate booklet form and sent to all members of the Section as early as practicable following the close of the Annual Convention, and that the morocco bound copies of the proceedings be dispensed with as far as members of the Trust Company Section are concerned, and that the Administrative Committee be informed of the desire of the Trust Company Section in this respect.

The report of sub-committees were then received, discussed and acted upon. Special mention is here made of action taken in connection with the Committee on Standardization of Forms and Charges. Mr. J. A. House, Chairman, a division of the work could be made. A resolution was adopted authorizing the Chairman to enlarge the Committee and divide its work.

On account of the growing importance of the railroad situation a Special Committee of Railroad Securities, number not to exceed five, was authorized at this meeting.

(Lynn H. Dinkins, President Interstate Trust & Banking Co., New Orleans, La., Chairman.

Morris K. Parker, Vice-President Equitable Trust Co. of New York, N. Y.

Breckinridge Jones, President Mississippi Valley Trust Co., St. Louis, Mo.

F. H. Rawson, President Union Trust Co., Chicago, Ill.

W. E. McVay, Vice-President Guaranty Trust and Savings Bank, Los Angeles, California.)

The third meeting of the Committee was held at the office of the Association in New York, on February 21, 1919, the day following the Annual Banquet of the Trust Companies of the United States. In addition to the consideration of reports of officers and committees, it was decided through the adoption of an appropriate resolution that no officer of a trust company or bank should be held eligible for membership on the Executive Committee of the Trust Company Section, unless the trust company or bank with which said officer was connected was an active member of the Trust Company Section.

At this meeting President Platten introduced the subject of membership of the Second Vice-President of the Association upon the Administrative Committee, after which the following preamble and resolution were unamously adopted:

WHEREAS, the Constitution of the American Bankers Association does not provide that the Second Vice-President of the Association shall be a member of the Administrative Committee, and

WHEREAS, it is the consensus of opinion of this Committee that the best interests of the Association will be served by including the Second Vice-President in the membership of said Committee; therefore, be it

Resolved, That this Committee hereby recommends the preparation and passage of an appropriate amendment to the Constitution of the Association in order to provide for membership of the Second Vice-President of the Association upon the Administrative Committee.

The question of the removal of the office of the American Bankers Association to Washington, D. C., was also fully discussed, after which the following preamble and resolution were unanimously adopted by the members present:

[We omit the resolution, which is very lengthy and which was to the effect that it was the consensus of opinion of the Trust Company Section that no further action be taken in respect to the contemplated change until the next annual session of the general Convention.]

That the action of the Executive Committee in respect to the removal of the Association offices was in accord with the views of members is evidenced by the large number of letters received from members approving the subject matter of the resolution.

The fourth meeting of the Committee was held at the Greenbrier Hotel, White Sulphur Springs, West Virginia, Monday, May, 1919, at which time the resignation of W. L. Hemingway as a member of the Committee was presented and accepted, and an appropriate resolution in recognition of his service adopted.

Through the adoption of another resolution the approval of the Committee was given to the policy adopted by President Platten in reference to reporting to the Committee the business transacted at the several meetings of the Administrative Committee of the Association, of which he was a member, and calling upon future Presidents of the Section who would serve upon the Administrative Committee to continue this practice.

The question of the publication of the Annual Proceedings of the Association and the expense incident thereto was again discussed and the sense of the Committee appeared in the following resolution:

Resolved, That it is the sense of this Committee that the publication and distribution of the annual proceedings be discontinued and that the Executive Council be so advised.

The fifth meeting of the Committee was held in the Greenbrier Hotel, White Sulphur Springs, West Virginia, on Wednesday, May 21, 1919, for the purpose of filling a vacancy created in the Committee through the resignation of Mr. W. L. Hemingway and also for the purpose of creating a Special Committee on Legislation to act jointly with similar committees appointed

by the Savings Bank and State Bank Section of the Association in the formation of a joint Conference Committee to act under the proposed amendment to the Constitution of the Association, permitting separate action in the Federal Legislative matters by State-chartered institutions.

At this meeting Mr. J. A. House resigned as a member of the 1921 class and was re-elected as a member of the 1920 class, to fill a vacancy caused by the resignation of Mr. Hemingway. Mr. Theodore G. Smith was thereupon elected a member of the 1921 class to fill a vacancy caused by the resignation of Mr. House.

Through the adoption of an appropriate resolution a Special Committee on Legislation, composed of Willis H. Booth, Frank W. Blair, and A. A. Jackson, was created.

At the sixth meeting of the Committee, held this morning in this room the following business was transacted:

Committee reports were heard, discussed and approved for presentation at this meeting.

At a joint meeting of the Executive Committee with the State Vice-Presidents, held at 11:30 A. M. this morning the progress and development of Trust Companies in many states was discussed.

A gratifying increase in our membership has been recorded, and our expenses have kept within the appropriation. Both of these items will be treated in a separate report.

The sub-committees of the Section are actively engaged in work pertaining to their particular spheres of activity, the results of which will be revealed in reports to be submitted at this meeting.

A continuous correspondence has been carried on with the Secretary and frequent visits have been made by your Chairman to the Secretary's office. This has enabled a close contact to be maintained at all times and matters presented for decision to be handled with promptness. Two communications have been recently addressed to members by your Chairman in reference to subjects of interest at this time to trust companies. One letter sent to all members made inquiry regarding the general plan being followed in reinstating the returned soldier or sailor and the necessity for dispensing with the services of those who have been filling the vacancies caused by war necessity. The other letter was prompted by inquiries received at the Secretary's office regarding the operation of pension funds and welfare work, and was sent to banks and trust companies known to be operating pension funds or promoting welfare work for their employees. Several hundred replies were received and as a result of these replies articles bearing upon the subjects mentioned were published in the Journal of the Association and sent to other financial publications throughout the country. In common with other lines of endeavor, trust companies are necessarily turning more and more attention to the proper development and welfare of the men and women whose service is being purchased from day to day in the maintenance and upbuilding of these institutions.

My thanks are due the Secretary of this Section for the able and efficient manner in which he has conducted his office. He has been untiring in his work and has shown constructive ability of the highest order. He is entitled to a large share of credit for the accomplishments of the past year.

Committee on Co-operation With the Bar

A verbal report for this Committee was presented to the Section by L. H. Roseberry, of Los Angeles, Calif., in the absence of Chairman of the Committee, Francis H. Sisson, Vice President of the Guaranty Trust Company of New York.

Mr. Roseberry explained to the members the investigations and compilations prepared by the Committee during the past year and also brought to their attention the subject matter of a resolution adopted at the Conference of State and Local Bar Associations, held at the Convention of the American Bar Association in Boston, on September 2. In the resolution, the members of the Bar recognized the efforts being made by the Trust Company Section Committee and also recommended that all instances of encroachment by trust companies upon the prerogatives of the legal profession be called to the attention of the Trust Company Section throughout the current year. The resolution also called for the creation of a special committee to prepare a brief defining the "practice of law" by laymen or lay agencies.

Mr. Roseberry urged the members in attendance to give careful attention to the wording of advertisements, in order that they should not knowingly or inadvertently advertise the drawing of wills by trust companies, which, from the investigation, appeared to be the major cause for complaint by the lawyers generally. Following is a copy of the resolution adopted at the Convention of the American Bar Association:

RESOLVED: That it is the sense of this meeting that it is in the interest of society that the intimate and direct relationship of attorney and client shall be preserved, and that corporate or lay practice of law is destructive of that relationship and tends to lower the standard of professional responsibility;

RESOLVED FURTHER, that Trust Companies, while performing proper and legitimate functions of a business and fiduciary character, are not constituted or organized for the purpose of furnishing legal advice to clients—drawing wills or furnishing legal services;

RESOLVED FURTHER, that the efforts of the Trust Company Section of the American Bankers' Association to eliminate evil practices on the part of trust companies be encouraged and the effort to co-operate with the bar be cordially welcomed;

RESOLVED, to that end, that we recommend to state and local bar associations that they bring to the attention of the Trust Company Section of the American Bankers' Association any evil practices of trust companies or bankers of which they are aware in order that the bankers' organization may, like the lawyers' organization, purge its ranks of wrong doing or error;

RESOLVED FURTHER, that a special committee of six be appointed to prepare for the use of state and local bar associations a careful brief of what constitutes practice of the law and what constitutes unlawful and improper practice of the law by laymen or lay agencies, and that said committee report at the next conference.

Upon motion by General Wm. C. Heppenheimer, President of the Trust Company of New Jersey, Hoboken, N. J., which was duly seconded and carried, the Committee on Co-operation with the Bar was continued throughout the year 1919-1920.

Report of the Committee on Standardization of Forms and Charges, by J. A. House, President Guardian Savings & Trust Company, Cleveland, Ohio, Chairman

To Members of Trust Company Section of American Bankers Association:

Those perplexing and vital problems confronting the average trust company incidental to a determination of fair and adequate charges for trust services, led to the appointment of a Committee by the Trust Company Section of the American Bankers Association to make a careful study of, and report on, trust company charges.

It was expected that this Committee might be enabled by such study to present a standard, or at least a practical basis for determining fees.

It was generally realized that there existed no uniform or accepted basis of compensation, and that there existed a great divergence in charges, not only between various sections of the country, but also between trust companies in the same locality. Likewise, it was common knowledge that the fees of many of the trust companies were inconsistent, and varied from time to time, and seemed to be fixed to meet the requirements of the occasion rather than being computed upon logical and businesslike schedules of uniformity.

It was hoped that with schedules carefully formulated after exhaustive study, substantial benefits would accrue, not only to the trust companies of the United States, but to the clientele of the companies as well.

Your Committee has made its investigation and study, and herewith presents its report, and accompanies the same with twelve schedules and sundry notes in explanation thereof.

These schedules are based upon the following determining factors:

(a) That a standard schedule must be fixed upon a basis that the average duties involved and responsibilities assumed are those usual in the average trust of its kind, as administered in the average community, with efficient service rendered and adequate skill employed.

(b) That the compensation must be fair and reasonable for the service rendered, and advantageous to the patron as well as remunerative to the trust company.

(c) That exorbitant charges retard or prevent the growth of trust business, while inadequate charges eventually result in a deterioration of the quality of service rendered, which in turn reacts unfavorably upon the expansion of trust business.

(d) That a uniform or standard method of charging throughout the country should tend to stabilize the trust business and create a better public opinion of the value of trust service.

(e) That as a guide or indication of general trust costs the schedules should serve as a deterrent to that evil now prevalent in many communities, namely, "injurious cutting," which practice inevitably results in inefficient trust service.

To acquire the necessary information the Committee sent a questionnaire to hundreds of leading and representative trust companies in all parts of the United States, so prepared as to elicit the facts desired and to develop as much detailed information as possible. The returns, which are of course confidential, revealed the greatest variation in the nature and amount of fees for any given service, and disclosed an entire lack of any consistent or scientific basis of compensation. In a few cases the fees were unreasonably high, but in most instances their returns showed the fees to be wholly inadequate to enable the average trust company to give complete and efficient service.

The information thus received was collated, tabulated and carefully analyzed. Each service was given individual consideration, in order to determine, as nearly as might be, the average amount of time and degree of skill required, as well as the responsibility assumed, by the Trustee. By means of this process the Committee endeavored to arrive at a basic schedule of fees for each trust service, which should be adequate and fair, both to the Company and to the patron, and which would bear some logical relationship to the elements which enter into the fixing of prices for fiduciary services, namely: the amount and nature of the work involved; whether it be clerical or require a high degree of professional skill; the nature and degree of responsibility assumed by the Company; and the value of the service to the patron.

The returns were tabulated in geographical divisions as follows: Eastern, Central, Southern and Western, but the result showed no special characteristics incident to any one of these divisions, except that the Pacific Coast trust companies quite generally followed the California Fee Schedule.

In formulating the schedule of charges submitted by it, the Committee fully realized the difficulty of fixing a standard which could be used by trust companies in different localities and which would apply, with equal fairness, to the great variety of circumstances surrounding the individual trusts. It was not the aim of the Committee to fix an iron-clad and arbitrary schedule which should be rigidly adhered to in every instance, regardless of the circumstances of the particular cases. It was realized that owing to the multiplicity and variability of the elements involved in the determination of these charges, it was impracticable to do more, at

the present time, than to establish a basis which could be used as a guide, and to meet the requirements of any given trust.

The Committee desires to express its belief that an adherence to these schedules, as nearly as may be possible, after making the necessary modifications to comply with local usage, laws and customs, will have, among others, the following beneficial results:

(a) It will enable small trust companies with inexperienced officers to fix fees on a basis of reasonable profit, and thereby eliminate the features of experiment and guesswork.

(b) It will tend to eliminate, among the larger trust companies, the injurious practice of price-cutting to a point below the reasonable cost of service.

(c) It will provide all banks now organizing trust departments with a basis or guide to direct them in their early endeavors in the trust business to the end that they may, by its use, be able to conduct their business upon a remunerative basis from the very beginning, and thus be enabled to attain, more quickly than might otherwise be possible, those standards of efficient service maintained by the State trust companies, and to preserve in the public the confidence which is now reposed in these companies.

(d) It will enable Trust Departments of banks now used only as feeders of other departments to become self-supporting and reasonably profitable, many such departments being now operated at a loss insofar as compensation for their specific functions is concerned.

(e) It will develop in the public a realization that the trust business is conducted upon efficient and scientific lines; that the compensation charged for fiduciary services has been carefully computed and ascertained to be fair and reasonable in all cases; that all patrons are treated fairly and alike, regardless of the nature or volume of their business.

(f) It will enable attorneys to advise clients as to the approximate charge of proposed trusts and promote a mutually harmonious and co-operative relationship between the attorney and the trust company.

(g) It will enable the trust companies in various districts and localities in the United States to compete keenly and fairly with one another on a basis of efficient service and skill, rather than upon a basis of cheapness of price.

(h) It will enable Trust Company patrons to proceed with some degree of assurance as to the cost of service which their affairs require.

The Committee takes this opportunity to call to the attention of the Convention the importance of the factor of charges in relation to the future growth of trust business. It is an axiom that no business can develop and expand upon a substantial and permanent basis, unless the compensation accruing from the same is both fair to the patron and reasonably profitable to the business. The trust business in the United States is practically in its infancy. Its future depends upon the quality of service which the trust companies may be able to render to the public.

The possibilities for the future growth and expansion of the business can hardly be realized or stated, if the companies continue in the future, as in the past, to render a useful, skillful, and efficient service to the public. The maintenance of a high standard of service depends, to a large extent, upon the adequacy of the compensation received by the companies. It therefore becomes a matter of vital necessity to ascertain the cost of trust service to the companies, and to formulate a schedule of charges which will enable the trust companies of the country, not only to maintain their present efficiency, but to increase the scope of their activities and to improve the quality of the service now rendered by them.

The Schedules and Explanatory Notes follow:

This report is respectfully submitted.

J. H. Coverly,
Geo. D. Edwards,
A. S. Sheppard,
J. A. House.

Report of the Committee on Railroad Securities, by Lynn H. Dinkins, President of the Inter-State Trust and Banking Company, New Orleans

While your committee has had no formal meeting as a whole, the individual members have given careful thought and study to the various plans submitted bearing on the solution of the railroad problem and to the several Acts that have been introduced in Congress.

The committee does not feel that it is advisable at this time to advocate any particular plan, as it feels the situation is in too formative a condition to warrant taking a definite position, and asks that it be continued so that when the situation clears it may be able to recommend to the Section the approval of such plan as seems advisable.

Report of the Special Committee on Legislation, by W. C. Booth, Vice-President of the Guaranty Trust Company of New York

The Special Committee on Legislation was created at the spring meeting of the Association, held at White Sulphur Springs, West Virginia, May 21, 1919. The resolution under which it was created assumed the formation of similar committees by the Savings Bank and State Bank Sections in order to permit of concerted action by special committees in respect to combating or furthering Federal legislation affecting banks and trust companies operating under State charters.

Similar committees were appointed by the Savings Bank and State Bank Sections, and all formed into a joint advisory committee of nine, which awaits an amendment to the by-laws of the Association in order to be clothed with the proper authority for action.

Your Chairman was selected as the chairman of the joint committee, and as such, has addressed the members of the joint committee in reference to bills pending in Congress, and in an informal manner has contributed some thought upon these matters to other committees of the Association actively engaged in watching these particular bills.

It is hoped that the full support of the members of this Section will be given to the contemplated change, in order that the State institutions may be enabled to take prompt and decisive action whenever necessary in their own behalf.

I would like to say to the members of the Section in this connection that most of the success which has come to our efforts to obtain for the State's larger institutions an opportunity to act independently when such action is necessary is due in a great measure to the work that your Chairman and President, this year, has put into the matter. It has not been an easy situation as you may all well know to adjust the various functions of such a large organization as this to such a condition.

It is to the manifest interest of this Section in maintaining just this character of joint conference committees to this end that in the development of national legislation such national legislation as will make more harmonious the action of the State banks, and it is important that the experiences of the State's larger institutions, representing as they do so much of the banking capacity of the country, it is vitally important that their opinions which their experiences have developed should be submitted to Washington without dilation to the end that when such vital legislation as will come up from time to time, and there is a good deal of it on the books now, we may have a clear, straight-forward judgment and the State's larger institutions will work out a more beneficial plan to the interest of all of you.

We have had our meetings and we have prepared a digest report on State banking institutions which will come before Congress. If it is the judgment of the Convention that this amendment to the by-laws as proposed leaves us hope that this Section co-operating with the other two Sections will re-enact this committee will have authority for further action, and if it does it will go ahead pursuing as best it can your interests in thorough conjunction, of course, with the President of this Section.

Report of the Committee on Legislation

Your Committee respectfully reports as follows:

During the past year there has been nothing of special interest to the Trust Companies proposed by way of new legislation with the exception of a provision relating to fiduciary powers in a bill recently introduced in the United States Senate by Senator Edge of New Jersey known as Senate Bill 2472.

This is a bill authorizing the incorporation of Federal banks under the supervision of the Federal Reserve Board, for the purpose of carrying on an international or foreign banking business. The intention of the act is that such corporations when organized shall be restricted to carrying on business exclusively in foreign countries, it being expressly provided that they shall transact no business within the United States, except such as is incidental to their foreign business.

Some question has arisen whether the provisions safe-guarding the interests of domestic banks are sufficiently definite, particularly regarding the receiving of deposits in this country and the provisions covering the borrowing and lending of money on real and personal securities. But, as these matters are of general interest to all members of the Association and are not particularly confined to trust companies, this Committee has not undertaken to deal with them, especially as other appropriate committees have them in hand and are giving them efficient attention.

There was one clause of the bill, however, as originally drawn which distinctly fell within the purview of this Committee. Section 6 provided that banks organized under the proposed law might exercise all of the fiduciary powers specified in Sec. 11 (k) of the Federal Reserve Act which the Federal Reserve Board is authorized to confer upon National Banks.

It has been the constant endeavor of this Committee to safeguard the administration of trusts in such manner as to give them complete effect in accordance with their true intent and meaning. To accomplish this, two things are especially necessary; first, complete segregation of the trust properties and functions from all other kinds of business, and, second, their construction and administration in accordance with local laws and customs.

Trusts are fundamentally different from general banking and a commingling of the two will almost inevitably result in trouble, and as trusts are peculiarly local in their nature and the rules governing their administration vary in different localities in accodance with local requirements, no general law operating uniformly throughout the country can be satisfactory. No such general law has been attempted and if attempted by Congress would probably be unconstitutional. The United States Supreme Court sustained the power of Congress to confer trust powers upon National Banks only to the extent that like powers are exercised by State Corporations and under the same limitations.

Having these considerations in mind the Committee in conjunction with the Association Committee on Legislation called the attention of Senator Edge and the Senate Committee to this feature of the bill and pointed out that it was not only unessential to the general purpose of the bill and undesirable, but was also of doubtful validity. It was also suggested that to retain the clause might arouse hostility to the bill as a whole, which might otherwise be avoided.

Governor Harding of the Federal Reserve Board, in a letter accompanying the report of the Senate Committee on Banking

and Currency, to which the bill had been referred, also called attention to the clause.

As the matter now stands Senator Edge, who introduced the bill agreed to the elimination of the clause and it has, at the time of making this report, passed the Senate with the fiduciary section stricken out.

The Committee will continue to keep track of the bill and will give such further attention to it as may be necessary.

Respectfully submitted,

HENRY M. CAMPBELL,
Chairman.

Report of the Committee on Protective Laws

A complete report of your Committee on Protective Laws would involve a lengthy recital of events, due to the meeting of forty-three State Legislatures. It is the purpose to bring to your attention only those features of our work bearing upon Bills and legislative situations of primary interest to Trust Companies.

Certain Bills have been common to several states. They are as follows:—

a. Those permitting membership in the Federal Reserve System, investment in capital stock of Federal Reserve Banks, changing reserve requirements to agree with the Federal Reserve Act, etc.

b. Bills granting trust privileges to State Banks in view of the wide scope of powers given under the Phelan Bill.

c. Bills aimed at the "Practice of Law" by Trust Companies, and in some states forbidding the further exercise of fiduciary powers.

A brief reference to certain Bills, other than those above mentioned, based on reports received from State Vice-Presidents, follows:—

Maine: Laws amended in reference to loans by Trust Companies; and power given to Trust Companies to make acceptances; also, prohibition in reference to engaging in business or acting as surety.

New Hampshire: Bill providing for appointment of Trust Companies as Administrator or Executor defeated. Trust Companies only to act as Trustee under present law.

Vermont: Bills passed relating to security furnished by Trust Companies acting in a fiduciary capacity; Investments by Banks and Trust Companies.

Massachusetts: Bill providing for "an investigation of the business methods of Trust Companies" referred by the Legislature to the next General Court. Same disposition made of Bill relating to proposed restriction on the amount of deposits for any account in the Savings Departments of Trust Companies.

Bill passed in reference to eligibility of railroad bonds of railroads under government control as investments for Savings Departments.

Bill in reference to investment of reserves of Trust Companies.

Rhode Island: Bills passed in reference to investment of deposits in Savings Departments of Trust Companies, and Bill also passed in reference to investment of same funds in bonds of Federal Land Banks.

Bill passed granting an exemption from tax on deposits invested in Third, Fourth and Fifth Liberty Loans.

Connecticut: A very large number of Bills presented in this state, but no measures vitally affecting Trust Company business.

New York: Banking law amended in relation to reserves; restrictions upon loans to Directors; Publication of list of unclaimed deposits, dividends, and interest; fiduciary powers of Banks; powers of Trust Companies; imposing taxes upon and with respect to personal incomes.

New Jersey: Seven Bills of interest to Trust Companies enacted into law. They are in part as follows:

Savings Banks permitted to receive deposits up to $10,000, thus increasing competition; Trust Company Boards now permitted to fill vacancies.

Pennsylvania: Bills passed in reorganization of Banking Department; drawing check with insufficient funds; permitting preferred stock issue of Trust Companies; and giving trust functions to State Banks.

Delaware: Bill in reference to furnishing reports by Trust Companies which are members of Federal Reserve System or those applying for membership therein.

West Virginia: No Bills reported.

North Carolina: Bills passed in reference to taxation; uniform Bill of Lading Act; Bank transactions after twelve o'clock noon on Saturdays and holidays.

Also Bills permitting 50% of Capital and Surplus to be invested in bank buildings, furniture and fixtures.

Also Bill exempting from reserve, deposits secured by United States Bonds and State Bonds.

South Carolina: No bills passed of interest to Trust Companies.

Kentucky: No Bills passed of interest to Trust Companies.

Tennessee: Bills passed as follows:—

To legalize Bank transactions on Saturday afternoon;

Authorize Banks to take stock in Federal Land Banks;

Changing the schedule of fees payable to the State Banking Department;

Authorize the purchase of Bills of Exchange or Acceptances.

A number of Bills did not pass. One measure which was defeated would, had it become a law, made the Banks responsible for the inheritance tax and been necessary for them to appraise the contents of every lock box before surrendering the same.

Georgia: New Banking Law enacted.

Alabama: No laws of interest to Trust Companies introduced.

Florida: No Bills reported.

Michigan: No Bills passed of interest to Trust Companies.

Ohio: Bill passed providing for an entirely new banking act. No others of interest to Trust Companies. Use of the word "Trusts" protected.

Indiana: Bills passed in reference to Trust Companies as Public Depositories; Investments in Bonds by Federal Land Bank or Joint Land Stock Bank; provision in reference to branch offices; permitting a married woman to execute a mortgage in her own right.

Illinois: No bills passed of interest to Trust Companies.

Wisconsin: No bills passed of interest to Trust Companies.

Minnesota: Bill passed requiring Trust Companies conducting a banking business to comply with State Laws governing that business.

Iowa: No Bills passed of interest to Trust Companies.

Missouri: No Bills of interest to Trust Companies enacted into law.

Arkansas: No Bills of interest to Trust Companies enacted into law.

North Dakota: Several drastic changes made in this state among which is the Bill authorizing Central Reserve Bank.

South Dakota: No Bills of interest to Trust Companies passed.

Nebraska: No Bills of particular interest to Trust Companies enacted into law.

Kansas: Bill passed relative to taxation of Bank stock.

Oklahoma: Three Bills of particular interest to Trust Companies became law, as follows:—

1st. No county or city official shall be appointed as guardian of any estate of a minor or other incompetent. The same Bill provides that no guardian interested in any banking institution shall be allowed to deposit money belonging to the estate of the ward in such institution;

2nd. Trust Companies may form a Savings Department by setting aside required capital;

3rd. Provides how express trusts may be created.

One Bill introduced was designed to confine Trust Companies to a limit of five guardianships.

Texas: Some dangerous legislation appeared, but died on the calendar.

New Mexico: No Bills affecting Trust Companies.

Colorado: In addition to permitting membership in Federal Reserve System limitation was removed in re-borrowing or rediscounting at Federal Reserve Bank.

Wyoming: No Bills reported.

Montana: No Bills reported.

Idaho: No Bills passed of interest to Trust Companies.

Utah: Trust Companies doing a banking business are prohibited from writing surety bonds.

Arizona: Bill passed to increase examination fees.

Nevada: No Bills reported.

Washington: No Bills passed of interest to Trust Companies. Endeavored to secure relief from present onerous laws without success.

Oregon: No Bills reported.

California: The following Bills passed:—

Bill removing the personal liability of trustee stockholders for stock assessments.

Bill amending the California Bank Act, permitting Trust Companies and other banks to join the Federal Reserve System.

Bill removing under certain conditions the present limitation on a testator to devise only one-third of his estate to charity.

A resume of Bills introduced in the various State Legislatures shows that many legislative oddities were manufactured for the passage by the various State Legislatures. This indicates clearly the advisability or the necessity for watching more closely tban in the past Bills introduced in all States.

The method of carrying on the work of the Committee has been similar to that used in preceding years, namely, assigning of certain states to different members of the Committee, they in turn to work through the State Vice-President of the Section in each State.

The cooperation of the Secretary and General Counsel at the Association Headquarters in New York has been availed of throughout the year, and the work has been done in cooperation as far as possible with the members of the state legislative counsel representing the Association in such State.

Several emergencies arose throughout the year, necessitating immediate action, and your Committee reports with pleasure that requests for prompt cooperation, either from Association Headquarters in New York or by Trust Company or bank men throughout the country, have met with ready response.

Respectfully submitted,

COMMITTEE ON PROTECTIVE LAWS,
W. T. KEMPER
F. J. H. SUTTON
LUCIUS TETER
JOHN STITES
TOM F. RODGERS
THEO. G. SMITH
Chairman.

Report of Committee on Publicity

Since the Chicago Convention, the Publicity Committee has been collecting and disseminating information bearing upon all phases of advertising, publicity, and new business.

Bulletin No. 2 has been issued and sent to members. It has met with the same hearty response accorded Bulletin No. 1. Some of the written comments are as follows:

"Very much impressed with the samples of copy sent out in your last Bulletin. We believe this is the kind of cooperation necessary among trust companies."

"It is what I have been looking for, for a long time."

"It is something that the busy man who is not an expert on advertising absolutely needs."

"Very helpful and we thank you for sending it."

Accompanying Bulletin No. 2 were three enclosures requesting additional printed matter and information bearing upon: 1. Safe Deposit Advertisements. 2. Voluntary or living trusts and the safe keeping of securities. 3. Original letters from testators having named trust companies, answering the question "Why I Named a Trust Company in My Will." The material received in reply to these requests will be properly prepared for early publication.

In a recent issue of the Journal of the Association several pages were devoted to presenting a story and explanation of "Good Will" copy which is beginning to enter quite largely into trust company advertising. Your Committee strongly recommends that more attention be given to this form of advertising by trust companies which calls attention in a broad-minded way to public and civic matters. Trust companies throughout the country are genuinely interested in the up-building of treir communities and with this in mind the Committee is preparing information bearing upon this subject for the use of members at an early date.

Cooperative advertising campaigns featuring fiduciary facilities are also engaging the attention of the Committee, in order that this branch of advertising, which has been so successfully conducted in Cleveland, Los Angeles, New Orleans and other cities may be more fully developed.

Considerable testimony regarding savings effected for members has been given, and a large number of letters have been received, and personal calls made at the Secretary's office, seeking help in the establishment of new business and publicity departments, as well as suggestions bearing upon the maintenance of this work. Under the direction of the Committee there have been prepared a large number of comprehensive plans to fit the needs of particular companies in carrying on this work.

At meetings of trust company men held in Colorado, Nebraska, and Iowa, the work of the Committee was presented during the months of March and April. Throughout the month of June the work of the Committee was presented at Bankers Conventions and before groups of trust company men in the States of California, Oregon, Washington, Idaho, and Iowa.

As a result of presenting the work of the Committee at a meeting at Seattle, Washington, in June, 1919, the Trust Company Section of the Washington Bankers Association has prepared a booklet containing 100 advertisements designed to fit their particular needs and conform to the restrictive laws under which they are compelled to operate. A large number of advertisements published by the Committee were used in this booklet.

The use and publication of the advertisements, distributed through the Bulletins, has been nation-wide and your Committee recommends and strongly urges that an adequate appropriation be secured for a more complete development of this work as the field for real service to members through this channel is undoubtedly very wide and should receive the best possible support in order to properly assist in the development of trust company business throughout the country.

Respectfully submitted,

FRED W. ELLSWORTH
A. H. COOLEY
E. F. FEICKERT
JAMES M. PRATT,
Chairman.

Officers for Ensuing Year

The Nominating Committee submitted as their recommendation for members of the Executive Committee to serve three years, the following, who were unanimously elected: Nathan D. Prince, vice-President Hartford-Connecticut Trust Company, Hartford, Conn.; George D. Edwards, vice-president Commonwealth Trust Company, Pittsburgh, Pa.; Evans Woollen, president Fletcher Savings & Trust Company, Indianapolis, Ind.; John Stites, president Louisville Trust Company, Louisville, Ky.; W. J. Kommers, vice-president Union Trust Company, Spokane, Wash.

Lynn H. Dinkins, president Interstate Trust & Banking Company, New Orleans, La., was elected President, and Edmund D. Hulbert, president Merchants Loan & Trust Company, Chicago, First Vice-President of the Section.

At a meeting of the Executive Committee held at the close of the session, J. A. House, president Guardian Savings & Trust Company, Cleveland, was elected Chairman, and Leroy A. Mershon was re-elected Secretary of the Section.